



Virgin Money Capital Markets Day Transcript

Thursday, 16th November 2017

Strategy Overview

Jayne-Anne Gadhia

Chief Executive, Virgin Money

Welcome and agenda

Good morning everyone. Thank you for coming here today to a great venue, I think. We are going to be speaking for about an hour and a quarter, just to set your expectations; then we look forward to taking your questions. I think we have two hours blocked for this particular session. Thanks very much indeed for coming and giving up your time for us.

What we are going to talk about, really, as much as anything is our new, game-changing Digital Bank, and Michele is going to talk for at least half an hour on that and give you some real insight into what we are doing. Then Hugh is going to take you through our vision for the SME market, which has definitely caught the attention of the press this morning. Then, last but by no means least, Peter is going to give you a view on what all of this means for our numbers this year, next year and for the years ahead.

Delivering on promises

Before we do that and let everyone speak, I just wanted to set the scene for you and tell you about what we believe is a really exciting vision for Virgin Money going forwards. Starting with 2017, we have had another really strong year, and we fully expect to deliver on all of our promises, all of our guidance, around growth, quality and returns, and for us it is really important to be able to say that we have done that consistently every year since listing.

Market landscape

So far in 2017 the external environment has remained very supportive; the mortgage market is slightly ahead of our expectations, and consumer confidence remains very strong. Of course, we see that through our credit card book. However, at the same time, of course, competition has been strong and mortgage asset spreads in particular have been under pressure for some weeks now. We think that the base rate rise has created some upwards momentum there, with some providers increasing mortgage rates, but nevertheless, at the moment, surely all banks are suffering from spread compression.

From our point of view as we think to the future, though, as you know, we have invested huge amounts of time, money and effort in building our intermediary relationships. The success of those relationships has been extraordinary, and that is what gives us real confidence that, in a tightening and more competitive market, our ability to grow mortgage spreads and mortgage volumes at the levels that we require and plan will be within our capability in the months ahead.

As we all know, deposit pricing is also under pressure across the market but, in spite of this, in 2017 we have grown our deposit franchise very strongly, and in fact we have achieved a material reduction in our weighted average cost of funds again this year and next year we expect to be able to improve our cost of deposits even further. We have grown credit cards very safely and very prudently this year and we are looking forward to the launch of further affinity products in early 2018.

As far as the business is concerned, let me sum up by saying our credit remains excellent, costs are well under control, capital is strong and customer numbers continue to grow. In fact, we welcomed our 2 millionth customer into our lounges last month.

So, in summary on 2017, it looks to be another exceptionally strong year and of course that is so important because it sets such strong foundations for the future.

PSD2 and Open Banking

Let us look forward a little bit, then and as you will all know, as well as me, the landscape for banking is changing fundamentally. New rules and regulations are coming into place and I think they are likely to change our historic market for good. I think that is a real, huge opportunity for Virgin Money because PSD2 and Open Banking are a real and genuine threat to the old guard. I've heard many other banking CEOs of the big banks talking about this, and GDPR will definitely put customers in control of their own data in a way that they have never been before.

So, at a stroke I think, the high street banks stand to lose the stranglehold that they have had on their customers for so long and I think that is a real challenge for them. As we know, historically customers have not moved banking providers because of apathy. That has often been driven by either perceived complexity and the hassle of switching or a lack of distinctive product offerings between the big incumbent institutions.

However, make no mistake, in my opinion this is all about to change. Open Banking is going to enable agile, technology-driven companies like us, big and small companies, to compete in the banking marketplace and offer personalised services, all based on the rich data that they will be able to access from the major banks.

In my opinion, this causes a huge problem for the large opportunities for the big banks because they are going to have to focus all of their efforts now on defending their customer base and protecting their low-cost current accounts and their high-cost credit products. Due to this and their large legacy systems, I think it is going to be incredibly difficult for them to be nimble and creative enough to take full advantage of the new world of possibilities that is opening up for businesses like ours.

Creating a digital, data-driven, customer-centric bank

Let us have a look, then: who do I think is perfectly placed to make the most of this emerging landscape? If we look at the fin-tech firms first, I think they will do well but, in fairness, they tend to specialise in specific product areas, they have few customers and their brands, at the moment at least, are not well-recognised. On the other hand, the big names like Google and Amazon might have great brand recognition, but I do not think banking is ever going to be their primary focus.

The incumbent banks remain focused on protecting their legacy books from cannibalisation and in general, I think, they continue to suffer from a lack of trust. In the future, we think that trust, even more than now, will become the essential ingredient in building banking relationships. Who you trust with your money and your data, or even both of those things, will surely be some of the defining decisions that we make when choosing a banking provider in the years to come. So I would like to make the case today that we at Virgin Money are in a unique position to create a digital, data-driven, customer-centric bank for the future which

will nurture trusted relationships with our customers, both in banking and in products beyond banking for the good of their lives. For us, this is the next big leap forward for our business.

Virgin brand

Our brand is the most trusted in UK banking; all the research that we and you do proves that. The Virgin brand is the most admired brand in the UK, full stop. Our customers tell us that we have the brand to meet their needs more than we do today, both within their banking products and beyond that and that we can do that credibly and competently. It is our banking credentials that enable us to compete for the big bank incumbent customers because we do have expertise and capability and we are known for innovation. However, importantly, we also have the advantage, actually, of having no legacy to protect or defend. It is the first time that I have stood here feeling that not having a big current account base is a huge strategic competitive advantage. We have minimal customers with traditional current account products to cannibalise, we have no data migrations to perform, so we have all of the advantages of the established players but none of their considerable impediments.

A new banking platform for the future

Put plain and simple, our plan is to create a new banking platform for the future. The way I think about it is the way that Amazon has reinvented retailing, Spotify has revolutionised music, or even Uber has reimagined personal travel, so we at Virgin Money plan to change the world of banking and the way in which banking is done.

Michele will explain in more detail how we intend to execute on this bold vision, how it will increase our customer numbers and radically change and deepen the relationship that we have with those customers. It will enable us to increase our non-interest income too, by extending our product ranges through partnerships in banking and through other products. Our new digital platform will enable us to operate efficiently and at scale, driving materially improved operating leverage throughout all of our business.

Of course, a particular benefit of this is the access that it gives us, both to existing current account and primary savings markets; and it is the way that we will compete for current account products and the economic benefits that those products bring. As you will have seen in our RNS this morning, we expect to achieve £5 billion worth of funding from this source over the first five years of doing business. That creates access to current account funding levels that we have not been able to achieve to date. Strategically, I do not have to explain just how significant this will be in transforming the low-cost growth capability of our business.

I am going to hand over to Michele in a moment to explain about our progress towards this exciting vision. However, let me remind you that Michele and her team were the team that led the successful build and migration of our cards business back in 2015. It included a complex technology platform build-out and a data migration and it was a programme that was executed flawlessly; it was on time and on budget. I am sure you will agree that that sort of success and that sort of proven capability augurs very well for our confidence in building, successfully, the digital bank of the future.

The right time to enter the SME market

However, before I hand over to Michele, I also wanted to update you on another big strategic development for our business. You might remember in a room like this, just after the referendum last year, we decided to pull back from entering the SME market at the time in

which we have been expecting to acquire a small asset finance business. Having pulled back from that, we invested instead, over the ensuing months, in creating the capability to offer an SME deposit account, which we plan to launch as soon as January next year. This will be followed by the launch of a business current account by the end of 2018 built on the successful essential current account that we operate today. Hugh will explain the opportunity we have for positively disrupting what we know and believe to be a poorly served but hugely important market in the UK.

In deposits alone, we think that SME business could bring us a further £5 billion of low-cost funding over five years from launch. Metro Bank have achieved this volume in that period of time despite – Craig would not like me to say this I am sure, but I will say – despite their less-famous brand and a smaller branch footprint, certainly at the moment, than Virgin Money. This development also enables us to contemplate applying for some of the funding that might be available from RBS as part of their Williams & Glyn liability. A successful application there could make Virgin Money a really major challenger in the SME space.

Given the scale of the SME market, which Hugh will talk about and the ridiculous dominance of the incumbent banks there, we believe that with the right proposition we can achieve a very material market share. In other words, the development of our SME franchise is a further strategic opportunity for us and not to steal too much of Hugh's thunder, it starts in 2018.

In parallel with our existing core business, then, these new developments will genuinely transform Virgin Money. Together they will provide access to more customers and a much broader range of products. Importantly, that will bring immediate funding benefits to us in terms of volume and cost of funds. Our data-driven digital capability, of course, will reduce costs and increase efficiency. So this is about more volume, more revenue and a lower-cost model.

As we look ahead, we can see that this model will drive economic returns that are well ahead of the 13+% RoTE that we are currently achieving. Peter is going to talk a little bit more about that in the next hour or so.

Of course, we are really well aware that new developments like this bring both the economic opportunity I have described, but also execution risk, and we know that we need to plan well for that. The key, I think, is to manage the implementation of these programmes dynamically over time and Peter, again, will explain the overall project plan that we have in place. However, broadly, we intend to update you regularly, probably half-yearly, on our progress. To be clear, we expect to have both our digital bank and initial SME capability fully live before we get into 2020.

Summary

So, in summary, we think this is a really exciting vision for the future and one that we think we are uniquely placed to achieve. You will tell us whether you agree after you have heard the detailed presentations. However, for us, over the next few years our plan is to transform Virgin Money from a challenger bank to a digital champion. Our opportunity, given the regulatory and technological context that we now live in, I do not think has ever been greater.

So now, I am going to hand you over to Michele, who is going to tell you in more detail about how we are going to do that through our Digital Bank.

Digital Bank

Michele Greene

Director of Strategic Developments, Virgin Money

Building the UK's best digital bank

Thank you, Jayne-Anne. Good morning everyone. I am really excited to have the opportunity to talk to you properly for the first time about the Virgin Money Digital Bank.

Over the course of the next 30 minutes or so, I want to talk to you about our vision for the bank, what we have learned talking to customers and exactly what we are building. I will also tell you why we believe it will be different from any other digital project out there and why we are uniquely positioned. My objective is to ensure you walk away feeling not only as excited about the Digital Bank opportunity for Virgin Money as we are, but unambiguously clear on why we are best positioned to make this happen.

Listening to customers

So, to begin, we have spent time really listening to customers. Today, 79% of our sales already happen through digital channels, through our credit card business in particular we understand how customers interact digitally. We deliver distinctive customer service across the whole business that is recognised by a market-leading NPS score of +40. Because of our relentless focus on the customer, we set out to understand how to take things further and meet more of our customers' needs: what they value, what they miss in their banking experiences today, pain points that frustrate them and especially what causes true delight.

Speaking directly with and listening to numerous customers over the last 18 months, we learned three key things. Firstly, we learned that they expect our offering to adapt to the context of their life without them asking. We learned that they find it difficult to get more out of their money, as well as reconcile and track their spending, balances and transactions, across their various providers. We learned they do not want banking products, they want to conduct their lives knowing that the money part just happens, enabling big and small moments in their lives. Altogether, we learned that customers are ready and open to a disruptive digital proposition that addresses these needs and we believe we can deliver such a proposition.

Regulatory changes will revolutionise the retail banking landscape

We have also paid attention to the broader industry context. Important shifts are happening that support the launch of a disruptive digital proposition. Customer expectations are changing, and the regulatory landscape will revolutionise retail banking and how we think about our money.

As you know, there are three important cornerstones to the regulatory reform, namely open banking, PSD2 and GDPR, with these new rules beginning to come into force over the course of 2018. The common themes through all three regulatory reforms are innovation, competition and consumer protection. In a nutshell, customers will be able to bring together all their financial relationships and data in one place, and personalise it in the way they want.

They will be able to seamlessly instruct payments and move funds from a single interface. The regulations also address major concerns around security, putting a strong authentication and permission framework around this sensitive customer data.

Put together, we believe this leads to a fundamental shift in how customers will manage their money and their data.

Making everyone better off

In developing our digital bank, we have followed a rigorous approach anchored around Virgin Money's vision of making everyone better off. We will use the power of data to enrich the customer proposition and world-class analytics to drive customer and shareholder value. We are building a new type of bank and proposition from a customer and business perspective. We are on a quest to build an innovative digital bank. From a customer perspective, through the use of human-centred design, we will create engaging personalised experiences to drive ease, empowerment and joy to our customer offering.

From a business perspective, we are architecting the bank with a number of key business imperatives in mind. It will be customer-first, manual by exception, configurable and scalable, transparent, agile and flexible, with a focus on designing out complexity.

From an economic perspective, we are creating a low-cost, scalable business model. Our vision is to build a customer-centric, data-driven and digitally-enabled service that goes beyond the bands of traditional banking. We will create trust-based and enduring relationships with our customers. Ultimately, VM Digital Bank will support everyday needs, as well as helping to take the stress out of key life events. We want to create a world where people feel good about their money.

Transforming banking

We will transform banking in the same way many of the successful digital platform businesses have changed their sectors. In 2016, five of the top 20 companies by market capitalisation were platform-oriented companies. We are developing the Digital Bank in the same way many of these successful and disruptive businesses have been created, ultimately to achieve scale and strong customer loyalty. We have identified five distinctive assets that underpin the business we are building; on their own each is powerful, together we believe they are game-changing.

Universal Account

Our Universal Account: just as with Amazon or Google, where you can find anything through one simple interface, we will help you manage all of your money in one place through one experience.

Digital assistance

Our digital assistance concept: just as the platform businesses have removed complexity from our retail, entertainment and travel customer experience, we will simplify how convenient it is for you to interact with our proposition.

Beyond banking

Our beyond banking ideas: just as with Amazon, where you can buy anything you want direct from them or through their marketplace through one customer experience, so we will help you manage all of your financial and non-financial needs.

Next-generation architecture and platform

Our next-generation architecture and platform plans: just as Facebook can scale to billions of users and innovate at pace, we are building a platform that is low-cost, scalable and easy to change.

Business intelligence and analytics

Our business intelligence and analytics: in the way every platform business tailors their experience to you and predicts what you need, we will put data at the core of every decision and action. We will apply the best aspects of the platform businesses to banking.

Universal Account

So, what will the Virgin Money Digital Bank actually do for our customers? As you are about to hear, we are creating much more than a current account. We are building the next-generation Universal Account that can be personalised by the customer. It will allow our customers to spend, save, borrow and budget, all in one place, supported by engaging ways to better manage their money, whether they bank directly with us or elsewhere. Think about it as a customer-defined current account with all your money in one place.

Our new mobile banking experience combines the features of everyday banking products, current account, savings and overdraft with a set of helpful and intuitive tools to allow customers to manage their money more effectively; this eliminates the need for multiple accounts.

Money Pools

Structured around a concept called Money Pools, we give customers a way to separate their money within a single account. Today, to achieve the same thing, many customers open and manage multiple accounts and transfer funds between them. The Money Pools concept makes this behaviour seamless and intuitive. It allows customers to better understand their finances in a way that works for them. So let me tell you more about the Money Pools concept that is at the heart of the universal account.

Currently people open up multiple accounts or even use Excel spreadsheets to split out their monthly income to help them know what they have to spend, know what they need to borrow and know what they would like to be able to save. As a result, we have designed an approach to help customers separate their money in a way that makes sense for them. For instance, customers can have a bills pool which ringfences funds for regular commitments like paying the rent or mortgage, utilities, mobile phone, council tax bills. In the same account, they can establish an everyday pool for day-to-day spending and a savings pool to build funds towards a specific goal or for a rainy day. Across these pools, they are able to see their financial flows transparently and have an accurate and up-to-date picture of their finances. In addition, they can customise their own pool for a specific purpose, for instance a summer holiday pool where they initially build up savings, take a top-up loan and then spend the funds in a way that is easy for them to track. We are able to offer this functionality due to the single integrated architecture we are building with 10x using cutting-edge technologies. We believe it is very challenging for traditional banks, with their product-centric operating models, to replicate this proposition.

When we showed customers the Money Pools concepts, their reaction was staggeringly positive. They were consistently impressed with the convenience such a feature would bring. Overall, 80% of customers we surveyed said they would use Money Pools to help manage their money. This gives us confidence that we are building not just an interesting and helpful proposition but a compelling one. Once customers turn to us for their current account needs, it will drive immediate engagement. This engagement and the loyalty it engenders is the springboard to successful growth.

Digital assistance

Beyond the Universal Account, we are reinventing the foundations of banking, so let me talk to you about delivering digital assistance. Specifically, we will give customers, as mentioned, pools, not accounts, a single account that can be divided up in the way the customer wants: saving, spending, borrowing and budgeting; a coach, not an advisor, real-time support on how to optimise money based on analysis of spending and saving, employing behavioural economics. As an example, we can prompt you to review subscriptions that suddenly increase in cost at the end of a free trial, or promotional period.

Snapshots

Snapshots: personalised and curated bitesize information with calls to action, potentially removing the need to ever even open the app. Imagine being at the checkout in a coffee shop and receiving an instant discount you can take advantage of.

Smart Ledger

Smart Ledger: the ability to search, filter and sort your financial activities based on things you care about and that actually relate to your life, for instance, how much did I spend on groceries last month?

Intelligent assistant

Intelligent assistant: help and support through an intelligent assistant who learns your behaviours and stays one step ahead; think of Alexa for your money.

Re-imagining the basics of banking

We have also re-imagined the basics of banking, including a completely digital way to manage money on the go from any smart device; simplified language, such as terms and conditions presented in plain English that are actually useful; an onboarding journey that takes minutes and uses everyday smartphone capabilities; payments made simple and easy, we know and display your frequent payees and let you pay them in a single action; settings, a single place on your device to manage time-consuming administrative tasks, like changing an address, that would normally require long calls or physical visits; financial calendar, that helps you visualise key financial commitments and stay on top of things.

Put together, our relentless focus on the customer positions us to re-imagine banking.

Beyond Banking vision

The Universal Account is the cornerstone of our proposition. It incorporates the Money Pool concept, as well as our digital assistance concepts. This will deliver day-to-day banking services utilising innovative features to drive regular interactions. This is a market-leading product that supports customers towards their lifestyle and financial goals. However, it is only the start of a digital journey that culminates in our Beyond Banking vision.

By understanding the transactional data on the customer's account with us, or in fact through any of their bank accounts, we will be able to deliver an experience that brings together financial and non-financial products to our customers that complements the existing Virgin Money business. We will use this data and corresponding insights to identify opportunities to help our customers beyond traditional financial products. As an example, triggered by transactions on their account related to airlines, trains or with a travel agent, we can offer prompts to suggest deals to help them save money on rental car bookings, hotels and local tours. We can also offer prompts for renewing insurance coverage based on policy anniversary dates we see in the customer's account data.

We will be partnering with providers and enabling seamless consumption of these services through our proposition. We will be able to combine data the customer chooses to share with us, for instance on their grocery basket, with insights on their account. In this way, we can offer recommendations and vouchers from partners to help them save money on their regular spending. This aspect of our offering allows us to extend our services to the almost 80% share of our customer's wallet that is spent outside of banking. Importantly, these are tangible examples of our 'everyone better off' purpose in action: better value for the customer and incremental value for Virgin Money.

Next-generation architecture

Traditional banks are hampered by legacy platforms that are expensive to run and change; we do not have this constraint as we are building afresh. VM Digital Bank will therefore be a true end-to-end digital bank. It is not just a channel with digital components, and not just an attempt to digitise some aspects of our customer experience. It will be an integrated digital bank where the use of data and advanced analytics is fundamental in business decision-making, control and oversight, as well as enriching the customer proposition. It will be scalable and agile, using modern and future-proof technologies; this will be achieved through a cloud-based hosted platform that will be scalable and efficient. The concept of change is gone and replaced by innovation; constantly iterating will ensure an ever-enriching customer experience.

The security model is a critical component of the 10x architecture. It will be enterprise-grade from day one and is designed in such a way that new technologies, designed to combat the ever-changing threat landscape, can be adapted quickly and easily. As we look at security, we think about it in three layers: customer, platform and operations. Clearly, customer protection, and therefore trust, is paramount. For customer security, we have incorporated next-generation capability around device identification, malware detection and behavioural monitoring, for example.

Working with 10x, we are designing our platform for a modern digital business that has banking components integrated into it, rather than a banking system that is digitally enabled. The agility of change and speed to market we have is due to the highly configurable single and integrated architecture that the 10x platform provides. We believe the 10x platform is unlike anything else in the marketplace today and will therefore give us a significant competitive advantage.

Business intelligence and analytics

We are investing not just in the customer proposition but also in the creation of next-generation business intelligence. We are doing this modelled on the data architecture of successful platform businesses. This is actually what allows us to achieve the level of personalisation and proposition-richness we have described to you. By standing up the data environment from scratch, we can build it so it achieves the data storage, integrity and extraction capabilities that environments built up over time struggle to achieve. This, even without any sophisticated analytics, is a powerful differentiator in banking as most traditional institutions have siloed and fragmented data. Based on a foundation of clean, simple data structures and architectures, we are creating a best-in-class analytical environment. This will allow us to bring together customer, digital, risk, financial and other behavioural data into one single place. Notably, this technical environment allows us to extract insights from our data rapidly and at low cost, unlike the siloed analytical environments most banks are used to. We are confident that the cloud analytical capabilities we are building allow full automation of performance and control dashboards, real-time decision engines, straight-through marketing campaigns and streamlined and analytically-driven operational risk management.

Not only will all of this bring value for the Digital Bank, but our strategy allows for us to extend these capabilities across the entire Virgin Money business through the creation of a single data platform and we have already started that journey. Through a proof-of-concept approach, we have already moved our cards customer data into the cloud and we saw immediate tangible value. As an example, the effort to ingest new data sources was more than halved in terms of time and cost. In addition, visualisation tool implementation from a standing start in the new cloud test environment took weeks versus what can be months in our current card analytical stack. As a consequence, state of the art business intelligence will create unique value for Virgin Money. We have a proven track record of analytic excellence and this, combined with the use of cloud technologies, gives us confidence in the transformational impact of the architecture we are creating.

How this will generate scale and value

1 million customers by five years after launch

So, having talked to you about the five distinctive assets, I now want to walk you through how this will generate scale and value for us. We see a clear route to scale and acquiring approximately 1 million customers for Virgin Money Digital Bank in five years. We have identified a number of routes to grow our customer base, each of which are credible and have a clear path to execution.

Compared to new fin-tech players, we have an existing customer base to leverage. In addition, we have the potential to access the broader Virgin Group customers, which sets us apart from the traditional banks. In total, we estimate this to be a target audience of around 19 million customers. We also have the opportunity to work with some specific affinity partnerships.

We will of course also participate in the broader market, taking advantage of PCA account switching and the inevitable changing landscape driven by Open Banking and PSD2. We estimate a conservative number of 200,000 customers in our first year, growing to 1 million over five years. This is an entirely prudent set of assumptions given our ability to acquire

within our existing customer base and the broader Virgin Group audience; it is a modest share of the combined PCA and savings account bases across the traditional banks and of course this could be substantially more.

A clear route to compelling and successful economics for VM Digital Bank

In addition to our distinctive proposition, we see a clear route to compelling and successful economics for VM Digital Bank. This comes from achieving scale, a low-cost operating model and access to new revenue streams. When looking at the scale of the opportunity, we have taken prudent and conservative assumptions in creating our forecasts. For current accounts, we assumed average account balances that increase to about £2,500 a month in contrast to the market average of £5,000. For savings, we assume an average balance per account of about £2,500 across the five-year period in contrast to the £6,000 market average. On the low-cost operating model, we expect the Virgin Money Digital Bank cost to serve and cost to acquire to be materially lower than traditional banks and to build a structurally cheaper operating platform.

On the operating platform side of things, as you all know, most analogue businesses have a large proportion of their cost structure tied up in people-related components. Based on our automation-by-design, manual-by-exception objective, we expect to have approximately 200 people in VM Digital Bank with 10x providing the technology support.

When it comes to customer acquisition costs, we believe the strength of the brand, the richness of our proposition and the ability to leverage our existing customer base gives us a significant efficiency advantage. Put together, we believe the aggregate cost associated with acquiring customers and running a data-driven, digitally-enabled bank, together with commercial arrangements we have with 10x, will drive an all-in operating cost that is approximately 40% lower than the level we operate at today.

On revenues, we see both traditional and capital-light beyond banking income streams for VM Digital Bank. Apart from the expected sources of interchange, FX and lending fees, we will work with partners on additional customer spend categories, like holidays, motoring, supermarkets and general purchasing, to name but a few. On top of this, we see a further benefit being derived from good quality, sticky current account balances that provide low-cost funding. This demonstrates the full potential franchise value of a digital bank.

Assets and approach

We have a number of critically important things in our favour. We are designing and building afresh, without any constraints and with all of the advantages the new technologies provide. We believe the flexibility that both the technology and business platform provide as a result cannot be easily replicated by the traditional banks. The strength of the brand and existing customer relationships sets us apart. We are unencumbered from legacy, with a strong brand, that gives us the right to disrupt. With access and reach across the Virgin Money group, this powerful combination gives us the ability to scale at a lower-than-average cost to acquire with our marketing invested in building scale, rather than in building brands.

Our existing customers provide us with access to immediate scale, an upside not available to the fin-tech start-ups. We also have a loyal customer base, with strong brand affinity, unlike many of the established banks. Unlike the start-ups, we have large amounts of existing customer data and this, together with our proven analytical capability, gives us the

opportunity to create true business intelligence. We also have the opportunity to advance Virgin Money's current analytics with next-generation cloud tools and the use of networking graph technology.

Strong competitive positioning

As we are designing and building afresh, we believe we are well-placed to transform banking. However, how do we compare to others in the market? We believe we are strongly positioned. There is no doubt that the market is evolving, with the emergence of new propositions and features. It is clear, however, based on current analysis, that our proposition has a multiplicity of attributes and features that are not commonplace today. Traditional banks are investing in digital transformation initiatives with a focus on the digital front end. The cost of replacing a complete legacy banking system with a truly digital end-to-end platform is prohibitive. Likewise, the steps needed to undergo the fundamental cultural and operational changes to develop true customer-centric digital propositions cannot be underestimated. The neo-banks, such as Monzo, Atom, Tandem and Starling pose a threat to incumbents by offering an enhanced customer experience at very low operating costs. However, these neo-banks currently lack the customer base or brand recognition to fully disrupt the market, leaving a clear opportunity for VM Digital Bank.

We truly believe we are uniquely positioned to win here: we have the best of the traditional banking sector and the best attributes of the neo-banks, plus a truly unique brand.

Progress and phased delivery

We are mobilised, designed, architected and progressing build. 12 months into a complex programme such as this, the key focus area has been on detailed design across all the key aspects of the programme in preparation for the build phase, which is now underway. During the same period, 10x have also focused on building their business, recruiting staff and building the foundational platform components. We have now entered the detailed build phase of the proposition, including not only the technical build, supported by 10x under a fixed-cost contract but also the business architecture that will support it and the business that will operate it. From a timeline perspective, our current expectation is to run a beta before the end of 2018, followed by full market launch during 2019.

Summary

In closing, I want to recap how the distinctive Digital Bank that we are building will deliver on our purpose to make everyone better off. Customers will receive a truly unique proposition that puts their needs at the centre of the platform and offers useful seamless features. The Digital Bank will provide contextual features and assistance that links money to everyday situations. Customers will receive real-time coaching and support from a bank they have a trusted relationship with. Customers will see tailored services and offers powered by advanced analytics that runs on their data, behaviour and preferences. Thanks to the true digital end-to-end nature of the Virgin Money Digital Bank, Virgin Money will also benefit from this proposition. The launch of a PCA equivalent digital offering will drive low-cost PCA deposits and increased savings balances, which will help diversify and reduce the cost of Virgin Money's funding. The digital business will enable us to lower operating costs thanks to the modern cloud-hosted platform that is designed to operate at high automation and with low manual intervention. Additionally, the versatility of the Digital Bank will allow us to access

the entire banking wallet and expand to beyond banking services, helping us grow additional sources of revenue. We are confident our ambition is well-founded; banking as we know it is changing, technology is evolving daily, we are taking the best of the fin and the tech and creating truly ground-breaking fin-tech in the build of Virgin Money Digital Bank. I believe this is most exciting and possibly the most ground-breaking initiative in play in banking today.

With that, I will hand over to Hugh.

SMEs

Hugh Chater

Chief Commercial Officer, Virgin Money

Thanks Michele, and good morning everybody. We have long believed that the Virgin brand would be highly attractive in the SME market. I can therefore announce here and now that from January 2018 we will be launching the first product of our new SME banking range. As some of you will remember, in 2016 we decided that it was prudent, in light of the EU referendum result, temporarily to defer our SME asset finance plans. However, we believe that now is the perfect time for Virgin Money to enter the SME banking market and we intend to help small and medium-sized businesses across the country succeed and grow. Realising our full ambitions will transform the nature of the relationship and product offerings they have with their bank. As Richard would say, we are changing it for good.

The SME market is fundamentally attractive

So why do we think now is the perfect time for us to enter SME banking? It is a market that we see as ripe for disruption and a perfect fit for our brand and it is a big opportunity. It is a roughly £8 billion revenue pool; assets and liabilities make up around £400 billion of gross balances. Of this £400 billion, there are £234 billion of deposits. Given our expertise in savings, we see these deposits as a natural entry point for us into SME banking. It is even more enticing because SME deposits are 50–60% cheaper than retail deposits. So they not only present an opportunity to increase and diversify our funding sources but also do this at a reduced cost. On this basis, entering into the SME deposit market alone represents a significant opportunity.

A concentrated and underserved market

The market is also currently poorly served: the top four players have nearly an 80% share, but their collective Net Promoter Score is -11, compared to +10 for the smaller banks. The market is ripe for the right brand to offer SMEs a better way of banking. The whole landscape is changing. The regulators have been talking for some years now about increasing competition in the market by reducing barriers to entry. This has led to the huge surge in fin-tech players who are raising customer expectations and seeking to gain a foothold in the market. The recently announced RBS remedies aim to stimulate competition in this concentrated market and could double annual switching rates, making it increasingly difficult for the large incumbent players to maintain their stranglehold.

The time is right for a customer champion like Virgin Money, with a truly game-changing digital vision, to disrupt and improve this market.

Our existing assets support a compelling entry strategy

We are also confident that we have the assets to compete credibly, and to take a large slice of the SME pie. We know the Virgin brand plays well with SMEs, with stronger appeal than either Metro Bank or Aldermore according to our research this month. When we spoke to SMEs, they highlighted that Richard Branson was an inspiration to them, representing, as he does, the entrepreneurial heart and spirit of the UK SME, and they would love the idea of banking with Branson. We already have 12,000 charity relationships and about 150,000 SME directors and owners as customers in our business, which means 3% of SMEs already have a banking relationship with Virgin Money. We also have an existing national footprint. We can leverage our 74 stores and seven lounges to offer specifically tailored support to SMEs' changing needs. And of course, in the future we will have another fantastic asset: the Virgin Money Digital Bank that Michele has just talked about.

We have a strong business case for savings and BCA

We are starting our journey with a simple and transparent SME savings product, delivered through our current core business in January 2018, followed by a basic business current account, launched towards the end of 2018. Our staged approach is designed to give us access into the market within our existing investment plans, allowing us to build meaningful relationships with SME customers, delivered online and through our call centres, stores and lounges. The first two steps – savings and the business current account – make stand-alone economic sense, given the funding benefits I have already referred to. We are working on three further steps: adding mobile, partnerships and the VMDB capability. Completing these steps will create an SME business model which we think would be truly innovative and competitive. This would likely be the basis of any RBS bid. I will describe this in a little bit more detail later on.

We plan to raise £5 billion of cheaper funding over five years

As I have mentioned, we will start our SME journey with savings, but following that with a business current account will be critical because, as you know, they are at the heart of SME relationships. We think that the combination of savings and BCA provides us with the opportunity to raise £5 billion in deposits over five years, at improved costs versus our retail funding. These volumes benchmark well against what Aldermore and Metro have achieved over the last five years, despite the fact that they have none of our brand reach, customer footprint or our existing scale of customer base. That on its own would make a viable business case, but we are confident there is much more to our vision. So, in our existing plans, we have the deposit and BCA products, but these are only the first steps towards our exciting vision.

Full-service digitally based SME proposition

Not yet in plan is our concept for a full-service digitally based SME proposition, so let me add a little colour to that. The potential for partnering with other businesses for lending, for forex, for other added-value services such as accounting, has never been greater. Our model would include an API environment that makes that proposition simple and easy for our partners and our customers. In this way we can bring best-of-breed products and services from across the market to our customers, leveraging partners' capability through the API environment.

But why do this with others? Well, there are three advantages to building this proposition with partners rather than on our own. The first is that it will allow us to build a broader proposition more quickly. The second is that it enables us selectively to place assets on our balance sheet that most closely fit our risk and capital appetite. And lastly, it will provide us with fee-based income with minimal capital support. We will keep the funding from deposits and BCAs on-balance-sheet, so all in all this is a funding-led, non-interest-income-generative and capital-light model for success in the SME market.

Conclusion

Bringing this all together, this concentrated and underserved market is attractive, and it is ready for a customer champion. We bring strong assets to the SME proposition, with our brand, existing relationships and national network. We can deliver meaningful funding benefits within our current investment plans. We have an exciting vision to deliver SME customers a better way of banking, via a partnership-based omni-channel proposition, enhanced through our new digital capability. And this new proposition could be a compelling case for RBS remedy support. Fully expressed, banking with Branson is a fantastic opportunity to reshape SME banking and transform our franchise. Thanks again.

Outlook and Guidance for 2018

Peter Bole

Chief Financial Officer, Virgin Money

Morning everyone, and thanks all for joining us this morning. As Jayne-Anne has highlighted, I intend to do three things this morning. Firstly, I will provide a brief update on 2017 performance. I will then set out what we expect this to mean for 2018. And then, finally, I will recap on the strategic developments presented today, and in doing so I will run through the key milestones over the next couple of years, and then touch on how we see these developments impact on our financial performance.

2017 performance

It is only a month since we provided our third-quarter update, but in that month our confidence in delivering against the previous guidance has strengthened further. In terms of lending activity, we will deliver gross mortgage lending in the upper half of our 3% to 3.5% market share range. And in credit cards, we remain on track to have £3 billion of balances by the end of the year. Our net interest margin, as previously guided, will be at the lower end of the range of 157 to 160 bps, and we expect banking net interest margin to be in line with the first half at 172 basis points. Our credit card book continues to perform in line with expectations, with borrowing, spend and repayment behaviours all showing stable trends, and the deposit franchise continues to perform well. In recent weeks, we reduced the costs on a further £3 billion of balances, and several weeks into that process, retentions remain strong and consistent with our expectations.

The effect of the recent base rate increase will have a negligible impact on the 2017 results, and is expected to have a modest benefit going into 2018. And on costs, we continue to manage things tightly and remain on track to exit 2017 with a cost:income ratio of 50%. Our credit quality continues to be exceptional. We see no deterioration in performance, a reflection of both continued disciplined underwriting and a supportive economy. So, as a

consequence, with six weeks of the year to go, we expect a cost of risk at the lower end of previous guidance, close to the level reported at interims, and we remain on track to deliver solid double-digit returns, in line with expectations. We also expect to end the year with a CET1 ratio of around 13.5%.

Now, as Jayne-Anne has mentioned, one feature we have seen in the last couple of months is heightened pressure on asset spreads. While market pricing of deposits has been moving to reflect the shift in the yield curve, the mortgage market has been slow to reflect this shift in pricing. As a result, we have decided to write slightly lower volumes in recent weeks to manage spreads. And while this will not impact 2017 directly, it will result in a slight reduction in pipeline at the end of the year.

2018 outlook

So when we look at 2018, we expect to see profitability in line with our expectations. However, recognising we may face a more challenging mortgage market, we are planning to deliver that performance with even tighter cost control. Our forecast for the mortgage market is that gross lending volumes will remain broadly flat in 2018. We expect our share of the market to remain within our previously guided range of between 3% and 3.5%, albeit at the lower end of that range, reflecting more recent market conditions.

The cards business will see the launch of new affinity products. While relatively modest in 2018, it will see the start of a shift in the mix of the portfolio, and this will support growth in balances in the mid-single digits. So, turning to income, we expect banking net interest margin to benefit from the continued development by Hugh and the team of our commercial levers. And as a result, despite the ongoing market pressure, we would expect to see a relatively modest reduction in banking NIM to between 165 and 170 bps. Now, in the event that the market pricing differs from expectation, we would look to adjust volumes either higher or lower accordingly, ensuring that we deploy capital in a disciplined way.

We have spent a lot of time in recent weeks focusing on our spending plans for 2018, and as a consequence we plan to deliver 2018 operating costs broadly stable on the current year, with further efficiencies offsetting volume growth and inflationary pressures. Maintaining the high credit quality of our lending portfolios has been a consistent theme for the business. Even allowing for an economic scenario with a modestly rising unemployment, we would expect the cost of risk to be no more than 20 bps. And to be clear, that includes the impact of IFRS 9.

The result of all of the above is that we expect continued strong performance in 2018, and we maintain our guidance for solid double-digit return on tangible equity. With returns at this level, we intend to continue to pay a progressive dividend. As Jayne-Anne has highlighted, we will continue to develop the business we have today, and at the same time we will materially enhance our proposition through the development of a digital bank and the establishment of the SME franchise. We have spoken before of annual investment in our core business of £50 million, plus £40 million for the digital bank. And when we look at the investment portfolio in 2018, we expect to increase the investment spend by £10 million to £100 million in total. £50 million of this will be used to maintain and develop the core business, to launch SME deposits and to develop the business current account proposition. Of the balance, £40 million covers the 2018 cost of the delivery of the digital bank, with the remaining £10 million supporting

the launch of Virgin Atlantic financial services products. This investment spend is entirely reflected in our capital guidance.

Turning to the outlook for capital, we expect the CET1 ratio to remain above 12% at all times. We have now had the benefit of further guidance from the PRA in respect of IFRS 9, and we intend to take advantage of the transitional relief that they expect to implement. The result is that we expect the net impact of IFRS 9 in 2018 to be a reduction in CET1 ratio of up to 10 bps. And despite that, we expect to finish 2018 with a CET1 ratio towards the upper end of a 12% to 13% range.

Milestones in our strategic development

Now, Jayne-Anne, Michele and Hugh have set out clear and exciting plans for the development of the business, and over the next 24 months we will see a series of milestones taking us towards the end of 2019, at which point we will have transformed the nature of our business, a material expansion in the breadth of our proposition and customer appeal, significant shift in deposit-gathering capability and a step change in our operating platform.

So the milestones are as follows. In January 2018, we expect to see the launch of an SME deposit offer. And as Hugh has outlined, we are contemplating applying for some of the funding available from RBS EU monies in the first half of the year. The Virgin Atlantic financial services products we announced at half-year will also launch in the first half of 2018. And then we have the launch of the business current account in the second half. In parallel, we will see the build-out of the digital bank, with beta testing towards the end of the year. And finally, the full roll-out of the digital bank will be completed in 2019.

Transforming the investment case

So, as you can see, within a relatively short time frame, the nature of Virgin Money will be transformed through greater product diversification, broader customer reach, enhanced service delivery and access to wider profit and funding pools. So when we look out into the medium term for Virgin Money, we can see an opportunity to enhance the growth profile of the business. And broadly I think about this in four strands: the breadth of our proposition and our market access; what it means for customer numbers; what it means for access to funding; and the impact on our cost to serve.

Proposition breadth

Taking each of those in turn, when we look at our proposition today, we have scale positions in the mortgage, secondary savings and credit card markets, together with product offerings in investment and insurance. The extended breadth of the digital proposition, combined with the SME build, will transform our position and increase our accessible market. With today's product range and distribution, we estimate we have access to only around 30% of UK retail banking revenues. With changes in the market and the extension of our proposition, we expect to access over 60% of the UK retail banking market in the future. And at the same time, we will move from having no presence in SME to establishing our proposition. And delivering our vision for SME will give us access to over 80% of the market by revenue.

Customer numbers

As a result of this broader access, within five years of the launch of these business lines, we estimate we can increase customer numbers by over 50% from today's 3.3 million, not least

given the 19 million UK customers across the Virgin brand. Now it is not just increasing the number of customers we expect to do business with that is important. We expect to increase the depth of customer relationships. Today, a typical customer has around 1.2 products with us. Going forward, we expect new customers to hold between two and three products with us, resulting in a related improvement in share of wallet and income per customer. Importantly, as both Hugh and Michele have highlighted, a number of the planned income streams are fee-based and capital-light in nature.

Access to funding

Equally important, the broader proposition will bring with it access to the primary savings market. Taking both the digital proposition and the SME deposit activity, we see the opportunity to gather £10 billion of deposits from new sources within a time frame of five years from launch.

Cost to serve

And finally, looking at cost to serve, we estimate that once at scale, the fully loaded cost per customer for the digital bank will be around 40% lower than the level we operate at today. So taking all that together, we see the opportunity for a material increase in long-term profitability and returns. And importantly, we expect to deliver all of this from our existing equity capital resources.

Long-term value creation

So what does this mean for long-term value creation at Virgin Money? We have set out our expectation for 2018 guidance. We continue to invest in the core business to ensure it remains relevant. As highlighted earlier, that will mean, £60 million of investment in 2018, and we expect a solid double-digit return on our equity. Looking beyond 2018, we expect a broadly similar level of return on our core business, including the benefit from the development of our new SME deposit franchise. When we think about the digital bank, we see a clear opportunity to create long-term value. In order to realise that value, it will inevitably take investment in the early years to establish itself in the market and to create the sort of momentum that we are targeting. In financial terms, we have set out the level of capital investment in 2018 at £40 million.

Beyond that, while the specifics of 2019 will depend ultimately on the final market launch plan, our current expectation is that the P&L impact will be equivalent to around a 10% increase in our operating cost base in the first full year of trading. We would expect to gain momentum in the build of the digital bank customer base, with revenues growing over the following couple of years towards the point where the business breaks even. And beyond that, we expect the business to progress towards making a material contribution to returns. And those returns will be driven by the proposition and impact on the customer franchise, the proportion of fee income generated, the diversification of our funding franchise and the lower cost to serve those customers, supported through the digital infrastructure.

The result is that we see the digital bank driving improvements to longer-term return on tangible equity. Within five years of launch, we can see the digital bank driving an uplift in return on tangible equity of around three percentage points. And at this stage, that makes no allowance for potential efficiency benefits that will arise in the core business as we deploy some of the digital functionality in the core operation. When we look at the business case for

the digital bank, the investment case is compelling, and we see a clear path to delivering superior returns through this investment.

Financial recap

In summary, you can hopefully see the continuing strength of the core business and the benefit we expect in the coming years from the strategic developments. To recap, we have increasing confidence in the 2017 performance, with income in line, continuing operational leverage and excellent credit performance. The result is we remain on track to deliver solid double-digit returns for 2017 and to end the year with a solid capital base. 2018 represents an important year for the business. We expect to continue with the delivery of solid double-digit returns in the core business, and this will benefit from the build-out of the SME proposition. And in parallel, we will take important steps with our investment in the digital bank. This investment lays the foundation for a broader business, increased customer engagement, new revenue streams and improved cost to serve. All of this drives long-term value through the generation of returns superior to those we are generating today.

Summary

Jayne-Anne Gadhia

Chief Executive, Virgin Money

Thank you to Peter, Hugh and Michele, and thanks everyone for listening this morning to what has been quite a long presentation. I hope it has gone some way to explaining why I can honestly say that I have never been more excited and positive, ever, about the future of Virgin Money. And that is because I believe that we occupy a truly unique position in UK banking, because we are both an established bank and an innovative fin-tech. We are both a famous and trusted brand and a market disruptor, and we have both a profitable business today and a future vision that is right for the times and will drive additional and superior returns.

I did just want to remind you one more time of one thing: that we do deliver on our promises, and I hope that you have seen that time and time again. We bought a loss-making business, and we have grown it year on year, meeting all of the promises we made to the market at IPO, even in the face of an unforgiving and ever-changing macro environment well beyond our control. In 2015, we built our own credit card business and migrated a large and mature portfolio to it. And what is more, it was a flawless execution, with no disruption at all to the experience of customers. It is performing exactly to plan, and credit quality is exceptionally high. Like I said, we deliver on our promises.

To date, our growth has been constrained by one thing only, and that has been a lack of funding diversification. However, from January, as we enter into the SME market, we broaden our access and reduce our weighted average cost of funds immediately. Even more significantly, the digital bank will enable us to access a much broader customer base and offer them a truly customer-centric, unique, market-leading current account and beyond. That is going to bring us the sort of high-volume low-cost current account funding levels that our peers enjoy today.

So I know you are going to ask, why would customers switch to us? Well, it is because we have got a famous and well-trusted brand and state-of-the-art digital capability. We are going

to personalise our products and services for customers in a way that they have never experienced before. The economics of acquisition and service, and the potential to increase cross-sales and partnership revenues from this digital model are genuinely material and make this a hugely attractive proposition, not just for us but for our partners and, more importantly, I guess, for our customers. Over time, we expect the successful implementation of the digital bank to produce significantly higher returns from a business model that, as Peter said, is capital-light when compared to today.

So the vision, we think, is compelling. Of course, there are issues to deal with along the way. Competition is getting stronger, and the big banks will be using their scale to reduce mortgage margins. Regulatory requirements consume resource for all of us, and of course the economic outlook needs constant review. In order to deliver on the digital bank and SME opportunities flawlessly and in full, we will require diligent and exacting execution, but we think we have given ourselves realistic timescales to achieve all of these goals. SME deposits start in January, but it will take a couple of years to roll out our full plan, and the digital bank goes into beta before the end of 2018, but we will constantly iterate and improve the model from then. It will be fully live in 2019, but obviously in the new world we will keep improving it to meet the ever-changing needs of customers in today's world, because innovation never stands still in the digital landscape.

Again, as Peter said, we have the financial resources to make all of this happen without needing to access new equity capital. Plans to offer SME deposits and current accounts are funded from our core investment programme, and our assumption is that we will develop it further only if we decide to apply for funding through the RBS programme and if we are successful with that. We will continue to invest in our digital bank over the coming years to ensure that it achieves its potential to be the market's leading product. We believe that the investment case for that is incredibly strong, even based on the conservative assumptions that Michele outlined today. What are they? Lower cost of acquisition, lower cost of service, more cross-sales, materially improved funding costs, even at relatively low absolute volumes. These will generate high returns on equity, and that is before we even start to think about making our core business more efficient by applying our digital capabilities and data analytics to it.

I hope we have demonstrated that we have the team, who are the best I have ever worked with; the core business foundations; proven ability to execute; and a compelling vision which is right for the times, right for our brand and right for our customers. I hope that you all feel as excited about it as I do and we do, and now we are looking forward to taking your questions. Thank you very much.

Q&A

Michael Helsby (Bank of America Merrill Lynch): First question, I was wondering if you can tell us, when it is done, how much you think the total cost of building the digital bank – what will that number be? On the year one operating costs, how much of that is 'run the bank' – this is one question, sorry, by the way; this is the first one – and how much of it is an advertising launch? And then how do you think about protecting the intellectual property? I am just very mindful that obviously everyone is thinking about what you are doing. HSBC are

about to go live with something, apparently. ING have already entered the market. So how do you get that conviction that you are going to be there first? That would be question one.

Jayne-Anne Gadhia: Can I do question one before you go on to two and three, then?

Michael Helsby: Yes, exactly.

Jayne-Anne Gadhia: I think at the moment we think that the total cost over the five-year period – well, longer than that, given that we started earlier with the digital bank – is about £150 million. I am looking at Peter, who is saying that is about right. The second point – what do we see as the dividing line, as it were, between marketing cost of acquisition and ongoing cost to serve? I would say it is about 50/50, or something like that, in the first year.

And then, as far as protecting IP is concerned, it is interesting. As I was sitting here listening to us talking about it all, that same thought was going through my mind, because we were telling you a lot about what this thing is going to be. I would argue that there are two things that make me feel very confident about where we are at. One is that the 10x platform is very much a unique way to get to market that no other provider has. Antony Jenkins is here today, and if anybody wants to talk to him afterwards, I am sure he can talk more about that. That will give us distinctive and unique capability.

And the second thing, Mike, to be honest, is that, as you know, in this world, constant iteration is the key. And so, when we actually get to market, what Michele has described is what we see today, but as things change we can flex our model to constantly stay ahead. And it is quite interesting: as we have been watching some of the neo-banks, Atom and Monzo in particular, we talk about going into beta at the end of 2018. They started in beta. I am not sure that they have ever said they have launched, because they keep on iterating from that place. And I think that means that, as long as we are flexible, innovative and nimble, we will always be able to stay ahead because of our brand, our vision and the 10x platform.

Michael Helsby: Thank you. Second question is on revenues. Clearly it is a very asset-light, driven digital bank, so the fees are going to be just current account fees and things like that, but there is going to be net interest income. I was wondering if you could tell us what percentage of the income you think will be fees versus NII, and presumably, because it is asset-light, the NII will be mostly driven by feeding deposits into the core bank, so how are you going to calibrate the transfer pricing? Thank you.

Jayne-Anne Gadhia: Can you ask question three while Peter thinks about the answer to question two? I am going to ask Peter that one.

Michael Helsby: I think question three is kind of linked. You clearly set out that there is no legacy in Virgin. On a lot of things, I think that is 100% true, but you have got a legacy mortgage book. That is your business. So I was wondering if you could tell us what the gap is between front book and back book on mortgages, and what assumptions you are making around mortgage pricing, because clearly, as other non-banks or other banks enter, they are going to be pushing down prices as they benefit from costs, and Nationwide, HSBC etc are not going away any time soon? That would be really helpful so we can scale the two together.

Jayne-Anne Gadhia: I guess an answer to that question is the gap between our front and back book pricing, I would expect, is much closer than it is for the big banks. As you know,

we have – I think only about 8% of our back book is on SVR, for example. But, Peter, I am going to ask you to answer both of those questions, if you could do, please.

Peter Bole: I was thinking about the second one, so I might ask you just to recap quickly on the third one, Mike. I am smiling about the second question because John Rowan, our Treasurer, said to me this morning, 'I probably will not bother coming into this room, because no one will ask about transfer pricing.' But, listen, I think clearly the mix of revenue moves over time, just as the thing embeds, and particularly beyond banking revenues come to the fore – if you were to think about it, not far off half-and-half, though, on that basis. And when we are thinking about the transfer pricing, we are really thinking about the displacement of existing funding costs. That is how we are building that into our thinking for returns and the economics of the digital bank. We are not assuming a kind of inflated asset yield off the back of it. It really is about displacing the liability cost elsewhere in the bank.

Sorry, could you just recap quickly on the –

Michael Helsby: It was just focusing on that there is no legacy, but you do have a big mortgage book which is clearly legacy. What is the gap between front book and back book currently, and what expectations you have made on future mortgage pricing?

Peter Bole: I do not think we have given out the differential in front and back book pricing historically, so probably not right to start now, Mike.

Michael Helsby: That is why I am asking.

Peter Bole: Good try, but, to Jayne-Anne's point, I think the important thing here is, with a pretty modest SVR book, it is a much smaller differential than you would see elsewhere.

Michael Helsby: Okay. Thank you.

Rohith Chandra-Rajan (Barclays): Questions along very similar lines, actually. On the digital bank, I guess we have had offset accounts, pooling, sweeping in the UK market for quite a long time, offered by the incumbents. So I guess it is really to elaborate on slide 25. What is really different about this offering, and why do you not think that the incumbents can emulate it? That would be question one.

The second one, really, just around pricing. When we have seen market share acquisition in current accounts historically, there are probably only a couple of examples of success, and they have both very much been price-led, so wondering how you will be pricing your current accounts.

And then the third is just in terms of the earnings trajectory of the digital bank – that 50/50 split in terms of the year-one costs is very helpful. What trajectory do you think that marketing spend then dies down, and what is the pace of the revenue build to a roughly breakeven in year three-ish, and a 3% ROE accretive in year five?

Jayne-Anne Gadhia: Can I remember them all? Let me start by saying it is interesting you mentioned offset accounts. Some of you here will remember that we actually started offset accounts in the UK as the Virgin One account. And Dave, wherever Dave is, said to Michele and me relatively recently, 'Why do we not just call it the Virgin One account?' And of course the fact is that it is an account that is much broader, deeper, bigger than the Virgin One account ever was, but it does build from that same sort of intellectual base. It is not an offset

account, because an offset account has always led with the borrowing. And with this account, this is about you as an individual bringing what you want to one place. It is not anchored in any one particular product, if you see what I mean. It is your banking, as suits you. It could be all savings, it could be borrowings and savings, it could be a mixture of whichever products that you like.

But it does not start with a product, it starts with a customer. I think that is something really important to get across. We are not trying to establish a product or a product set that a customer has to back into. We are saying, because you can do this on your mobile phone through digital technology, you can set up your full banking relationship with us as a single account to cover all of your banking requirements. And in the old days, those requirements used to be called current accounts, mortgages and credit cards, if you like. You do not have to think of them like that anymore. You can use your mobile technology to spend, either on a credit or debit basis, through a sort of Apple Pay-type mechanic. You can use your mobile phone to transact, to be able to send payments to your friends or debtors, or perhaps creditors, if that is the right way round, easily, just at the touch of a button. You can do it your way.

I think that makes it truly unique at the moment, and the reason that we think the big banks will find that really difficult, and the reason the 10x architecture is so important, is that the big banks cannot create that combination of product. They can sit digital capability above it, but it cannot operate as a single data source to create that individual and personalised banking as one product and one distribution for you. And that is the real uniqueness of this overall programme, if that makes sense. It is one account, but it is well beyond an offset account. It is your account; it is as personal as you are. That is the first thing.

As far as the financial trajectory for the bank is concerned, not being quite as specific as how much is marketing and ops along the way, we see this as breaking even in year five from the launch of the digital bank, if that helps.

Rohith Chandra-Rajan: Sorry, so the 3% RoTE accretion is beyond year five?

Jayne-Anne Gadhia: Is in year five – sorry, the three – you say that, then, Peter.

Peter Bole: Broadly speaking, what we have said is that year one, we have been quite explicit about the P&L impact of it. The subsequent couple of years, that diminishes. Breakeven round about year three, year four, and the 3% is year five.

Jayne-Anne Gadhia: And what was your third question, Rohith?

Rohith Chandra-Rajan: It was really around the pricing. When we have seen market share acquisition before, it has been very much price-led.

Jayne-Anne Gadhia: As I say, we are not thinking about – although we are describing it as a current account, because the benefit, if you like, is access to current account funding, we are not thinking about it as switching your current account to us or charging in the way that current accounts charge today, if you see what I mean. It will be a completely different pricing mechanic. As we are assuming the economics at the moment, through the model that we have got, all of the profitability comes to us through partnership benefits, if you like – what we can do with partners and, as Mike said earlier, the liquidity benefits that we get through the deposit and liability side of the book.

Peter Bole: Could I maybe just add one point on that? The other thing I would point to is probably the slide that Michele put up about where we expect to gain customers from. The sorts of propositions you are talking about have been heavily targeted at the switching market, and if you disaggregate, when you leave here, the access to customers that Michele is targeting, that is a very small part of the story for us. And so we are not targeting that piece that others have gone out with – very high interest rates or cash back offers, other than in a small way as part of the overall marketing campaign.

Rohith Chandra-Rajan: Okay. Thank you.

Jayne-Anne Gadhia: If your question, Rohith, just to add to it, is are we expecting to charge for this, the economics at the moment do not assume that we do. And if that becomes a sensible model, then that would all be upside to what you have seen here.

Rohith Chandra-Rajan: Okay. And will you be paying interest on the current account balances?

Jayne-Anne Gadhia: We will talk about that at the time.

Rohith Chandra-Rajan: Okay. Thank you.

Justin Bates (Liberum): Morning. Can I just turn back to slide 23? I was trying to get an indication of the illustrative uplift to numbers. You have kindly provided that 40% improvement in efficiency. The chart there on revenues, just to be clear – is that to scale?

Peter Bole: No.

Justin Bates: Could you give us an indication?

Jayne-Anne Gadhia: When you say, 'Is it to scale?', illustratively most of the products will come from banking, as opposed to beyond banking, if you see what I mean – most of the profitability and products will come traditionally, rather than beyond. In terms of the absolute comparator, one will be bigger than the other, but I do not think we are trying to guide to what that differential is.

Justin Bates: All right. Thank you.

Robert Noble (RBC): Two groups of questions, shall we call it? Do costs peak in 2019, or is it a build thereafter? Because you are investing a lot. 10% goes up in 2019, but then the cost of serving them is 40% lower, so should I expect it to go up and then down, or do they build over time? And then, just within costs, how much are you spending on cybersecurity as well? And then, on the business investment spend, should I expect that to be capitalised in H1 or over the course of the year?

Peter Bole: Okay. Let us just break those down. In terms of the cost peak, a proportion of the costs of the running the digital bank are transaction and volume related, so it is not a peak point in 2019. The point is that actually the revenue build comes through with that additional cost, which is the point, so the net result ends up improving over years two, three and beyond.

The cybersecurity, actually, I do not know off the top of my head. It is inherent in the build, I guess is the point I would make. It is probably very hard for us to isolate what is specific to cybersecurity, just given the nature of the design, given the nature of the architecture. That

is about as far as I would go on that one. In terms of capitalised spend in 2018, expect it to be spread probably across the year.

Robert Noble: Okay.

Jayne-Anne Gadhia: But, to be clear, investing in cybersecurity is a number-one priority, clearly.

Robert Noble: Okay. Thank you. And then the other thing was on average deposit balances. You put, I think, £2,500 for the average current account deposit in your assumptions. I think the average person gets paid two grand a month, net, off the top of my head. How does that actually work out in terms of your customer numbers? I just wonder how you got to that number in general. And then the three-percentage point increase in RoTE, which is mostly liability replacing – does that also assume that TFS rolls off? So half of your £10 billion increase is replacing the TFS funds that you have?

Jayne-Anne Gadhia: I think I will ask Michele to speak on the current account, if I may. The TFS position is we are not planning this in order to refinance TFS, if you see what I mean. It may be a consequence of it, but it is not the determination of it, so that is not the way in which we have thought about it.

Peter Bole: Just on that point as well, when we are thinking about the accretion to returns, it is not a comparison against TFS that is relevant. It is a comparison against the alternative means of refinancing TFS that is relevant in that thinking.

Michele Greene: In terms of the current account, the best way to think about it is a build-up. It actually does not average over the five-year period to £2,500. Two things: one, it does compare quite nicely to the market average equivalent of £5,000, so that is something to bear in mind, but it is actually a build-up over the five years in the economics.

Robert Noble: Okay. Thank you.

Nick Baker (Goldman Sachs): Just two from me. Firstly, on your 2018 mortgage guidance. Is it correct in understanding that that is 2018 and go forward, so that you see your starting position now as a 3% market share, and then if spreads are more attractive, you would seek to up that, and if they are lower would you stay at 3% or would you consider dialling that somewhat below the bottom end of that range?

And then, on the digital bank secondly, what are the constraints and risks around the timeline and the execution here? Is it the case that, if you were to up the aggregate investment spend that you dedicate to the project, you think you could deliver it faster, or is that timeline not necessarily not that linked to the cost plan?

Jayne-Anne Gadhia: Michele can speak too, but I think it is a heads-under-the-bonnet question. How many people can you actually get around a complicated project and do it any faster? It is always hard. I do not think investment is actually the key determinant in timing. It is complexity and safety and testing and all of those things that really define the roll-out.

Michele Greene: I completely agree with that. It is complex, and we have built that complexity into the timing. We will test appropriately, steadily and go. We have built that into our timeline. It is the biggest factor.

Jayne-Anne Gadhia: And as far as the mortgage volumes are concerned, from our perspective, having to do this outlook as early as we have, our position really is we may decide that we are going to be higher than the bottom end of 3% of volume in the end. It just does depend on what the market does, where pricing comes out, as you imply. At the moment, we think that it makes sense to manage for spread more than for volume, but as you rightly say, Nick, if we find that we can manage spreads and grow volume further, then we will continue to do that.

Nick Baker: Okay. Thanks.

Fahed Kunwar (Redburn): Just had a few questions. The first one is just so I understand. On your 2018 guidance, is there any assumption for a mix effect going on to SME deposits, or does that happen in 2019/20 and the current accounts beyond that? And then, on that point around SME deposits, is there a risk that everyone sees that SME deposits are half the value of retail deposits, and you start to get price action coming through and prices start to go up on SME deposits?

And then my second question was on cybersecurity. It is a very interesting point, the number-one priority. It is slightly left-field, but is a lot of the cybersecurity investment you are doing RSA and increasing the key and such like that, and how much protection do you have against things like quantum computing which change the whole ramification of cybersecurity completely?

And my third question was on your loan impairments. Obviously, your current rating suggests people do not believe your loan impairment guidance for 2018. Firstly, why do you have so much confidence to give loan impairment guidance five quarters early? And, to that point on the loan impairment guidance, I think you talked about interest-free balance transfer book seasoning in the first half of 2018. You have got house price inflation of 2.1% built in. I guess it circles back to the same point: how are you so confident on that 20 basis points? Thank you.

Jayne-Anne Gadhia: Thanks, Fahed. I am going to ask – in a minute, because I am going to start – Michele to answer cybersecurity and Marian to answer confidence about impairment, although I will set it up.

Let me go back to the SME point there, Fahed, if I may. I would say we were pretty explicit. We are expecting half a billion pounds worth of SME deposits to come in at the sort of prices that we disclosed in the first year, and so that will be covered in our 2018 economics. Does this mean that everybody should pile into the SME deposit world and therefore give customers a better deal, as it were? On the one hand, I suspect that is why the Government is trying to encourage the shake-up of the market through the RBS thing. And 78% of the market is in the hands of the four big banks, so I suspect it will take quite a long time to get to that place. On impairments, you all know Marian Martin, who is our risk director. I hesitate to say this, but Marian did say to me last week – can I say what you said about your team? Marian said that people in her team are saying, 'I wonder whether it is a good idea. A light recession would be a good thing for us, because we will demonstrate the quality of our assets.' I will let you explain why, Marian.

Marian Martin: That was a bold thing to say, obviously, and you need to be very careful what you wish for. I think the reason that we are confident about asset quality – and, as you

said, I cannot quite think we're five quarters worth of- well, I suppose it is the cost-of-risk number, is it not? Since we bought Northern Rock, and since we migrated and started booking cards on our own systems, we could not have been more focused in our underwriting criteria, because fundamentally it does not matter – or it does matter, but it is not super-important – what we say about risk appetite, or what we think about the macroeconomic environment. It is what we do operationally when we are booking mortgages and booking credit cards, and we are very good at it.

We are also rigorous in our ongoing monitoring of any soft spots in the portfolio. We are very responsive to anything we see as future risks to the portfolio. And we change our credit decisioning techniques in both mortgages and cards actively to address anything that we see as an upcoming threat. And that proves itself time and again in the arrears emergence that we see. Routinely, our arrears emergence is far lower than our own expectation, and benchmarks very attractively against the rest of the market. Now, I am not naive enough to think that a change in macroeconomic outlook would not change that quickly, but again I can only emphasise that we are ready to respond to any changes that we actually see emerging from the portfolio. So we are not immune from macroeconomic change; we are very good at managing credit risk.

Jayne-Anne Gadhia: Thank you very much, Marian. To be honest, I would just add one point to that, which is if I kick myself for anything over the course of the last few years, genuinely it is that we probably did not take enough risk during the most benign part of the cycle. As we go into the more difficult times, that actually feels quite a good thing – if we are going to go into those times.

Michele Greene: I am going to give you quite a simple answer to a very complex area. Probably three things. The 10x platform – clearly, one of the key attractions to us is actually the state-of-the-art plans around security around the platform. As Jayne-Anne said, it is a first priority, so therefore we ourselves are also investing in what we need from an operational capability perspective. And we are taking quite a lot of external input and advice on it as well, so that it will in fact be not just state-of-the-art as we launch, but on a continuing basis, because I think that is the key in the world that we are in.

Jayne-Anne Gadhia: Thank you.

John Cronin (Goodbody): Hi there. Thank you for the presentation, which I thought was the most clear of what we have seen in the market so far around digital initiative development. Just if I can return to the competitive advantage point firstly, I suppose it is very clear in terms of the various objectives in terms of where you want to take this and what 10x can help you achieve in that respect. I suppose what you do not perhaps necessarily know is what some other competitors are doing in the market. I see the issues that the larger banks have in terms of their ability to formulate a proposition like this, but when we take some of the other medium-sized banks that are pursuing similar type initiatives, how can you be sufficiently confident at this juncture, with your work with 10x, appreciating that it is clearly proprietary in its nature, that this will deliver true competitive advantage that will persist over a period of time?

My second question on that is, if we just go back to slide 35 on the deck, it was in relation to SME and I suspect it is much broader in terms of its implication. It is the second advantage of the

partnership model around selective placement of assets on balance sheet. Is the ultimate angle there to be – back to your platform bank point – to effectively somewhat become a quasi-intermediary in parallel with becoming a larger originator as well?

And finally, just in terms again of cost creep, the numbers that you have presented today are very helpful. To me, it seems if you can get it right, it could be a lot bigger than what you have portrayed, but with that as well the risk of cost creep has to be significant, I suspect. How confident are you in the £150 million number I think you expressed in response to a previous question, and how should we think about the risks of this evolving? And one final point in that respect, if I can, is just on 10x, digital and the partnership that you have there. Is that protected for, like, the next five years?

Jayne-Anne Gadhia: Okay, John. Thank you for all of that. So yes, we have exclusivity in the UK with 10x. As I said, if you want to talk to Antony further, or anybody, about 10x, then he is here, in the corner there, for a period of time. That is very helpful.

On cost creep, I understand your question, although we have been particularly good in Virgin Money at not allowing cost creep to happen on anything. We built our credit card business for £35 million. That is how much money we had at the beginning, and that is how much we had spent by the end. If you look at our operating costs across Virgin Money since we bought Northern Rock, we have always delivered on the numbers that we have promised. And actually, that is through very, very, very tight cost management. I think costs have grown, on average, 3% a year since we acquired Northern Rock, and as you all know, income has grown considerably ahead of that. So we are very, very focused on delivering on time and on budget, as we always do. It is easy to say, but that is absolutely a focus, and something that we have proven that we have done previously.

Why do we think that we will continue to, or why do we think we have got competitive advantage? Well, I think it is because – I am going to repeat, really, what Michele said. We absolutely see the big traditional banks. Of course they have got the depth of pocket to be able to do great things, but they have got such a lot to lose. It feels to us that they are absolutely in defensive mode. Mike, you mentioned HSBC. Maybe they are taking a different approach to that. You may all know more about that. But I think any big bank is going to be very cautious about offering the sort of account that we are offering. When we built the Virgin One account years ago, the real fear from the big banks – and, of course, in the end it sort of came true – was that it would mean that you could not earn interest on both sides of the balance sheet, for example. So the big banks never got into the same sort of offset places Virgin One, as it was then, did, because of the cannibalisation of the existing base. I think that that is really important from a traditional banking perspective.

In terms of the smaller banks and the neo-banks, as Michele has discussed, we do not think they have got the brand. Some of them have got great technology, but they are just not well known and they just have not got to the scale that they need, we think, yet to be competing as, if you like, a complete bank. We think that that is important. I think that some of them will flourish in particular segments and sectors, but not necessarily as a whole banking answer. So then you come back to the likes of, I guess you are talking about, the Clydesdale. I know you wrote about them this morning, John – the CYBG digital banking proposition. We come back to the Clydesdale, the TSB, the Co-op, for example. I think that they are sort of in between the two. They do have legacy systems. Clydesdale, I believe, with their B

proposition, are digitising their existing bank. The others are doing similar things. I think we are the only bank of any scale at this point in time that is committing to a true, new digital platform, at scale, from a famous brand, with banking expertise for the future. I really do not think that there is another bank in the UK market at the moment that is able to do that. We are very excited by that.

John Cronin: Thank you. Just –

Jayne-Anne Gadhia: You are not allowed to come back. Oh, go on then.

John Cronin: It was just the second question on becoming an intermediary – quasi activities?

Jayne-Anne Gadhia: Oh, sorry, yes. The answer is yes.

John Cronin: Thank you.

David Wong (Credit Suisse): I had two questions, if I may. The first one, just very quickly on your intention to apply for the grant from the RBS state aid fund. Roughly what size of a grant would you be thinking of at this stage? I appreciate your SME offering is probably going to be a bit smaller than some of the other banks, because clearly there is less on the lending side, but which pool would you be thinking of?

The second question probably centres on slide 42, where you have depicted your digital bank sort of stacked on top of an SME and core bank. I am just curious – given that you have been stressing how integrated and comprehensive your digital platform is, is there not a chance in time that you could extend the digital infrastructure from that bank into the core bank to fundamentally restructure the existing cost base and, if so, what does that mean in terms of overall group costs, really, five, six, seven years down the line? And just for 2019, where you have that SME and core bank making solid double-digit returns, and then you have got the P&L impact of the digital bank coming through for 2019, in terms of how that washes itself into group returns, are we looking at less solid double-digit return for 2019 group? Thank you.

Jayne-Anne Gadhia: Thank you, I think. Let me think – what was the second? I am going to answer the first one. Can you remember the second one? I am going to go to the first one. The RBS question, David – thank you for that. Everybody will have studied, I know, the different pools that are available. Pool A, which is the most extensive amount of funding available, is only available to organisations who currently have a scale current account, so clearly we would not participate in that. We believe that where we are means that we could apply for part of the pots within any of the other criteria that are available. Despite the fact that we have mentioned it, at the moment we are only contemplating application. We are not in that process at the moment, but it would be in that sort of position.

Peter Bole: You ask a question about the digital infrastructure and the core bank. Just on that one, at this stage we are not encouraging you to think about that, although it is definitely in our mind's eye. As Michele highlighted, we have already done a proof of concept on the credit card data, and we can see the benefit that it can have, but all our focus on the digital bank at the moment is getting to the market launch with that. In due course, that will be something that we turn our mind to more completely.

The last piece of your question about the returns – we have deliberately set it out like that, David. It is very much the core bank when I am talking about solid double-digit returns, and I have provided quite clear separate guidance, hopefully, in terms of the digital bank.

Jayne-Anne Gadhia: And just to remind everyone, since you asked the question, David, if we were able to digitise our current platform in the way that Michele is envisaging and building, and apply it to the business today, then today's OpEx would be 40% lower, just to give you an idea of scale.

Ian Gordon (Investec): Morning. Three, but very quick. Firstly, just on the Virgin Atlantic, you told us you are spending £10 million. Can you just give me a bit more on the revenue profile and timing? Secondly, on the SME deposits, you referenced Aldermore, who have clearly had great success in funding inside their retail cost of funds. I was assuming that, in your case, the material step change benefit would come from launch of the business current account, so I guess my question is, how meaningful is the stand-alone deposit launch in January?

And then thirdly, on mortgage guidance, you guided on gross. Is there anything new to say in terms of retention profile? I know you have a longer average life than your peers, or is it helpfully more of the same?

Jayne-Anne Gadhia: Helpfully more of the same. We have focused very hard on retention, as you know. It has been very successful for us and continues to be so, so we are pleased about that.

Ian Gordon: Yes, it is good.

Jayne-Anne Gadhia: That is good. Thank you. On SME, it is interesting. I think we have seen it the other way round, which is we can be as good as Aldermore in terms of our ability to attract SME deposits, and on top of that we are also able to acquire current accounts. Actually, they have done what they have done without the current account ability, so that can only be accretive in our hands.

Peter, can you answer the Virgin Atlantic question?

Peter Bole: Yes. Just on that question, the way I would characterise it is within the overall guidance we have given you around the cards growth profile and the overall margin profile that we are looking at, so that is embedded in. The reality is Virgin Atlantic products we would expect to start, as we highlight, in the first half of this year and build from there.

Ian Gordon: That is great. Thank you.

Jayne-Anne Gadhia: Thank you, Ian. Gosh, time flies when you are having fun. There is only six minutes left.

Jason Napier (UBS): 28 questions, if I may. They are simple ones. The first one, just when we are trying to model – and I appreciate it is a long way out – the 2019 cost base. Given that the capitalised cost of the digital piece come on in 2018, and you have presumably only got a little bit of OpEx right now, are we thinking roughly about £40 million? So your customer numbers double in year one, and 40% in year two. Are we really only growing a number that starts off at about £40 million? That is the first question, on digital bank.

Peter Bole: On the Digital Bank?

Jason Napier: Just the digital piece.

Peter Bole: The gain is roughly 10% of the current cost base.

Jason Napier: Okay, so it is £35 million the year before. Okay.

Jayne-Anne Gadhia: A bit less than that, yes.

Jason Napier: Second question. Success in the plan obviously would lead to a material improvement in the profile of your funding – stickiness, cost and so on. Does that change in any way the guidance around loan:deposit ratio that you feel comfortable with strategically, on a longer-term view?

Jayne-Anne Gadhia: You are right: it will change that guidance, and we see it in our plan. You will do the numbers yourself, coming down materially. We have not changed the guidance yet, but we might think about that when we come to the year-end.

Jason Napier: And then, lastly, typically cross-sell numbers receive quite short shrift from investors, but you are looking at a near doubling of product numbers. I guess, from a top-down perspective, the new products that you are going to bring to the street, other than the SME deposit base – how is it that you double volumes, when really you offer most of the products already?

Jayne-Anne Gadhia: In a sense, it is the answer to Rohith's question, which is we are not really selling a one-product thing. The product that we are selling is a multi-product thing, if you see what I mean. Michele does not like the concept of it being two to three products. That is not how we think about it, but it is how we would, at this point in time, explain it and assess the economics of it.

Michele Greene: I think that is absolutely right. From a modelling perspective, it is going to be difficult, but in reality it is one account which ultimately gives the flexibility to the customer, and therefore will feel different, will be different, and therefore lives very nicely along anything that we might have, but it is fundamentally different. As I said and will repeatedly say, it is a lot more than just a current account.

Peter Bole: We toyed with the language on it, Jason. To some extent, it is product. Customer needs met, is the way to think about it, as opposed to discrete product holdings. It is the universal nature of the digital kind.

Jason Napier: So, just to be clear, if my needs are a credit card, a savings account and a pool for this, that and the next thing, will that be regarded as one product or several in the way that you think about it?

Peter Bole: In the two to three that I spoke about there, if you hold the universal account and you are using it for current account functionality and savings, that is effectively two, in current language.

Jayne-Anne Gadhia: In this context.

Peter Bole: In today's language.

Jason Napier: Thank you.

Raul Sinha (JP Morgan): The first one is, just following on from the discussion about the loans-to-deposit ratio and your funding mix as it changes over time, you would imagine the

rate sensitivity of the bank will also change over the medium term because of the initiatives you are outlining today. The one difficulty I have is comparing this current account to what we look at in terms of plain vanilla elsewhere, and the rate sensitivity of that. Would you have any thoughts on that?

Jayne-Anne Gadhia: I know Peter does, because we talked about it last night.

Peter Bole: Yes, we are talking about it a lot. The reality is we will need to build up the profile of behavioural data to answer that question really cleanly, but we would expect it to end up being a blend of the characteristics you get from a classic current account and a classic savings piece, so it will be a blended position, ultimately. But it will build over time as we get the data.

Raul Sinha: Okay. And then the second one is I guess the organic build on digital makes a lot of sense, but the organic build on SME I am afraid I am struggling with a little bit. I think it would have been a lot easier for you to just acquire capability, especially on BCAs, and that would obviously have given you the ability to participate more meaningfully in the RBS package, as well. How do you think about that? Have you looked at any options? Is that still an open option, or is that out of the table now?

Jayne-Anne Gadhia: Of course we thought about that hard. The truth of the matter is the acquisition opportunities in the land of SME are largely to do with asset financing in some way, and we have always felt that – actually it goes, really, back to Fahed's question. We feel very comfortable with our impairment position, because we have written all the credit ourselves. And so going into a new line of business with credit that somebody else has written, at a time when the economic outlook is unknown, does not feel like a sensible thing to do. Therefore, we felt it is much better to go into banking products to build long-term relationships. And acquiring SME banking products, we all know, is very hard, which is why the RBS position, as it was with Rainbow, was attractive to so many people, I think, given that we are where we are. Being in a place to start to build and then think about how we may gain some switching from that base at least gives us the best opportunity to build up those long-term banking relationships and, as a consequence, drive the liability benefits to our bank, rather than the asset risks at this point in time.

Andy Coombs (Citi): Two questions on the SME launch, the first one on costs. With the digital bank, you have been quite explicit about the year-one incremental OpEx, and we can back into the end result, because you have given us the one million customers and the 40% lower cost to serve. For the SME proposition, obviously your 2018 guidance is for stable costs, so presumably year one is embedded into that. But what is the long-run, ramp-up expectation for costs on the SME bank? That is the first question.

And second question, just in terms of the growth in the deposit franchise, you drew out a couple of the competitors, you looked at their experience. The question I am just left with is really what does the partnership model mean for your ability to ramp up? Because if you look at a lot of the incumbent banks, they insist that, if they are financing for KYC purposes, you have your BCA with them as well, and therefore there are some constraints around that. So by offering a partnership model rather than an in-house offering, what does that mean in terms of constraints on ability to grow deposits on that side?

Jayne-Anne Gadhia: Would you like to start with costs, and I will try and end with partnerships?

Peter Bole: I will deal with costs, yes. We are not going to split out the costs of establishing the SME business. As Hugh has highlighted, firmly in plan we have got the deposit product and the BCA later on this year. It is all embedded within our core infrastructure, and so it would be an artificial split on it anyway. So we will not do that, and we will just include it within the core guidance going forward.

Jayne-Anne Gadhia: And the guidance or the vision that we have given on the partnership business is very much out with plan at this point in time, and it is really important for us to emphasise that. Our plan position is SME deposits and SME current accounts. What we are really trying to say to everyone here is, once we have got there, the future path is broad and bright, if you see what I mean. We think that, through the digitisation of our business that we will have made big progress on during that period, we are able to use that digitisation to provide further benefits for SMEs, including the opportunity to partner in different asset classes, which makes much more sense to do off our balance sheet than on it. And that is really all we are saying at this point in time.

We are two minutes over, and it just remains for me to say – it has been a long session, and I am delighted. Thank you all for being so engaged all the way through it. Thanks for your support and attention, and we look forward to seeing you now next year. Happy Christmas.

[END OF TRANSCRIPT]