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Ashok Vaswani – CEO, Personal and Corporate Banking

Transcript and Q&A

[This transcript has been edited by the company]

Michael Helsby, Bank of America Merrill Lynch

Right then, so let me add my own warm welcome to all. My name is Michael Helsby. I am Alastair's partner in crime, co-head of the European banks team.

Our next speaker is the CEO of a newly-created division at Barclays Bank and here to tell us why Barclays is right to refocus a lot more of their attention on personal and business banking is Ashok Vaswani. Ashok, thank you very much, over to you.

Ashok Vaswani

Thanks, Michael. Good morning, everyone. Michael, thank you for having us and inviting us.

At the outset, let me introduce myself. My name is Ashok Vaswani. I am the CEO for Personal and Corporate Banking at Barclays. I have been a career banker and had the opportunity to work in Asia, Middle East, Central Europe, Europe, the United States, and currently am based out of London. I have been in Barclays for about five years. I worked initially in Barclaycard, then Africa, retail, corporate, and now Personal and Corporate Banking.

So as many of you would be aware that on May 8th Barclays did a pretty significant restructuring, re-segmentation of the business and created Personal and Corporate Banking. What I want to first talk to you about is, what are the rationales behind creating Personal and Corporate Banking? Where the opportunities that come out of the creation of Personal and Corporate Banking, both in the immediate term and in the longer term? Tell you that how we are already on the journey. So this is not about tomorrow's promise, this is today's story and how we think about this business as we go forward.

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So let's start with the rationale. And I think this will kind of ring true to each one of you because the way we are living lives and the way people's lives are changing, we live in a far more connected world today. It's very, very hard to isolate the CEO of a company and how he thinks about the company and how he thinks about himself; the experience that he gets from his suppliers, vendors, people that he deals with; and what implications that has for his own business.

That is a big, big, big driving factor behind the creation of Personal and Corporate Banking because connectedness - we're living in a completely different stage of connectedness.

The second thing is that clearly there is the ability to provide seamless service across the client continuum, whether that is to small businesses all the way to corporates. A lot of banks create artificial boundaries, this is where small business ends, this is where corporate starts, which is an internal boundary as far as the bank is concerned. The client gets a very bumpy kind of experience. Ditto with mass affluent customers moving into wealth. By bringing these things together we can provide a far more seamless service and provision of products and services across the client continuum.

The third thing is technology. Technology is fundamentally changing the way people bank and the way people think about financial services. And we have seen that leveraging technology and really being innovative changes a lot of things. There is absolutely no reason why the changes and the innovation that are happening in one space cannot be taken across the other spaces, and I will talk a little bit about this as we go forward.

So when you start thinking about these things, what happens is, as a result of these factors, you get significant cost synergies. And those cost synergies can then be brought back into the business to deliver better returns.

Finally, and most importantly I guess, is regulatory consistency. The regulators are looking forward, making sure that banks think about things in a consistent fashion irrespective of where the clients or the customers are on the continuum. Therefore, there is a strong rationale for really bringing together the erstwhile retail, corporate, and wealth businesses.

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Now this is a business which you may not be entirely familiar with so I thought it would be useful to give you a little bit of sense of what does this business look like for Barclays. For starters, it is the largest SBU in Barclays. It contributes about 38% of the Core, and I only refer to as Core, left Non-Core out of it; 38% of the Core PBT.

In the first half of 2014 this business made £1.5bn in PBT, which was up 23% over the same period last year. So this business is growing quite nicely. It's growing quite nicely with a 23% growth year-on-year.

The other thing is that this business is delivering a return on equity of about 12.1%, which is over the cost of our capital. So this business is not only delivering returns, but it has also got growth prospects, and I'm hoping to talk to you about the other growth prospects a little later.

The third thing and very, very importantly is that we are doing this not by taking excessive risk. This is not by going out and being very aggressive on any element of the business, so whether you look at our funding profile, our LDR ratios are 73%. So we don't have to play and price to help growth happen. We've got a good deposit profile. We've got good relationships with our customers, which allow us to grow our business quite nicely.

Finally, on the impairment side, the LLR of the business is roughly running at about 21bps, which means that from a risk perspective we are pretty much in control. So good returns, growth opportunities, managed under control.

Fair amount of scale and diversity. We bank 25,000 of the biggest corporates in the UK. We bank about 870,000 small businesses in the UK. These businesses contribute or connect to nearly 86% of the entire FTSE Index in the UK. And we bank 16 million retail customers, 36,000 really, really affluent and high net worth individuals in the wealth business.

The business is pretty nicely diversified and we can see the business - we kind of think about the business in four different segments. We first think about the mortgage business. We've got about 1 million customers in the mortgage business, about £130bn of assets in the mortgage business. We are investing heavily in the automation of the mortgage business.

We've got a stock of about 10% and we've got a flow of about 12% and, therefore, our flow exceeds our stock. And, therefore, we are growing our stock over a period of time. It's a good business for us. We are doing it well. 65% of our business comes from brokers. That's a good business, generates great results for us and keeps going. The average LTV 55%, so well under control and ability to kind of grow the book. And we have grown net lending in the mortgage business quite nicely.

The retail business is one business where I think the last two or three years we have transformed the most significantly, particularly meeting the needs of our customers moving on to digital channels, in particular mobile. Just think about this:

Two years ago, we did not have a single customer on mobile. Today we have 3.3 million customers who are regularly active on our mobile platform. These customers on an average log in 26 times a month, so we get about 75 to 80 million logins. This tells you the level of activity and engagement that our customers have on this platform.

Obviously, digital is far, far, far cheaper than the physical network. And as you can move transactions from the physical network to the digital network, it shows up nicely in the cost base.

So simplified product, simplified product run on industrial-strength engines is really the goal of the retail business. We have a very nice corporate business with good market shares. We are the number one market share for startups in the UK, about 30%.

We have done a lot of work even on the digitisation and propositions for small businesses, which I will come to. We do a lot of work with corporate. So corporates actually extend right from global corporates, which really works well with the Investment Bank, so we've got the connectivity with the Investment Bank to really take care of the global corporate.

We've got a very nice FIG business, which allows us to do Sterling clearing, and we just on our own internal US Dollar clearing in the United States. So very well positioned in the FIG business. Great opportunity to work in the trade finance business and, therefore, the corporate business offers us pretty good opportunities as well.

And, finally, wealth. We have spent the last 12 or 14 months really, really derisking our wealth proposition, but now as we think about wealth we are saying we want to target wealth clearly to the high net worth and the ultra-high net worth. And, secondly, we want the wealth business to become the center of excellence, the manufacturer/provider of investment products across the Group, whether that is with the mass affluent, affluent, ultra-high net worth, or even corporate. So we are very well positioned in wealth. Wealth is a nice business - about a third in UK and Europe, about a third in America, the United States, and a third in Asia.

So what I want to leave you with is that there are certain unique things about this business. Number one, it delivers return on equity ahead of cost of equity. It's got growth. It is well-diversified. It's got a unique footprint. There's nobody else who has got a footprint in the United States, UK, and Africa. And it's nicely diversified by income, by business, or by PBT, whichever way you look at it.

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So then that leads to the question that if we are bringing PCB together, what are the benefits from the creation of PCB? And I would submit to you in the immediate term there are three or four big benefits that come out. The first big benefit that really comes out is how do we leverage our existing capabilities?

Let me give you a couple of examples. Let me talk to you a little bit about what we did on mobile banking. So in mobile banking, what we did first in the retail side of house is we said we know customers, e can preapprove customers. We can show customers what loan they can get, what is the price in basically six taps on the mobile phone, including two questions being are you really sure you want a loan? Are you really, really sure you want a loan? Just to make sure that there are no regulatory issues. With six steps, money in the account.

It's a very, very, very powerful capability when a customer walks in and says, hey, this thing exists; the loan is there. Then we said why should we stop at retail customers? Why can't we take this into small business? So we've done that exactly for small businesses.

But then we said why stop at small businesses? What's so magical about a £5m turnover business? Why can't we extend it kind of broader?

Now obviously this can't go to large corporates, but it can definitely go beyond the £5m mark. So taking these existing capabilities and actually growing it out makes a lot of sense.

Take another one. Take our mobile banking app. Like I just said, 3.3 million customers on our mobile banking app. Now how do we take it into wealth? How do we take it into wealth for Asia, for the Middle East, for Europe, and for the UK, United States?

It's award-winning. Clients love it. Won't that add a far greater level of connectivity with the clients? Or for that matter take Pingit, right? So Pingit started as a peer-to-peer payment platform. Today Pingit is far, far more than a peer-to-peer platform, far, far more than that.

For one, you can pay businesses. Companies like Aviva are using Pingit to actually pay insurance claims while the adjudicators are on the phone. So think about what this delivers for Aviva. Of course, it takes off a whole bunch of costs. They don't write checks and stuff like that, but just think about Aviva's claim. Their whole client satisfaction is dependent upon the way they settle claims and the ability to settle claims instantly on the phone, money in the account, is a very powerful capability.

Or think about utility companies who want to make payments. Think about all the reconciliation. Think about all the costs of processing cheques, all gone. Pingit is going into international remittances, which allows us to do a whole bunch of other things. Pingit is now an API which we can plug into various kinds of use cases and really grow the business.

Finally, the homeowner up. It's a fantastic app if you're ever looking to buy property in London. It seems like everybody wants to buy something in this golden Square Mile. It's a great place to go and look, see a property, see how much you can afford, see how much loan we will give you, and get it done.

It's already doing really well in the UK. What stops us from opening it up to international customers who are keen on buying properties in the UK?

So the first thing is leveraging existing assets. The common theme is how do you do more for customers. If you do more for customers, they will reward you with greater share of wallet, increased revenues, lower costs, higher customer satisfaction.

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Second one, we really believe that the whole way that we are interacting with customers is changing quite dramatically. Think about it. Our physical branches, we are actually working to completely automate as much is possible.

The truth of the story is, there are a whole bunch of things customers want to do which are transactional in nature. When your salary comes in or your receipts come in, you want your credit card bills paid, you want your expenses kind of taken care of, you want to withdraw some cash, you want to deposit some cash, cheque, you just want that to happen. You just want that to happen, you don't want to worry about it. You don't want to stress about it.

There are times when you want to talk to somebody. However sophisticated you are, you may want a sounding board, you may want some kind of guidance and advice, but for general other stuff you just want it to happen. We've actually worked to develop machines which absolutely automate the four or five key things: cash in/cash out, cheque in/cheque out, and bill payments.

We do bill payments on QR codes. Maybe we're the first bank in the world to be able to do that, but just think about our utility companies who can put QR codes on their bills. You just go to the ATM; it captures the QR code, payment, transaction done, over.

If you are close by to one of our flagship branches in South [Kensington]. If you get a chance, go see our South [Kensington] branch. We have rolled out 72 branches, these automated service machines. We will roll it out much more. We're going to get to 800 branches in the next five or six quarters.

Because of things like this we've been able to reduce our FTE in the branch network by 1,300 folks already. So this is about giving people better roles. This is about getting rid of cashiers and tellers and telling our cashiers and tellers, by the way, you can do more with customers. You can engage more with customers and have more meaningful customer conversations.

I hate the word call centre and contact centre. I hate it. The reason I hate it is because if you can do everything that you want to do on the phone, then why isn't the call centre or contact centre a sky branch? And it's available to you at any point in time. So building out capability to be able to do every single thing that a customer wants to do on the phone is really, really, really critical. We are seeing usage of that go up quite dramatically. We continue to push that path. Sky branch is a big, big, big deal for us.

And finally, of course, our digital branch. It's amazing to think that on one level, on half the level, of 1 Churchill Place exists our digital branch. That digital branch is already doing in certain products more business than our entire physical network.

55% of all consumer loans every single month are today done digitally in our digital branch as opposed to our physical branch. 71% of all FX transactions are done in the digital branch as opposed to the physical branch. You don't need to do the maths to say moving transactions from the physical branch to the digital branch has a huge, huge, huge impact.

And digital is the way we are going really, really, really strongly. I would submit we have done a lot in this space. Whether that is one platform for retail Barclays, one for our wealth customers, or Barclays online banking for corporate, one face of the bank from digital, and kind of move ahead.

Slide 6

Of course we are looking at operational efficiencies, constantly looking at the organisation. How do you simplify it, make it more nimble? Look at operational sites. We are bringing down locations; that has a huge impact on cost.

But, most importantly, if you really think about it, we sell nine products and how do we get these nine products on industrial-strength engines in one place? So one manufacturing capability and that manufacturing capability then supplies the rest of the business.

You don't have multiple factories. We will have only nine factories and one factory by product. The Investment Bank runs the major factory for FX. We will plug into the FX factory from the Investment Bank and leverage BARX which is again a great platform for them. So another immediate kind of opportunity.

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And, look, as we talk about digital and we keep talking about digital, a lot of people tell me hey, aren't you going to alienate customers? Aren't you going to lose a lot of customers? In fact, the fastest-growing age segment in this country is the plus-60 age segment. Are they really going to happen?

And I would submit to you in digital - honestly, in a digital world it's all about people. It's all about people. We have trained more than 40% of our entire branch network, 8,000 people, into a program that we call Digital Eagles. The Digital Eagles are designed just to help our customers get across the digital divide. These guys are trained in basic skills, online banking, coding, Skype, Facetime. They help customers with anything and everything.

You know what has really happened? The plus age 60 segment is the fastest-growing segment. It is a myth that they are necessarily the people who are the most technologically challenged.

In fact, with the coming of the tablet two things have happened – with the ability to pinch and make the format bigger, elderly people love it. I love it. Without the glasses, it's hard to see, right? And the ability to Skype and Facetime with family has become a big deal. This is all about winning back trust and reputation, which is a big deal and I will come back to it a little later.

So those are just immediate term opportunities that we are working on. In the more medium-term, look, at the end of the day we've got 25,000 corporates, 870,000 small businesses and 16 million retail. Our ability to connect and really help our clients grow their business is a really significant opportunity.

We have launched in May 2012 something called the Feature Store. The Feature Store was basically designed that a customer could go and personalize anything that he or she wanted.

In the UK we used to have something called packaged bank accounts. We did away with packaged bank accounts. We said go choose whatever element you want, a whole bunch of features are free, a bunch of features you've got to pay for. Think of the equivalent of an iTunes store.

Now having kind of really developed that, this becomes a great platform to connect our corporate customers. So think about a corporate customer who wants to target a certain kind of customer base. I want people who are between 48 and 55 who live in Wales. We can get access to that client base and show that to the corporate customer and get a real advantage for that. Feature Store is going to become a big deal for us in the medium-term.

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What is even more exciting is really the long-term opportunity. The long-term opportunity is really that we can become the financial services partner, not financial services provider, the financial services partner for what I am now lovingly calling the UK ecosystem.

What do I mean by the UK ecosystem? When I think about the UK ecosystem I think that it on the corporate side, all businesses in the UK. I think about their subsidiaries overseas, think British Airways for example, or think about large non-UK businesses which have got substantial operations in the UK.

Think the Tatas - the Tatas are obviously an Indian company, very well-respected company. By the way, the Tatas are the largest single private-sector employer in the UK. We are uniquely positioned to deal with these companies, whether it is cash management for British Airways or whether it is providing workplace banking to the employees of the Tata Group in the UK.

Think about it on the personal side. On the personal side obviously it's everybody who lives in the UK, it's the Brits who live overseas who like to keep a linkage in the UK, and anybody who wants to participate in the safety and security of the UK.

Think about the wealth business. Think about how fragmented the wealth business is and think about what has happened to the wealth business over the last couple of years. Switzerland lost its niche. Hong Kong has become more China. Dubai came and went.

UK, and in particular London, has become with its tradition, legal regulatory environment, English, compliance, has become the place for wealthy customers. It seems like every single person who's got any kind of wealth wants to buy a house in this golden Square Mile. We are uniquely, absolutely uniquely positioned to take care of these kind of clients' needs because we've got an international footprint, because we've kind of geared up to make this happen.

So we really have the ability to pick up the financial services partner for people in the UK ecosystem. But enough said about that kind of future. What I want to leave with you is that this is today's story. This is not about tomorrow's promises.

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Let's just have a look and say, are we gaining share across every single product? Now, obviously information you're going to get, you can see where we have kind of got the information from, but from a sector-by-sector basis you can see product-by-product we've gained market share and we are outplaying the market. Now that is not surprising given our focus on just automating, simplifying, and getting this right.

Our business is largely NIM driven; this is how our balance sheet has kind of grown; that's how we've got those kind of results.

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This is my absolutely favorite chart in this entire deck. Look, this is not about a day in the sun, a quarter in the sun, or a year in the sun. This is about delivering consistent results, steady as she goes. And consistently you can see we have been working on automation, digitisation, simplification and stuff like that that brings the cost line down. That will kind of continue.

We have gone through a very difficult period of time in a low-interest rate environment. In a low-interest rate environment we've been able to strip out costs and, by the way, we've been able to grow our balance sheet. We've grown assets by about 11%, we've grown deposits more than that, and we've seen income growth.

Income growth has been dampened because we have gone out and proactively derisked anything. We've gone business by business, line of business, and got into a level of detail and said where could this create a problem and where can we derisk? We have really, really put the customer at the center of everything we do.

So, for example, every single morning we send out 8,000 or 9,000 SMSs warning customers that they could go overdrawn and if they get overdrawn you have to pay an £8 fee. If the customer deposits the money in the account by 2 o'clock that afternoon, the customer doesn't get hit with the fee.

Paying overdraft fees is a real huge pain point for the customer, when the customer - it's a temporary loss of income, but when the customer realizes you are not looking to nickel and dime them they come back and reward you with the business. That is how we've grown our current account from £22bn to £28bn in the last three years.

So putting the customer in the center of everything we do, derisking, we've dampened income growth but income growth has been good. Very, very focused on cost, cost takeout. In a structural sense, this is not about you can't drink coffee and you can't buy a newspaper and stuff like that. How do you in a structural sense take out costs, get positive jaws, and continue to drive this?

We are totally committed to continuing to drive this as hard as we can. And, hopefully, the examples I gave you gave you a sense of how committed we are on this journey.

Slide 11

Look, like I said, this is not about a day in the sun or a quarter in the sun. This is about building a sustained franchise. This is not about coming and tell you one quarter, you know what, I got blowout results.

This is about you having confidence that we will quarter on quarter on quarter go slowly, steady as she goes. The start is not always going to be linear. There could be a little bit of bumps, but directionally this is the way we are going, in a controlled fashion.

Slide 12

So then that brings me to what did the first half look like? The first half, hopefully, very consistent with everything I've said, income up 1%, about £56m, costs down quite significantly, positive jaws, control in terms of impairment, return on equity over cost of equity, good controls, and that's how we go.

Significantly diversified income from various businesses. A lot of the assets on the mortgage side - last year our entire mortgage book was roughly £120bn. Our impairment on the mortgage book was £15m. So steady as she goes, keep the PBT going. Make sure that the business – we run the business for returns – how do we deliver over the cost of capital and how do we make sure we get growth in the business?

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Let me talk to you a little bit about brand and reputation. Why is brand and reputation so important?

Brand and reputation is so important because it's a reflection of what society thinks of your company. And what society thinks of your company when things go bad is really, really, really important, as we have learned. And therefore, [building] back trust and reputation in the brand is clearly important.

How are we going about doing that? We are going about doing that by saying that, look, we are actually on day one of the digital revolution and the digital revolution is, in fact, maybe even larger than the industrial revolution.

Now, any time there are revolutions of this kind of size and magnitude there is a huge social cost. The Industrial Revolution had a huge social cost. The digital revolution will have a huge social cost, but this time around we are committed to leaving no one behind.

Leaving no one behind, whether it is that school kid who is leaving school to enter into the workplace through our life skills program, whether it is people like you and I who can get help in our branches through the Digital Eagle program. Like I said, the fastest-growing age segment in this country is the plus-60 age segment. Automatically as you age vulnerabilities and disabilities occur. Technology for the sake of technology is exciting. Technology which helps people become independent is really, really, really exciting.

We will go out of our way to make sure that society is taking care of that or helping small businesses ride the digital advantage or leveraging information to help our large corporates harness information to really grow their business. We are committed to building back trust and reputation, building back a differentiated brand, and coming out ahead in this game.

Slide 14

So what is it? In summary, it's a good business. It's a significant opportunity. The business already delivers over cost of equity. The business has got good trajectory. It's a solid franchise. It's diversified, it's stable, it's controlled, and we will continue to strive to build a really, really great customer and client franchise which our owners and other stakeholders are really, really proud of. Thank you very, very much.

Question 1

Michael Helsby

Thank you, Ashok. A very good presentation, thank you. Maybe I will ask the first question and then we've got maybe 10 minutes for questions from the audience.

I think in your opening remarks, and you mentioned it again halfway through your prepared remarks, you mentioned that this isn't tomorrow's story. It's about what's going on today, and that was clear from the profit growth that we saw in the first half of the year. But the bit that has been lacking I guess for all UK, and actually the European banks, has been that top-line progression.

And I think you mentioned quite a few reasons why it has been tricky with derisking and repositioning, but I think if Barclays is going to succeed and generate the returns that everyone thinks or you guys certainly think you can do, then that top line needs to start picking up a little bit. So how do we, as analysts and investors, how do we think about the top-line opportunity that is at Barclays and your business? Thank you.

Answer

Michael, thank you for your question. You will notice that throughout my presentation I didn't even talk about interest rate environment. So I am saying we can get good kind of jaws and positive jaws without the interest rate. Now you guys are smarter than I; you will figure out when interest rates will kind of go up.

Obviously, how we interact and what happens as interest rates kind of go up will be a function of competition, pricing, and a whole bunch of pressures, societal pressures as well. But maybe after the first or two interest rate rises for roughly every 100 basis points it's nearly £350m of income on an estimated basis.

So there are natural tailwinds that are built into the business, number one. Number two, one has to believe that when you do these kinds of things customers will reward you with more business.

So, for example, let's take our consumer loan business, where I talked about six taps, money in the account. One would think that as a result of that, production in the physical branch would fall. In fact, what happened is there was virtually no cannibalisation of branch volumes and we got much more volume on the digital format.

So digitisation I would submit, does not only reduce costs, it actually increases volume as well. So kind of uniquely positions us for that.

Number three, if you need a proof point, we have grown our balance sheet. We've grown assets by 11% in a difficult environment and we've grown [NII in the UK retail business] by 11% as well, so our ability to kind of continue to do that should occur.

Question 2

Unidentified Audience Member

How much does automating service counters save on a branch-by-branch basis?

Answer

For example, we will roll this out to about 72 branches and we are going to get to 800 branches. We have seen a 57% reduction in counter traffic, right? So we have already reduced FTE by about 1,200 FTE. That is the immediate cost, but think about all the backend processing costs that go away.

The ratio of moving anything from physical to digital is roughly [20:1], so that's the kind of rate that you will get when you are able to take everything straight through processing and on the digital channel.

Further question

What's that in pounds?

Answer

It's hard for me to kind of give you an exact number. That's not how we look at it. We look at it in the totality, so I can't tell you that, okay, cash transactions have gone now therefore how much.

Because of this we will be able to take out 1,300 FTEs, right? So the more we can get it done hopefully you will see pretty significant FTE reductions in our physical footprint.

Question 3

Unidentified Audience Member

[Inaudible – what is the outlook for your branch network?]

Answer

That's a great question. So a lot of people tell me, give me your target for your branches and stuff like that. There is no target for my branches. Look, at the end of the day we are building as much capability to make our customers' lives as easy as possible.

Obviously, we are going to see a drift. As we see the drift what we are going to try and see is if footfall falls beyond a certain level we will either: completely close the branch; two, combine branches to make them maybe one flagship and kind of reduce the footprint; or three, change the format.

Think about what we've done with ASDA. Think about the fact that ASDA has extended hours, 8 in the morning to 8 at night. Think about the fact that I'm driving and parking free of charge, and I'm able to get all my shopping and everything done at the same time I'm getting my banking done as well.

Now the flip side of it is, I don't think we will ever get to zero, at least not in my lifetime, because you have got to take those transactions and divide it into two halves. The first half – and they're not necessarily halves – type of transactions is where I just want stuff done. That stuff which is repeat stuff and stuff like that lends itself beautifully for automation.

There is other stuff, however sophisticated you are you looking for a sounding board or somebody to give you some kind of guidance and advice. That is what our people should be focused on.

Think about the mighty Apple. The mighty Apple is spending God knows how many billions of dollars setting up physical branch Apple stores around the world. So a lot of people tell me, hey, will a competitor bank come do an Internet thing and put you out of business? I said, look, it's much easier for me to build a digital bank than it is for them to build a physical infrastructure.

Look at Amazon. Why is Amazon talking to TfL? Because Amazon wants physical capability for dropping off and, more importantly, maybe for returns. So physical branch infrastructure will always be a competitive advantage. The question is how many, what size, what format.

And, look, do I have all the answers today? Surely not. I'm experimenting with a lot of things to see what really, really works with our customers.

Further question

So these physical branches are what percent of your costs at the moment?

Answer

Roughly 20%.

Question 4

Unidentified Audience Member

Right, I was just looking, you have a 12.1% ROE, you have a 21 basis point bad debt charge, which sounds kind of low. I don't know whether that is lower than your normalised level. And also the Group is on quite a low Core Tier 1 at the moment, so presumably you have allocated capital below where you will have it in the future.

So are you really going to be able to cover your cost of equity in a meaningful way when you have the proper amount of equity and the proper amount of bad debt charges?

Answer

Look, most of our asset book - like I said about our total asset book about £217bn, about £130bn of that is mortgages. Mortgages, like I mentioned to you, has a very low impairment rate.

So, yes, we know the ups and downs. Let's say impairment runs at 23, 24 basis points on a fully through-the-cycle basis. We've got the ability to grow revenues, we've got the ability to take down costs, so we should be able to continue to generate good returns. Those returns should be clearly in excess of cost of capital.

Already we are about 9.9% CET1 ratio. If we take it up with internal accretions to capital, we should be in a pretty good spot, particularly then with the release from Non-Core. The RWAs releasing in Non-Core, capital being allocated back to our Core businesses. That should also give us room to grow.

Question 5

Unidentified Audience Member

How much money do you spend to protect your digital infrastructure? Because JPMorgan was hacked like two months ago or something. Apple was hacked. Target was hacked. Is it a threat for you? JP spent around $200 million a year. What is your CapEx and your OpEx about it?

Answer

That's a great question. As you kind of move and you change your business models, clearly new risks emerge and we are very, very live to things like cyber risk, phishing, social engineering, and all those kinds of things. We have invested significantly in our fraud tools and we have invested significantly in our infrastructure.

One of the things we have done is actually gone out and got accredited by the government. So we have got a kite mark from the government which says that our systems are really, really up to the standard. But, look, you're right; this is a continuous kind of battle and we continue to invest and make that happen.

One of the other things that we've done is made sure that our technology won't go as a stack of dominoes. We've got resilient stacks so that there's no single point of failure. So my mobile banking runs on a different stack from my branch infrastructure, which runs from a different stack from Pingit. God forbid, if one goes down I still don't compromise client or customer experience.

Michael Helsby

That's great. Thank you very much, Ashok. Ashok is going to go through to the breakout room, so there's going to be more chance for Q&A if anyone wants to go through. Thank you, Ashok.

Ashok Vaswani

Thanks, Michael

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