Virgin Money

Full Year Results 2015

Wednesday, 02 March 2016

Jayne-Anne Gadhia - Chief Executive Officer

Good morning and welcome everyone. I did want to start by introducing Dave who is our CFO. Dave and I have worked together for I am afraid over 20 years and neither of us can believe that. For most of those years actually he was my Finance Director, and then we took on Northern Rock and he became a Strategy Director and has been party to all of the transformational developments that we have made in the meantime since then. My script says that Dave will sadly be retiring. I think he will happily be retiring, but we will be sad to see him go at the end of the year, and Peter Bole as you know the CFO of Tesco Bank will be joining us in 2017. But for today, Dave and I plan to speak for about 40 minutes on our business and then look forward to taking your questions.

So when I look back over the year that we have had, it really does reinforce to me our unique position in UK Retail Banking. I want to be really clear, we are not a specialist lender and we are not encumbered by some of the legacy conduct issues that the big banks are continuing to deal with. We are a simple, straightforward UK Retail Bank, and not many of our competitors I think can tell you their full business story in 40 minutes. We think that simplicity should be interpreted as a sign of strength in the current banking market where, not only have we grown our underlying profit by more than 50% during the year, but we are also one of the only banks that is reporting double digit returns and a dividend in line with our initial guidance.

So specifically I am very pleased to present the results of our first full year as a listed business, and I am even more pleased to say that we have continued again to deliver on our promises we think. I just want to make the point right up front of this presentation that we continue to be confident and determined to deliver on our promises going forward, in particular a mid-teens return on tangible equity in 2017.

So how have we managed to deliver these strong results? The first thing I would say is that whilst the macro environment has been challenging, particularly with no base rate changes, we do think that the fundamentals of the UK economy remain stable and favourable. So we have got high levels of employment, positive wage growth, lower oil prices which obviously boost disposable incomes and continued customer and consumer confidence.

That has given the housing market particular buoyancy, and enabled customers to spend with confidence. This strong backdrop is obviously very supportive of our success. The mortgage market continues to thrive and we have taken our planned share of that. The credit card market is growing and we are taking an increased share of that. The lower base rate environment means that impairments continue to be flat and of course that is an advantage for us and for our customers. The retail savings market continues to be strong and enables us to raise funds at the right volume and the right price to support our asset growth.

The external market is good for us and the second point we have is that we focus really hard on every part of our business and manage it tightly. I remember last year someone asking me if I look at mortgage performance weekly or monthly. And I was able to say, I look at it daily; and we continue to look at mortgage performance every day and the same with cards and the same as indeed to every one of our product lines.

And in particular of course, we are super focused on costs and that has meant that we have been able in 2015 to exceed our planned operating leverage position and as you will have seen in the results I am sure, costs for 2015 were up only 5%, whilst income was up 19% and obviously that is a big part of the success we are sharing with you today.

We are also pleased that we delivered well on our net interest margin and I am sure that you are as pleased as we are to see that it is at 165 basis points for the year. We think that is particularly good performance because we have been able to achieve it of course with no base rate increases at all since we floated the business. Looking forward now, we have decided to plan for no bank base rate increases at all in either 2016 or 2017. Despite that we do retain confidence in achieving our returns targets, and I will explain a little later how we are going to do that. And of course being the business that we are, the fact that we are assuming no base rate increases, does affect our net interest margin. It will be affected by the lower interest rate environment and Dave will talk a little bit more about that, but just to reiterate again, this does not reduce our confidence in getting to mid-teens returns, and that remains our primary focus in the years ahead.

So in 2015 we have made really good progress across all of our business lines, and I will talk about mortgages first if I may. We are pleased to have managed mortgage volumes and price in 2015 to a place where our average annual completion spread was 186 basis points. That was slightly ahead of the expectations that we shared with you at the half year, and that is because mortgage pricing certainly stabilised in the second half of the year. In terms of new business, our average loan to value on business written in the year was 68% and at the portfolio level we are at 55%. Don't forget the average flow of new business into mortgages was 75% residential. So by the end of the year we have taken 3.43% to be precise of the gross lending market in the year. We are particularly pleased with that because we had assumed mortgage market size of £209 billion for the year but in the end the market was £220 billion and so to take such a high share of the market that exceeded our expectations was particularly pleasing.

This year, 2016, has started really well. I am sure you will have heard some of our peers saying that we have had the strongest January since 2008 in terms of mortgage lending. We at Virgin Money had our biggest ever day for mortgage applications only last week. For 2016 we agree with the Council of Mortgage Lenders, that the market will be just short of £240 billion. We are actually planning on £237 billion, but we are still expecting and planning to come in towards the top end of our guidance of 3-3.5% mortgage market share.

So taking together all of this, our mortgage balances grew last year by 16% and that was compared to market growth of just under 2%. Our net lending share was particularly good; we took over 10% share of the net lending market.

Now obviously we should talk about buy-to-let, and to be clear, and we will say this more than once, we are certainly not a specialist buy-to-let lender, we are a mainstream residential lender and we operate very successfully in the residential space. Only 17% of our portfolio at the end of 2015 was in the buy-to-let mortgage space. We believe that this volume is sustainable against the current political backdrop and that our prudent underwriting standards mean that we have built and continue to build a very high quality buy-to-let portfolio.

So I am very confident about the price, the quality and the mix of our mortgage business going forward and our ability to continue to write volume in all of the current mortgage market segments that we currently operate in.

In the intermediary channel, we still remain very strong and we were delighted to win the Best Lender Award at the L&G Mortgage Club annual awards this year.

So, moving onto cards. The biggest news for the cards portfolio at the half year was the fact that we had at that point successfully built and migrated our cards book. This was a remarkable performance and let's be really clear, we are not aware of any other organisation anywhere in the world which has both built a card platform and migrated a material portfolio to it immediately. We did that and achieved it with no financial issues, no customer issues and no regulatory issues, and that achievement has been a strong contributor to our performance in 2015 and gives us huge confidence in the value of the cards business as we look forwards.

Specifically what that has meant, is that we have been able to get back into cards market much more quickly than we expected and as a result we have grown cards balances by 44% year-on-year and still maintained a front book effective interest rate conservatively at just over 7%.

So as a result we have looked at the cards business and concluded that actually given the path we are on, the strong start we have had to 2016, the profile of the business that we have, the capability of our systems and the competence of our team, that we can indeed accelerate our £3 billion target for cards balances. So to be clear, we are revising our guidance such that we are now committing to having balances of £3 billion at the close of 2017, which is a full year earlier than we initially expected.

So let's take a moment to look at our savings performance. We have been really focused on re-pricing our back book of savings and competitively pricing our front book as well as driving the right sort of tenor across the whole savings book. All very pleased with our success and I am particularly pleased that we have been able to halve our rated average cost of funds in the last three years, despite a flat base rate environment. How have we done that? Well, dedicated management focus on success in the wholesale market has been important. Growth at the right price in retail and extending our tenor has meant that we have been able to manage our loan to deposit ratio this year to just over 107%.

Now our real success has been in the retail market where we have been able to re-price our back book and interestingly there is still more of that to go. In fact we have a further re-price in preparation as I speak now and we think that there may still be more to go after that re-price is complete as the overall banking market re-prices again.

In terms of our front book, not only have we been able to grow our retail deposits, but we have in particular grown our share of cash ISAs and taken more than 10% share of that market. The reason for that is that we offer that product on an all the year round basis rather than just during the ISA season. We have excellent systems and great marketing capability, and that means that we attract customers to this product all through the year.

So taken all together, I am very pleased to report that we exceeded our own expectations on retail deposits for the year overall. We now have retail deposit balances of more than £25 billion and that is higher than they have ever been in the history of this business. And the quality of our savings franchise is such that as products come to maturity, 85% of customers decide to stay with us on a new product.

So having talked about the main product lines of mortgages, savings and credit cards, let's turn to our other income products. And I am pleased to say that we have continued to develop these product lines positively during the year. We are particularly pleased with travel insurance and investment funds under management are also developing well. During the year we have signed and executed on partnership deals with insurance companies and we also launched our new digital proposition that I mentioned last time we were together, it is called the Smartr Account, and we launched it a few months ago just before Christmas to our colleagues. So let me just tell you a little bit more about that account.

The Smartr Account is a brand new product that we have been working on for several months. It is a digital wallet which enables customers to use their disposable income to acquire discounted products to suit their particular lifestyle. Customers are able to download a tailored application onto their smartphone and they can then use that phone in order to buy their products. I am pleased to say that almost half of Virgin Money colleagues have downloaded the app. So it is fully functional on a test basis with our own staff and it is doing well. So I look forward to updating you on how we plan to roll out this product in the months and years ahead.

Current account performance was also good during the year. We opened over 6,000 basic bank accounts through our stores and that was slightly ahead of our target. We expect to double that in 2016.

So as a result of our success in these other income products, underlying income from them grew by 12% and Dave will talk a little bit more about how our total other income line moved during the course of the year.

So having talked through the products and the growth we have achieved in all of them, let me just turn now to the quality of our business. We continue to believe that culture in banking is critically important to driving success and to building a sustainable business and we continue to commit to engaging our colleagues and customers in our sense of business achievement and purpose in the years ahead. Customers have really acknowledged the difference that they experience with Virgin Money during the course of this year and as a consequence our net promoter score increased from +16 to +19. And the score for our unique lounges is higher still and over one million Virgin Money customers have now enjoyed our lounge experience.

Even more pleasing, our employee engagement score increased from 86% to 88% and 92% of colleagues said that they are proud to work for Virgin Money.

Of course another key indicator of quality is our asset quality and our continued excellence in this regard comes through in all of our product lines. So far as mortgages are concerned, we continue to operate within our prudent risk appetite and a loan to value of 55% on average on the portfolio. Our impairment experience is negligible because of our stringent underwriting criteria and impairment in the cards business has been significantly better than market norms. As we understand it, market norms for a cards book are for the cost of risk to be over 4% on the cards portfolio. In 2015, we experienced levels of around 2.5%, even before debt sales. The reason for this is not only do we have very stringent underwriting criteria, but we never down sell and that has enabled us to operate a top quality credit card business with very tightly managed loan losses during the course of the year.

And of course our business is obviously supported by very strong capital position. We have a common equity tier 1 ratio at the end of the year of 17.5% and a leverage ratio of 4%, which sees us very well positioned for all known regulatory requirements and for growth going forwards.

Now during the course of the year there were three key challenges that we felt we needed to address as an Exec Team over and above our original business plan. First of all mortgage market competition was more intense than we expected. That meant we had to focus hard on maintaining spreads as well as we could whilst growing our book. And I am pleased to say that we achieved the 186 basis point front book spread that I mentioned earlier. There are a number of ways in which we did that. We built up our intermediary relationships which remain strong and thriving and we are very nimble in the way we price our products. We respond to market movements within days rather than weeks and this has given us competitive advantage as we manage spread.

The second key impact for us has been the regulatory and political focus on buy-to-let lending. So let me just tell you where we think we are with that. As I said before, we are not a specialist buy-to-let lender but we do think that the buy-to-let market is here to stay and that it remains an area of profitability for banks which are not overly exposed to it and which do not take too much underwriting risk on it. We also believe that in a market where home ownership remains as constrained as it does in the UK, because of the supply of houses, people will continue to want to rent and others will want yield on their investments more than they can get from a retail deposit book and as a result they will continue to look at the buy-to-let market, even if their returns might be diluted as a result of Government intervention. As far as we are concerned, our prudent risk appetite and high quality lending criteria, give us the best quality of buy-to-let lending and Dave will explain a little bit more about that when he speaks in a few moments. So our confidence in this sector, to be clear, remains and we are doing well in it.

And then finally of course, everyone remembers the summer budget banks surcharge. Although that was an unwelcome surprise when the Chancellor announced it, it has not thrown off our ability to deliver mid-teens returns and we remain absolutely confident that by the end of 2017 we will be reporting mid-teens returns to you when I stand up to make another of these presentations.

So now let me hand over to Dave who is going to talk you through more detail of our Financial Results. Dave.

Dave Dyer – Chief Financial Officer

Thank you Jayne-Anne and good morning all. As usual Jayne-Anne has taken all the best lines, but let me take you through some more detail on the results. I will step quickly through the raw numbers and then spend a little time on the underlying drivers.

Firstly we are very pleased with the growth achieved in 2015. Against a background of increasing competition in mortgages we were able to achieve growth towards the top end of our guidance whilst holding new business spreads as you have heard, to 186 basis points, still very positive in the context of a market where pricing came off around 70 basis points. Combined with our strong retention performance this led to a growth in the book of 16%.

Similarly, cards growth which only began after the successful migration and completion of the platform build in March, was very strong and as you have heard, gives us confidence in bringing forward our £3 billion balance guidance target to 2017.

In support of these asset developments we were able to grow deposits to a record high for this business of over £25 billion. At the same time as continuing the re-pricing, which as Jayne-Anne remarked has seen us halve our funding costs over the last three years. Further RMBS issuance and our inaugural MTN issue, both oversubscribed and tightly priced, completed the funding story.

One of the things I was particularly pleased about in 2015 was the success in wholesale markets, which continued in January with an issuance of £800 million in the RMBS market at a spread of 57bps, demonstrating our ability to raise funding and raise it at the right price.
Given our progress in these markets, we've decided to increase our risk appetite over time to a maximum 115% loan:deposit ratio. This will support our aim of increasing balance sheet efficiency and funding diversification.

The progress in assets has of course been supported by our capital capacity with our ratios remaining strong and continuing to be supportive of our growth plans at 17.5% common equity Tier ratio and 4% leverage ratio. Our strong asset growth, careful management of the mortgage mix and the increasing proportion of high yielding cards, has allowed us to manage overall asset yield which combined with our cost of funds management generated the 25% net interest income growth and 15 basis point increase in net interest margin you can see here. On other income as we switch from our MBNA partnership model to our own platform, we effectively swap net interest income for fee income, causing the majority of the fall back you see here. Underlying this, our other core income grew by 12% and as you will have seen in our Annual Report, the total contribution from cards grew by 13%.

We have previously spoken about operational leverage and you can see this clearly in cost growth of 5% compared to our income growth of 19%. This drove our cost/income ratio down to 63.6%. Combined with our controlled impairment growth, this produced a 53% increase in underlying profit before tax, and almost 50% improvement in return on tangible equity, now firmly into double digit territory.

On statutory profits, the main story beyond our substantial underlying profit growth is the reduction of adjustments as the Northern Rock and IPO related items fall away. You might also be interested to hear that our effective tax rate in 2015 modestly benefited from the Chancellor's surcharge as it caused a revaluation of our deferred tax assets. Obviously 2016 will see an increased in effective banking sector tax rates to levels approaching 28%.

So having counted through these numbers, I would like to spend a little more time on some of the underlying drivers.

On buy to let, let me re-emphasise Jayne-Anne's point, we are not a specialist buy to let lender. Only 17% of our portfolio is buy to let. It has been rigorously underwritten and it performs well, as illustrated by the arrears, yield and impairment data on the slide. For our buy to let portfolio, we don't write products over 75% LTV. We do limit portfolio signs, we properly stress affordability, we require strong rental cover and an independent income. In short we don't do things that we believe the regulators are concerned about.

Looking at the market, we believe the under-supply of housing in the UK means that the rental sector will still have an important role to play for some time. We also note that in a lower for longer environment, and with equities proving volatile, there are few places that investors can match a buy to let post tax yield for equivalent risk. And for lenders like ourselves, even if there were higher risk weightings on this asset class, the premium pricing provides a strong offset. For all these reasons then, we continue to believe we can remain safely in the high quality end of this market.

Another topic of interest is how we have been able to be so successful in cards. And we are delighted to say, Michele Green who leads that team will be hosting a dedicated session on this in a few weeks time. Developing our cards business has been a key strategic move in 2015. The critical thing to appreciate here is the strength of the business model. It is highly analytically driven and with relentless focus on credit quality, customer spend and customer retention.

The first key element of this approach is a virtuous circle produced by top of market pricing and rigorous underwriting. This generates low cost origination of high quality customers with high balances, who then perform well, reinforcing our ability to retain sharp pricing. And critically as Jayne-Anne said, we do not down-sell. A practice where some competitors will advertise one product, but we understand that more than half of applicants can end up failing the underwriting criteria and get a different product. With us either you pass our underwriting standards and get the product or you don't and will have to look somewhere else. There is no dilution of the quality of the book.

A second critical success factor is that we work hard on stimulating spend from day one. As a consequence the cash yield is never 0%, even in the first year we had the initial transfer fee and then new customer spend gives us on average around 2% yield. This continues to climb through the promotional period.

Thirdly, the activity stimulation means that we have strong retention. Even after the end of 0% promotional periods, we experience around 45% balance retention. And fourthly, we are prudent in accounting for card effective interest yields. We have that prudence confirmed by the auditors. For example, we know from empirical data that the average life of our cards is over ten years. But for EIR purposes we only recognise seven years. So whilst we keep performance under constant review, we are confident in our effective interest rate recognition of 7% yield on cards.

Turning to net interest margin, in 2015 we managed net interest margin to an increase of 15 basis points. This is in spite of having no base rate change and having strong downward pressure on mortgage pricing. We have been able to do that because we have managed mortgage spreads hard, cards have outperformed, we have been able to improve deposit pricing and we continue to optimise liquidity in the wholesale mix. As a result we are delighted to have got to 165 basis points for 2015. Even since the end of 2015 the outlook for base rates has become more difficult with some commentators saying it could be as late as 2019 before there is a move. We don't subscribe to quite that view, but we have decided we should look at what our business would look like with no base rate increases across 2016 or 2017.

Clearly with that assumption there are some consequences on our interest margin outlook. In 2016 without base rate rises, we would expect a slight decline in net interest margin as front book mortgage pricing reduces the overall mortgage book spread before cards grow sufficiently to compensate. However, by 2017 through driving cards and with our careful management of mortgage spreads and funding costs, we will improve net interest margin such that we expect, even without further base rate rises to achieve a net interest margin of 165 basis points before that continues to rise in 2018 and beyond. And if our outlook proves conservative and there is a base rate increase before 2018 that will of course be upside.

Turning to other income, our current account, insurance and investment income increased by 12% which is encouraging progress although for certain there is a lot more potential here. As I have already indicated, the switch from the MBNA partnership to origination of our own platform meant that we no longer received commission income. And that reduction was more than compensated for by the increase in net interest income. Having re-set for this effect, we now expect this cards element of other operating income to grow modestly as the card book grows and matures.

Lastly, we saw a small drop-off in one off gains from the Treasury Portfolio. As our full capability rolls out though, we still expect the other income line to grow towards our previous guidance of approximately 15% of total income.

Operational leverage is a key part of our return story, clearly evident in the positive jaws delivered in 2015. Of course originating and servicing over 70% of our business digitally rather than from an expensive bricks and mortar network, helps keep our operational costs down.

We are also looking hard at overheads and have initiated a cost efficiency programme focused on reducing bureaucracy and de-layering our management structure. In 2015 we grew mortgage assets by 16% and savings by 12% but as you can see from the chart, the mortgage and savings business costs grew by only £7 million. This amount includes investment in improved processes in the business in addition to volume related increases, underlining the fact that the marginal cost to volume are exceptionally small.

In cards, given the move to our own platform, we actually reduced costs against an increase in volumes. The average operating cost per card on our own platform in the last 9 months of the year was approximately 30% lower than the comparable unit cost on the MBNA platform in the first quarter.

Our investment and savings business cost increases were driven by a combination of partner costs and investing in capability. And for central costs, the primary driver of change has been depreciation reflecting our ongoing investment programme.

Overall though we have limited cost increases to 5% and we expect to continue to manage the single digit percentage increases for the foreseeable future.

We have now included FSCS costs in both our underlying costs and profit savings which obviously moves the cost:income ratio relative to our medium term target of 50%. Given our progress to date we are now reaffirming our commitment to a cost:income ratio, including FSCS, of 50% in 2017. To be clear, that is materially better than our initial guidance.

A key leg of our returns development is quality. Controlling this is obviously vital in managing both impairments and levels of capital. We think our metrics illustrate our superior management of credit risk. The leading indicator of this is that for both mortgages and cards, we have industry beating arrears performance. Given our careful underwriting and with some house price inflation tail wind, we have seen a modest improvement in average mortgage LTVs to 55% in 2015. We have also seen in 2015 a decline in the proportion of the book that is impaired. The cost of risk to the business did rise in 2015, but this is to be expected as the cards book grows and matures. Relative to the industry, the underlying cards and mortgage performance remains very strong.

On capital as you will appreciate, we are trending towards more typical levels of common equity Tier 1 ratio as we retain increased earnings, continue to grow the books and increase the average risk weighted asset density due to growth in cards.

During the year we were also able to make some modest improvements to our IRB modelling, an area of further potential for the future as we enhance our mortgage IRB approaches. The other moving churn here primarily constitutes operational risk loading increases, which as you know are a direct consequence of increasing income. On leverage we remain well above the 3% regulatory minimum at our year end level of 4%.

Turning for a moment to future capital requirements, it is worth noting that we expect to be entirely within the ring-fence in due course and we do not expect to trigger any DSIB or Systemic Risk Buffer add-ons for some considerable period of time.

On MREL, we expect to receive guidance later in the year and so do not have absolute clarity on requirements. However given the high quality of our current capital stack we believe we are well placed to meet any potential MREL needs through the issuance of AT1, Tier 2 and senior unsecured debt before the deadline of 1 January 2020.

So to recap, in 2015, we have:

- Delivered on our mortgage growth target whilst managing yields;
- Delivered a key strategic platform creating our own cards business, and safely migrating our £1 billion portfolio;
- Immediately leveraged that platform to produce 44% cards balance growth;
- Supported our asset growth with strong deposit delivery and increased wholesale diversification;
- Further tightened funding costs supporting our 165 basis point NIM delivery
- Controlled operating costs whilst maintaining investment spend;
- Continued our prudent risk management and as a result delivered very controlled impairments;
- Maintained strong capital levels; and
- Delivered a strong RoTE progression, underpinning our confidence in hitting our medium term targets.

Those strong deliveries in 2015 ensured a very healthy jaws, income up by 19% supported by cost growth of only 5%, resulting in higher returns with a 52% increase in underlying PBT to £160.3 million. Together these results drive our ROTE of nearly 11%. As a result of that strong performance, the Board has recommended a final dividend subject to approval at our May AGM of 3.1 pence per share. That will bring the total dividend payout for 2015 to 4.5 pence per share in line with our guidance. From now on we tend to pursue a progressive dividend policy and pay an interim and final dividend for 2016, subject of course to performing as we expect.

So having taken you through our 2015 financials, let me hand back to Jayne-Anne for a little more on the outlook.

Jayne-Anne Gadhia - Chief Executive Officer

Thanks very much Dave. I think you will agree that we have had a very successful 2015 in all respects. So I would just like to take a moment now to explain how we plan to continue that in the years ahead.

Now we think it is always important to have sufficient flexibility in our levers so that we can pull them in confidence of hitting our targets. In other words, we think it is always important to have a plan B. That means some revised guidance as we look out to 2016 and 2017.

First of all, as Dave said, we should be clear that we are changing our 2017 outlook on net interest margin given the fact that we are not now expecting any base rate rises before 2018. Without a single base rate rise, we believe that our net interest margin for 2017 will be 165 basis points. There will be a short term dip in 2016, as front book mortgage spread dilute the back book before the growth of our cards business can compensate for that. But to be clear, we will still get to 165 basis points for 2017 even without base rate increases and we continue to see opportunities to grow net interest margin above that level. Base rate increases, to be clear, would be upside.

But in order to be confident about that position, we are also revising our guidance regarding credit cards. The success of the first 12 months of operating on our own platform has given us confidence that we can write high quality, high volume, low cost credit cards to our own account, such that we now aim to achieve £3 billion of credit card balances by the end of 2017 and that is a full year earlier than originally guided.

And finally, given the potential challenges and uncertainties ahead, we continue to be very focused on cost management. During the course of the last few years we have proven our ability to contain our cost base, whilst at the same time building new businesses and we continue to expect to be able to do this. As an Executive Team, not one of us is paid a bonus unless we hit our cost targets and that ensures absolute focus on this key indicator at all times.

As a result again again we are amending our guidance for the end of 2017 because whilst we continue to commit to a 50% cost:income ratio, we are now committing to that including the FSCS levy whereas our previous guidance had excluded that.

So all of those three things together built on top of a very strong start to the year we have had in all asset classes, and the very strong performance we achieved in 2015, means that we remain committed to delivering a mid-teens return on tangible equity for 2017.

And I do want to take the opportunity to reiterate that we continue to see a path to that outcome which we can confidently deliver even in a flat base rate environment.

So to be clear, we have confidence that our organic plans alone will enable us to deliver our targeted returns. And we continue to see opportunities on top of that plan. First of all I would like to update you a little bit on our SME business. For the first half of this year, we will be continuing to build out our plans, but before the end of this year we intend to take our first small step into the SME market. That is likely to be in the direction of asset finance and as you have seen with a number of our larger competitors, growth in asset finance and consumer finance enhances their net interest margin. Over time we would expect the same to apply to Virgin Money.

And it continues to be clear that given the attractiveness of the Virgin Brand to the owners of small and medium sized businesses, that the potential for us in this market is significant and so we look forward to sharing developments with you in the months and years ahead.

Secondly, following the currently disappointing findings of the Competitions and Markets Authority review into current accounts, we have concluded that we will undertake a full feasibility study around the organic build of a personal current account. We will be doing that in the course of this year and indeed Michele will be leading on that project, and again I look forward to updating you on our plans, if any, to develop our organic entry into this market towards the end of this year.

And finally, a number of people have asked us about our appetite to consider M&A in the current market. And I would reiterate what I have always said; we do know how to do M&A. We bought Northern Rock, we bought a portfolio from MBNA and we have done well with both of those, but I hope that you are more and more clear that we are a team that wants to run our business with a prudent risk appetite. So we continue to look at opportunities that have the right risk profile, but we would only ever take an opportunity forward to the extent that it was clearly value accretive for all our shareholders.

These are exciting times at Virgin Money. Our business is performing really well, we continue to have a positive outlook and we continue to be clear on an organic path to mid-teens returns. On top of that we have got a lot of strategic options and I am looking forward to discussing our progress with you over the years ahead.

And now Dave with a mended microphone, myself and the team look forward to answering any of your questions. Thank you very much indeed.

Question and Answer Session

Question 1 : Michael Helsby, Bank of America, Merrill Lynch

It's Michael Helsby from Bank of America, Merrill Lynch. I have got three questions actually. The first question, just flipping back to slide 5 which is your, on your mortgage and cards business. Front book spreads for last year were 186 bps, I am mindful that as you said this stabilised in the second half. And actually from what I can observe, it looks like Lloyds is trying to price the market higher obviously for it to protect its own margin. And that has been very evident in the last quarter. So I was just wondering if maybe Anth could give an update on what you are seeing in the market today relative to last year? That is question one.

Question two, clearly cards has become a lot more important in the context of your delivery of your targets. If I was cynical I would say that obviously you are going to be growing your card balances quite fast at the moment because of the attractive offer that is there, but what we can't see, and I know Dave tried to touch on it, but what we can't see is what I think you are trying to articulate which is the value of the card business. So if you could give us a little bit more on that. I know Michele is going to do a thing, but maybe if Michele could talk about that.

And then one for you is, I was interested on slide 6 where you were talking about the digital thing and it does strike me that when you first looked at PCA, the world has moved on a lot from a digital point of view and I thought you always thought you might need a bit more of a bigger branch network to do that. But in this day and age with digital having become a lot more important, whether that is actually the feasibility study you are looking at and therefore, you don't need to, you know there is no need to do anything M&A wise, that is a perfectly valid organic strategy and one that will be a lot more value accretive actually over the medium term. So if you could talk about that, that would be great. Thank you.

Answer: Jayne-Anne

Thanks Mike, why don't I start with just answering your last question then. And to really clear and to reiterate what you just said, we do not need to do anything M&A wise. We are delighted with the organic position of the business, we aregrowing market share, we are growing profitably, we have got double digit returns and to reiterate what I said from an M&A perspective we would do that only if it made complete sense, managed our risk appetite. You know it is not something at the moment we are looking at in any serious way.

As far as the digital development of the business is concerned, I think that acquiring just 75 branches with Northern Rock was spot on. 75% of our business comes to us online or digitally now and the intention is to grow that and clearly it is what helps us to manage our cost base in the way that we have. And the work that Michelle is doing to look at a PCA feasibility study is entirely around digital capability. And the reason Michele is leading it is of course it is focused very much on our ability to manage data which is what we are doing so well in the cards business. So we are very positive and excited about that.

As far as cards is concerned before, we will go in the backwards order of your questions if I may. Michele is going to do a special on-tour for people that are interested in a couple of months time, probably in April. So we can really put a spotlight on the cards business and help everyone to understand why we are so excited about it and how we are so successful in it. But Michele if you just want to come and take a few moments to talk about that now?

Further answer: Michele

So as Dave mentioned, there are a number of really critical cornerstones to the value of the card business. It is a customer focused data driven business that is deeply supported by analytics, risk analytics, customer analytics and digital analytics. I think the critical thing is, it is not simply a one off balance transfer. It is actually the start of an engagement process with the customer. That means that we have a higher than industry average balance, we have a low cost to acquire as you have seen, we have a very low cost of risk because we are focused on a certain type of quality of customer which is where the analytics come in in terms of the score card and the application score cards that we use. We obviously get the balance transfer fee initially, within 60 days of that initial relationship with the customer, we are actually offering them a continual marketing offer which is getting them engaged and spending. It is actually a mix of cash transactions and retail transactions. The retail clearly brings interest. So within that first year as you have seen, it is actually interest. So it isn't a 0% for a long period of time business model. It is an interest earning, fee earning, low cost, high quality ongoing customer engagement business with a really strong retention at the end of the duration where we have again a continual ongoing relationship, hence the longer than 7 year life, it is over a 10 year life and again as Dave said, empirically we know that and we can prove that.

Jayne-Anne

Thanks Michele. Anth, would you like to come and talk about mortgages?

Further answer: Anth

Morning everyone, Mike as ever you are describing the market as pretty much we see it. As you know swap rates have come off by 20 or 30 basis points over the last 8 to 10 weeks. We have not seen that reflected in mortgage pricing at all. If anything market pricing has drifted up somewhat. We have taken the opportunity ourselves to add 5 or 10 basis points to our pricing. So from a spreads point of view, certainly we are in a far stronger place today than we were 4 or 5 months ago. So I think you are dead right. In terms of the health of the mortgage market more generally, we have definitely seen it off to a flying start in the first two months of the year. We track CACI data which we have talked to you guys about before. That tells us that application levels are up 34% on last year. Now we don't expect that to continue for the full year, but certainly both in terms of remortgage and in terms of purchase, we have seen a really strong start to the year and we are pleased to say that we are taking our fair share of that.

Question 2 : Andrew Coombs, Citigroup

Good morning, it's Andrew Coombs from Citigroup. Three questions from me as well please. The first one will just be a number question. Is it possible to get a split of the gross interest income, the £839 million between the mortgage and savings division and the credit card division? And likewise the £385 million gross interest expense as well? That is the first question.

The second question would be slide 10. Your loan book grew by £1.4 billion more than deposits in 2015. You have obviously upped your LDR number from 110 to 115 so that gives you a couple of billion of headroom. So loan growth can continue to outpace deposit growth for another year and a half or so. But I guess what happens when you get to the end of 2017 or 2018? Do you up the LDR target again? Do you increase your deposit pricing? Do you reduce your loan growth? So just what the thoughts are beyond that 2017 time horizon?

And then the final question just on costs. An excellent cost performance only up 5% year on year. You have had a little bit of benefit there from the credit card side where you moved platform, but I know you reiterated your, well you stated a guidance of single digit percentage growth there and costs going forward. So what gives you conviction that you think that can continue?

Answer: Jayne-Anne

Shall I start with cost:income ratio and LDR and ask you Dave to come in for the bits I can't do or don't do. I think on the cost side, Andrew, the fact of the matter is that when we listed the business, we said to the market that we had acquired in Northern Rock an operating platform that was much bigger than the business that we were writing. If you remember Northern Rock had been operating at £100 billion balance sheet. The business that we acquired I think was about £16 billion at the time and nearly £30 billion now in terms of the total size of the balance sheet. So the headroom that we have constantly had to grow into has been real. And we are just executing really on what we said we would do in terms of taking advantage of that operating capability, particularly on the scale mortgage business where 16% you know mortgage growth has been achieved with only a £7 million directly attributable cost growth. And we continue to see our capability in that space improving. And Anth and Richard have built what we call the mortgage lab which is enabling us to continue to increase the efficiency of our mortgage processes. We saw really significant efficiency increases during the course of 2015 and we would hope to increase that again this year.

As you said, on the cards cost space, moving the business from MBNA to our own platforms saw quite a material reduction in costs. MBNA were making money out of servicing us of course and so we were able to see cost efficiency improved processing and scale. But because we used TSYS as our systems provider on the cards business, we know with confidence that we can also grown cards at volume. We are only what, Michele, 1% I think of TSYS total volume but we have the ability to grow the cards book across that full operating capability.

And I think the final point really is that we have been able to be quite adept, if that is the right word, at managing our resource between business lines. And so although we initially built a mortgage business, we have been able to extend, certainly the central functions to take account of all of the new business that we have written without increasing costs. So we have upskilled and developed people and stretched people really. Some of our mortgage people now are providing, because we are more efficient on the mortgage business, we have been able to move some of the mortgage staff into cards for example. And being able to be flexible with costs is something that we are pleased that we have achieved.

And in terms of central costs, we feel that we can operate a much, much bigger business than we are today without any material increase in central costs. So we are very, very confident of our cost position and we focus on it really, really hard as I say.

As far as the loan to deposit ratio is concerned, as you rightly say, at the end of 2015, we were just over 107%. In terms of our risk appetite, we and the Board have agreed that we could think about it going to 115%. Just to be clear, we don't intend to rush to that place. It gives us the opportunity to improve balance sheet efficiency based on our experience in the market which as Dave said in his presentation has been very strong. We are accessing the wholesale markets with confidence and at the right pricing, and at the right volumes. So it just gives us options going forward.

But to your point about the relative growth of liquidity to assets over the course of 2015, we have been very long in liquidity for a very long period of time. And so you should not see what we did in 2015 as anything other than getting to a more efficient place. To be very clear and if anybody is interested, Anth might talk a little bit more about it. We have had to reduce, to customers, the price of deposits to manage volume. So we don't feel that we are stuck with the retail deposit volumes we have achieved. We are actually now in a much more sort of confident place, but actually the price/volume trade-off at the moment is sort of in our favour. And I know two or three times, Anth, you have needed to re-price deposits in order to manage liquidity because of the position we wanted. Did you want to say a bit more about that?

Further answer: Anth

Yes, Andrew, I mean I think the question around, are we hitting a glass ceiling on retail we have talked about before. I think we have demonstrated this past 12-18 months that we have built up a really strong franchise in ISA. We have not just done that through price, we have made sure that we have provided a great service for customers. And what we have seen is that customers are starting to switch to us in volumes from the big banks. So we have taken a really strong share in ISA. The retention rate on that business is also in the 90s. So when we get it, it sticks and is stable. So that gives us a really strong base to work from. That is why ISAs have been so fundamentally important to us over the recent period. What I would say is though is we are also underweight in variable money. We have been strong in fixed rate money for some time. So in this last 12 months we launched a simple variant of our product range, defined access product. Didn't spend a lot of money on marketing, low CPA, we have taken £3.4 billion of funds into that product in 10 months. So we know that if we pull the lever that we have still got plenty of room. We have a 1.5% share of that market. There is plenty of headroom for us.

Jayne-Anne

Dave can I ask you to come up and answer the rather more detailed question that Andrew asked if you can please

Further answer: Dave

Spread interest income. In short, not quite. I am not sure we have disclosed that split before but I will talk to my colleagues and if comfortable, will get back to you.

Question 3: Alex Tsirigotis, Nomura

Alex from Nomura. Just a few from my side if I may. You mentioned there is a deposit re-pricing exercise underway, what sort of quantum of savings do you think that could extract and you have a follow-up this year I guess?

Secondly on mortgages, what is the retention rate of your mortgage products? And are you offering any incentives to keep customers outside of the lower loan to value brackets?

And then thirdly, on SME lending. How is the Brexit referendum influencing your thinking about entering into that market?

Answer: Jayne-Anne

Well if I could again start backwards as it were. The reason that I said we have said that we will look to enter the SME market in the second half of the year, is because we want to see what happens with Brexit before we actually take that big step, or initial small step, but it would be a big step for our business. So we will respond to that as relevant post the 23 June, Alex I think is the right answer for that one.

On terms of deposit re-pricing, at the moment we are re-pricing at least £3.5 billion of our deposit back book by at least 20 basis points and there is certainly a little bit more than that to go.

And then Anth would you like to answer the mortgage retention question please?

Answer: Anth

Yes on retention, our retention rate over the past 12 months, has been 63%. We aim for retaining two-thirds of customers as they come to maturity. We offer the same products to front book and back book customers. So we don't offer any particular incentive to them. That level of retention has been consistent for a number of years. We have not seen any particular change in that. I think on the horizon as rates start to rise, would that put retention rates under pressure? Possibly to some extent, but I think the reality is that we should be a net beneficiary of a much stronger re-mortgage market. So in the round we are not really overly concerned about that dynamic.

Question 4 : Nick Baker, Goldman Sachs

Good morning, it's Nick Baker from Goldman Sachs. Two from me please. The first on buy to let and then a second one on SME.

On buy to let, quite a material amount of the market, particularly in terms of gross lending is re-mortgages, I think around 60%, but often re-mortgages will have an element of incremental leverage within the data that comes out. It would be interesting to see your view on how much, what proportion of gross lending represents switching balances from an existing provider without taking incremental leverage, i.e. without paying any net new money into the buy to let business?

And the second one on SME, it might be too early to say, but some of your peers can earn quite material gross yields in that business, particularly within asset finance. When you are looking at areas of the market, what sort of gross or risk adjusted yields are you thinking of targeting? Could that be inside or north of where your cards business is today? Thanks

Answer: Jayne-Anne

I will answer the SME one quickly by saying that it is too early to answer that question yet. So what we would hope to do is once we are ready to get into the market, we will come and present our views of the market at the right time and you know as Alex suggested, post Brexit or the Referendum results. So we are not talking about that today Nick, all of that is upside to the organic plans we have talked about today. Anth you are back on, on buy to let?

Further answer: Anth

Most exercise I have had in six months! I think you make a very good point about the buy to let market. It is one of the reasons why we are really confident that it is more robust than some would have you believe. At a market level 60% of buy to let is re-mortgage. For us it is about 50% and the vast majority of that business comes to us without any uplift in the underlying loan so it is a straight balance swap.

Further question:

And the same time last year, front book yields being about 100 basis point higher for buy to let to residential, is that still true?

Answer:

Yes still true, exactly true. If anything buy to let yields have dipped down during the middle part of last year, but actually if you look today and compare them to 12 months ago, they are slightly higher. So that equation holds.

Question 5 : Ian Gordon, Investec

Morning, Ian Gordon, Investec, three if I may. Firstly can you give me a bit of colour on the split of your new business on the asset side so far this year. Obviously I am fishing to see what mixed support there may towards NIM in the early part of the year?

Secondly, can you give me a proportion of how much of your owner occupied gross mortgage flow is re-mortgage activity?

And then thirdly, I guess you have beaten expectations on NIM volume costs and impairments. So the only thing I can try and moan about is other income. And you have already reiterated your guidance of 15% of total income. Can you just give me a bit more colour on trajectory and timing of that?

Answer: Jayne-Anne

Well I will do that while you guys work out the answer to the more detailed questions. So on other income Ian, for us it remains, we are delighted with where we are in our key asset growth and on retail deposits. We know that we haven't yet properly unlocked other income, we are doing well with it, but there is much more to go, particularly on the insurance side. I think we wrote something like 350,000 travel insurance policies this year. We should be able to do that across all insurances and we haven't done that yet. And so there is still an unlocker to go. So we would see growth in insurance, we would see growth in our savings and investment business and we are at the moment thinking that our Smartr account, which is our first step into digital banking, is something that will also enhance returns on our other operating income. So as Dave said, we still see the trajectory to get into a 15% share of the total income through other operating income, it's not on a straight line and we won't be there by 2017. But we will be probably low teens by that point and well on the way to getting there. And once we have unlocked all the other businesses in the way we have unlocked travel insurance, which Richard and I talk about a lot, then I think we will see that tick up faster than it has done over the last 12 months. But we are still pleased with the performance that we have had actually.

Anth, what was the next question?

Further Answer: Anth

Mortgage mix I think. So if you think about new business, 20% of our new business is first time buyer, 40% is next time buyer, 40% re-mortgage. The only thing to note probably in there is we have seen a switch for us slightly away from remortgage towards purchase just to bring us more in line with the market. One of the key changes there has been we have developed a new build offer for customers I think quite successful from a standing start. It now accounts for 6% of our overall business. So again just demonstrating that we have still got potential and opportunity in the mortgage market. In terms of mix, I mean buy to let we have talked about at about 26%. If you think of higher LTV just to reassure you guys that we haven't moved up the risk of 2% of our business is in the 90% plus space, the same as last year. We don't expect that to change materially over the coming period. The best of it is standard Resi. The only thing I would maybe mention is we have pushed on 5 year fixed rate business because we saw value there, typically a 5 year fixed will give you 5-10-15 basis points more in terms of spread. So we have outperformed the market, not far off 2:1 actually. And it is one of the ways that we have been able to protect our overall spread without taking more risk. But other than that, everything is much as it was.

Question 6 : Guy Stebbings, Exane BNP

Thanks, Guy Stebbings from Exane, BNP Paribas. A couple of questions on capital if I may. Firstly in terms of go-to targets previously you talked about 12% next to Tier

1 I think 3.75% in leverage. In the absence of any sort of DSIB ring-fence buffer, obviously you don't know your position, as far as I am aware you have not disclosed it yet. But it looks like there is a pretty sizeable management buffer there. Obviously you have a lot of gap to that right now in a positive sense. But it would be helpful to get a bit of colour around that and whether that could change?

And then secondly on risk weights. I think previously on a long-term basis you have talked about mortgage risk-weights potentially increasing marginally, but it looks like it has actually come down this year. And you have talked about further opportunities in terms of IRB models, so any additional colour there would be helpful too?

Answer: Jayne-Anne

On the capital front, I will ask Dave to be more detailed and perhaps Marian I will ask you to talk about risk weights if I can. On the capital front at the moment we are holding to our 12% and 3.75. We do see there is headroom particularly in the 3.75 because of the latest capital guidance, but equally there are unknown capital calls as it were or questions that need to be resolved. And so we are aware of the wriggle room, but for now we are just holding that position until we see where all of the other capital requirements come out. But we think we are very well positioned in every sense from what we can see at the moment. Now Dave, did you want to add to that at all?

Further Answer:

I am not sure in the short term. Jayne-Anne is absolutely right. I mean I think as this year unfolds, we will be able to come back to your with a clearer view as it becomes clearer to us. But you are right 3.75 I mean strictly speaking today we have a zero per cent leverage requirement. So we are very well placed.

Further answer: Marian

Good morning everyone. I think we have talked probably before about the fact that the advanced capital models we have for mortgages were built from Northern Rock data. So given the excellent asset quality we have in our own portfolio, they are not the tightest fit to the performance that we see today. So we do quite a lot of work within my team to continue to refine that. And although we forecast broadly increasing risk weights as the mix of our business changes, we also work to improve the modelling to make sure that we can counterbalance that. And that is part of what you saw in 2015. Although we would have forecast all other things being equal for some increment in the average risk-weight, in actual fact the work we did to refine the models with PRA approval, meant that we could offset that materially. And we will continue to do that work, it is an ongoing thing.

Jayne-Anne

You can't still have three questions left? Excellent.

Question 7: Chintan Joshi, Nomura

Good morning, Chintan Joshi from Nomura. Two questions please. Firstly on your comment that you are not seriously looking at M&A activity, I can understand at Brexit point. Can I check with you that you have actually looked at Williams & Glynn's and at lease have a sense of where you would be thinking of pricing? And is that a strategic fit for you? If it isn't, if you could help us rule that out or is it a functional price? So just some more colour there.

And secondly, on the NIM guidance. Actually quite encouraging comments I see why your NIM guidance has come down, but if I think about what Anthony said on asset fund book pricing, at the start of the year what you are saying about deposit re-pricing initiatives, I am just trying to find the missing pieces of the jigsaw puzzle here. Front book seems to be developing well here, is this more kind of the back book re-pricing of the fixed book that is giving you the need to reduce your NIM guidance? Just trying to get a sense of where that pressure is coming from?

Answer: Jayne-Anne

Let me answer the Williams & Glynn question first and Dave perhaps you can talk about net interest margin. When RBS presented their results last week, I think they were pretty clear that there isn't a process. And so without a process, without any information, without anything, it is impossible I think for us or anybody else to say what might be sensible to do, what might not, what the price might be. It is impossible. And so for now there is no process. We are not working on it.

Further question

So you are waiting to get a peak at the moment?

Answer: Jayne-Anne

Well I think, as we've said, we would look at everything. But we definitely would not do anything that was not right from a risk point of view and wasn't right in terms of creating shareholder value. So I would not rule anything in, I would not rule anything out. But it is certainly not something I am pouring over at the moment. There is nothing to pour over. Dave, net interest margin?

Answer: Dave

Yes as you have heard, there are really three drivers and essentially what is happening over the course of 2016 is a crossover of the two of those effects. So broadly, although we are having great success on the front book with mortgages in terms of volume, we are going to be, confident about the guidance we have given in terms of volume. That is at a price lower than what is rolling off the back book. So you have a downward pressure effect there. On the positive side, we have the cards book growing quite rapidly and even if you just take an EIR recognition of that, that is a 7%, not a mortgage margin. So that is compensating for it. And then the third effect is re-pricing the deposit back book. So gradually over this year those two positive effects overtake the negative effect of the mortgage book. And by the time we get to 17, we are back in positive territory.

Further question

May I ask you to quantify that front versus back difference in the fixed book?

Answer: Dave

You can ask.

Answer: Jayne-Anne

I don't think we have it. Why don't we ask the IR team to get back to you on that.

Question 8 : Ivan Jevremovich, UBS

Hi it's Ivan Jevremovic from UBS. Two questions please. One of them fairly quick. On SME's you've mentioned about the content of the asset finance market. Are you also looking at gathering any SME deposits either through a business current account or otherwise?

And the second one on cards, if you could please remind us how much of your new business is balance transfer? And more about, it was an interesting coincidence that the NPL stayed exactly flat at £27 million, so I was wondering how you see that book seasoning either in terms of cost of risk or NPL one, two years forward or one year forward?

Jayne-Anne

Richard you haven't said anything, so I am going to ask you to answer the SME question in a moment, but Michele would you like to answer on cards please?

Answer: Michelle

So in terms of cards, the split of the approximately 70% of the new accounts will come through the balance transfer product. The rest will come through a mix of products. And just to reiterate it is not just balance transfer. They do come with retail. So when you look at our monthly transactions, there is actually a 50:50 split on the transactions between what we generate with cash and what we generate through retail.

Further answer: Richard

Thank you and good morning. So from an SME point of view, in terms of the thinking we are going through. Of course to reflect the brand, we don't just want to bring any other product out into the market. So yes we are looking at asset finance and how we can bring that to the market in a different way. But to answer your question specifically, yes we are looking at a deposit type product and offering for the SME customer and again we know that in terms of the marketplace though, there are a lot of businesses out there that need that capability, need that facility and don't depend on the asset side of the balance sheet.

Jayne-Anne

And should you be wondering why I asked Richard to answer the question, Richard joined us 18 months ago from RBS where he was joining Lombard and so will be responsible for our rollout of the SME business as well as his other responsibilities.

Question 9 : David Wong, Credit Suisse

Good morning, it is David Wong, from Credit Suisse. Just one question from me. It pertains to your mid-teens to end 2017 return target and the components of that. You have been explicit about one part of the NIM. Obviously that is slightly, are you expecting it slightly lower if you have got more credit cards in your book, I assume that it takes the impairment slightly higher, I think. So just on the other components of that, what are you flexing to keep you on track for that mid-teens return target? Are you being tight on costs and I guess also perhaps the leverage is going slightly up because you are stretching your LDR a bit. But any comments on that would be very helpful, thank you.

Answer: Jayne-Anne

I think David you have sort of summarised it so. We see less interest margin without a base rate rise at 165 basis points. In order to be confident of that advancing our cards book with a constant EIR of 7% which is conservative of what we are seeing at the moment, clearly helps us to be confident about sustaining that position. Despite the growth in cards, we are not revising our guidance on cost of risk which we see as between 15 and 20 basis points. And at the moment I think we are at the very low end of that position. And we are focusing very, very hard on costs. And all of those things together enable us to give you that level of confidence that we have. And just to reiterate, if base rates were to move then there is upsides there.

And finally, perfect timing.

Question 10 : Chris Cant, Autonomous

Hi, Chris Cant from Autonomous. I just had a couple of quick fire points of detail and then one on MREL. Your EIR of 7 for the year, I think you said around 7 in your remarks, I think it was 7.2 in the first half. So are we in the high 6's as second half run rate? That is question one.

On mortgages, similar maths, just looking at the gross loans over the year. It looks like implicitly your second half mortgage spreads were around 175, I was just wondering if you could comment on that?

And then any update you can give us on the SVR book in terms of size of the year end and any trends you are seeing there?

And on MREL, I thought the comment you made about lack of clarity on MREL was reasonably interesting, I am guessing your 165 NIM guidance for 2017 does not assume any Tier 2 or well Tier 2 impacting a NIM Tier 2 issuance given that you mentioned that you expect to hit the 2021 deadline. If I just think about how your capital is going to trend over time and it is very crude and I am probably getting the numbers slightly off what your more detailed models have. But I guess you might need £400-500 million of Tier 2 over time which might cost you about 5-10bps on the NIM I would guess something of that order of magnitude. So I know you said you don't think that the market is right to price no base rates until 2019, no base rate rises. But if base rates did not rise, and you had to absorb that kind of an MREL headwind, which is based on hitting sort of 20% of RWAs of debt, is it fair to assume your margin would actually fall beyond 2017 given that you have said 3 base rate rises, which used to be in your model, only equate to 5 bps of margin accretion? Thanks.

Answer: Jayne-Anne

Let me try, Chad sitting straight in front of you, reading his body language, gives me confidence to say, our plans currently assume all known terms including the capital that we believe we need to support them, and that is assumed in our 165 basis point guidance. So we believe we have a plan that is properly capitalised for the growth that we foresee that gets us to the out term that we have committed to today.

Dave you might want to answer some of the more detailed questions.

Answer: Dave

I will probably leave SVR to Anth and ask Michele to talk about the EIR recognition. I mean I think you are right, the capital outlook is uncertain, the 500 number is probably not a million miles off the kind of assumption we are making. We have made provision in the outlook for a rollout of that funding plan. It is not necessarily the case that it will all be tier 2. We can see extension of the NTM programme playing a part in providing that MREL bailable capital. So there is some provision. I mean until we have more clarity on exactly what the requirements are which I don't expect to be until later this year, I can't give you a more definitive answer on the specifics.

Answer: Anth
I think it was about the second half spread the question

Jayne-Anne
It was two questions, what was spread ending at and what is the SVR book performing like?

Answer: Anth
Okay, second half of the year spread you mentioned, 175, that was a weighted average rate would not be far off. I would just reiterate that the business we are writing at the beginning of this year is back above that level in line with the comments earlier. In terms of SVR, SVR at the moment accounts for around 14% of our overall book. There has been no material change in the underlying attrition rates. There has been no real change in our underlying redemption rates off the back of that book. Certainly in a lower for longer environment, we should expect to see redemptions a little lower than we've planned. As I said earlier, if we were to see base rates move, then we should be a net beneficiary, at a macro level anyway. So we are not too concerned about that. There is no real change in performance or size of the SVR book.

Jayne-Anne
Michele did you want to talk about EIR?

Further Answer: Michele
I think EIR, again a point of detail in terms of first year versus half year. Dave referenced around 7%. It is pretty steady at 7-7.1%. It doesn't vary that much. It is made up of a mix of products. And the mix of products might vary somewhat but the spread between the products is not that wide. And I think just on EIR, just to reiterate, there is a high degree of certainty in terms of the actual cash fees associated with the balance transfers that we are booking in terms of the immediate recognition. And then obviously there is ongoing interest income as well. So there is a greater degree of certainty in terms of how we are estimating it, and hence you will see it is steady in and around that 7%.

Jayne-Anne
Well thank you very much indeed for all of your questions and for your time and for your interest and for writing about us. Look forward to seeing what you think soon and really appreciate as I say you being here this morning. So thank you all very much indeed.

End