Close Brothers Group

Tuesday 23rd September 2014, 09:30am BST

Preliminary Results

Preben Prebensen, Chief Executive

Good morning and welcome to the presentation of the 2014 Preliminary results.

As usual, Jonathan will take you through the group's financial performance and I'll provide an update on our businesses and the future opportunities we see for each of them.

After the formal presentation we will be available to take any questions.

Before I hand over to Jonathan, I'd like to share the highlights of this year's results with you.

I am delighted to announce operating profit growth of 20% to £201m with all three divisions contributing to the excellent performance. As a result, adjusted earnings per share have improved by 25% to 104 pence.

Importantly, we are delivering increasing returns while maintaining our high quality balance sheet and strong capital position. The Group's equity tier one capital ratio remains strong at 13.1%, while the Group's return on equity is now 18%.

Due to this strong performance, we have been able to announce a 10% increase in the final dividend to 32.5 pence.

Overall, we remain well positioned with growth opportunities in each of our businesses, as I'll discuss later on.

I'll now hand over to Jonathan.

Jonathan Howell, Finance Director

Good morning everyone and thank you Preben. I'll now take you through our performance for the year.

We have delivered another strong performance which is our fifth consecutive year of profit growth.

Overall, adjusted operating profit increased 20% to £201m, with growth across all three divisions.

The good performance in the Banking division has continued, with improved loan book growth of 14%, and a further reduction in bad debts. This led to an increase in profit of some £23m, to £182m.

Securities' profits were up 30% at £34m. Trading conditions improved, particularly for Winterflood, where profits increased nearly 60% to £27m. And Asset Management increased its profits to £10m as the division benefitted from improved net inflows and operating leverage. Lastly, Group net expenses increased by £3m to £24m.

Turning now to the income statement in more detail.

Overall income for the year increased 13% to £659m. This reflects the good growth in the Banking division as well as the improvement in Winterflood's performance.

The expense/income ratio has remained stable at 63%, as operating expenses grew 14% to £415m. We have continued to invest in the Banking division and staff costs have increased in both Banking and Securities reflecting growth and improved performance. Asset Management costs have remained stable.

Despite grown in the loan book, bad debt charges have continued to improve and were £44m for the year. Overall, adjusted operating profit is up 20% to £201m, while adjusted earnings per share increased by 25% to 104 pence.

And finally, we've increased the full year dividend by 10% to 49 pence, whilst continuing to rebuild our dividend cover.

The Group has a simple and transparent balance sheet and we've maintained its high quality during the year.

Total assets have increased 13% to £7.7 billion, and relate mainly to the lending activities in our Banking division. At the year end, our loan book and treasury assets accounted for 85% of the Group's total assets.

The loan book increased 14% to £5.3 billion, and treasury assets increased to £1.2 billion due to funding raised in the fourth quarter. This is a strong liquidity position that remains well ahead of regulatory requirements.

Securities assets, which include short term settlement balances and trading positions, were slightly higher at over £600m. This is due to increased trading activity immediately preceding the balance sheet date.

These assets are largely offset by trading balances on the liability side, and the net position was unchanged at around £100m.

We've maintained our strong funding position with a continued focus on diversity and maturity of our funding sources. In the last year, total funding increased by £850m to £7.1 billion, covering 135% of the loan book at the balance sheet date.

Term funding, with a residual maturity over one year, has increased to £3.7 billion. This is a prudent position covering 70% of the loan book. And the average maturity of this term funding at 30 months remains substantially longer than the loan book at just 14 months. We match our funding with our lending and therefore do not currently expect to be materially impacted by rising interest rates.

Our capital position remains strong, and despite the good loan book growth in the year, we've maintained a common equity tier 1 ratio of 13.1%. This ratio remains comfortably ahead of regulatory requirements and the impact of CRD 4 has been broadly neutral overall.

Our capital position is supported by our leverage ratio, which stood at 9.2% at the year end. This is a transparent measure which is not affected by risk weightings.

Overall, we remain focused on holding a strong level of capital and we will continue to manage our capital resources carefully.

Turning now to the Banking division, which delivered another strong result. Total income increased 13% to £447m, driven by continued good loan book growth across the lending businesses.

Costs were £221m, and this is an increase of 18%, which was principally driven by volume related growth in line with the increase in the loan book. In addition, we continue to invest for long-term growth.

Overall, the division's profit increased by 15% to £182m. Our specialist lending model continues to deliver both good growth and strong returns, and the division's RoE is now 25%.

The loan book increased 14% to £5.3 billion, with good growth across all of the businesses. The retail loan book was up 10% to £2.1 billion, reflecting strong demand in motor finance from existing dealerships.

Commercial increased 11% to £2 billion, with good new business volumes in asset finance and new clients in invoice finance.

In Property, we've seen strong growth in the year from existing customers. The property book increased 29% to £1.2 billion whilst remaining high quality.

We remain focused on generating strong overall returns in the division through the consistent discipline we apply to our lending.

The net interest margin reduced slightly to 8.6% due to a reduction in default fees and a change in mix.

The bad debt ratio continued to reduce, reflecting the good credit environment, and it's now at 0.9%. As a result, the return on net loan book increased in the year to 3.7%.

In the Securities division, performance improved, largely due to higher margin trading and increased volumes at Winterflood.

Overall, adjusted operating profit increased 30% to £34m. Winterflood was the main driver of the performance, with improved trading conditions supporting a £10m increase in profit to £27m.

Seydler delivered £7m profit, down slightly as improved trading volumes were offset by a modest decline in capital markets fees.

Overall, the division's return on equity improved to 26%.

Winterflood's performance improved in the year due to stronger tradition conditions, particularly on AIM.

Reflecting this, income per bargain increased to £6.80. This is up slightly on 2013 as increased trading in higher margin AIM stocks was offset by stronger volumes in international equities, which are lower margin.

Average bargains per day also improved to 56,000, up from 47,000, as trading by retail investors increased.

Overall, income was up nearly 30% to £96m.

Winterflood continued to benefit from its variable cost structure. Costs increased 20%, reflecting the increased trading activity. As a result, profit increased by some 60% to £27m.

Now turning to Asset Management where, building on last year's momentum, profits have increased to £10m. Reflecting growth from both our advised and managed propositions, income increased 8% to £84m.

We also achieved good operating leverage as the division builds scale, and in the year, we held costs stable at £75m.

The division's operating margin increased to 12% in the year, whilst its RoE improved to 25%.

AuM increased 7%, principally driven by improved net inflows and supported by positive market movements.

Total inflows were £1.3 billion, up 9% over the last year, as we benefitted from a growing distribution network and strong demand from third party IFAs.

Outflows in the normal course of business reduced to £0.9 billion. And, as a result, overall net flows improved to £400m, or 5% of opening AuM. Together with positive market movements of £200m, total AuM increased to 9.7 billion.

Now looking at the components of AuM.

Total managed assets increased 12% to £6.9 billion, reflecting strong IFA sales and good inflows into our High Net Worth business. Total advised assets increased 2% to £5.2 billion.

However, assets which are both advised and managed increased 9% to £2.4 billion as we continue to move new and existing clients into our integrated proposition. As a result, the revenue margin improved slightly to 89 basis points.

So all in all, this has been another good year for the Group.

Thank you very much, and I'll hand back to Preben.

Preben Prebensen

Thank you, Jonathan. As you've just heard, 2014 was a year of continued growth. The strong results we're announcing today are the result of the strategic priorities, discipline and values that define Close Brothers.

It's now just over five years since the current management team came together to lead the Group. We outlined a strategy to position Close Brothers as a group focusing on its expertise and strong relationships, underpinned by a prudent approach to funding and capital. By being there for our customers in all market conditions, we generate good returns through the economic cycle.

As the graphs on the right hand side of this slide demonstrate, the Group has made tremendous progress. Since 2010, profits have increased at 15% compounded. Our lending to small businesses and individuals is now over £5 billion.

Winterflood continued to trade profitability through the difficult market conditions in 2012 and 2013 while maintaining the largest stock market coverage of any market maker.

Our Asset Management business was restructured into a private client wealth manager and returned to profitability in the timeframe that we set out to shareholders.

Importantly, all of this investment and growth has taken place while maintaining a consistently strong capital position and increasing dividends.

The Group's success is driven by the strength of our banking, market making and wealth management businesses. Each is positioned to be a specialist in its own niche markets, differentiated by our conservative approach and disciplined focus on returns. It's the combination of these businesses, as well as the long-term relationships we develop with our clients, and the diversity and strength of our financial position that's created such a strong financial services group.

I'd now like to talk you through our values and approach to doing business in more detail.

We describe Close Brothers as a modern merchant bank. For us, this is about meeting the financial needs of our clients today while applying the traditional values of the past. Modern merchant banking aligns our businesses' values of service, experience and relationships. It positions us as a group that encourages innovation and supports enterprise, while staying true to our traditional values of prudence and integrity. We think our values are compelling differentiators. They have ensured that we have remained measured in our approach because we stick to them irrespective of changes in the economy, market trends or the competitive landscape.

For example in Property, we have had relationships with some of our house builders for almost 30 years. In the midst of the financial crisis in 2009, we remained open for business, continuing to write new loans under the same, consistent terms as before. This reliability creates significant customer loyalty and 65% of our business is written to existing customers.

As an example, we began lending to one developer in 2009 when their existing lenders reduced their property exposure; to date we have funded 16 projects with this customer. Our long-term relationships combined with our strong industry experience give us the confidence to be able to increase our lending when others do not.

We need to invest to ensure that we have the capacity to support our high touch model, as well as manage risks and deliver long-term growth for shareholders. We have the resources to undertake large scale investment programmes, but are small enough to implement them effectively. Therefore by investing in a number of key areas we can maintain and build our competitive advantage.

Our first priority is people. As each of our businesses operates in niche markets tomorrow's revenue generators need to be trained internally. We are making good progress in a number of areas, one of which is the launch of a sales academy in the Bank's Commercial division to recruit and develop front line staff.

Secondly, regulation. Importantly, we think we are well placed to respond to regulatory reform. Our group structure is simple, we provide straightforward and transparent products tailored to our clients' needs. But, regulatory reform is an increasing burden and resource intensive. We have expanded our Risk and Compliance functions, as well as enhancing our systems and processes. It's an area we continue to invest in and a risk we will always work hard to mitigate.

Finally, our third investment priority is technology. We've highlighted in the last few presentations that we're investing significant resources in our IT infrastructure and frontend technology. This investment is ongoing, we are upgrading systems in Property and Treasury, as well as programmes to enhance the customer experience such as the new best practice advice process in Asset Management.

Now moving onto Banking in more detail. Our lending model will be very familiar to those of you who know the Group well, but I'll provide a quick recap.

First and foremost, our model is built on developing long-term customer relationships. We do this through our local network of 45 regional offices, recognising that every customer has particular needs, with specialist teams who are able to devise flexible solutions and make fast decisions.

We often get asked how we maintain our lending model without compromising our returns. I think the following case study is a useful illustration of how our speed and expertise builds long-term relationships. We helped an engineering company with the financing to buy a piece of equipment they urgently needed to reduce their dependence on a third party supplier. Within four hours we'd agreed to the financing and the customer was able to buy the equipment that day. For our customers our fast and flexible service is incredibly valuable. Our lending model is not easily replicated and we're confident that it remains as relevant now as ever.

In the last 12 months we've seen levels of competition start to increase. However the total supply of credit in our specialist markets still remains below pre-crisis levels and is being offset by an improvement in demand. Our motor finance business in particular has been impacted by a combination of existing competition returning and new entrants, and both are competing aggressively on price. However, demand is at a ten year high and we've grown our motor finance loan book by 14% without compromising our returns.

When we last updated you in March we highlighted that we had not seen a broad based increase in SME demand. As we currently stand, the overall position remains unchanged. On the plus side, the outlook is more positive. Economic surveys are encouraging; the Federation of Small Businesses has reported in its latest quarterly survey that 25% of SME's are planning capital investment in the next 12 months. However, in contrast, our own surveys of SME owners have found that 35% of businesses are finding trading as tough now as it was 12 months ago. Given the difficult conditions of the last five years it's unsurprising that small businesses remain cautious about investing.

But Close Brothers is well placed to help SMEs as soon as their appetite for borrowing increases. Lending to SMEs is at the heart of what we do; we understand their need for finance, for both cash flow management and capital investment.

Overall, our view is that our existing markets continue to offer good opportunities as our share remains relatively small, but importantly we're not complacent about competition increasing. We continue to invest in enhancing our broad product offering, and where possible, will expand into adjacent sectors or geographies as long as we can maintain our strict underwriting criteria and our strong overall returns. For example in 2014 we successfully recruited a renewable energy team within our asset finance business to fund a range of green technologies.

The graph on the right will be familiar but it is a powerful demonstration of our track record of growing safely even when levels of competition fluctuate. We believe we enter the 2015 financial year in a position of strength.

Moving on to Winterflood. Winterflood is a market maker, tailoring its offering to its clients' specific requirements by combining the expertise of its staff with the technological advantages of its IT systems. Winterflood offers its clients two-way prices and holds them open for 15 seconds. It's committed to providing continuous liquidity in all conditions and maintaining its market leading position.

Market conditions and retail investor sentiment have improved following the difficult trading conditions seen in 2012 and 2013. The strengthening economy has helped underpin a resilient equity market. The recovery has not been without volatility; political uncertainty and a rotation out of midcaps in the third quarter of our financial year created periods of uncertainty. However, conditions overall were more favourable. This was reflected in an increase in companies raising capital via a stock market listing over the last 18 months. So far in 2014, the £13bn raised from IPOs exceeds the £11bn raised in the entire 2013 calendar year. This increased primary market activity can be supportive of increased secondary market activity for Winterflood.

Winterflood, being a cyclical business, has responded to these improved conditions with a better performance. This reflects our strategy to concentrate on our core market making activities and maintain trading capacity. Winterflood has demonstrated the flexibility to adapt its products based on client requirements by offering a wider range of equities to its clients. One example is International trading. Winterflood joined the European exchange Equiduct in 2013 and as its brand has become more established it's benefited from a marked increase in international order flow.

While trading conditions have improved in 2014 we're still not at the levels of trading performance seen in 2010. Indeed, trading in August has been quiet, total market volumes traded on the FTSE 100 during August this year were the lowest since August of 1999, and Winterflood's performance will obviously be dependent on market conditions going forward.

Finally, on to Asset Management which performed strongly in 2014. We've built a proposition that provides clients with everything they need throughout their financial lifecycle. Our capabilities are centred on building long term, personal relationships between our financial advisers and investment managers and our clients.

As they start to build their wealth, clients can use our online investment portal. Once they need more detailed advice our network of over a hundred advisers will help clients build their financial plan with a suite of products, both our own products and those of other companies, which are designed to best support their needs. Our focus on building long-term relationships allows us to address the evolving financial needs of our clients.

Alongside this we provide global diversified investment management through a range of investment vehicles. These include our own funds, model portfolios and a fully bespoke service for our high net worth clients. Our platform technology provides clients with a consolidated picture of their wealth.

We are in a compelling position to capitalise on significant demographic and market trends, driving increased demand for financial advice and solutions. For instance, we think the far reaching reforms to the savings and retirement income rules announced earlier this year by the UK Government are positive and should result in increased demand for high quality financial advice and flexible investment propositions.

We believe that our differentiated product offering, scalable infrastructure, as well as our demonstrated financial strength throughout the economic crisis will help us capitalise on these trends.

As our distribution capability matures our primary focus is organic growth. We have an experienced adviser force and we're focused on ensuring that they have the capabilities they need to serve their clients. We will also continue to invest in and develop capabilities and tools designed to maximise productivity and client service. The investments we're making in service, technology and brand awareness will serve us well for the future.

In addition, we'll capitalise on our longer term investment performance to help to build stronger relationships with third party IFAs. In the year, our strong investment performance has led to a 25% increase in the number of IFAs we have relationships with.

Finally, we do want to take advantage of opportunities to add further scale and geographic presence through selected infill acquisitions and hiring of advisers and portfolio managers but as ever, will remain disciplined on price and quality.

To conclude, we're in a strong position and our strategy is well defined. We will continue to meet the needs of our clients, execute our strategy, and deliver ongoing shareholder value.

In Banking, we see good opportunities in our core markets.

Winterflood is well positioned but will always be sensitive to market conditions and Asset Management will continue to deliver growth at attractive margins as the business builds scale. We enter 2015 with confidence.

We now look forward to answering any questions that you may have. As well as Jonathan and I, we're joined by Stephen Hodges from the Bank, Julian Palfreyman from Winterflood and at the back, Martin Andrew from Asset Management. As usual could you please state your name and company before asking a question.

Question and Answer Session

Question 1

Justin Bates, Liberum

Just on the Banking business, could you touch on the step change that there's been in Treasury and other non-lending income? Would you consider that to be a one off step change or is there a little bit more to go this year?

And rounding off on that division, is it fair to assume that the return on the net loan book has peaked?

Preben Prebensen

Just on the Treasury side it's worth repeating that Treasury at Close Brothers is a cost centre, not a profit centre, and so it's in the business of raising funding that we need for the loan book and for our high quality liquidity, that's its purpose, but there are however timing differences with that that cause this to happen. And Jonathan, you might want to just explain about that because it's important to understand.

Jonathan Howell

Yes, it's really a sort of short term anomaly so don't read too much into it in that as we've seen our funding costs reduce slightly during the second half of the year we will only periodically pass those improvements and funding costs through to the lending divisions, and so on a temporary basis that has meant there's a little bit more profit and income has been retained in Treasury than we would normally do so.

But going forward we're going to make sure that any reduction or increase in funding costs, at the moment we're seeing reductions, are passed through promptly to the lending divisions.

And then the next question is has that had a slight impact on the net interest margin that we're reporting - yes it has but it's marginal and it's in the region of about 0.1, so a marginal impact. But going forward you will not see that impact.

Justin Bates

And the net return on the loan book, I think it has been slightly higher than where it is today but would it be fair to assume it's peaked?

Jonathan Howell

Not necessarily. It's an output of a number of factors as you know, at the moment we have got a bad debt ratio down at 0.9 of a percent, that is I think effectively a 30 year low for us. Every time we get to this point of the cycle this is the lowest that it gets and so it is unlikely for us to see it materially improve or indeed we don't anticipate in the forthcoming months to see it increasing at this stage.

So that is very much at the bottom of the range but the other driver that you're aware of and we've just touched on is the net interest margin. That at 8.6% is down slightly on the previous year. We don't see a material change in the forthcoming months in the net interest margin, but over the medium term we've got lots of scope in that margin and as you know only a few years ago we were up at about 10%. The general range that we've seen operating historically has been in this 8%/8.5% range up to 10%.

So to answer your question directly no it's certainly not the peak but given where bad debts are and given the net interest margin and the environment that we're in it's unlikely that it's going to materially improve from here.

<u>Question 2</u>

Gary Greenwood, Shore Capital

I just wanted to pick up a bit further on the bad debt charge and obviously you mention it's at a historical low, how much of that's been driven by change in business mix and therefore what would a through the cycle average bad debt charge look like with the current business mix? So that's the first question.

And then the second question is on the asset management business, thinking back to when you originally presented the targets around improving profitability margins and performance for that business you talked about a revenue margin of around about 100 basis points, and I think you're delivering the profitability and the operating margin that you guided towards partly because cost control's very good but the revenue margin doesn't seem to be progressing quite as much as maybe I originally anticipated despite the fact that you've got the improving mix of business. So maybe if you could just talk about how that business is evolved relative to your original expectations and whether I'm just misreading things or it is different?

Preben Prebensen

Sure. Just on your first question about bad debts and whether that's a function of a change in business mix I think there has been no really big change in business mix so we have had about 40% of our business in the commercial division, about 40% in the retail division and about 20% in property for certainly the last five years that I've been here, and notwithstanding the growth that's occurred that mix has stayed roughly about that level. I think this particular year property has moved up to 22% for example, but there's no really big change there.

So I don't think that's a mix issue. I think we're benefiting, as lots of people are, from the current environment and that's true both in terms of the capacity to pay as well as asset prices and that's really why we're at a cyclical low.

Jonathan Howell

Could I just add to that I think just at the margins as well during the period of contraction by our international competitors and by the large banks, in parts of the bank, in parts of the lending businesses, we've taken the opportunity to move up the scale slightly in credit quality with some of our customers. So not necessarily seeing the impact of that now but potentially that can assist us when the cycle turns.

Gary Greenwood

So on that sort of ten year average you presented of 1.5% I guess normalised now you might think you'd be a little bit below that, maybe 1.3% something like that?

Preben Prebensen

I think it depends on how long a cycle you look at. So is a ten year cycle the right cycle? As we're moving through this particular period some of the ten year numbers are actually moving a little bit. It's interesting that we looked at ten year loan growth for example, we've always talked about ten year loan growth of 11% a year, well actually now ten year loan growth is 12% and these things just change as the cycle extends. But there's nothing really truly profound that's going on in what we're doing.

Your second question was in relation to the revenue margin, asset management and your correct that at this level we had originally set out 100 basis points for 2015, we think we will be below that, whereas on the pre-tax operating margin side we had set out 15% for 2015, we are 12% for this year and we're on track to meet that. So I think the overall answer to that is that our channels that we're distributing through and that we're growing through vary in terms of how mature they are or how young they are and some of them are moving faster than others and that relates to, for example, the IFA channel, to the high net worth channel, the discretionary channel, as opposed to the advice channel.

So the advice channel was the one that was most involved in the integration of acquisitions, most involved in systems replacements, most involved in the writing of the proposition, bringing all of that together. High net worth was less involved in that and is an older channel for us. The IFA channel is obviously more straightforward in terms of being a function of our investment products and services.

Advised and managed is our sweet spot in terms of the highest margin business, that's well over 100 basis points. That grew nicely this year. But the managed bit is reflecting the growth in the IFA channel, it's reflecting the growth in the discretionary fund management business and that's I think at 72 basis points.

So it's the speed at which these channels are growing which is affecting the mix, which is affecting the revenue margin.

I think our long-term outlook for the revenue margin continues to be very favourable. We have not seen resistance to our pricing in our advice proposition, in our managed proposition, it's more the rate at which they gain traction.

<u>Question 3</u>

Arnaud Giblat, UBS

A couple of questions. First to continue on the Asset Management business the costs essentially have been flatter year on year I'm wondering how the cost dynamics play out versus revenues and do you expect such operating leverage going forwards?

Equally in your assumption I think your guidance was for 15% operating margin in 2015, does that mean you're only assuming small levels of influence? What are the components that get you to 15%?

Secondly in Banking could you perhaps expand a bit on the dynamics of competition in Motor finance? Are you seeing competitors at a given detailed level?

Preben Prebensen

Sure okay. Let me start on the asset management one. I may ask Martin to pitch in here. I think first of all our target for next year remains 15% for our pre-tax operating margin, that's the one that we set out a couple of years ago and that's the target that we have for that. And I think you're right that we have held costs very flat for the last year or two and that's clearly contributed to the operating leverage which has contributed to the rise in net margin.

I think as we continue to evolve the business we need to invest so we may not get quite as much of a benefit from having absolutely flat costs. I think that would be one issue. But on the inflow side this year we had 7% net inflows: 2% from the market, 5% net of market. And we think that's respectable but as I mentioned it's a function of the difference in maturity of the different channels and we would certainly not see that reversing. We would like to see some progress in that but that's respectable if you like.

So Martin do you want to add anything to that?

Martin Andrew, Asset Management Chief Executive

Not really Preben. As we've already mentioned the greatest operational gearing part of our business is in the investment management element and the platform element, and you can see in our results that the investment management area has if anything been growing fastest and therefore we've been able to hold costs flat.

As and when our advised side of our business starts growing and we increase the growth rate there and the growth rate of clients it's inevitable that we'll have to increase headcount as well. The cost component there is more variable and the operational gearing less.

Preben Prebensen

And then your second question on competition in motor finance we refer to it in the text. We have seen more competition in motor finance. We've seen that both actually from the two largest participants who are Lloyds, Black Horse, and Santander, also from Barclays. So at the very large end we've seen increased competition and we've also seen new entrants into that market.

I think it's important to repeat the difference between our model and the big banks that are in that business, they are highly centralised in their approach, we are based on having a network of branches, we are more relationship-focused, we are more flexible and our offering therefore is different.

I think it's also important to note that, notwithstanding the increase in competition, we grew the book by 14% because obviously we were benefiting from new car registrations but also the spill over effect into demand for second hand cars. So the consumer has clearly been buying.

The final point I would make is that we are not focused on maintaining or holding a certain level of market share. We're focused on our model, we're focused on our returns and so our market share went up sharply at the beginning of the credit crisis when others withdrew to a peak I think, Stephen, around 11% or so for motor and we've seen that come down. There are different ways of measuring it but call it 9% now as we have conceded share rather than protecting share and maintaining our returns.

<u>Question 4</u>

Robin Savage, Canaccord

Coming back to the Asset Management margin if you look at the business first half and second half I think we can see that the margin in the second half was 15%; and I just wonder looking forward to the first half in the coming year are you indicating that the first half may well have some investments that may mean that the margin improvement doesn't continue first half on the previous second half?

Preben Prebensen

The business has momentum, we would like to see the business continue that momentum, but as Martin said there are different kind of cost elements to the growth in the different parts of the business. We get a lot more leverage out of increasing the managed, discretionary fund management side of the business or indeed the IFA side of the business. And so it's really just that there are different speeds involved here; and rather than trying to kind of micromanage this we think the message we want to give you is that we're happy with the 15% overall pre-tax operating margin for 2015, and I think that's probably the best position for us to take.

Robin Savage

Okay thank you. And my final question is on the dividend, I just wonder whether you can talk about the dividend, where you've got the Securities business, effectively 100% of the earnings are distributable, the Asset Management you may have selective acquisitions but broadly it's a distributable earnings stream, and the Banking division producing a 25% return on equity and your growth over the last ten years being 12%?

Preben Prebensen

So you want a bigger dividend? This is around the issue of the progression in the dividend and the build of the cover as well as the growth in the dividend itself, that's really what we're seeking to manage and we've talked about that extensively over the past couple of years but Jonathan do you want to take this?

Jonathan Howell

Yes I mean just as Preben has said we set out I think three to four years ago now and we had a dual objective, one was to increase the dividend in a sustainable and progressive way. And also running parallel with that, and very importantly running parallel with that, also to improve the dividend cover. And if you look back over the last four years that's exactly what we've done. The cover back in FY10 was 1.5% and we have progressively moved that back to 2.1%. And during that period we've put in four successive years of dividend increase, 3%, 4%, 7% and then 10% this year.

And so given the circumstances and the way the businesses have been delivering and the ROE that we can achieve looking on a Group basis we are very keen and certain that we want to maintain the improvements in the dividend cover to an appropriate level and we look at well run, well established banks and they're at about 2.5%, whilst at the same time putting in dividend increases that we think are sustainable and appropriate. And that's what we think we've done over the last four years.

Concluding comments: Preben Prebensen

Any other questions? Thank you very much indeed. Thank you.