**Close Brothers**

**Wednesday, 22nd November 2017, 9:00 GMT**

**Banking Division Investor Seminar**

**Preben Prebensen, Group Chief Executive Officer**

Good morning and welcome to today's presentation which is focused on our Banking division.

We run these events around every two years, to provide an opportunity to talk in more detail about our businesses.

Most of you here already know our model well. And today is an opportunity to hear directly from members of the Banking management team how they apply this model, and how distinctive and differentiated each of these businesses are.

After my brief introduction, Adrian Sainsbury will give you a little bit more colour about how we manage this business model in our banking businesses.

This will be followed by presentations from Mike Morgan, CFO of the Banking Division, Malcolm Hook, Group Treasurer, and our five business CEOs: Neil Davies, who runs Asset Finance, David Thomson, who runs Invoice Finance, Sharon Bishop, who runs our Premium Finance business, James Broadhead, who runs Motor and Frank Pennal, who runs Property Finance.

We expect the formal presentation to wrap up in about an hour and a half, after which we will be happy to take your questions. And we hope that you will join us for a cup of coffee and more informal discussion after that.

As you know, our business model is quite different and quite distinctive.
It's a model built on people, not on scale. It's built on being local and close to our customers. It's built on being experts in our markets. It's built on using that expertise to serve our customers better, instead of competing on price. It's also a very disciplined model. We have clear underwriting criteria and we stick to them.
We have clear return targets and we stick to them too. Through the cycle.

Importantly, while growth is an output, not a target, we clearly look to make the most of the opportunity we have within this framework, in each of our businesses.
We have also always looked to extend into new areas which fit with our model.
We are strongly committed to this distinctive banking model and hope that today's presentations will show how it applies in each of our specialist businesses.

I'd now like to hand over to Adrian Sainsbury, who is the managing director of the Banking division and in charge of our lending operations.

**Adrian Sainsbury, Banking Division Managing Director**

Good morning. As Preben said, we've an established business model, focused on lending consistently through the cycle.

Today we will provide more colour from each of our businesses of this model in action.

We will illustrate that, whether it's new or used assets you're financing – it's crucial to know what you're doing if you're going to perform at all stages of the cycle.

At the heart of our model are our people, and our core values of service, expertise and of course relationships. We'll illustrate today how they add real value at:

- the point of origination, selecting the right customers and assets to finance;
- in life, to generate high levels of repeat business and
- at end of life, to maximise recoveries and minimise bad debt

We compete on service, expertise and relationship, and not on price. Today you'll hear of the many reasons customers use us, rather than just price.

Our business model is focused on delivery through the cycle. And is deeply embedded in our culture.

Although the model itself doesn't change, we actively manage our business to Protect, Improve and Extend it.

Of fundamental importance is protecting our business. This means maintaining the same prudent underwriting and strong margins at all stages of the cycle. And maintaining conservative funding, capital and liquidity positions.

We don't set a volume target for the Bank overall – instead it's the responsibility of the CEO of each of our lending businesses to maximise the opportunity available to them. At our pricing point. And at our underwriting standards.

We also continuously invest in people, products and technology, to improve the customer experience and to meet changing customer behaviour.

Finally, we look to identify sensible extensions to our model, through selective expansion into relevant new products or geographies.

And we will be sharing several examples of this with you today.

This slide provides an overview of the key businesses that make up the Banking Division. As you know, we have three operating segments.

Commercial Finance, providing secured asset and invoice lending solutions. Principally to small and medium sized businesses. Both on a direct and intermediated basis. Retail Finance, providing intermediated lending. Principally to consumers, through motor dealers and insurance brokers. Property Finance, providing short term residential development and bridging finance – directly to professional property developers.

Our three operating segments comprise of five distinct businesses – and the CEOs of Asset, Invoice, Premium, Motor and Property Finance will all be presenting later.

As we'll show you today, these businesses represent a diverse range of activities and a diverse range of customers.

All these businesses are specialist. We don't compete in the undifferentiated, volume driven markets. Such as mortgages, buy to let, current accounts, overdrafts or credit cards.

Our client and intermediary base is diverse. They value the consistency, commitment and fast turnaround we offer. Enabling them to buy that forklift truck, or win that property at auction, quickly and efficiently.

Our personal, service driven approach has resulted in strong customer loyalty, with high levels of repeat business, over 70% for all our lending businesses.

This next slide illustrates how each of these segments is made up of a wide range of products and services, a wide range of asset types and range of distribution channels.

Firstly, our Commercial Finance segment is a great example of this diversity in action. Our Asset Finance and Invoice Finance businesses are a collection of ten specialist, niche businesses, each with their own MD and their own local teams of sector experts. The in depth expertise that our people possess in each of these specialist markets is precisely what our clients' value and really helps differentiate us from the competition.

For example, a key differentiator in our Asset Finance business is our refinance offering. Our direct sales force has a deep understanding of both new and used assets. Consequently they're able to structure bespoke refinance packages to meet specific customer requirements.

Our Retail Finance segment consists of two distinct specialist businesses – Premium and Motor finance. Premium finance comprises of both Commercial and Personal lines and a Retail Point of Sale Business. Motor finance comprises both a UK business and an Irish business through a local partner; each with different characteristics and different credit risk profiles.

Here it's important to remember that although we lend to retail customers, we're not a traditional, unsecured consumer lender. Our Premium Finance business has significant protection against credit risk through the structure of our contracts: through to our broker intermediaries, through to the insurer, or sometimes both.

And in motor finance our focus is on used vehicles and traditional hire purchase loans. Supported by a high touch and bespoke underwriting process. Our UK motor finance exposure is only 19% of our overall loan book and this percentage has fallen year on year since 2013.

Finally, Property comprises of Property development finance and Commercial Acceptances, which specialises in refurbishment and bridging loans.

The diversity of these seventeen discrete businesses provides in-built protection and resilience through the cycle. Each of these seventeen businesses face different market and competitive dynamics and different cycles.

Most of you have seen this slide before, it illustrates our long history of growth and profitability.

Importantly, growth for us is an output. We always prioritise maintaining our strong margins and prudent underwriting. Therefore, the rate of growth has historically fluctuated, with faster growth in periods of low credit supply and slower growth in more competitive market conditions. But as you can see, collectively our portfolio of businesses has generated substantial growth over the years.

Currently, Motor and Asset Finance are the areas where we are experiencing more competition. As we've said, we don't compete on price or on underwriting terms. And therefore see less scope for these two businesses to grow materially in the current environment.

This is exactly what should be expected from the Close Brothers model at this stage of the cycle. However, we continue to see good growth prospects for Property Finance, where we've got good visibility with a substantial pipeline of agreed but undrawn facilities. We see continued structural demand for new build, family housing, which is our core market. We also see continued growth in Premium Finance, where we've made a number of sizable broker wins over the last year, which are now feeding into the loan book. You'll also hear that we have growth opportunities within Invoice Finance and Brewery Rentals. In addition, we continue to pursue a number of new growth opportunities, some of which we'll share with you today.

Our approach to credit risk management is also a core part of our model, and underpins our long track record of low bad debts through the cycle.

As you know, our lending is predominantly secured, with conservative LTVs, small ticket sizes and short tenors. Our lending approach is also consistent and the lending criteria in each business has remained substantially unchanged for a number of years.

Our credit performance is built on our high touch, local underwriting capability. Around 280 people in the businesses have underwriting authority. All of whom have real asset expertise in their relevant sectors as well as commercial and credit skills.

Once a loan is underwritten, the MDs of the business have responsibility for that loan. From inception, through to collection or recovery. Each MD is responsible for their business end to end, including the P&L performance.

Local underwriting is a fundamental part of our business model and supports our ability to make fast credit decisions for our clients, while at the same time ensuring the businesses are accountable for credit performance of the loans they write. This local underwriting is supported by strong central oversight and control, with clearly defined risk appetite and credit policy set by our central credit risk team. All large deals and all property loans are approved by Credit Committee.

In summary, it's a strategic imperative to maintain our underwriting discipline at all stages of the cycle.

We have a long history of extending into new specialist areas which fit with our business model. These are typically markets which are not well served by the large banks, where our service, expertise and relationship driven focus allows us to generate high margins and strong returns.

We always take a considered approach to evaluating and entering new areas. Some of the examples you see here have grown quickly, for example Renewable Energy, whilst others may take longer to develop.

Today, we'll also talk about some of our more recent initiatives in more detail. We'll talk about our recent acquisition of Novitas Loans – a high return business where we provide finance to the clients of law firms.
We've talked before about our growth in Ireland, where we identified a significant opportunity after the credit crisis. Ireland now accounts for nearly 10% of the overall Bank loan book, with a presence in asset, invoice, and premium, and in motor finance where we operate through a local partner.

We're now exploring whether there are further opportunities for our Commercial Finance businesses in Germany. This initiative is still in its very early stages, but could be an interesting opportunity for longer term growth.

Thank you.

I'll now hand over to Mike Morgan to talk about financial performance and ongoing investment initiatives in our Banking businesses.

**Mike Morgan, Banking Division CFO**

Thank you Adrian. Hello and good morning. I have worked in financial services for the last 25 years and I joined Close Brothers as Finance Director of the Banking Division 7 years ago.

As Adrian has said our business model is built to deliver through the cycle. Our long track record of achieving strong sustainable returns is underpinned by three core disciplines that I will highlight today.

These are: our pricing discipline, our underwriting discipline and finally, our cost discipline. All of which are aimed at both protecting and improving our model.

Maintaining discipline across these three areas, results in consistently strong returns, with the average return on net loan book of 3.4% over the last 10 years.

As you know we have been operating in a benign credit environment for some time now. However, even in this type of environment we are committed to holding our margins, maintaining credit quality and actively managing our costs, the same as we have done over the previous cycles and across all market conditions.

Maintaining a strong margin is important to us. Our consistent pricing discipline is reflected in our high net interest margin, which despite the competitive pressure in some of our businesses, remains at over 8%, and ahead of the industry. Importantly, as you will have noted from our full year results, the NIM is consistently strong across all three of our lending segments.

Maintaining the discipline of our underwriting is equally as important. It is not something that we compromise on. Prudent underwriting supports high credit quality throughout the cycle. This, combined with the strong margin, means that we are well positioned, if conditions change, to absorb increased levels of bad debt whilst maintaining profitability.

The bad debt ratio has remained at 0.6% for the last two years, a historical low, reflecting strong credit quality across all lending segments. At this stage, we are not seeing any signs that bad debts are increasing.

Clearly we have been in a benign credit environment for some time now, and we cannot predict how economic or market conditions may change in future. What we do know is that

our underwriting is as good as it has been, and in some places better. And we do have confidence, as demonstrated by our track record over the last three recessions, to manage this bank profitably through an economic downturn.
Cost discipline is a fundamental part of our model. We invest in the business throughout the cycle, which underpins sustainable growth for the long term.

Our long term expense / income ratio has remained around 50% over the last 10 years, as we balance our investment decisions while carefully managing the BAU costs.

Our model is high touch and our people sit at the core of the business proposition. We have a strong direct sales force, local presence and underwriting is primarily manual in nature.
As a consequence, staff costs make up over half of our total cost base, and as our headcount grows, we continue to invest in our people. Last year our costs increased by 9%, approximately half of that increase was driven by staff costs.

Since the last cycle, as we have invested in the growth of our businesses, our headcount has increased by just under 60%, significantly below 135% growth in the loan book during the same period. We now employ over 2,200 staff within the Banking division. This reflects the growth of our lending businesses and the requirement to increase capacity, to support our front end proposition. We have also continued to invest in control and support functions such as legal, risk and compliance.

The other half of that 9% increase in FY17 was driven by the number of investments in both infrastructure and new growth initiatives, aimed at not only improving the existing model but also extending it. I will talk about these in more detail shortly.

A disciplined approach to cost management means that we are able to maintain neutral operating leverage and a stable E/I ratio, while closely managing the underlying costs and balancing these with the continued investment in the businesses.
Adrian spoke to you about our strategy of protecting, improving and extending the model.
This slide illustrates how we apply this strategy to both proposed and in-flight investments.

Notably, having invested heavily over recent years in the infrastructure supporting the business, the majority of our investment today is aimed at the front end proposition including ways to better understand our customers, deliver a better service and improve the model.

The infrastructure investment was very much technology led and included projects aimed at data protection, migration to state of the art data centres and improving business efficiency.
Our focus has now moved to the front end proposition.

At the last seminar we spoke to you about the extensive investment programme we were undertaking in our Premium Finance business. Through investment in both people and technology we were able to improve the customer value proposition for both the broker and the end customer. And we are pleased to see this investment driving new business wins and strong growth. Sharon will talk to you about the Premium Finance journey shortly.

Having undertaken this programme in Premium Finance, we are now able to take advantage and build on this work in other parts of the business. James will talk to you more about the investment programme in Motor Finance which we will be launching this year and which is aimed at improving efficiency and the proposition with respect to both the dealers, end customers and our sales force.

Finally, we are also investing to extend our model into new markets and products. We have a long track record of doing so but as always we approach these initiatives slowly and carefully. While these investments come with an upfront cost, they are an essential part of

our story, and support long-term growth, helping us deliver sustainable strong returns through the cycle.

Our approach to managing capital remains prudent and conservative. We maintain a comfortable capital position with good headroom to minimum requirements. And our strong profitability allows us to grow the loan book and continue generating capital organically. Last year we generated £90 million of CET1 capital, growing our capital base by 10%.
We have a very strong leverage ratio of 10.7%, ahead of most of our banking peers.

The overall risk weighting of our loan book is now over 90%, however, these are standardised, European wide risk weightings which do not give us credit for our long track record of low bad debts, or the secured nature of our lending.

In future, we do see an opportunity to further optimise this capital position through implementing the AIRB approach. We have started the process of moving to a modelled approach which we think will better reflect the risk weighting of our loan book longer term.

This process is in the early stages and will take a number of years to complete. However, we do feel that the result will more accurately reflect the nature of our business and recognise both our prudence and our 30 year track record. We will get further clarity on the time line for application and implementation as we move through the process with the PRA, and will update you in due course.

Finally, I would like to update you on our work towards implementation of IFRS9. As you know, IFRS9 applies to us later than most other banks, for the year beginning 1 August 2018 – so we are still 8 months from implementation.

As we have told you at our recent results announcement in September, the project is progressing well. This is a major undertaking, led by a dedicated central team with significant modelling capability, working with credit risk functions in each of our businesses.

We have completed the initial model build that reflects the relevant characteristics of our diverse lending portfolios. We are now in a year of parallel run, during which we will refine and validate these models ahead of implementation.

This process will allow us to produce an increasingly reliable estimate of the day one impact. We will share this with you once that estimate is sufficiently reliable, which will be in the second half of this financial year.

Thank you and I will now hand over to Malcolm.

**Malcolm Hook, Group Treasurer**

Thank you Mike and good morning everybody. My name is Malcolm Hook; I am the Group Treasurer and I have worked for Close Brothers for seven years.

Today, I want to talk to you about how Treasury undertakes its primary role – that of managing the Bank's funding and liquidity.

As one might expect, given our business model, we take a prudent approach. Over the next few minutes, I will tell you about what has happened since the last Banking Seminar in 2015. I will finish with some thoughts on a major development for the future.

Our approach to funding and liquidity has four components. The first of these is to ensure that we have plenty of funding to support the Bank's lending through the economic cycle.

This enables our lending businesses to focus on building long term relationships with their customers and to move swiftly to take advantage of opportunities as and when they arise. Indeed, the top graph shows that over the last five years, funding has increased by nearly 50% to result in, as of last July, funding remaining at a healthy surplus to that needed for current lending.

Diversity of funding is the second component. Over the last ten years, Close Brothers has steadily broadened the sources of funding. Why? Because, it reduces concentration risk and gives us flexibility over where to source funding at any one time. The pie chart evidences the success of this strategy and I believe that Close Brothers' range of funding sources is one of the most diverse of any specialist UK bank.

In Corporate Deposits, we focus on taking deposits for three months and greater. We maintain a consistent presence through our own network of business development managers and through long established, intermediated channels. In Retail Deposits, we currently specialise in taking fixed term deposits for between one and five years, and I will talk more about what we are doing to improve this area of our business shortly.

Our secured funding is diverse by type and extends from bilateral, bank, asset-backed funding facilities to public securitisations and a limited use of the Bank of England's funding for lending and term funding schemes.

Our Unsecured Funding has changed in character in recent years and provides our longest dated funding. Our use of committed term bank facilities has fallen, whilst our public unsecured debt issuances have become more prominent. Over the last three years Close Brothers has issued two senior bonds and a Tier 2 bond.

For both secured and unsecured funding, we aim to develop an active presence and build long term relationships with key investors – just like we do in all of the areas of the bank's business.

Lastly, we should remember that Capital is a source of funding and our maintenance of a high capital ratio has enabled this to stay an important part of our funding picture.

The third component revolves around "borrow long lend short". As many of you know, this is one of the most distinctive features of our funding model relative to other banks. The bar chart shows that as of last July, the average residual maturity of our loan book was 14 months, whilst the average residual maturity of borrowings available to support such lending was 21 months.

Why does this matter? Pursuing such a strategy really strengthens the funding model and helps us to maintain a sound financial position through the economic cycle.

Having a less time compressed funding profile helps to lower the volatility in our cost of funds and has proved to be a useful support to the Bank's Aa3 credit rating, which is among the highest of all UK banks.

The fourth and final component of our approach is to maintain a stock of predominantly high quality liquidity. Most of our Treasury assets are in the form of deposits with the Bank of England, which we hold primarily to help us manage the initial impact of some kind of unexpected shock. We test this by ensuring that we hold comfortably more than what is required by both our internal stress tests and by regulatory measures.

Having spent some time talking about how we currently manage funding and liquidity, I would now like to turn to the future. Since we started our savings business, we have been

fortunate to enjoy a good relationship with our customers. However, as we have sought by various ways to better understand our customers' needs, we have come to recognise that our current savings proposition is too narrow, as seen in the bottom left hand table.
To address this, the Bank has initiated a significant investment programme to implement a new deposits platform. This, in time, will allow us to offer a wider range of savings products and to add online to our channels of distribution.

The programme will enable us to diversify our funding yet further and will provide a more enriched customer experience.

And so, to summarise, as a modern merchant bank we follow a prudent approach to funding and liquidity. We have evolved our approach since the last Banking Seminar in 2015. We will continue to do so in the future.

Thank you for your time, and let me hand you across to Neil.

**Neil Davies, CEO Asset Finance**

Good morning. I'm Neil Davies, I've worked in the Asset Finance industry since 1989 and joined Close Brothers in late 2007 to run the leasing business.

I am now responsible for the combined Asset Finance and Leasing businesses within the Commercial Finance segment.

The Asset Finance and Leasing businesses lend directly and indirectly, and most of our customers are SMEs. This loan book is around 30% of the Bank's total portfolio and is made up of a wide variety of assets that we service from a number of offices based around the UK, Ireland and Germany.

Our owner-managed SME customers understand and value that we are active through the cycle and help us maintain a very healthy 70% repeat business level.

Over the next few slides you will see that we have a diverse portfolio which differentiates us in the market and delivers value through all stages of the cycle using our expertise, both at origination and in life. We are the fifth largest asset financier in the UK and ranked first outside the high street clearing banks.

Our expertise is deployed though our direct sales team of 140 sales people who understand our customers' businesses and look to add value to them. We are specialists in refinancing second hand assets. They make up over half of our portfolio – it's a core part of our proposition and we have strong brand awareness within our target markets.

Our diverse niche areas, our understanding of our customers' businesses and their assets helps us to win business even when competition is cheaper.

We finance a diverse range of assets in a variety of sectors and industries but we only lend on assets we understand. What you see on this slide, is a portfolio of 14 niche businesses across 5 different areas, each with their own MD, a specialist sales team and run as a separate business. While the nature of lending is similar, the customer dynamics and returns the business can generate vary, allowing us to apply our asset expertise to the local market.
This demonstrates the importance of expertise and specialisation across our mix of businesses and geographies.

Even in our broker introduced business we predominantly deal with brokers who themselves have their own specialised industry or asset focus.

Our business model involves lending on consistent pricing, consistent credit quality, throughout the cycle. And as a result, in periods of high competition you would expect that our growth will plateau. However, the diverse set of businesses means we are able to continue to perform well. This year some businesses will continue to face strong competition, while in others we will be able to deliver growth.

We are a people driven business, with a local, specialist model. We have good coverage across the UK and Ireland. Each of the businesses have their own dedicated managing director, local expert sales teams and local underwriting. It's a structure which takes time to build and is difficult to replicate.

We do business face-to-face. We want to meet our customers and see the equipment we are financing. When one of our Manufacturing sales people visits a site we know that they will recognise the equipment, understand its use, and its current and its future value.

In many cases we have recruited equipment specialists and trained them in finance, and it's worked very well for us and for our customers. We recognise that understanding a customer's business leads to better and often quicker solutions.

We spend time developing our people, largely through training and mentoring but we also recognise the need to bring new people into the industry to build our sales force for the future.

Two years ago we launched an academy and attracted 33 younger people into the business. We expected at the time that around 50% would develop into sales managers who could deliver against our model. We still have 18 of them with us today and they are now fully embedded in the sales force and in the first three months of this year have written over 1000 deals between them. We are launching another academy next year.

Motivation of our staff remains high on our list of priorities as we seek to ensure that we not only attract but retain a high quality sales force. We believe our structure that revolves around a decentralised approach with local authority and accountability aligned with an appropriate incentivisation is key to our future success.

This people focused mind-set also extends to our relationships with brokers and even our wider industry footprint. For example, we currently sponsor two apprenticeship schemes through industry associations. One of these is with the Road Haulage Association, where we are sponsoring 20 apprentice HGV drivers for 20 SME hauliers, who otherwise couldn't afford to invest in recruiting and training their own apprentices.

Our sales teams have a number of routes to market. We have our web sites which attract over 120,000 hits per month, we use marketing, telesales and cross selling across the group to attract new business.

At the academy we train our students to recognise opportunities, to act upon them, we teach them about our products and about the assets they'll be financing. But we also encourage them to be entrepreneurial and think outside the box.

In this particular case, one of our former academy students, now a sales manager, found a lead by taking the telephone number off a truck in Wetherby Services. He then researched the company, found the name of the MD, cold called him and made an appointment. The MD seemed to appreciate his approach, the way he worked, his knowledge about the company and their assets and they formed a relationship.

The business is a well-established plant hire SME, with a wide range of mainly yellow metal assets, servicing mainly the construction and coal industries. We wrote several small deals for them, the customer liked the way we did business and the service we provided and we were then asked to look at a £3.5 million refinance deal alongside the customer's other lenders.

The refinance of 36 hard assets has reduced the company's monthly repayments by 50% and allowed them to buy an adjacent piece of land. The customer wanted to dispose of some assets and worked with us to determine which to retain and which to sell.

This customer is used to low rate finance, so we were in strong competition with several Banks, offering lower rates, however we won this deal because we understood the customer; we've got expertise in his equipment; we made the process easy for him and we delivered exactly what we'd offered.

We continuously investigate new markets and niche opportunities that fit with our model. If we can find a market where we think we can lend £50 million plus a year that fits our pricing and credit requirements, it's of interest to us. We are prepared to put the time, effort and expertise into fully researching a specialist sector.

Where we identify that a new market is likely to produce growth for us, we will if necessary recruit a specialist team or head of a team to make it happen, we have done just that in fleet finance, green energy and more recently in Tech Services and Germany.

As you may remember, we first mentioned Technology Services at the last investor seminar in 2015. The business is now fully operational with new systems in place and the early signs are encouraging. We've recruited a direct sales team into Tech Services and the focus is on building the pipeline to deliver both funding and added value services.

We are also now exploring opportunities for our asset finance business in Germany. Close Brothers has now been active in the UK asset finance market for 30 years. During this time we have developed significant expertise in valuing second-hand equipment and helping our customers with refinancing their existing assets.

We are now looking to leverage this in Germany. And earlier this year we have launched a business there, offering financing of second hand equipment, in asset classes we know and understand very well. Our target is Germany's "Mittelstand", in effect the same as our UK SME customers. We currently have a team of 9 specialists. They are based in Mainz, which is near Frankfurt and we are seeing promising signs for growth.

We have a unique portfolio of businesses and the diversification and specialisation within them helps to protect us from competition. Our value lies in consistent delivery of service and expertise. The business has been built on an active history of differentiation and innovation, where we continue to explore and develop adjacent opportunities in our existing businesses, as well as moving into the new niche markets of Technology Services and Germany.

The combination of businesses is each impacted separately by market and competitive dynamics but they come together to enable us to deliver solutions to our customers throughout the cycle, which in turn balances the consistency of the segment's performance over the longer term.

Thank you I will now pass you over to David.

**David Thomson, CEO Invoice Finance**

My name is David Thomson and I look after the Close Brothers - Invoice Finance and Rentals businesses.
I joined Close Brothers in 2002 after spending 17 years in both the mainstream and independent commercial finance markets, culminating in the sale of my business to Close Brothers.

This morning I want to talk to you specifically about how we have extended the model through technology and product development and targeted niche acquisition.
But first a quick look at the businesses in question.

Invoice Finance provides invoice finance and Asset Based Lending solutions (more of this later) in the UK, the Republic of Ireland and Germany.

Our Brewery Rentals business is the second largest owner of kegs and casks in the UK which it rents to the brewing industry providing repair maintenance and cleaning services. We have recently expanding into Germany and have written our first 3 deals with brewers.

Novitas Loans, our most recent acquisition, provides loans to customers using legal services specialising in family and civil litigation funding.

This morning I want to concentrate specifically on how we have extended the model in Invoice Finance – through technology and product evolution, in Novitas Loans – through niche acquisition.

Extending the model through Technology and product evolution.

Today our Invoice Finance business operates from 5 centers around the UK, Ireland and Germany. It provides invoice finance and Asset Based Lending solutions to clients in the UK and Ireland and factoring services to clients in Germany. Operating in a number of key sectors including recruitment, manufacturing, distribution, printing and engineering, the business has an average 'funds in use' of £360k to 1,300 clients. The loan book currently peaks at around £500 million each month and is continuing to grow.

Our Unique Service Propositions includes our market leading IDeal product (more of that in a moment) together with a high touch client relationship model. This drives high levels of retention, best indicator of repeat business in this market place, and results in average client life in excess of 5 years against an industry benchmark of 3. Local underwriting and client management provide "flexibility within a framework". Operational support is centralised and as a result our center of excellence performance measures outstrip our competitors' significantly with cash allocation, debt turn and systems performance metrics exceeding the competitions.

Our Invoice Finance business started in 1984, providing fully disclosed factoring facilities to SMEs. Later, as the industry evolved and demand for a more flexible product grew, we started offering invoice discounting. And these remain our two main product offerings today.
Invoice Finance is a highly specialist business that provides working capital facilities against a moving basket of receivables. Make no mistake, to be successful in this market you must be close to your client and have good visibility of the potential risk.

Recognising this, some years ago we invested in a systems project to design a proprietary technology solution that would provide an Invoice Finance product that would have the benefits of factoring risk controls, allowing the client access to a flexible funding solution, confidentially if required, and leaving us with the visibility and detailed understanding of the underlying receivables performance.

Today, IDeal is in its 9th full system iteration and is an industry leading invoice finance software product, with no direct comparatives, giving us the edge in the market and placing us ahead of the competition. IDeal's unique selling points include:

- It can be fully and seamlessly integrated with more than 250 types of accounting software. A capability that none of the other products in the market currently offer
- Funds can be accessed instantly once approved, meaning speed of service which as you can imagine is greatly valued by our customers
- It has an automatic reconciliation feature, meaning the business owner can get on with running their business

Combine this with a "best in breed" service proposition (Business MoneyFacts winner 5 years in a row) and you have a product, IDeal, that can help you command a premium price in a highly competitive environment.

Whilst we were extending the model through technology and system development the market continued to evolve towards an integrated Asset Based Lending solution. ABL involves providing a single funding solution secured against multiple assets including receivables, stock, property, plant and machinery and simple cash flow loans.

The chart you can see clearly shows how the growth in the market has been driven by larger transactions in the invoice finance and Asset Based Lending space. We are in a good position to continue to benefit from this demand.

Our approach is bespoke and is based on the specific requirements of the transaction and the structure of each client's business. Today, we have approximately 100 million lent to clients who enjoy an ABL solution however ABL at Close must be receivables led and only 7% of our loan book is secured against assets other than receivables.

To provide an example of how this would work in practice. The business in question is a second generation family business manufacturing and supplying beauty products predominantly to the UK market. The business operates from premises in London and Essex. We provide a £2 million ABL facility against the company's receivables and stock, together with a cash flow loan.

The ABL elements of our facility have increased our income by 57% whilst maintaining a healthy 19% return on equity. We have been able to negotiate 36 month agreement with a business considered very bankable in the market. There is no doubt that without our ABL suite of products we would have lost this business to a competitor within the last 24 months, probably their house banker.

Extending the model through acquisition.

Having looked at a number of similar businesses we completed on the acquisition of Novitas Loans in May 2017. This business fits well into the Close Brothers Model being specialist, niche, relationship based and generating excellent returns.

Lending is secured via a structure and in most cases insured, with an average lend per customer of less than £10k.

In simple terms we are focusing on 2 key markets:

Family – funding solicitor's fees for divorce and contested probate. The size of the prize here is clearly understood, legal precedent dictates likely outcomes and in most cases we are able to "After the Event" insure via a highly rated insurance company

Civil Litigation – providing disbursement funding for civil litigation claims. These can include - Clinical negligence, Personal injury or financial miss-selling. "After the Event" insurance is in place and our lending is restricted to 3rd party disbursements only.

The former MD remains with the business, working alongside a newly appointed MD, allowing the business to move smoothly forward.

This acquisition allows us to promote a dedicated law firm funding package that could include specialist personal lending to lawyers, premium finance for personal indemnity and other insurance funding as well as specialist advice and investment management from our Asset Management teams.

The outlook for these businesses remains very positive with continued growth expectations.

Our ability to operate in niche sectors where we can deploy market leading technology, whilst delivering local and high quality customer service, at a price, supports our business objectives perfectly and allows us to continue to extend the model into new products and new sectors.

Thank You and I will now pass you to Sharon.

**Sharon Bishop, CEO Premium Finance**

Thank you David and good morning.

My name is Sharon Bishop my background is 30 years in Financial Services and I have been with Close Brothers for 17 years. During this time I have held numerous roles including the Bank Chief Operating Officer. I became Chief Exec of Premium Finance in 2014.

Premium Finance is a fully intermediated business supporting insurance brokers. We provide a simple lending proposition that helps make insurance more affordable it allows customers to pay in instalments rather than through a single upfront payment.

We support both personal lines brokers, meaning motor and household for consumers, and commercial lines brokers, meaning instalment finance for insurance to SMEs.

Our brokers range in size from a small high street independent to a multinational such as Marsh. We fund everything from a £100 household policy to a multi-million pound construction policy. We serve over 2.2 million of our brokers' customers from our offices in Wimbledon where we have circa 350 staff.

Our business success comes off the back of our strong industry relationships; we are usually the sole provider to a broker.

Indeed these relationships last many years spanning several contract renewals. Our contract terms are usually three to five years giving us good predictability of future volumes and loan book. Our levels of repeat business stand at 75%.

Our business is resilient through the economic cycle, given our model is different from typical consumer lending. We have three layers of credit protection, namely, insurer, broker and customer.

The UK insurance market is around £34billion in size and is mature and stable, with slow growth over recent years.

Of this market, £13billion of premiums are funded through a variety of instalment arrangements, provided by a small number of competitors, such as ourselves, as well as brokers and insurers who chose to self-fund premium instalments.

We have a £3billion share of the £34billion market, which translates into a loan book of £0.9billion, reflecting the high-volume and short-tenor nature of this business.

There is little doubt that the growth in price comparison Websites such as “Compare the Market” or “Go Compare” in personal lines, has allowed and indeed required, the brokers to evolve and demonstrate success through their specialist capabilities.

Brokers offer a lower cost of distribution to insurers and therefore the personal lines broking market has stabilised in size.

C.25 – 35% of personal lines insurance in the UK is broker distributed.

Commercial lines are still dominated by broker distribution. Business insurance is much more complicated than simple car insurance so the online comparison for all but the simplest products is not an option. We don’t see this changing in the near future.

C. 80% of commercial lines insurance in the UK is broker distributed.

You can see the broker is important to the distribution of insurance and thus a strong market for us to operate within.

I talked earlier about the specialist and unique nature of the Premium Finance product and the three layers of protection being the insurer, the broker and the customer.

By insurer we mean that our Premium Finance proposition is predominantly supported by the refundability of the policy at cancellation. By broker I am referring to the recourse nature of our broker agreements which are particularly prevalent in personal lines. And finally, customers see their insurance premium payments as high priority, given the often mandatory nature of insurance and the peace of mind that insurance provides.

We are a highly differentiated business. Relationships lie at the core of our success. We rely on our brokers to write business. Building and sustaining these partnerships is a top priority.

As stated previously, our average broker relationship is 15 years and the majority are on a minimum 3 year contract. Close Brothers are usually the single provider of finance making the relationship more sticky.

Our people are true differentiators, they are experts in their field. We recruit from the insurance and banking industries to ensure our proposition is matched to the requirements of our brokers. The average tenure of a senior account manager in our business is over 10 years. We recognise that our brokers are experts in insurance and that we are experts in lending.

To this end we support our broker partners by the provision of specialist resources including finance sales trainers.

In a business that writes a loan every 3 seconds, investment in our proposition through technology is critical.
Being part of a strong bank allows us to invest for the long term. We are proud to be big enough to invest as well as being nimble enough to deliver technology improvements with due expedience for the benefits of our brokers and their customers.

So what has this technology investment given us in terms of differentiation? We are seamlessly integrated with the brokers' insurance sales process. We have also invested to support brokers in growing their businesses and improving their operational processes. We believe we have a distinctive proposition based on service, expertise and relationships that we've invested in and which has delivered strong growth.

It enables us to compete on more than price and ensures that we continue to deliver high quality returns.

Let's look briefly at where we have invested in our proposition.

So firstly Service, where we have focused on enhancing our technology and data proposition to our brokers.

Off the back of this focussed investment we have enjoyed significant broker wins and re-signed existing brokers, giving us clear visibility of our volumes over the near term.

In the last financial year we grew our loan book by 15%. New broker wins delivered half of that growth. The development of an online electronic signature process has supported brokers in completing the finance process more efficiently and reducing cost for them and for us.

Expertise is not just about our deep industry knowledge of insurance brokers but where we focus on efficiency and our operational process. This has included new contact centre technology, and implementation of automation throughout the customer journey.

The output of this focus has meant that to support our loan book growth of 15%, we have only increased headcount by 4%.

Our platform is scalable and allows us to approve a loan every 3 seconds for 2.2 million customers supporting around 2,000 brokers that we partner.

Through relationships we deliver strong returns and broker stickiness through being more than a 'me too' lender.

We invest in becoming true business partners. Examples of how we evidence this would be joint data science projects where we have used Close Brothers' "brain power" and broker data to help brokers enhance their front end pricing based around underwriter performance and customer lifetime value.

Projects not directly linked to the provision of premium finance but supporting our partners. Their growth in turn becomes our growth.

Let me bring this to life for you with a case study of a data project we ran jointly with one of our online motor insurance brokers. This particular broker writes much of their business from the price comparison websites, so by being able to predict customer behaviour they are able

to adjust their price based on a lifetime value of the customer. Clearly if they can be a few pounds cheaper they will rank higher on the comparison sites.

We partnered with a consultancy supported by our Head of Analytics from the bank to help the broker develop and deploy stronger pricing models supported by deeper analysis of the previous performance. The resulting models were able to predict and reduce cancellations, increase retention accuracy and more accurately predict lifetime value.

The broker was able to use this framework to reconsider its overall pricing strategy and recognising the strength of data science in predictive models, invest in that area.

Soon after the completion of this project we re-signed this high growth broker onto a new 3 year contract and are currently planning a joint refresh of the data analytics models

In summary, we know our market well and like the brokers, we have adapted our proposition. Our extensive investment in our business has ensured we are able to win new brokers, retain existing brokers and drive increased penetration.

The results speak for themselves. Strong growth in both profit and loan book in recent years, due to our distinctive proposition. In addition we have strong visibility of our short-term growth as we continue to embed some of our recent broker wins.

By sticking to our model, we will continue to write good quality, high margin business with future technology supporting further improvements in growth and operating efficiency.

Thank you and I will now hand over to James.

**James Broadhead, CEO Motor Finance**

Thank you Sharon and good morning. I am James Broadhead and the CEO of the Motor Finance business. I have been CEO for the last 7 years and with Close Brothers for nearly 20.

So what does the business do? Well firstly it does what it has always done for the last 30 years and that is offer point of sale finance through dealerships across the UK.

We finance cars, bikes and vans and predominantly through smaller dealers who value our local presence and service.

We tend to finance older cars and the advantages of this is that they have already taken a large amount of the lifetime deprecation. In the UK we don’t generally finance new cars, we don’t lend to the sub-prime market, we don’t do high end diesels, and we don’t do much PCP. And we don’t generally deal with the large, national dealer groups. And our underwriting is local, largely manual and very careful.

So our big difference and USP is that we have a branch network, and we are the only motor finance company to trade this way now.

We have 17 offices across the UK. This is really important and ensures we have strong dealer relationships serviced by local people. These local people are key to our proposition.

In 2011 we also entered the Republic of Ireland, where we saw an immediate growth opportunity after the financial crisis, by partnering with a local firm, First Auto Finance. Ireland now accounts for around 22% of our motor loan book. It is different to the UK in that

First Auto Finance own the distribution and dealer relationships. And we also have additional protection from bad debts through our contract with them.

This slide provides a bit more detail on what makes us different. Firstly, the type of dealers we work with. The dealer market is segmented into three sections. Large national dealer groups like Inchcape for example. These tend not to be our market, they tend to not meet our margin aspirations and prefer to deal with centralised operations.

There is then the mid-size nationals who tend to be the smaller franchised dealers and car supermarkets. In the UK we cover these types of dealers via our centralised Key Accounts Division in Doncaster. This tends to be very price sensitive business and our market share in this area tends to shift up and down depending on credit supply.

Then there are the small independents and these represent the majority of the core business. Our branch network allows us to service over 6,000 dealers in this area. These dealers value our high touch business model operated through the office network mentioned before. They require more support and guidance and therefore produce better margins as they are prepared to pay for this service.

On the right hand side of the slide you can see that the majority of our proposals are underwritten manually. This is really important and is one of our selling points. Understanding the dealer, then the vehicle and then the customers gives us the opportunity to really understand the deal and make the best decisions.

The dealer is really important in this process. Good dealers sell good cars that don’t break down so the owners are more likely to pay us.

Really understanding the vehicle is also crucial in our business. We know the difference between a Vauxhall Zafira and a Vauxhall Zafira.
Colour, spec and engine are really crucial, more crucial than mileage or age sometimes. We know that a metallic blue diesel Zafira with aircon is great news and worth £1k more than a solid blue petrol version with no aircon. We also know that a Zafira is one of the most repossessed cars. Something that no automated valuation can do.

This enables us to offer something that the centralised, credit score driven businesses can’t. It has also meant that we have had a consistent approach to lending throughout the cycle, something our dealers and customers appreciate. Our underwriting was the same in 2007 as it was in the crisis of 2009-10 and it is the same today.

So who are our customers? Well a typical customer is firstly a good credit risk. Our book is made up of prime customers. They work and are in full time employment. They tend to be in the low to middle income brackets probably around £30k per annum. Their car is an essential and the second biggest commitment behind their rent or mortgage. They are, overall, very convenience driven and loyal to local dealers.

We have completed a comprehensive exercise, more recently, to understand our customers. We need to make sure that we will be giving them what they want in the future to ensure we can service them through our dealer partners.

So that’s our customers. What about our dealers? As we have been looking at our investment plans for the future we have completed an exercise profiling our dealers into categories.
You will see on the slide the five types of dealers our business can be split into. To give you a flavour I thought I would talk you through a couple. We have named all the segments to

help our teams recognise them, but more importantly this profiling will allow us to service them better too.

So the first is Stable Expert. These are longstanding experts in the trade and are well known and well connected. They operate from small sites and tend to be one man operators. They sell good quality used cars to good quality customers but are time poor and really value the support we give them. They sell finance to sell the car and they want Close to make it really easy for them. They deliver a high margin for us and are very loyal. We really like these dealers.

The second is a slightly larger operation but still very much on one site and if you are lucky they have two people in the business. Informed Sellers. They are comfortable doing what they do, they are far more tech savvy then the Stable Expert, who would probably not have an IPad. They are eager to move with the times and value our support in helping them do this. Many of them take advantage of our funding and this helps them grow their business. They appreciate this and as they grow they are also loyal.

Here is one of our dealers. C. H. Render has been working with us for over 15 years now and is a small business with two directors. As you can see from the picture they specialise in older used cars but their stock is of excellent quality and they have extensive knowledge of what sells best in their area. Over the years we have developed a strong relationship with this dealer. They are very loyal to Close Brothers and only use us, with occasional use of a broker for any deals that are sub-prime. Because of our relationship we get a good margin and low bad debt and this is just the type of account we like.

So what products do we offer our customers? Well, our product portfolio is aligned to the market we are in and is quite simple.

Two products both secured on the vehicle.
Over 80% of our business is written on Hire Purchase and this is a simple finance option well proven in the market. The customer pays a deposit and then monthly payments down to a nil balance, and at the end of the term the vehicle is theirs. You will see that our typical LTV is low at 75-85%, our average term is one of the lowest in the industry and our average deposit is one of the highest.

And because of this you will see from the graph that the loan balance remains below the value of the vehicle for the duration of the loan.

Also because we lend on used cars, the steepest element of lifetime depreciation has already occurred. This is why we consider our products lower risk compared to the market.

This prudence is also seen in our PCP lending with guaranteed minimum future values no higher than 85% of future trade values, lower than the norm in the industry.

Only 14% of our loan book is PCP. This is significantly less than our competitors due to the fact that the type of dealers we focus on sell used cars of lower value. The benefit of a PCP product in terms of reduced monthly payments is much less significant on a £8k three year old Fiesta than on a new £40k BMW.

The majority of our PCP loans are for used cars, where the loan balance generally stays below the value of the vehicles as the first year's sharp depreciation has already been taken.

In the market as a whole, more than 80% of new cars are sold on PCP and 40% of used cars. So as you can see we are at considerably lower levels and PCP remains a very small proportion of the Bank's overall loan book.

So why do I feel our credit risk is prudent? We have a conservative underwriting model. Our branch based, manual underwriting process is completed by motor specialists with a detailed knowledge of the market and changing environments. They know which vehicles are hot news and which are cold and even the ones that are freezing.

A BMW 7 series is a problem child at the moment but a Porsche Macan is great news. Our underwriters have the ability to assess each deal to understand additional detail about the car or the customer. We can then craft a deal that works for both the customer and dealer.
Our underwriting is also very prudent, and in fact we reject around 45% of all loan applications in our UK business.

We also have a consistent risk appetite. As I said before, to my knowledge, we are the only motor finance company who didn't need to alter its risk appetite just after the crash and hasn't altered it since.

This is shown particularly in the graph on the bottom left. As you can see our Market Share ebbs and flows due to credit supply, as we hold our risk appetite and margin constant.

Pre credit crunch our share of our market was 5%, it then increased to 12% when the competitors retreated and car sales increased, but then in more recent times has moderated back to circa 6%. And the margin remained stable throughout this period. And as you can see, the UK motor book has reduced from 24% of the bank's overall book in 2013 to 19% last year.

We recognised an increasing demand for PCP in the market two years ago but we stayed true to our model by remaining strict to our risk appetite. And as you can see from the slide, our PCP customers are typically higher credit quality than HP.

Recently there has been a lot of focus on the risk to diesel prices, particularly for newer, high end cars in urban locations. Of course we do have diesel in our portfolio, which reflects the type of cars our customers drive. However, our manual underwriting gives us the flexibility to differentiate by car, by dealer, and avoid those models we know to be problematic.

And our focus on second hand cars protects us as these vehicles have taken the bulk of any depreciation already. We are further protected by our on conservative LTVs, and the fact that most of our loans are HP contracts.

With regards to our loan book in the Republic of Ireland, the arrangement with our partner gives us additional layers of protection.

We only write business that delivers the right margin and are known in the business for closing dealers if we aren't reaching that figure.

This all helps maintain low bad debt ratios and we are comfortable with our current levels. We have a number of early warning indicators, for example unemployment, and we are not seeing any movements in these currently.

We can't predict future market conditions, or the demand, or pricing of second hand cars. But we do know that our underwriting and the risk profile of our business remain well within our appetite. We are prudent.

This allows us to maintain profitability and produce stable net interest margins throughout the cycle. And it also gives us confidence that our bad debt remains manageable even in a stressed scenario.

So we are doing what we do, the way we always did. But not ignoring the changing regulations and customer expectations. We have completed extensive research in understanding our customers and dealers to know what we need to provide in the future.

A really blunt example of these changes is that 10 years ago customers would visit 5 dealerships twice before making a purchase. Now that average visit is just over one.

Some of our best dealer relationships don't have a high street presence they trade from a unit on an industrial park and only show customers cars by appointments.

Times have changed and continue to do so. We do feel that the dealer will still remain crucial in the process though as customers value their expertise in dealing with their old vehicle and sourcing their new one with minimal downtime for them.

Similar to what you just heard about our Premium Finance business and how they have invested and are really realising the benefits of this now we feel we should be doing this in Motor. We want to protect our existing business but also extend it.
This will involve improving both the dealers' interaction with us and the dealers' interaction with their customers.

This will involve enhancing the service proposition to the dealer and further investment in our front office and underwriting capability but all this still focusing on branch operations to deliver this. It is all about revitalising our core business, ensuring we protect the existing model but also build capability for the future

So to conclude on the Motor business. We have a differentiated business model with a local branch network and manual underwriting and this stands us in good stead and will remain our USP.

We have remained true to the Close Brothers model of not chasing volumes at the expenses of margin or credit quality and will continue to do this. And we are investing in the business to protect what we do and how we operate, to ensure we meet the demands in the longer term.

We are therefore well placed to take advantage of new opportunities as they arise and remain confident in the resilience of our business.

Thank you and I will now hand over to Frank.

**Frank Pennal, CEO Property Finance**

Good morning everyone. Before I talk you through the slides, I think it would help to give a little background to myself as it adds context to some of the points I make.

I have spent 32 years in specialist property finance, 20 of those years at Close Brothers and 12 years as Chief Executive Officer of the Property segment.

This slide provides you with an overview of the segment. The Property segment represents 24% of the Bank's loan book and comprises Close Brothers Property Finance and Commercial Acceptances. Property Finance was established about 35 years ago and has been a continuous lender to the residential property development market ever since, including through the recession of the early 90's and more recently the Credit Crunch. Commercial Acceptances was established in 1982 and acquired by Close Brothers in 2008; it similarly has lent through good and bad times.

The businesses are run as two separate brands targeting different niche areas of the property development market, but both share common characteristics.

Both businesses' core activity is residential development, the primary differentiator being that Property Finance funds new build development throughout the UK, whereas Commercial Acceptances funds conversion of existing stock, as well as bridging finance, principally within the boundaries of the M25.

Both have market leading positions within their specific areas of operation.

Both provide a similar high quality customer proposition based on market understanding and speed of delivery provided by highly specialist teams. Importantly, the businesses complement each other, with cross referrals a regular feature.

Our speed of decision making and a willingness to be flexible where appropriate, rather than box ticking helps build long-term trusted relationships, which is reflected in the high level of repeat business at around 75%.

Our average loan size is £1.2 million. This is due to the mix, with Commercial Acceptances at an average £400k for bridging finance and £700k for refurbishment projects, against £2.1 million for the average new build Property Finance development.

Loan tenor also varies, 6 to 12 months is the average for Commercial Acceptances and Property Finance is longer at between 12 to 18 months, a function of the larger development size entertained by Property Finance and the fact that it is funding new build whereas the majority of Commercial Acceptance loans are refurbishment projects.

We lend within conservative parameters, and aim to attract like-minded borrowers who see the sense in not over-stretching themselves in the knowledge that they are dealing with a Bank that has been and will be around for the long term and has a consistent appetite to lend.

We have a strong position in the sub £10 million development finance market, where we are the largest non-clearing bank lender by market share. De Montfort University research evidences that we have a 20% share of this niche by business origination, this puts us second overall.

The following two slides illustrate the types of development we are involved with.

This slide details developments we have financed in London & the South East for clients of both Close Brothers Property Finance, and Commercial Acceptances.

The top slide is for a longstanding branded developer who pretty much only borrows from Close Brothers Property Finance, and where we are financing typically between 3 and 6 developments at any one time.

The bottom picture involves a scheme financed by Commercial Acceptances. This is a "bread & butter" refurbishment for longstanding clients who only operate in the E17 post code area. We are lending up to £15m at any point in time against lower value stock such as this for this client, where the modus operendi is to refurb a property prior to sale or long term hold.

I mentioned that Commercial Acceptances also provides bridging finance (approximately 22% of its loan book); this is short-term, secured lending typically against property acquired

at auction where speed of finance delivery is critical and from a lending perspective the asset is key.

This slide illustrates some of the developments that Property Finance has lent against as part of its regional initiative. These two photos illustrate developments in the North West and Midlands, they are strongly indicative of the type of development that we are financing in the Regions being predominantly family housing across the value spectrum.

We also have strong representation in the North East, the South, and South West, as well as in the large Scottish Cities via our Edinburgh Office. The vast majority of the houses we finance fall below the Help to Buy value ceiling of £600k, which has facilitated buyer activity in the new homes market both at the first time buyer end and beyond.

The commencement of our regional lending initiative was well timed and is driving growth whilst the London and South East markets remain flat.

Whilst our core market remains London & the South East we have always promoted ourselves as a mainland UK lender and the balance of our loan book will vary dependant on where we see the market opportunity.

In 2014 we very deliberately determined to increase our exposure to Regions outside London & the South East (and Scotland where we have had an office since 2008) selectively targeting strong cities and market towns and established “branded” developers who, as the local economies started to improve, were not being properly looked after by their Clearing Banks. This has led to 40% of our Property development loans being outside London & the South East from a low of 27% in 2014 and we see this percentage increasing although it is unlikely to reach 50%.

Our underwriting criteria are core to the model. We only provide secured senior debt and so all of our developers have to put in their own equity to fund the initial stages of a project. And we only work with developers that have a proven track record, with several successfully completed developments under their belt.

We will always visit the site on which we are to lend and have gained a detailed understanding of the track record of the developer before taking a deal to Credit Committee. It is important to note that all loans of whatever size are approved at Credit Committee, there are no personal discretions.

A number of lenders are willing to lend at higher loan to value ratios, but this is not a market we play in. We are only willing to write business on our terms and with developers we want to work with.

Importantly, we have no exposure to buy-to-let or developments that are marketed solely to investors, nor do we provide mezzanine debt, and we avoid developments where planning is not in place at point of lend.

We are looking to support developers targeting owner occupiers, and the vast majority of our developments comprise of family housing as opposed to flats.

We unquestionably have the best team of people in the industry led by a senior directorate of four that collectively has in excess of 120 years continuous exposure to the niche markets in which we operate.

The period of reduced competition during the credit crisis resulted in strong growth with 16% loan book growth on average over the last five years.

We have good visibility of the near-term growth. Within Property Finance the pipeline of agreed but undrawn facilities totals £950 million and will draw over the next 12 to 18 months. We are also well positioned to deliver growth over the longer term.

In summary then, this is a market where our service and expertise really makes a difference and allows us to continue to grow our business throughout the economic cycle.

The two businesses are market leaders in their chosen niches. Property segment's strong track record is underpinned by disciplined lending and a service led proposition.

The strength and depth of our staff is critical to the proposition.

Our strategy is to maintain our market leading position but not compromise our approach.

Thank you. And I will now hand you over to Preben who will conclude the presentation.

**Preben Prebensen, Group Chief Executive Officer**

Thank you very much Frank, and indeed all of our speakers.

Hopefully we've shown you today how our distinctive and differentiated business model defines each of our businesses.

They all rely on the expertise and experience of our people from the point of client acquisition and underwriting through to collection. This underpins our confidence in the credit quality of our lending, and the strength of our client relationships.

We've also shown you how the specialisation and diversity of our businesses creates resilience in a range of market conditions, and also creates opportunity for growth and development.

We are prudent but we are also ambitious. And that ambition has driven our long track record of both profitability and growth through the cycle, over many years.

And we see significant opportunity to continue developing and growing our businesses both in existing and new markets.

While market conditions will clearly vary, we are well positioned to continue lending consistently and profitably, now and in the future.

Thank you all again for listening, and we'd now be happy to take any questions that you may have.

## Question and Answer Session

### Question 1: Ian Gordon, Investec

Can I just have two please, both on funding actually. In terms of the diversification of your products in the retail areas, do you see that primarily defensive or are you targeting that to dilute improvement in liability spreads within the retail bucket?
And then secondly, you are not particularly reliant on securitisation, but given the tightening of spreads in that space, especially for specialist lenders, do you have appetite to proportionately increase your use of that type of funding?

**Preben Prebensen**

I think actually Malcolm you might want to take those questions if you will, so I will invite Malcolm to address that.

**Answer: Malcolm Hook**

I think taking the first question, our strategy on retail deposits is really to grow out the product range and also as I said to offer a wider range of distribution. Now that I see as partly I think a catch-up to where we will see much of the competition. But I do see that as important for us is that we maintain that diversity of channels, both postal and online for our target audience.

And secondly to your point on securitisation, I don't see the share of funding taken out by different forms of asset backed funding changing particularly with regard to the size of the balance sheet. But clearly as you will have seen with the two recent public securitisations, we have begun to evolve that proposition and that has obviously developed a following with key investors.

### Question 2: Gary Greenwood, Shore Capital

I have got three related questions on car finance. Obviously we are hearing a lot at the moment about how car finance markets become more competitive. We see you are slowing your growth to reflect your discipline in that market. I am just trying to get a feel in what you are seeing just how poor the underwriting has got amongst other competitors out there?

And then sort of related to that we see the Bank of England doing its own review into the car finance industry at the moment, so what are your expectations of the sort of the conclusions they might come out with?

And then lastly, we have got first round currently in the process of taking over Aldermore, I think Motonovo competes pretty closely with where you are in the car finance market. So I am just wondering what you think the competitive impact of that transaction will be?

**Answer: Preben Prebensen**

Let me take the last one first. The first round acquisition of Motonovo is clearly logical from their perspective, but we don't really see that changing what Motonovo does. They have been a competitor of ours for many years. So I think that does not necessarily mean there is a change in strategy there. So I think that is probably for many other reasons than a direct auto lending reason.

In terms of poor underwriting elsewhere, I think we are loath to be drawn into what other people might be doing or not doing. I think the message we have for you is that we are very consistent in what we do and we are very conscious of the our underwriting and how we do that which James has gone into. At every point in the cycle like this, Banks do tend to drop their lending standards. It is a phenomena of the banking industry. I think what we are here to tell you today is that we are not like those banks and we don't do that.

And in terms of the Bank of England Review, we have been answering their questions about our business. We consider it relatively straight forward and we don't actually see a lot of very significant things coming out of that, but we clearly will continue to participate in any issues by either side actually of the regulatory framework.

**Question 3 : Portia Patel, Liberum**
I have got two please. First on premium finance which is obviously one of your higher growth areas. You mention the 15% net loan book growth was split evenly between broker wins and increased penetration. So I was just wondering if you think a similar level of growth through both of those two channels is repeatable in the coming year?

And second, on Novitas, I was wondering if you could just provide a bit more colour about the underwriting process? Whether the legal merits of a particular case are assessed by you or whether that is handled by the law firm?

**Preben Prebensen**
Okay, I might actually ask Adrian in the first instance to take those questions.

**Answer: Adrian Sainsbury**
So on the premium finance, the 15% is actually split 8% for new wins and the other bit is partly inflation we see in the market as well. So 4% premium inflation has come through with 3% then from the increased penetration we have seen.

Looking forward, what we talked about was the strength of the wins we have seen building on the investment which Sharon has talked about. And we see that as an opportunity going forward at the level we have talked about there.

And Novitas Underwriting. So fundamentally the major product is lending to the clients of law firms for divorce cases. That is the major product at the moment. We do an assessment of the wealth of both individuals and there is a commitment from the proceeds of the divorce to pay out the legal fees effectively. That is the prime case behind it. If one of the parties doesn't have sufficient assets on day one, we have the insurance that David talked about, that is a well rated insurer that covers the risk there. So the fundamental risk is really the insurance policy or the joint assets of the counterparty. It has got a very low default rate and a very low bank history as well.

**Question 4 : Vivek Raja, Canaccord**
I have got a few questions please. The first one is about the property business. So I am just thinking about how you fared in the last downturn and how you may have changed your underwriting standards or how the business mix has changed just with a view to what we can infer in terms of potential bad debt experience if we do go through another downturn? How you have changed the way you lend?

Next question on the property business again. I asked you this at the recent results, but I just wondered whether given funding costs could start going up and obviously the increases to capital you have to commit to that business following changing risk rates, whether you think there is scope to raise asset yields there? And particularly that question within the context of competition. So have you seen competition depart from your space in the market, following the change in risk rates?

And then the last question was broadly on IRB, I appreciate it is early days, but I just wondered which segments would you expect to get the most capital benefit promoted to IRB? Thank you.

**Answer: Preben Prebensen**
I will take the IRB one and I think I will disappoint you. It is very early in the process and we are not going to put hostages out there in terms of where we see the benefits. I think the point that Adrian and Mike have both made in this area is really true. Clearly the use of broad averages in the standardised process mapped against a specialised lending book with a long track record would suggest there would be areas where we could get a benefit from going towards a model approach. Also clearly we have the increase in property risk weightings from 100% to 150% as a result of the application of a European average to our specific book. So there are places where logic would suggest that having our book mapped against what we do and what we have done will produce some benefits. But it is really early in the process. We are encouraged by the fact that PRA is welcoming banks like us to enter into this. And we are encouraged by the resources they are putting behind that. And we will come to you and give you the milestones as they appear in terms of that process. But it really doesn't make sense for us to be trying to guess where we come out.

You asked two other questions on property. What is different now between the way we did underwrite which led to bad debt levels in the last recession and what we do today. There are some differences. We did tighten some things since 2009. An example that Frank gave was about pre-planning. So we actually avoid that now. I think the other would be that we leant into some locations that we would probably avoid now. So there are a few. We actually did what we do very well back then too. So you know I think it is not something to exaggerate, but if anything, if we were pressed, we would be more confident about the outlook for the kind of stress outcomes this time than last.

And finally the competitive impact of the change in risk weightings and whether we will change our prices, where other people are leaving. And I remember your question at the Results Presentation. We made a point of going out publically and saying we would not change our prices as a result of that change in risk weightings. That is entirely consistent with the way that we do things. So we establish our underwriting criteria. We establish our return criteria. We are not looking to be opportunistic, we are looking to be consistent.

And in terms of the competitive dynamic, Frank, I don't think that it has changed, there is lots of competition out there and I don't think we are seeing people retreating as a result of that change in risk weighting?

**Answer: Frank Pennal**
I think that is absolutely right. It has been very competitive for our commercial acceptances businesses for some considerable time and it is quite a transient nature that business because the returns are quite high. You see players come and go, but it is always very, very competitive. We have managed to grow our book in that context on the back of the service driven proposition and hold our position even though our underwriting criteria is quite strict in comparison to most of the other lenders in that marketplace. So again it is about the ability to deliver money quickly, understanding the market and commercial acceptances only really operate in the Greater London area, all their lendings within the M25. They know one side of the street from another side of the street. So that value proposition feeds through to the client and they take confidence in who they are borrowing money from.

On the property finance side, I think we were amongst the first to get out into the regions. 2013/2014, very deliberate approach. The clearing banks aren't there in any real sense and the people we are picking up are predominantly people who have been let down by the clearing banks over time. So we have been able to grow successfully in the regions strongly from that point.

**Question 5 : John Cronin, Goodbody**
Thank you for the Presentation. Just two questions. One in relation to the asset finance market conditions. And I appreciate you are not keen to speak about what competitors are doing in the market, but you did mention that there is a lot more competition. Do you see that as a structural change in the competitive landscape or perhaps a lack of discipline amongst some of the operators? So how do you see that play out in terms of the competitive dynamics on a medium term feel I guess is the question?

Secondly in relation to the Motor Finance Business, can you see anything specifically in broad terms around growth prospects, given your bias towards used car finance in both the Irish and UK markets given the preponderance of PCP financing in recent years? Thank you.

**Answer: Preben Prebensen**
Let me address the asset finance one and then Adrian you might take the motor finance one which I think was in several parts actually both with respect to UK and Ireland, but also the impact of us having a low PCP content given the high PCP content elsewhere, I think that was really where you were going.

But on the asset finance side, we always ask ourselves whether competitive dynamics and changes in supply and demand are structural or cyclical, it is a constant question actually because we are looking to respond and invest to stay at the head of our game. And my view would be that in asset finance this is much more cyclical than it is structural. We have been through several cycles and when you are in a period when credit becomes very tight, banks leave the field, there are new entrants. There are always new entrants. And that happened this time, it happened the time before that and the time before that. And it is much more a question of them appearing using the broker channel to be able to put credit to work to the SME sector and that continues to be the case until it isn't because the cycle turns again. So the identity of them may change, but the nature of why they appear and what they do doesn't really change. So I think that is familiar as opposed to unfamiliar to us.

Adrian do you want to talk about the motor side?

**Answer: Adrian Sainsbury**
So on the motor book, our loan book last year grew by 3% and the faster elements of the growth was in the Irish market and you will have seen from the start point we had in 2011 that business has accreted quite significantly. The growth in Ireland is moderating somewhat as well. In the UK, James very clearly explained that we will stick to our model. So the market share went from 5% before the crisis to 12% after the crisis and is back at 6%. We will not change our criteria on how that goes. You may have seen in the market there has been talk about new car sales having dropped significantly this year, 7 months in a row, but used cars are still at the same level as the prior year. So we are confident in our position and we will stick to the model that we have.

**Question 6 : Arun Melmane, Macquarie**
I just have a couple on sort of different sections of the Presentation. One is on cost. I think you talk a lot about investing in different platforms and refreshing certain things. Is this baked into the 50% guidance or are you looking at something else in the near term?

**Preben Prebensen**
The 50% cost/income guidance?

**Question: Arun Melmane, Macquarie**
Cost income guidance, yes exactly. And that also pans to IRB, I expect you are in the early process, but as people have spent millions trying to do something on IRB, I wondered whether that again is baked into that cost number? That is the first one

The second one is on the asset finance business in Germany. When you are looking at German banks they don't have a good RoE. I don't expect you to have an advantage in terms of cost/income ratio so what is your differentiating advantage there, especially in the smaller SMEs which is a very competitive market? Is the RoE equal to what the Group hurdle is?

The third one is on property probably. The regional exposure increase. How do you think about Brexit risks and the direct impact of property prices in regions in the next one or two years?

And lastly on PCP, slightly counter intuitive. I mean I thought when you look at second hand PCPs, most of it is depreciated. You are writing better quality credits in terms of PCPs in terms of credit ratings, why don't you do more PCP than hire purchase? Thank you.

**Answer: Preben Prebensen**
Okay, let me do a couple of those and then I might ask some other people to jump in. Your first question actually, whether or not our 50% long-term guidance on cost:income is something we are happy with? And the answer is yes. We have observed that over many, many years actually and through several cycles and it does tend to gravitate around that 50% number. It has been lower for a number of years, you would expect that given the performance more recently. And if you go way back, it has been slightly higher than 50% but not very much. So that is pretty straight forward.

IRB is taking a lot of effort and it is costing money, no question. And yet we think it is absolutely the right thing to do for the reasons that I spoke about earlier. For us to move to a place where we are measured on what we do and how we do it over time as opposed to based on European averages has to make sense. It is expensive, but it is not material in the context of the bank overall so it would certainly not affect our long-term guidance on the 50% cost:income.

Germany. This one I think I will also take because it is easy and then I will pass on some others. So you asked about whether we can write business, asset finance business in Germany at our return criteria given how competitive that market is? And why would we be different? Can we reach our RoE targets? Well we really think so. Actually one of the things which is interesting is if you asked a bunch of German banks whether they thought that in the UK, given the competitive nature of the landscape you could have a bank that has our criteria in terms of underwriting our long-term growth rate and our returns, they would say it is absolutely not possible to do.

More specifically we think that there is a market opportunity for refinancing, for second hand equipment in asset categories that we understand. We tested that with some brokers, we have hired some sales people and we have actually written some business. We are going to take this slowly and carefully which is the way that we do things. But the deals that we have written, the few that we have written are absolutely at our return criteria. We would not do it otherwise. But it is all about actually whether or not German SMEs are being served. If they want to re-fi, or they want to refinance a mix of new and second hand equipment. And the distribution channel can be done through brokers that had historically been served by leasing companies that are less able to do that now. And our perspective on the big German banks is that they are not that interested in this very small re-fi asset intensive business, quite similar to some of the characteristics that lead to our success here. Again we will do it slowly and carefully, but we think that there is a real opportunity there.

So your next questions, an easy one on property. The regional initiative in our view does not increase our Brexit risk, quite the reverse actually. So we are doing new house build

financing in areas where there is a structural demand and shortage of best product at price points on average of £500,000 are not primarily affected by Brexit. Obviously affected by long-term UK economic performance, but not initially or primarily affected by Brexit. We actually think it is a diversification if you like, if anything.

And the final one, Adrian I might give you, which is in terms of PCP why do we only do this much if we can do it and underwrite it conservatively and well and why wouldn't we do more, which is a good question?

**Answer: Adrian Sainsbury**
So as James explained, it is the relationship we have with our dealers and ultimately the product they think is best for the customer and the customer wants. So that is the key driver and that is what has led us to where we are today with the 81% in HP and 14% in PCP. We don't have a cap on the PCP in any way, but I don't see it changing dramatically because it is driven by customer behaviour ultimately and broker behaviour as well as meeting our very tight credit criteria.

**Preben Prebensen**
So we would actually do a bit more if it made sense to our dealers and our return and risk criteria.

**Question 7 : Toni Dang, Barclays**
Three questions from me please. My first question has already been partially answered, but it is on Germany. And what I am trying to understand is what was the appeal of Germany for you and whether you looked at any other countries and what made Germany win out in terms of the size of opportunity etc?

My second question is on the consumer point of sale initiative. Last year in your Seminar you had a section on this, but not this year. So I was just wondering if you could give us a brief update on the progress there and whether that is still something you are looking to grow out?

And my third question is just a quick one on property. You mentioned that you think you are second in the market for the particular niche. Would you be able to disclose who were the first and third players? Thank you.

**Answer: Preben Prebensen**
They are clearing banks, but we won't say which ones. But I think Frank said that the clearers are active, but that we have a strong position in this sub-£10 million loan or lend market niche.

On your other two questions. So again I will take one and then I will give one to Adrian. You had a question on Germany, its appeal to us and why we chose it as opposed to going anywhere else? And then you had a question on the consumer point of sale which we talked about last time but not this time and why might that be?

On Germany, again we have partially answered this already, but there was no great kind of boiling of the ocean to see where we ought to go outside the UK. Ireland was very obvious to us because there was a real credit shock and very little supply of credit post crisis. We waited a couple of years but importantly what we did was we followed each of our business lines into Ireland as opposed to having an Irish strategy. With the exception of property. We didn't take property into Ireland, but we did motor and premium and asset and invoice and so on. But very much following the business lines in. And now in aggregate Ireland is 10% of the loan book.

In Germany it is actually similar. So we had a very specific opportunity because of our Brewery rentals business to actually follow the manufacturer in and get some introductions. Interestingly they don't lease kegs in Germany, it is not part of what they do, but capital is the same everywhere and managing capital well is the same everywhere. So together with the manufacturer who could make those introductions, we could actually follow that in.

In asset finance it is very specific, we think that there is a very specific opportunity for refinancing and for second hand equipment and that is what we are going to follow in. So we don't have a Germany strategy, that isn't how we do things. We actually have very specific niche strategies, we will follow those in and exploit them carefully. So again don't get to excited, but we do think there are some very specific opportunities for us.

Do you want to handle the retail point of sale?

**Answer: Adrian Sainsbury**
One last point on Germany, we have also been able to use some of the infrastructure we have on the invoice finance business as well to help with the launch.

On retail point of sale, the book is approaching 1% of the loan book, so that is the update. We have a good pipeline and have signed some good national and also regional retailers and smaller retailers as well. We have taken the same cautious approach that we do elsewhere and it is a business we are satisfied with today. We haven't provided an update because some of the other things have significant growth opportunities that we talked about.

**<u>Question 8 : Thomas Moore, Standard Life Investments</u>**
Thanks, Thomas Moore from Standard Life Investments. Yes so Preben on the incentives, the way you incentivise your people has helped to support your returns through the cycle. But I wondered at the moment for example with Sharon's division growing quite rapidly, which is great, as is James' division growing more slowly which seems sensible at this point in the cycle. How do you keep James incentivised and motivated vis-à-vis Sharon?

**Answer: Preben Prebensen**
So it is actually, it is a very good question. And I think it speaks to this issue of retaining these very specialist sales people and other functions in these markets at a point in the cycle where it is absolutely logical for us to do what we do as a bank, but we have individuals that originate business and are experts and they have to turn business away at this point because it doesn't meet our return criteria and other people are willing to do it for less and so on.

I think that the best way to answer is to give you a sense that we really do value their expertise, and that has come through a lot today, but it makes a huge difference to specialists that you really value their expertise. It is the bedrock of what we do, and that differentiation we celebrate all the time. And there is a lot to that. We also give them a lot of authority, that is quite differentiated here and they are local, they have the pen, they can make decisions and we make fast decisions and that provides an environment which they like being in.

We talked about being very consistently committed to markets and that is important for them to. And I think if you talked to Frank about his specialists and his experts, the fact that we stood by them when the cycle was very different or we were at a very different point in terms of bad debts, that comes through. And so the fact that you can be here for a long time and wherever we are in the cycle, we are committed to what you do, helps.

We ensure that our pay is competitive, we have to. We have a lot of experts, they are interesting to people that come into markets. But they have to come into markets wanting

those experts as opposed to relying on broker channels and things like that. So there aren't that many places where you can do things the way we do things, but we do look after them and make sure our pay is competitive.

And finally, and this is actually a big point for us. We often talk, and I think Sharon mentioned this, about being big enough and small enough. Big enough to have resources, small enough to get things done. And as we come across processes which are people think, are awkward or can be improved, we make sure that we listen and we change them quickly if we agree. And actually in our Risk Committees now we have an Agenda item which is, anyone can put anything forward where they think the process is kind of disproportionately burdensome, and we will look at it and we will change it.

And so those are all the things that make this a place where those specialists would like to be.

**Question 9 : Shailesh Raikundlia, Panmure Gordon**

I just have one question. It is basically on what you feel the returns potential of the business is? You go on slide 13 where you have the return on net loan book which has been fairly consistent around 3.5% or so going over the last few years. I am just trying to understand given the fact that your targets are not really based on significantly improving the return on equity going forward, how should we see sort of the returns potential of the banking business in the future? Is it pretty consistent with constant loan growth coming through and same sort of return on a higher equity base? Or are we expecting some sort of improvement in returns there as well?

**Answer: Preben Prebensen**

I think we have to be clear about the levers we target and the ones that we don't. So we have spoken about the fact that targeting our net interest margin is important to us. And we set our return criteria in terms of the kinds of net interest margins that we would like to get. So that is important. If you look at what then happens before you come down to net returns, our cost of funding – diversification is an important part of that. We do however borrow longer than we lend and so there is a structural element to that, but within that context by diversifying, investing, by being able to attract different kinds of deposits we will do as much as we can to minimise our cost of funding within the model.

And then the final big piece is bad debts. And bad debts, again, is not something you can target, you do it by underwriting well.

So those are all things that are constants for us. What they produce over time is a high RoE. Now the absolute level of that RoE will ebb and flow slightly with where we are in the cycle, but it is demonstrably a high RoE. That is what we want and the reason we want it so importantly is it allows us to do two things. One is invest through the cycle, that is very unusual, very unusual. Most people stop and start investment programmes and they become much more expensive and to some extent slightly chaotic as a result.

And the second thing is dividends. So it is important to us that we maintain and grow our dividend and we are not unique, because that is a very dangerous word, someone always comes up with an example as soon as you say that. But we are distinctive in not having cut our dividend since we have been a public company. So what we really fundamentally look at is being supremely rational about what we do so we continue to invest through the cycle so we can continue to pay that dividend to our shareholders. And in order to do that what we effectively think of ourselves as is kind of agnostic to the cycle. So if you have the discipline to do what you do irrespective of external events, you are obviously affected by them, but irrespective of extraneous factors, then you can really outperform in those two things.

Consistent investment and consistent dividends. And we have shown we can do that for over 30 years in the Bank and I would suggest that we are hell bent on continuing to do that.

**Question 10: Martin Williams, KBW**

Hi, it's Martin Williams from KBW. I have got two short questions, one follow-up on the motor finance. If you could talk a little bit about the back drop on voluntary terminations?

And secondly, appreciating that you don't want to be drawn on who is being competitive in certain business lines, I wonder if you could talk in more general terms whether you think the influences from cheap Bank of England funding and whether you see that position having material impact on the change in the competitive backdrop?

**Answer: Preben Prebensen**

Let me do the second and then I will ask Adrian to do the first on voluntary terminations or VTs.

Cheap Bank of England funding had a specific purpose in mind. Clearly it looks like we are coming to the end of that or towards the end of that. I think one point I would like to make is actually we don't use it very much, I think it is less than 5% of our funding. So it is going to have very little impact on us as it winds down. Other competitors of ours have used it very extensively, in some cases because it was easier for them to use it. It was a lot easier in the early days if you had a mortgage book than it was if you had a specialist asset finance book or motor finance book or premium finance book. So it was partly that, but we like diversification, we have never relied on it very much. I think other people who have to move away from it their cost of funds at the margin will increase, that is no bad thing for us, but that is all I think we should say on that point.

On voluntary terminations, Adrian do you want to make a comment on that?

**Answer: Adrian Sainsbury**

We are not seeing a big uptick in voluntary terminations. If there is a dramatic change in the consumer environment there obviously could be a correlating move in voluntary terminations. And we would go back to James' slide, the hire purchase slide where 81% of our business is HP, so on voluntary termination, our cars are much likely to have a surplus security position relative to the market. Similar on PCP, where the depreciation largely happens in the first year, more on the HP as well, our cars are more likely to have a security margin at that time. We are not seeing an uptick in VTs though.

**Question 11: Arun Melmane, Macquarie**

Can I just do two more, one on funding. The move to retail funding obviously has an advantage in terms of funding costs, but at the expense of duration. How should we be thinking about your managing funding longer and lending shorter? Are you going to change the scope of that duration materially or not?

The second one is on premium finance. On the face of it, it looks like a business that has very low risks attributed to it given the three lines of defence. Why are you not seeing more people do the same thing there and what is the risk involved in that business in terms of banking? Thank you.

**Answer: Preben Prebensen**

On the retail funding cost versus duration, I think we talked about our model and that we borrow longer than we lend. Currently that is 21 versus 14 months. That hasn't changed very much for quite a long time and we have used some metrics to demonstrate that. It was clearly important in 2008/9 where we were able to move away from a dependence on committed bank funding into other markets because we had time and that is the point about

it. The diversification is a good point, but it also gives us time to absorb shocks to the market and allow us to move our funding.

So I think it is very unlikely that you will see a material change to that model. We might tweak it a bit but I think it is unlikely you will see a material change to that model.

On the premium finance side, in terms of new entrants, the barriers are quite significant in terms of systems investment. And that is one of the things that is helpful to us. And I think the other barrier that Sharon explained is that we have long-term contracts with our brokers and they don't change providers very often. That is true for us, that is true for the other players that are in that market. And so that provides another barrier to a new entrant there. So you are facing both a significant systems investment as well as basically competition that has the brokers on medium term contracts.
You asked about the risks in the business, the kind of levels of our risk protection. What was your specific question there?

**Question 12: Arun Melmane, Macquarie**
In respect of the bad debts, if you write off anything it would largely be the interest attributed to the contract so am I right in thinking that or is there any other risks in terms of bad debt in that business?

**Answer: Preben Prebensen**
So generally the bad debts in that business, in the last crisis tracked slightly lower than the overall bad debts of the bank, that is true. Every now and then we have an insurance company that fails, that happens. And so that can cause an issue for us. But otherwise it would predominantly be if people stopped paying and we work through then the various levels of support that we have, as Sharon outlined.

Other questions?

I think that wraps it up. Thank you very much indeed and we are very happy to spend some time with you over a cup of coffee and would welcome any further discussion. Thank you.

**End of Q&A**