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Transcription

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Presentation

Operator

Hello, and welcome to today's RSA Q3 2016 Trading Update. And throughout this, all participants will be in listen-only mode, and afterwards there will be a question and answer session. And just to remind you, this is being recorded. And today I'm pleased to present Stephen Hester, Group CEO, and Scott Egan, Group CFO. And I'll now hand you over to Rupert Taylor Rea, Director of Investor Relations. Rupert, please begin.

Rupert Taylor Rea

Morning everybody. Thanks for joining this morning's call. As you just heard, we have Stephen and Scott here in the room. Usual format: they'll both make some opening remarks and then we'll open up for Q&A.

Stephen Hester

Morning everyone. Thank you for joining us. Pleasure to be with you and to be announcing another set of fine results, albeit of course it's only a trading update so we're doing a sort of dance of the seven veils on the numbers themselves. In terms of my opening comments, I think that while we're very conscious that a quarter is of itself in some ways meaningless, and we can have good luck and bad luck and so on and so forth, what I think is perhaps particularly significant about our quarters is that we have established a really impressive trajectory of improving this company, and hopefully therefore every single quarter that we stick to that trajectory is a quarter not only where results go upwards, but where the belief in our ability to sustain and improve this company can grow as well; both our own belief, and hopefully the belief of the people who watch us.

And so, the quarter that has just passed was broadly confirmatory of the trends that you saw in the first half; as we said, the results were better than the run rate of the first half, as we expected them to be. Our luck was roughly even in the quarter, though Scott will go over that. We were very pleased. Key to that, we probably had the best nine months' underwriting results and combined ratio in the company's history, which certainly isn't because the market is helping us. It's obviously about self-improvement. But just as importantly, as we gaze into the future, our belief that there is much more we can do to improve this company continues to hold true, and right across the company we have many, many initiatives which are nowhere close to seeing their full fruition. So, we remain absolutely determined to drive this company's performance as far as we can in the direction of best in class over the next year or two ahead of us.

So, with those remarks, let me pass over to Scott to go through some of the specific numerical trends.

Scott Egan

Okay, thanks, Stephen. Good morning everyone. I'll start off by really just reaffirming what Stephen has said: Q3 has been a continuation of the strong performance and momentum that we reported at the half year. The key areas of our P&L, underwriting, operating profit as well as profit after tax all continue to be strong and ahead of our expectations. In terms of underwriting performance, our attritional loss ratios continue to show attractive year-on-year improvements across all of our core regions, as we continue to focus on quality of earnings improvements. As Stephen said, the weather experience was relatively benign in the third quarter, although year-to-date experience remains slightly worse than our planning assumptions, reflecting the Alberta wildfires and UK and European flood events that we saw in the first half year.

Year-to-date large losses were 9% of earning premiums, compared to a planning assumption of around 8.5% and a prior year comparative of 8.3%. At the end of Q3 we were around three quarters of the way towards the attachment point on our Group aggregate reinsurance cover, and as you will recall, our aggregate cover provides protection against an accumulation of individual losses or events that are £10 million or greater in size, with an attachment point of £150 million. Below the underwriting result, our investment performance continues to be in line with our most recent guidance of circa £350 million for full year 2016. Our cost reduction programme remains on track, and we still expect to have delivered cumulative cost savings of around £250 million by the end of this year, against our target of greater than £350 million by the end of 2018.

Premium trends in Q3 were very much in line with those we reported at half year. Core Group premiums were up 6% on a reported basis, although slightly down in constant currency and excluding Group Re. With over two thirds of our operating profits in non-sterling currencies, the continued weakening of sterling should further benefit RSA's reported premium income and overall results.

Turning to the balance sheet and capital. Tangible net assets of £3.2 billion were down slightly in the quarter, although still up 12% since the start of the year. Movements in the quarter included the positive impact of net income, foreign exchange and mark to market, which were offset by the negative IAS 19 pension fund movements driven by the tightening of credit spreads. The Solvency II coverage ratio was 151%, down from 158% at half-year, but robust in light of recent market volatility, and well within the upper part of our 130–160% target range. I should also note that within this number we have included the accrual of a notional dividend for the third quarter, a slight change from our approach at the first quarter.

The key movements were dominated by the discount rate on our IAS 19 pension liabilities, linked to the tightening of UK credit spreads, partly offset by positive movements from net income, foreign exchange and other mark-to-market gains. Importantly, our stated Solvency II sensitivities have behaved broadly as expected on an individual basis. And during October, coverage strengthened modestly, reflecting positive FX and credit spread movements, but markets remain volatile.

In terms of capital quality, as previously reported we completed the retirement of £200 million of our expensive subordinated debt in July, and we are continuing to evaluate options to further improve capital quality. And as stated at half year, we are currently exploring potential transactions involving our UK legacy liabilities, on which we will report as we know more.

That concludes my review of the quarter. I'll now hand back to Stephen.

Stephen Hester

Thank you very much, Scott. Let's go straight over to Q&A. Operator, can you help us with that please?

Q&A

Operator

Our first question is from the line of Nadine Van Der Meulen at Morgan Stanley. Please go ahead; your line is open.

Nadine Van Der Meulen

Yes, hi, good morning gentlemen. I was wondering; you mentioned that the solvency has improved in October. Could you give a bit more detail around that, the extent that has improved?

And with regard to your premium roles in Canada and Scandinavia, that seems to be quite still below your ambitions. Are you continuing to aim for the medium term 2–4% for Scandinavia and 0–3% in Canada?

And then lastly, could you give a comment around your expected timeline for the potential sale of the UK legacy assets? Many thanks.

Stephen Hester

I'll ask Scott in a second to address your solvency question. On your other two questions, our broad assessment of the path to best in class remains intact in our different regions.

And on UK legacy, our ambition is to find a transaction that we like, and if we find a transaction we like, our ambition is to have announced it in time for the year-end results. Scott, do you want to answer on the solvency?

Scott Egan

On the solvency: look, it moves beyond a – it's sort of a low-single-figure percentage improvement from the position at the end of Q3.

Stephen Hester

Sorry, one thing I should mention: I should just point out, it was in the release; you'll also see a different benefit to October movements with UK interest rates, because that reduced the increase in the pull to par that happened in the first quarter on our bond portfolios. And so, that's gone back to more or less half-year level.

Next question, please?

Operator

It is over to the line of Thomas Seidl at Bernstein. Please go ahead; your line is open.

Thomas Seidl

Yeah, thank you. good morning. First, two questions on your planning. First: with looming inflation in the UK, how does it change your planning assumption regarding UK's underwriting margin, loss ratios and so forth for 2017?

And secondly, with underlying volume still shrinking, what is your planning assumption for growth on an underlying basis next year?

And third question, on the pension deficit: have you recently updated the economic valuation regarding a potential buy-out or by putting assets to a risk-neutral basis?

Stephen Hester

Okay. On the UK, we aren't at the moment predicting any change in our part of the improving combined ratio. We are of course watching very carefully the inflation situation. I think there's some precedent, because right after the financial crisis sterling dropped an equivalent amount, and we had a couple of years of inflation – what was it, 4% plus? – although wage inflation didn't go up very much. I suspect the pattern will be the same: wage inflation reasonably muted, but an inflation concentrated on imported goods. By volume, the biggest amount of our claims are more sensitive to things driven by wage inflation than they are to imported goods. Obviously, there are one or two areas, car parts or something, that might be imported. So, at the moment, we are watching closely. We are of course cautious, but we're not predicting substantive changes to the path that we were otherwise on.

Thomas Seidl

Yes, but just a follow-up on this one: does it mean you're changing your pricing going into 2017 or, given your neutral expectation, you continue with current price levels?

Stephen Hester

We are identifying those business lines where we think it might have an impact, which aren't many, and we are making sure that that impact is thought about in the round in the combination of our pricing and claims initiatives.

On your volume and premium questions: as I say, our target for the normalised premium growth is unchanged. And we are seeing – what's the right phrase? – pleasing green shoots in those areas where we've improved capabilities in terms of response, both in the volumes and the loss ratios.

What we are refusing to do is to try to write more business through taking stupid risks or cutting prices, and we're going to hold our nerve and make sure that when we write more business, we are doing it because we've improved our capabilities and so the business is coming in, not through reduced margins. That's the route that has made the Scandinavian insurers the most profitable and the highest PE companies, and that's the route that we intend to take. For example, we are seeing PIF count growth now in Johnson in Canada; we've seen the first PIF count growth in our personal lines in Denmark for a few years. So, there are definitely green shoots, but we're going to let those come naturally as we drop more and more capability into our business.

And to your last point on pension deficit buy-out: we haven't done the new numbers. Obviously, when interest rates go down the buy-out number would be bigger, and vice versa. But at the moment, we regard it as irrelevant. The number is sufficiently big that you still wouldn't break up RSA, but from day-to-day operations standpoint, it's an irrelevant number.

Thomas Seidl

Okay. That's great. Thank you very much.

Operator

We're now over to the line of James Shuck at UBS. Please go ahead.

James Shuck

Hi, good morning. Two questions please. Firstly, just returning to the UK legacy book: would you mind giving us a little bit of detail into exactly what's in this? I'd seen a headline on the wire saying there's a £1 billion asbestos portfolio. I'm just interested in how that legacy book actually breaks down into the various different components?

And then connected to that is how we should actually think about how any disposal will impact on the Solvency II capital position. There'll obviously be a book of value hit of some description, depending on the price that you will ultimately achieve, but will there be any kind of negative drag on that Solvency II ratio? What are the potential implications around that for any special dividend that may or may not arise through 2017 onwards, I think is when you've kind of indicated it's possible?

Secondly, it's more of a big-picture thing: your tone in this press release, and actually recent press releases, has been very positive, and if anything, I don't really detect any change in that; the world seems to be a very good one from where you're sitting. Is that the right way to read it, or are there more challenges and things that are a little bit more difficult for you to actually deliver on? If I take the ROTE target that you have, you're shooting for the top end of that over a relatively short timeframe, and obviously the yield environment is a lot more difficult. So, are you more or less confident in hitting that target? Are there any particular pockets of underperforming areas that we should be aware of, just as much as the positive trends that you're highlighting? Thank you.

Stephen Hester

Well, thank you for those extensive questions. I'll ask Scott in a second to talk you through the legacy issue, although I'm not sure we have anything different to say than we heard at the half year, but he'll answer your questions there.

On your broader question: I have always said that I think markets sometimes over-interpret tones. But be that as it may, I'd describe the picture as follows: the world's insurance markets are difficult to operate in. We have slow economic growth. We have very little growth therefore in the markets. We have significant competitive pressures, and we have significant pressures to change through technology and so on and so forth. And that is on top of, obviously, the impact of low interest rates, which historically would have decimated our industry. And it's for that reason that, on balance, industry profitability is stable, which I think is a damn good result, given the erosion through interest rates. But most combined ratios are stable. And so, it's a difficult environment to operate in, and you are getting no freebies from the market.

As a result of that, however, RSA's strategy is to improve relative to the market, and to move the company from having historically occupied a middle of the road position in performance terms towards the best in class position in performance terms. And what we are demonstrating is the ability to execute that programme. We have already moved very substantially relative to our historic performance, and relative to others, but there is still plenty that we can do in order to move from where we are now towards the best in class ambitions that we have laid out. And so, what we are positive about is that we are, number one, higher up the league tables in performance than this company has ever been before; number two, that we can see plenty of things left to do to improve.

But I think it would be wrong to say that we are in any way complacent about that. You know, it's difficult to improve companies, and it's difficult to do it when the industry backdrop is difficult. And of course, in insurance you have noise over and above the underlying trends. You know, the third quarter was roughly neutral in terms of what I call noise, the luck of underwriting. The first half was a bit on the negative side in terms of luck from weather and large. I remember a year ago we had a terrible fourth quarter – not terrible, because we had good reinsurance, but we had a poor fourth quarter because of a bunch of UK floods. So,

there will be noise. There will be ups and downs from volatile underwriting; sometimes it will be good, sometimes it won't. That is why we are so focused on the underlying trends and also the protection from reinsurance. And we are positive because our improvements are happening relative and we see more to go, but we are in no way underestimating the challenges of getting that done. You know, the company hasn't done it historically; most companies don't do it, and so now that's why every quarter that we make progress has a significance slightly above the quarter itself. Scott, do you want to deal with the...?

Scott Egan

Yeah, I'll pick up legacy. James, I guess just repeating what we said before: we're out in the marketplace at the moment gauging interest and evaluating price levels, and we've been encouraged by that interest. The UK legacy book, as a reminder, is £1 billion of gross reserves, of which the majority is old asbestos claims. If we were to transact on it, our view would be it would be a reinsurance or sale of those liabilities, of which we would expect that to be a gain to our capital measures, but in year one would be an accounting loss in terms of the way it comes through, really primarily relating to the accounting discount. Our bias would be that we would use that to retire our expensive debt in the first instance, with a view of improving earnings over the medium to longer term and, more importantly, the quality of the capital that we have within the organisation. Our ambition is to give a fuller update with our full-year results.

James Shuck

Scott, if I may: if there's £1 billion of asbestos, that's fine. My question is: what else is there in UK legacy, and are you looking at other portfolios to try and dispose of too?

Scott Egan

So, primarily it's asbestos, but there are other things in there, like abuse etc. We are in the market looking at it as a holistic portfolio, and there will be different risk appetites by people that were talking about around different parts of that portfolio. Beyond that, we'll update more at the full year.

James Shuck

But perhaps if I could, just very quickly: on the non-asbestos portfolio, if you were to take action on that part of the portfolio, would you also expect that to be capital-positive, or would that potentially be capital-negative?

Scott Egan

That would all depend on the price, James, that we managed to achieve through those negotiations. That's why – it's not that I'm trying to be vague; at the end of the day, we're making assumptions as to what it would be and how it might come through. But all of that is around, firstly, an interest point, and I've confirmed that we've been encouraged by the interest. The second part of it, which would obviously drive all of the things that you're talking about, are the pricing levels, and that is obviously what we're out there at the moment negotiating on.

James Shuck

Thank you very much.

Operator

We're now over to Andrew Crean at Autonomous. Please go ahead.

Andrew Crean

Good morning. Just a couple of questions. One: I see that you haven't changed your investment income forecast for 2016, but you have got forecasts for 2017 and 2018 at £320 million and £300 million. Could you say where those are likely to go, given what FX is doing?

And secondly, could you comment a little bit about pricing in your main markets in the third quarter? Is it roughly the same as you published at the six months?

Stephen Hester

At the moment, it feels like they're – obviously, at the half-year when we updated investment income, we had already seen the first round – the main FX move had happened there, and a certain amount of interest rate moves had happened, not just in the UK but also in all bond markets. In the third quarter itself, you had further significant declines in bond yields, albeit a bunch of those have reversed in October. And you had a bit more FX action, but that was also slightly reversed in October. So, we don't agonise over this on a week-by-week basis, but I think if you used our current outlook net-net as being relatively up to date, I think you wouldn't be far wrong.

Andrew Crean

Okay, thanks.

Stephen Hester

In terms of pricing changes, truthfully there's no material change. Obviously, we're incredibly diversified, not just across three regions but half-personalised, half-commercialised and across all the individual product areas and different channels. So, in that sense there's no one channel and product and regional area that moves the dial massively. But I can't tell you anything very insightful that's new about pricing trends. By and large, our assumption that across the portfolio we can recover claims inflation is holding true. But across the portfolio we don't really see any places where we can do better than that. And therefore, if we do better than that, it has to come from the other levers that we're pulling.

Andrew Crean

And just to follow up on that: from what I can see, you're already best in class in Canada, and in some parts of Scandinavia, like Sweden, you're probably best in class there. So, this idea of pursuing best in class, is it now narrowing really on UK, Denmark, Ireland?

Stephen Hester

No, Andrew. We look on an underlying basis. I mean, best in class is obviously measured in many, many qualitative ways and custom ways and so on and so forth, so the financial expression is only an outcome. The input is, what would be the best underwriting sophistication we could have? What would be the slickest customer service we could have? What would be the highest productivity we might have in our servicing centres? And so on and so forth. And it's only an output of that, that at the end you get a financial ambition.

However, if we took Canada as an example, we've been achieving good combined ratios in Canada thanks to very high PYD; not very high relative to the market, but high relative to what we would plan on going forward. So, we would like to get those combined ratios that we've been achieving without anything like as much reliance on PYD, as an example. Which requires us therefore to improve all of the other bits of our business in order to make up for PYD, which I assume will not normally be at those levels. If it is, that's a bonus.

And right across Scandinavia, as a different example, our cost ratios are materially higher than the best of our competitors. And at the moment, clearly a very important shift for RSA is that we used to compare ourselves against the market as a whole; we're now putting in place tougher comparison points, because we're now comparing ourselves against the best. And while we've done good work in Scandinavia on costs, we still have a substantial gap on costs relative to the best. There are gaps in other areas of capabilities as well, and so it boils down to the three levers we talked about. It's trying to make sure we're at the forefront of customers, and metrics that are relevant for financials will be better; better retention rates as we do that. And beginnings of new business, PIF count growth. If the economics of the market make that sensible, it will be some continued improvement in underlying loss ratio. But the improvements we've had so far are more about portfolio discipline. The ones we've got going forward are more about technology, sophistication, claims and indemnity savings, and then it's about lower costs.

Andrew Crean

Great, thank you.

Operator

We are now over to the line of Andy Hughes at Macquarie. Please go ahead, your line is open.

Andy Hughes

Hi guys, three questions if I could. The first one is, I think you talked a bit about policy count changes in Denmark. Is that what you mean by the lead indicators turning positive in September and also in Norway?

And I guess if I'm thinking about policy counts for you guys, I'm thinking about the 4% constant currency less 3% or so price rises. So, kind of down 7% year on year. And the problem I've got with this is that, if the business is shrinking by 7% ex-price increases, how do you really know it's improving? Because given the reliance in many of these businesses on renewal business versus new business, clearly a bunch of the profitability improvement could just be because the business is shrinking quite fast. So how do you know if that's achievable?

I guess the third question's just on the investment income. Obviously, the reinvestment rate dropped, and I'm struggling a bit with the comments you're making about the third quarter, because everything in the press release refers to nine months. So, could we have the third quarter reinvestment rate please? Thanks.

Stephen Hester

I'll ask the others for the reinvestment rate. But, Andy, I guess overall you stick to your 440p target share price and we'll stick to making you wrong. The PIF count is not something in the short term that we've take – in fact, we've actively targeted shrinking parts of our business where we weren't thinking that we could make money. And you'll notice, while they are well ahead of us in terms of the journey to best in class, Tryg's results show declining PIF count, which were announced just yesterday; flat premiums overall and therefore declining PIF count. However, yes, we are beginning to get PIF counts to improve, we're beginning to get retention to improve and we want to keep those going. And we'll see how we do, and you can be appropriately sceptical.

Anything on reinvestment rate?

Scott Egan

So, Andy, hi. The reinvestment rate, I think we've highlighted before; it does move around a bit depending on the mix of the investments that are coming up. It was 1.5% at half-year; it's 1.4% at Q3. We haven't got a discrete Q3 to disclose, but predominantly it's a mix-driven move.

Andy Hughes

So, it's not a long-term change; it's just a short-term change in that quarter for the reinvestment?

Scott Egan

Predominantly, yes.

Stephen Hester

I mean, obviously, gilts were down 60 basis points in yield and are up 60 basis points in yield in October, which is why, as I say, I think there's a lot of noise in markets. In the round, nothing much has changed from the half-year guidance, but I think we should all expect volatility in markets to continue, because at very low discount rates, small changes in expectations cause big changes in markets.

Andy Hughes

Thank you.

Operator

Before we go on to the next question, which is Greig Paterson at KBW, if anyone has any further questions at this stage, could you please press 0 and then 1 on your phone keypad now. And while we're waiting for further questions, Greig, over to you.

Greig Paterson

Morning, gentlemen. Three quick questions. One is: just speaking to investors in some of the meetings you've done, you've been speaking about rising tier 1 debt 2017. I thought we were on a goal of reducing our debt? And tier 1 has particularly high coupon costs, as we've seen in some of the recent issues. I was wondering if you could just talk about that?

Stephen Hester

I'm sorry, can you just speak up a little bit? You're fading out there.

Greig Paterson

I was talking about tier 1 debt. You've been talking to a few people about raising tier 1 debt. I thought the objective was to reduce your debt levels and, I mean, particularly tier 1 is quite expensive debt. I was wondering why you were thinking along those lines, if you could just talk about that point?

The second point is – I mean, one of the areas of growth where you actually are expanding in distribution is the home market. I wonder if you want to talk about the rating environment you're experiencing, I mean, other than just saying we're still having negative rate increases. I was wondering if you can talk about that.

And the third thing is more sort of high level. I mean, we've seen since 2008 a breakdown in the relationship between interest rates and the underwriting cycle. I was just wondering whether this latest tranche down in UK interest rates might be the – how can I say it? – the straw that breaks the camel's back, and we can see some hardening in UK commercial lines? I was wondering what you're thinking around that? Are you seeing any evidence that we've gone a bridge too far with low interest rates and the current rating levels?

Stephen Hester

On tier 1, we have absolutely no ambition to increase our tier 1. We have tier 1 coming up for refinancing in the summer of next year, and the question is how much we refinance. So, we will not increase our tier 1. Frankly, I think the balance of probability is that we'll decrease our tier 1, but there's a reasonable probability that we won't decrease it to zero. We haven't decided that, and obviously what we do there is a bit tied up with the flexibility we have if we do a legacy transaction.

One home, UK home: there continues to be pressure on rates, but also loss ratios are behaving themselves quite well, clearly ex the volatility from big weather events. So, I would say that our loss ratios from home overall are bang in line with our expectations and plans.

And your bigger picture question on interest rates and UK commercial cycle – by the way, I'm not a big buyer of the concept of cycles in insurance; I think it's talked about and less evidenced, excluding perhaps reinsurance. I'm not convinced there's an interest rate link either. But in any event, obviously, interest rates at the end of October in the UK are more or less where they were in the middle of July. The UK commercial lines are competitive as lots of things are competitive, and you have to negotiate it with discipline and hopefully some skill. But again, I would say the loss ratios that we're experiencing in commercial lines – and indeed the retention and the top line, our overall performance of our commercialised business – is bang in line, actually better than, what we thought it would be in our plans for these nine months.

Everyone has an interest in the market being orderly. That doesn't mean to say it will be orderly, but every single insurance company needs to sustain and preferably improve combined ratios in the face of low interest rates. And while you can't detect that when you're competing for individual pieces of business, in the round there aren't many insurance companies whose combined ratios are coming down, except those that have isolated accidents, as it were.

Greig Paterson

Alright, thank you.

Operator

We are now over to the line of James Shuck again at UBS. Please go ahead James, your line is open.

James Shuck

Hugh, thanks. Thanks for taking my follow-up question. Yeah, just one from my side. I think at H1 I was asking about the Scandinavian combined ratio, and then particularly around Sweden just ex the health and protection product, because at H1 it seemed that if you ex out a very steady run rate for the health and protection product, it implied that the rest of Scandinavia was running with a combined ratio of over 100%. The explanation given at the time was that this could be due to some negative PYD. Could you just comment on what the ex health and protection portfolio is doing? Whether you've seen negative prior year developments in Scandinavia, and how we should think about the underlying portfolio and how that's progressing relative to best in class peers, please?

Stephen Hester

We have a positive profitability everywhere in Scandinavia, with the sometimes exception of bits of Norway, which is much more of a start-up; we've only got less than £100 million in premiums in Norway. But in the major areas of Sweden and Denmark, in both personal and commercial lines and in the individual lines beneath that, we have positive profitability, which obviously varies quarter to quarter and so on. But nowhere are we, with the possible exception of bits of Norway, above 100%. And indeed, even in Swedish personal lines, the contribution is very strong from motor and household as far as from a sort of PA-only business.

As I said, that notwithstanding, if we're looking at the gap to best in class, we think there are things we can do right across the region on customers and on retention rates and on new business hit rates. Also, that's a moving picture as technology allows people to do more. And again, if you look at the Tryg results, they talk a lot about some of the things they're doing, and we're doing similar things there. We think that there are a whole series of significant claims improvements and indemnity improvements we can do right across the region, which we think have a good chance of improving loss ratios still further in all of our businesses. And as I said, there's some significant cost gaps between us and best in class across the region. What's true to say is that the gaps are probably bigger in Denmark and in Swedish commercial lines than they are in Swedish personal lines. But everywhere, we think there's more to go for.

James Shuck

Okay. Thank you very much.

Operator

Our final question for today is a re-question from Andy Hughes at Macquarie. Please go again, Andy, your line is open.

Andy Hughes

Hi guys. Just a question on the LTIP, really, because obviously the LTIP average ranged 11–16% ROTE, and that 13% that's 40p of earnings. So, I was wondering whether you thought my price target was too high at 440p? The question on the LTIP really is: how does that reset post the deal? So, once you've done the legacy deal, there's a write-off to tangible book value, I'm assuming. Do you go back and kind of reset all the LTIPs or, given the ambition targets, are we going to see a step increase in the LTIPs next year?

And I guess the final question is on the wage inflation: can you just let us know what you're actually assuming for wage inflation in the UK? Because I think some people probably have a different view on wage inflation post the restriction on EU nationals working in the UK, that it could have a very positive effect on wage inflation. So, I'm just wondering what the sensitivity is. Thanks very much.

Stephen Hester

The LTIP decisions are not in our hands; they're in the hands of the remuneration committee, and it hasn't met to consider next year's scheme yet. When it does, that will be communicated and voted on by shareholders at the AGM.

On wage growth: to tell you the truth, I don't actually know what's underlying the current reserving assumptions. My guess is it's somewhere in the 2–3%, but I don't know that for a fact.

Andy Hughes

Okay. Thanks very much.

Operator

Okay. Well, at that stage, gentlemen, may I please pass it back to you for any closing comments.

Stephen Hester

Terrific. Well, thank you very much for listening in. Obviously, you know where to find us, Rupert or any of us, with any follow-up questions you might have. We're conscious that this is no more than a quarter, so we don't think there's any big news here. But any quarter that goes by that we stick to our improvement path, we think has a significance, so we're pleased that's the case and we're keeping our fingers crossed for the weather to stay nice in the fourth quarter. Thanks very much, bye-bye.

Operator

This now concludes today's call. So, thank you all very much for attending, and you can now disconnect everything.