Virgin Money Q3 2016 Results

Transcript

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Trading Update

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Agenda

Thanks very much for joining us again, today. I cannot believe how quickly the quarter has gone. We have been really looking forward to updating the market on our, we think, excellent Q3 results. There are four key news items that we think are interesting and exciting that I would just like to touch on. Firstly, our continued excellent post-referendum business performance. Secondly, our announcement of a new AT1 offering to support our continued confidence in future mortgage growth, which is well ahead of our plans. Thirdly, our new digital partnership with Antony Jenkins and his new business 10x, which we look forward to talking about more. Finally, continued improvement in our customer and intermediary relationships, which are driving growth and retention metrics beyond our plans.

Business performance

Mortgage lending

Let me turn first to our business performance. I am delighted to report that our mortgage gross lending grew by 19% to the end of September, and that our net lending, which is improved by customer retention, grew by 33% over the same period. In fact, our net lending of £1.3 billion in quarter three was our strongest quarterly net lending performance ever. During the quarter, asset spreads were close to 200 basis points, and at times exceeded that, because swap rates, as you know, stayed low. All of our business was written well within our continuing prudent risk appetite. Front-book LTVs in the third quarter have been even lower than the 69% we reported in our interims, and our front-book flows of buy-to-let business remain at less than 20%. We think our affordability measures remain very prudent across all of our business lines, and we are not concerned at all about any undue exposure to the arrears capitalisation point that came out in the last couple of weeks. In fact, we expect our exposure to this to be less than £1 million.

Impact of the referendum

Post-referendum, we see the mortgage market remaining strong, and house prices stable. In our hands, volumes have been supported by remortgages, but purchases continue to be strong, especially outside London. During the period, we have continued to increase our direct mortgage volumes, too, but it is our award-winning intermediary business that continues to really thrive, and we remain confident of growth opportunities across both these distribution channels. That said, swap rates have recently increased, and competition remains strong, so we are not complacent as we look forwards to continue to grow our mortgage business.

The same is true of our credit card portfolio. It is a lead indicator of economic uncertainty, of course, but to be clear: we have seen no indication of behavioural changes post-referendum. The market does continue to be competitive, as you know, and so we have cooled off from a volume perspective, just as we said we would at the half-year; broadly, we have let others top the pricing tables whilst we have tightened our post-referendum credit criteria. As a result of that, our new card volumes in the quarter are lower than our first-half run rates, but nevertheless absolutely on track to meet our planned £3 billion worth of outstandings by the end of next year.

Savings

Our retail savings business has also continued to grow, and we have continued to take a material share of the cash ISA market. Year to date, this share now stands at more than 25% of market flow. We have been able to reduce front-book deposit volumes through careful pricing in the last quarter, particularly as the TFS now provides access to material liquidity to support our future growth plans.

Net interest margin (NIM)

All of this means that our net interest margin is exactly where we expected it to be, and as we guided at the half-year; that is slightly below 160 basis points year to date, following the reduction in base rate during the quarter. As things stand, we expect our NIM to stay broadly flat for the year ahead.

Costs and cost of risk

Costs have also remained well under control, and despite our strong growth profile, have remained largely flat once again, for the seventh consecutive quarter. Given our focus on high-quality assets and our diligent underwriting, our impairments remain stubbornly low and currently well within our 20 basis points of guidance for cost of risk.

AT1 capital raise

Given this success, we are really pleased to announce our decision to advance our planned new AT1 capital raise. As you know, we already have £160 million worth of AT1 outstanding, and we expect to raise a similar amount this week, subject to market conditions. I should be clear that this new capital has always been included in our 2017 plans, and the cost of the coupons is included in our market guidance. The capital will be used to support our continued strong mortgage growth and maintain our leverage ratio comfortably ahead of our risk appetite.

10x

As we look to the future, we are also clear that we have a real opportunity to be one of the leading UK digital banks. We are more nimble and less complex than the major high street banks, which are investing materially in digitising their legacy systems. On the other hand, we have the scale, brand and experience not enjoyed by the new digital banks as they look to grow. Following detailed research of the market, as we have planned our future digital strategy, I am delighted to announce that Virgin Money have entered into a partnership with Antony Jenkins's new business 10x, to create real traction in the world of digital banking. Our new business will begin by developing a PCA, and will operate in parallel to our business-as-usual franchise. It will be developed and run by Michele Green, following her extraordinary success in building and delivering the Virgin Money credit card business. The card business has now been integrated into our overall commercial business, and is run by Hugh Chater, himself a former managing director of UK Cards at MBNA.

Executive team

Indeed, we continue to build the Virgin Money executive team to support our growing business, and have been pleased this quarter to welcome Tim Arthur, previously CEO of Time

Out, which he transformed from traditional to digital media. His skills and experience will support the launch of our digital franchise, which we expect to commence before the end of 2018.

Virgin Money lounges

In the meantime, our existing business continues to build an ever-stronger customer franchise. Our NPS score is as high as it has ever been, at +28. This makes us the highest-ranked retail bank we have seen in the UK this year, and Virgin Money lounges continue to be a real differentiator for us as measured by NPS. With scores of +86, it is no wonder that more than 50,000 customers in total now visit our seven lounges each month, so we expect to have welcomed more than 500,000 customers to these lounges alone during the course of 2016.

Summary

To be clear, it has been a very strong quarter despite the uncertainties following the referendum vote. We continue, nonetheless, to look forward with caution because of the uncertainties ahead, although the particular issues of passporting and EU access do not impact us because, as you know, we are a 100% UK-focused retail bank. As a result, given our current experience, cautious outlook and continued strong performance, including a robust mortgage pipeline at the start of Q4, we once again reiterate market guidance; in particular, we expect to end the year having produced solid double-digit returns. Both Dave Dyer, our CFO, and Hugh Chater are here with me to answer any questions you may have, and I am also pleased to welcome Peter Bole, our new CFO, who is listening quietly, having joined us only this morning.

Thanks very much for listening yourselves, and now we look forward to taking your questions. Thank you.

Q&A

Guy Stebbings (Exane BNP Paribas): Good morning. Just a couple of questions on margin, if I can. Firstly, on TFS: can you provide any detail on how you are thinking about the quantum of use, and what we should consider in terms of constraints around that? Presumably, 115% loan to deposit ratio is a clear limit for how we can think about that?

Secondly, just on deposit repricing. I believe you pulled one of your fixed-rate accounts during Q3, one of your high-rate accounts, so any trends you can give there? I think the half one average cost of funds was 138 basis points, so how that might have moved during the quarter would be very helpful, thanks.

Jayne-Anne Gadhia: Thank you, Guy. As far as TFS is concerned, you can obviously work out the 5% opportunity that we have, given our balance sheet footings, and as a strong net lender, you will be clear that we have quite a lot of opportunities to draw TFS ahead. In our plans, we do not expect to draw the full amounts that might be available to us, because as you imply, there are certain constraints around our KPIs that we want to adhere to. That said, on your specific point about the loan to deposit ratio, we do expect to go beyond the 115% because of the TFS position. Not that far beyond, but a little bit beyond, because we are actually looking at some of our balance sheet limits as lower risk when they are sovereign-related than when they are open-market-related, if you like. So, going forward we will draw the most TFS that we feel is sensible within sensible constraints, but those are not necessarily limited to our open market risk appetite. That would be my first point.

Hugh Chater: Following the bank base rate move, we repriced the entire variable rate book of deposits, back book, and we also of course moved down our front-book pricing, and have taken the opportunity given by the TFS funding to have a lighter touch in the market over the recent months in terms of raising new deposits. We think there is still potentially some opportunity to move our back-book rates down if the need occurs. However, we are conscious of the fact that we have had extremely strong retention performance of our balances following the reprice, and I think this is in no small measure down to the fact that customers understand that we aim to, and do, deliver value to them in terms of pricing, both for acquisition and ongoing customer pricing in deposits.

Ian Gordon (Investec): Good morning. Firstly, on impairments; I note the comment in the statement of continued low levels in the quarter. Given that consensus expectations currently expect your impairment charge in basis point terms to go up by 150%, do you have any comment on any signs of deterioration, within the cards book in particular?

My second question was on volumes; again, I note the reiterated guidance to 3–3.5% of market share. At the time of the interims, I think you were quite confident in terms of volume delivery, almost irrespective of the total size of the market. Three months on, what are your current thoughts about the likely size of the 2017 market? Thanks.

Jayne-Anne Gadhia: As far as impairments are concerned, we have no indication yet of any sort – not even emotional, if you like, having used the word 'yet' – that impairments are going to go up beyond our current experience. As you will have seen, they are well within the 20 basis points cost of risk guidance that we have given. There is no evidence whatsoever of any deterioration on either mortgages or indeed on cards, which of course is the most material part of that. We continue to tighten our credit risk appetite; so, as you will have seen, during the quarter the credit card growth slowed somewhat. That was entirely deliberate, for two reasons. One was that we continued to guide to £3 billion worth of outstandings by the end of 2017; and actually, if you look at the run rates, we would have overshot quite considerably had we kept going at the half one levels. We think it is sensible to come in at the £3 billion, and we will come in at the £3 billion, but that gave us the opportunity post-referendum to tighten up on our credit criteria for cards. So, we are able to meet our volumes and within a tighter credit risk appetite than we had originally thought, which is excellent. We remain always focused on this point, but at the moment there is no evidence whatsoever of any difference in behaviour of any sort on the credit card book, let alone impairments, so we are very pleased about that and we watch it all the time.

As far as mortgage volumes are concerned, the point is much the same, really: we continue to guide towards the upper end of our 3–3.5% mortgage market share. We continue to expect that to be right on an annual basis by the end of the year. Again, post-referendum, we slowed down our mortgage growth, too, until we could see what the likely outcome would be. So, for August we were definitely slower. Nevertheless, our pipeline is strong, and we will come in at the top-level market guidance, we think, by the end of the year. We remain confident on those sorts of volumes.

Ian Gordon: Perfect, thanks very much.

Jayne-Anne Gadhia: Thank you.

Corinne Cunningham (Autonomous): I have a couple of questions ahead of the AT1 issue. I was wondering if you could tell us what the available distributable items were at the end of 2016?

Then if you can also give us an update on what your current regulatory minimum requirement is? I know you gave us an updated Pillar 2, but I am not sure I fully understand your comments from the Basel I floor and, if that bites, how that affects the maximum distributable amount. Thank you.

Jayne-Anne Gadhia: I am going to ask Dave to answer those questions, both of which are covered in the AT1 presentation.

Dave Dyer: On your MDA point, at the half year we would see that at about 8.3%. If you think about our current CET1 ratio at 15.3% – or rather, that which was current at half year – there is almost 7% clearance to that. If you look out forwards, probably the best thing to think of as a guideline, the safest thing to think of, is our minimum CET1 view, which is 12%. As we cast forward, thinking about how the MDA will play out, at worst we see that at something like 9.2%, so we still have the best part of 3% headroom between the MDA and our absolute minimum CET1.

The second point of your question was, sorry?

Corinne Cunningham: Pillar 2 and Basel I floor.

Dave Dyer: As you will appreciate, with a heavy mortgage mix, the Ba I floor bites us more readily than perhaps people with a higher risk profile. At the moment, therefore, our total regulatory requirement is driven by Basel I rather than the straightforward RWA mass. That peels off over the course of the next 12 to 18 months, so as the mix changes and the risk weight intensity on the mortgage book climbs a little, we cease to be constrained by the Basel I floor. In terms of the period of an AT1 instrument, it ceases to be relevant relatively quickly.

Corinne Cunningham: Thank you. Just on the ADIs?

Jayne-Anne Gadhia: Available distributable items.

Corinne Cunningham: Thank you.

Jayne-Anne Gadhia: We will get back to you on that one, Corinne. Thank you very much.

Corinne Cunningham: Thank you.

Emer Lang (Davy Research): Just one on the credit card business from me, please. As you have seen a slowdown in book build, has there been any notable change in product mix? Also, can you confirm that the key assumptions underpinning your EIR are pretty intact at this stage?

Jayne-Anne Gadhia: No change to product mix, and all assumptions completely intact, I think, is the quick summary. Hugh, did you want to add anything to that?

Hugh Chater: Maybe the only thing to add is to reiterate the point that, in the new accounts we booked this year, the customer demographics have actually been stronger in terms of average age, percentage homeownership and level of secured and unsecured debt than we saw in 2015. So, we are very pleased about that and continue to see the performance that we expected, that underpins the EIR asset.

Jayne-Anne Gadhia: You are right, Emer; we look at it very, very regularly, and it has been very, very stable.

Emer Lang: Thank you.

Chris Cant (Autonomous): Good morning all. I just wanted to follow up on some of your comments around margin, and specifically the first question that was asked: can you give us a number for your average cost of funds as we go into Q4? I am just curious to understand how much of an impact the variable book repricing has had on that versus the H1 run rate. If you could possibly give us some detail on where you are seeing levels on the product types within the deposit book, I think that would be very interesting. Some of your peers do do that. In particular, I would be interested to know where you are seeing your variable-rate deposit book pricing currently, and where you think that could trend going forward, given your comments regarding TFS. Thank you.

Jayne-Anne Gadhia: We are not disclosing average cost of funds; I can tell you from the waving that is going on around the table at me. Let me try and explain the NIM position as we look at it. At the half year, if you recall, we said that we thought we would come in at 160 basis points, but if there was a 25-basis-point reduction in bank base rate, that would cost us between £5–8 million, and then the NIM would parallel, if you like, once it had tipped down. That is exactly what happened, and the base rate reduction did indeed cost us the £5 million, and so you would expect NIM to be 160 basis points less £5 million, and then trending forwards in the way that we have discussed.

From our perspective, what the TFS does is it enables us to compensate, if you like; you will recall that we had not given any guidance to our view for next year. That was for a whole number of reasons. We are now saying that, unless there is another base rate reduction, effectively we would see that as flat. It is the TFS that gives us some confidence about that flatness, because otherwise, the fact that the refinancing of FLS is coming back on to our balance sheet means that we are carrying more treasury assets, which therefore would have otherwise diluted our NIM. As a consequence, the TFS is very helpful in managing that trade-off, and that is why we can be confident about that stable outlook, going forward.

Hugh, you might want to talk about product types and the variable pricing, if you would not mind?

Hugh Chater: I think the short answer here is that we have seen customers less prepared to reinvest on maturity into term-based products, which is perhaps not surprising. However, we have seen, as I mentioned before, extremely high retention rates, so up into the 90 percents of customers deciding to leave their funds with us. So, we have probably seen more of an equalisation between term and instant access funds in our portfolio as a whole, but as we said, given the funding available to us over the medium term, we actually do not see that as an ongoing risk. Again, this is what we are seeing in the market as a whole: if you look at front-book pricing and front-book products out there, you will see that instant-access products are really the flavour of the month for customers.

Chris Cant: Thank you. On the flat margins comment, could I just clarify: your slightly less than 160 for the year implies a dip into the second half, into the high 150s. So, are we flat on that high 150s level or are we flat on the 160 level?

Jayne-Anne Gadhia: We would be flat on the just under 160 level, if that helps.

Chris Cant: Flat on the full-year 2016 run rate?

Jayne-Anne Gadhia: Exactly.

Chris Cant: Okay, thank you.

Jayne-Anne Gadhia: Thank you, Chris.

Vivek Gautam (JP Morgan): Two questions, if I may, please. The first one is on cards. Your cards book grew by 5% quarter on quarter in the third quarter, as you tightened lending standards. For you to achieve £3 billion balances by FY 2017, the book needs to grow at 6% quarter on quarter. Clearly, it is doable, as you have done it in the past, but it would be great if you could share your thoughts on that. Are you planning to relax the lending standards a bit, going forward, or do you expect the market to grow faster?

The second one is just a follow-up on a question already asked. Your cost of funds was 130 basis points in H1: can you update that number for Q3? Thank you.

Jayne-Anne Gadhia: We are not going to talk cost of funds specifically, at this point. So, to your point two: sorry, that is not what we are disclosing at the moment.

On cards: again, Hugh, I will ask you to do a little bit more colour, but one of the things to think about, which has certainly encouraged me, is that our cards balance growth is growing because of retail spend as well as because of new acquisitions. So, you should also take that into account, which of course is very helpful for those of you who were thinking about EIR and so on; it is material and noticeable in our hands. Hugh?

Hugh Chater: Just to follow up specifically on that, next year sees us diversify our initial offering and existing customer offerings into two new retail-based propositions, both of which are reward schemes, and we believe will continue to drive the trend that you have mentioned, Jayne-Anne, in terms of increased retail spend and balance growth on existing cards.

I think specifically in terms of plans to relax credit underwriting standards: we have no specific plans at the moment, but as Jayne-Anne says, we look at that on a month-to-month basis in terms of the actual performance of the assets that we are taking on. As I have already said, we have been extremely heartened by the quality of assets that we have attracted in the market to date, and we definitely continue to get a halo effect from the Virgin brand, in that case. We remain very confident in our ability to continue to secure extremely high-quality card assets; indeed, 54% of the new accounts we booked this year have been in the highest demographic segment of affluence, using the customer demographic profiling available from Experian.

Nick Baker (Goldman Sachs): Good morning, everyone. Just two quickly, from me. One on the leverage ratio, and then one on other income. Just curious on the leverage ratio to get your thoughts about where you expect to end up for the full year as a whole, both including and excluding the additional AT1 tap? Because obviously, you reduced your minimum threshold to around 3.6% at the first half. Then I am trying to get a sense of where you expect this to play and evolve over the next 18 months or so.

Then just on other income: obviously, there was not a huge amount of commentary within the statement. I am just curious to see how that has progressed, and what expectations you have for any uplift as a share of revenues, going forward? Thank you.

Jayne-Anne Gadhia: The leverage ratio, I can be quite clear on: following the AT1 raise, despite the growth that we are financing with it, as it were, we would expect the leverage ratio to be around 4% at the end of the year.

On OOI, the business continued to perform exactly as we had expected it to during the course of this year, based on our planned income levels. It will be about 12% of total income by the end of the year. As we look out forwards, we are seeing that as being flattish in terms of the income it produces. I think Lloyds Bank this week or last week also said that they were seeing OOI being a bit more difficult going forwards, and we concur with that. Nevertheless, we continue to work to grow that income. So, on plan with a view to flattish, going forwards.

Nick Baker: Just as a follow-up, sorry: when you speak about flattish, is that as a share of revenues or on an absolute basis?

Jayne-Anne Gadhia: On an absolute basis.

Nick Baker: Okay, that is helpful. Thank you.

Jayne-Anne Gadhia: Thank you.

Michael Helsby (Bank of America Merrill Lynch): Morning, everyone. I just wanted to follow up on the redemption performance, because I think the net lending growth in Q3 was particularly strong, as you say. Can you just tell us what you are doing differently on the redemption line please, Jayne-Anne, and whether that is sustainable? Thank you.

Jayne-Anne Gadhia: Thanks, Mike. I will ask Hugh again to fill in on some of this, but from our perspective, one of the things that we hope is a USP for our business is building long-term customer relationships across all of our product ranges. Although that had been, until this year, something that we had hoped to do, we have a properly structured approach now to developing our retention performance. That is particularly true in mortgages, and as far as intermediaries are concerned, we have actually commenced paying proc fees for mortgage business that is retained through the same intermediary that introduced it in the first place. We find that economically very sensible, because it is obviously cheaper for us to retain business that way than it is to write new business at the front-book rates. So, that is a material part of the success that we have had, but it is only one part of our overall retention plan. Hugh, do you want to talk a bit more about that?

Hugh Chater: In addition to the introduction of that fee, as Jayne-Anne mentioned, the other key area is in our direct business. So, we have invested substantially in the process for customers to follow, both digitally and over the phone, to ensure that they have a straight-through, clean journey for retaining their mortgage at the point of the product maturity with us, and we have seen a substantial improvement in the percentage of customers who now effectively conduct that redemption/retention process with us online. This has multiple benefits, not least of which is that it is a very cost-effective way of doing it for us. I think those are the two primary things.

I would just stress that the point about paying proc fees to intermediaries further strengthens our overall relationships with intermediaries, which of course are a key feature in us feeling confident about our mortgage performance ongoing.

Michael Helsby: Okay, interesting. Thank you.

David Wong (Credit Suisse): Good morning, all. I have two questions, please. The first is, I just wanted to check the leverage ratio guidance: did you say you had intended it to be around 4% at the end of the year, and that included the AT1 securities?

Dave Dyer: Obviously, we have not done the AT1 raise, so we need to finalise that, but we would expect it to be 4%, or a little more.

Jayne-Anne Gadhia: Yes.

David Wong: Okay, thank you. My second question is just on the cost statement, when you said the costs were broadly flat for the quarter. That excludes the FSCS that you booked in H1, is that correct?

Dave Dyer: Correct: broadly flat, excluding FSCS.

David Wong: Okay. Would you be in a position to give us a bit more detail on your digital initiatives, and how you see that panning out in terms of the efficiency and productivity gains you might expect? Or is that maybe something more for the full-year results?

Jayne-Anne Gadhia: Yes, well I will do a little bit of that now, David. First of all, I just wanted to be clear that our business-as-usual business carries on as strongly as ever, and so the business that we are talking about excludes the digital business. It continues to be built on the systems that we currently have. We continue to invest in that platform, and we continue to expect to drive real success through the business that we have today. The digital business in our hands is a separate entrepreneurial business development which Michele will be leading, with some of her team that came with her from MBNA. The reason that that is important is that we really see success in the digital world as being built on data management and the ability to analyse data; both to give customers good, tailored personal products, and for us to be able to manage the economics of that business effectively and, as you rightly point out, David, at a lower cost perhaps than the legacy systems would allow. That is certainly what we are planning for our personal current account development in that area.

The reason that the partnership with 10x led by Antony Jenkins is exciting for us is that, of course, because Antony spent a number of years running Barclaycard, he has built his thinking on that same digital strength. For me, one of the exciting things is to build scaled fintech with the technology vision of an experienced banker; it is extremely powerful, because I do think that building fintech through technologists has its limitations. As we all know, whatever comes out needs to be proper and based on experience, for regulatory purposes and for our own purposes. So, all of that for us feels very strong and powerful.

As we look forward, therefore, thinking about this in the same way that we thought about our credit card business, we would expect the economic benefits of such a business to have similar characteristics. When we moved from an MBNA legacy platform to a more digital TSYS platform, we were able to reduce the systems cost of transaction and service down to about 33% of what they had been in MBNA's hands. So, the cost of processing a credit card in our hands is now £27; it was three times that when we were paying MBNA to support us with it. That sort of efficiency gain is what we are aiming for in the digital partnership with 10x, but to be clear, we are at the beginning of that build.

In terms of our business case and plans, you are absolutely right, David: we will be sharing that with the market over time. We are not going to go into the detail of that now. However, the most exciting interim step for us is the build of the PCA, and the fact that this new way of thinking about it enables us to overcome some of the competitive constraints that I have always complained about, and be able to give customers a really good-quality personal current account, opened, managed and serviced through their mobile technology, at a price that we could not ever contemplate on our existing legacy systems.

I think that is probably all we want to say for now, but we think we are at the beginning of something very exciting; and frankly, something that, as I said in my opening address, positions us as more nimble than the big banks, but more experienced and solid, given our brand, than the neo-banks, and so a real competitive advantage for us.

John Cronin (Goodbody): Can you put any numbers on the personal current account volume growth expectations over the coming quarters and years? I suppose that is particularly in the context of your digital initiative announced this morning. I am conscious of the fact that you do not want to go into more detail on those initiatives right now.

Jayne-Anne Gadhia: You are right, we do not want to go into more detail on the digital initiatives. As far as our existing current accounts are concerned, though – because of course, we think this is one of the benefits we also have over the new banks – to be really clear, we do have and operate a very successful current account business now, which we call the Essential current account. As some of you will know, that is a current account that is based on the basic bank account requirements of the government and the regulators. That business has been much more successful than we expected; it is not huge numbers, but we continue to double volumes year on year. We are taking certainly more than 1,000 new customers a month onto that product through our branch network alone. The reason I give you that number is that, at the moment, we do not want to take the high volume because of the costs involved, so we only allow customers to open that product in branch, and we only have 75 branches, and it is a bit of a pain, and we are still doing more than 1,000 a month. So, we know that when we digitise that business – or even put it online, which is why we decided not to – then the volume that that is going to attract is going to be significant, because it is a good-quality account.

To answer your point, we have great experience in running a good-quality digital account that is attractive to people. Clearly, we have all of the connectors into the banking systems, which some of the new banks do not have, and which, of course, is expensive to do; we already have that, so our new digital offering will build off that. The opportunity that this gives us is to open the gates to volume, and manage it digitally but manage it at a cost that means it is an economic benefit rather than an economic drag on our business; that is actually the huge win in the short term of the digital partnership that we have announced today. Longer term, it will be richer than that, but that is the initial, very significant win for us.

John Cronin: Just as a follow-on question in relation to that: how likely is it that many of your competitors, for example, will also strike a partnership with 10x or another player, in your opinion?

Jayne-Anne Gadhia: One of the reasons that we have announced today that we are partnering with 10x, as one of their first partners, is that we have been very clear that we want to be able to do this exclusively for a period of time, such that we do maintain that competitive advantage. That is for a number of years, in the UK.

Jonathan Goslin (Numis Securities): Without pushing my luck, just on the new digital relationship with 10x: I was wondering if you could clarify whether or not the expected increase in business spend associated with that would be included within your current guidance on cost/income and return on tangible equity, please? Thanks.

Jayne-Anne Gadhia: No, you are not pushing your luck at all. The intention for us is to capitalise our development spend and to amortise it once that business is launched. That is the cost, if you like, that we are paying to Antony Jenkins and his new business. Our internal costs, we will expense, but you will be able to see them as exceptional items as we build this business. So, it is not in our current cost/income ratio guidance, but it is in our current returns guidance, if you like.

Jonathan Goslin: So, it will not require a material change in personnel numbers or anything like that?

Jayne-Anne Gadhia: No, absolutely not. That has been the beauty of it, really. I am probably going to give you a little bit too much detail, but with Michele and her team, MBNA is based in Chester and many of the team were in Chester; we have opened a smallish office there for them. Some of those people continue to work on the cards business, but Michele's team is ring-circled in Chester. They are working with Antony Jenkins's people down at Kings Cross, so the train line is good, too. That business will be completely ring-circled, but within our existing cost base, because now that business is up and running, it has been handed to Hugh in the commercial world to run as part of the overall operational overhead. So, in the time-honoured way, our cost base has been able to stretch across new developments.

Jonathan Goslin: Okay, perfect. Thank you.

Jayne-Anne Gadhia: Thank you all very much for your time and interest today. I look forward to seeing you at the full year.

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