Preliminary Results Presentation – 28 September 2010

PREBEN PREBENSEN
Group Chief Executive

Good morning I think we should get started. Thank you for joining us today. We are delighted to welcome you to the Preliminary Results Presentation for the financial year ended 31 July 2010. Joining me today is Jonathan Howell who will present the detail of the results to you once I have finished my introduction. And in the first row we also have Stephen Hodges, the Managing Director of the Group and Chief Executive of the Banking Division, Julian Palfreyman, the Chief Executive of Winterflood, and Martin Andrew the Chief Executive of Asset Management.

I would like to remind you that today's proceedings are being webcast and I welcome those of you who are joining us via this facility. For the benefit of webcast participants, can I ask that mobile phones be switched off.

So turning to the formal presentation. We are pleased to announce that the Group delivered a good performance with adjusted operating profit of £121 million, up 7% on last year. Banking achieved a very strong result with a 23% increase in the loan book. There was an overall good performance from Securities driven by good results from leading market maker, Winterflood.

Asset Management's performance was subdued and the division incurred expenses associated with transformational projects that are in progress.

We are pleased to announce that the proposed final dividend is 25.5p, resulting in a maintained full year dividend of 39p.

The group continues to be strongly capitalised with a strong core Tier 1 capital ratio of 13.9%, allowing the businesses to take advantage of growth opportunities as they are identified.

I will take you through the strategy and opportunities for our businesses in more detail later. For now I will hand you over to Jonathan to will take you through the full year result.

JONATHAN HOWELL
Group Finance Director

Good morning everyone and thank you Preben for that introduction. I am pleased to say that the group has delivered a good performance for the year and I will start by presenting the full year results including details of contribution by division and then we will then finish with the outlook for the current financial year.

Adjusted operating profit was £121 million, an increase of 7% on last year. And this reflects firstly a 6% increase in operating income to £532 million, due to a very strong performance in the Banking Division. And secondly, adjusted operating expenses of £347 million, a 6% increase in the year, driven by investment to facilitate growth.

Additionally, although impairment losses on loans and advances increased to £63 million, due to the significant growth in the loan book, the bad debt ratio did reduce slightly to 2.4%. Overall this good performance resulted in an improved operating margin of 22%.

The Group has reported exceptional items and adjustments of £22 million for the year and this comprised principally of two items. Firstly a £15 million impairment was taken on two investment assets which were impacted by challenging economic conditions. The majority of the reduction in fair value of these assets have previously been marked to market through equity. And secondly, a £7 million impairment taken on goodwill in the Asset Management division, reflecting the continuation of difficult market conditions. As a result, operating profit before tax was £99 million, up 12% on last year.

Tax was £33 million, at an effective tax rate of 33%. This includes the impact for non tax deductable exceptional items I have just mentioned, partly offset by associate income from Mako which is reported on an after tax basis. Excluding these, the underlying effective tax rate was 29% broadly in line with the UK corporate tax rate. Adjusted EPS was 61.3 pence, an increase of 1%. However basis EPS increased 6% to 46 pence, reflecting lower exceptional items in the year.

I am pleased to say we have declared a final dividend of 25.5 pence per share, resulting in a maintained total dividend for the year of 39 pence.

Let's touch briefly on each of the divisions. As you can see, the Banking division has been the Group's largest contributor and delivered a very strong performance with profit of £80 million. This 47% increase in operating profit reflects significant loan book growth to a record high of £2.9 billion. And a strong net interest margin which was achieved whilst retaining a disciplined approach to lending.

The Securities division delivered a good overall performance with operating profit at £59 million. However, relative to the very strong prior year, this is a reduction of 9%.

Both Winterflood and Seydler delivered an improved performance with particularly strong volumes at Winterflood. However this was offset by lower contribution from Mako.

Asset Management had a subdued performance. Adjusted operating profit reduced to £3 million as the division undergoes a period of transformation with investment spend focused on the Private Client Business.

And finally group net expenses increased from £4 million to £21 million. However this principally reflects FX gains in the prior year. Overall gross expenses were broadly flat in the year.

Now turning to the balance sheet. The group has maintained a strong balance sheet and this has been critical to its success. Total assets increased to £6.3 billion and loans and advances to customers which made up just under half of total assets increased 23% or some £548 million to £2.9 billion. One of the principle balance sheet movements was the £679 million reduction in non trading debt securities to £1.6 billion as some of the group's holdings in CDs and FRNs came to maturity or were sold. Some of these funds were placed on deposit with the Bank of England and as a result cash and loans and advances to banks increased by £413 million to £611 million.

Moving now onto the liability side, customer deposits remained strong at £3.1 billion, up 7% on last year. Borrowings remained broadly flat, at £1.5 billion, and this included the £200 million Group bond raised during the year. And total equity increased £57 million to £754 million which largely reflects the profit for the year of £66 million, partly offset by dividend payments of £56 million and a £31 million increase in reserves relating principally to positive mark to market movements.

The group has maintained its strong funding position from a diversified mix of sources. And at 31 July had £5.6 billion up from £5.4 billion in 2009 and well above the loan book of £2.9 billion at the year end. Wholesale facilities and the group bond totalled some £1.7 billion. These had an average maturity of 22 months, which comfortably exceeds the average maturity of the loan book at 12 months. The customer deposit base remained resilient and increased to £3.1 billion.

Since the year end, the group has raised £910 million of new funding with an average maturity of 19 months. This has been principally sourced from a syndicated facility of £310 million, a Repo agreement of £300 million on the FRN portfolio and securitisation of £275 million.

The group maintained its strong Capital position and increased its Tier 1 capital to £603 million. The core tier 1 ratio was 13.9%, which was achieved whilst delivering significant loan book growth during the year. Although this ratio was a slight decline on last year, the group's capital position is strong and retains flexibility to support continued growth. We expect no material impact from the new Basle 3 regime. Total regulatory capital increased to £684 million whilst risk weighted assets increased 10% to £4.3 billion as a result of the loan book growth.

Now looking at the Banking division in more detail. As I mentioned before, the Banking division made a very strong contribution in the year with both profit and loan book reaching new highs. Adjusted operated income increased 15% to £272 million. And whilst there was a 6% increase in adjusted operating expenses this reflects volume related costs, particularly investment in front line resources and infrastructure. The bad debt charge for the year increased to £63 million reflecting a small decline in the bad debt ratio which was offset by the significant growth in the loan book. Overall this very good performance led to a 47% increase in operating profit to £80 million, and a significantly improved RoE of 20%.

Looking now at the income for the Bank. The division's performance has been driven by very good income growth of 15% in the year. In line with the new IFRS 8 disclosure on operating segments, we now provide a divisional breakdown of net interest and fees on the loan book. Overall this increased 18% to £256 million with strong increases in retail of 22% and property of 19%. The overall performance was a result of a 15% growth in the average loan book, and secondly an increase in the net interest margin to 9.7% up from 9.4% due to good demand. Importantly, this has been achieved whilst retaining a disciplined approach lending in our core markets. Treasury income continued to be negatively impacted by low returns on cash and money market assets.

Now turning to the drivers for this growth in income. During the year the loan book increased by 23% or £548 million to £2.9 billion. Of the total loan book growth, 19% was organic and the remaining 4% was due to the acquisition of an invoice finance loan book in January. Whilst the retail loan book increased 21% to £1.2 billion, the commercial loan book increased by some 32%, also to £1.2 billion.

The growth across these businesses has been achieved as a result of investing in the front line sales teams and capabilities, leading to good new business levels and increased market share, and also by actively positioning ourselves to take advantage of continued good demand for our specialist lending.

Finally the Property loan book increased by 12% to £548 million, particularly in the second half as it continued to loan prudently whilst improving the overall credit profile of our borrowers.

Looking now at some of the key ratios of this division. The bad debt ratio was reduced to 2.4% this year, driven principally by the shorter term retail businesses. However the longer term Commercial and Property lending businesses are yet to see a material improvement in bad debts. This overall reduction in the bad debt ratio combined with the increase in the net interest margin to 9.7% resulted in an improved return on net loan book of 3%.

Securities had another good result for the year with a strong performance from Winterflood. Operating income for the division reduced 3% to £162 million and operating expenses were flat on last year. Winterflood increased operating profit by 3% to £49 million as a result of strong volumes and its leading market position. And Seydler reported an improved performance with £5 million of operating profit. However these results were offset by a lower contribution of £6 million from Mako compared to the prior year which benefited from exceptional market conditions in H1 following the collapse of Lehman Brothers. Overall the division reported operating profit of £59 million down 9% when compared to the very strong prior year. However the profit contribution from Winterflood and Seydler led to an increased RoE of 39% with the operating margin also improved at 34%.

Looking now at income in more detail. Operating income at Winterflood increased 2% to £132 million, reflecting a 10% increase in average bargains per day to a record high of 47,000. Despite reduction in overall market volumes, particularly in H2 which led to lower spreads and a 7% decline in income per bargain.

Winterflood has again demonstrated consistent trading with only 4 loss days during the year out of 252 trading days. Seydler's income improved to £25 million as it increased activity in equity sales and capital markets. And finally Mako delivered £6 million of associate income in a lower volume and more difficult market environment, particularly on the fixed income desk.

And finally, moving onto the Asset Management division, which had a subdued performance for the year. Adjusted operating income increased 2% to £97 million, as it benefited from one off investment gains. Adjusted operating expenses increased to £94 million reflecting investment to strengthen and reposition the division, including senior hires made during the year. This included £6 million of non recurring investment spend on the development of the Private Clients business. As a result, adjusted operating profit reduced to £3 million with the operating margin at 3%.

Now looking at operating income in Asset Management, which increased 2% in the year to £97 million. Management fees on Funds under Management reduced 4% to £52 million, due principally to a 5% reduction in average FuM which this year excludes the group's private equity businesses that were deconsolidated in 2009. Nonetheless the average revenue margin remained stable at 73 basis points.

Income on offshore AuA declined as it continued to be impacted by the low interest rate environment. However these declines were partly offset by other income of £12 million which included one off investment gains of around £6 million.

Now finally onto the movement in FuM for the year. Closing FuM increased 9% to £7.4 billion reflecting positive market movements. Net new funds were broadly neutral as good net inflows in Private Clients were offset by outflows in Institutional as the business repositioned. Since the year end, there has been good progress in Private Clients with the acquisition of an IFA business with over £650 million of client assets.

And now lastly, onto the outlook for the current year. The group has made a sound start to this financial year. The Banking division has seen continued good growth in the loan book. Securities division has made a more modest start to the year, reflecting current market conditions. And finally, Asset Management is likely to deliver a small loss for the year as investment in the strategy continues. However, overall we expect the group to deliver a satisfactory performance for the year.

Thank you.

PREBEN PREBENSEN

Thank you Jonathan. I would now like to take you through our strategic priorities. The group has focused on developing its three key business areas. The Bank is already a leader in specialised finance in the UK. Securities, through Winterflood and its position in UK market making is a leader in its field. And Asset Management is investing to become a leader in UK wealth and asset management. We have a clear strategy for each of these businesses.

Let me turn to the Banking division, our largest contributor which, as you have already heard, achieved a record closing loan book and its highest ever profit contribution of £80 million. Here we want to continue to build on our position as a leading specialist lender. We are pushing hard for market share without compromising levels of profitability and strong margins. We will continue our disciplined approach to lending and provide a consistent and high quality service that we know our customers value.

To ensure that we make the most of the environment and grow our specialist lending businesses, we have streamlined the Bank's structure, we have strengthened the Bank's management team, we have developed new products and extended existing lines. We have added front line loan origination capacity and we have expanded our branch network in the UK.

So let me take you through each of these in turn. As you will be aware, we have streamlined the divisional structure of the Bank over a year ago to focus on four key areas of commercial, Retail, Property and Treasury. The new clearer structure provides the businesses with a real focus to take advantage of opportunities as they arise. We have now also significantly strengthened the management team, including the more recent appointments of Mary McNamara as Head of Commercial and Malcolm Hook as the Bank Treasurer. The businesses have grown through selective new product development and the extension of their existing lines. Using their expertise and capitalising on opportunities in the external environment.

Retail has extended its focus beyond its traditional second hand car market and is seeking tie-ups with new car and franchised dealers.

In Commercial we are looking to grow the volume of larger deals and to extend our sector coverage. For example, we are expanding by pursuing deals in new sectors of asset financing including agriculture and clean energy. The asset backed longer term contracted income in clean energy often attracts Government support and looks particularly interesting. We are also looking at opportunities in the larger deal space to satisfy more sophisticated invoice finance client demand, generated partly as a result of relationships that came through the GMAC acquisition.

Geographic expansion within the UK has been a logical way for our lending businesses to grow. During the year Retail launched a new branch in Swindon and both Retail and Commercial commenced operations in Northern Ireland. Property opened an office in Edinburgh to service the Scottish market.

The division has also actively sought to grow front line loan origination capacity to make the most of its businesses leading positions and the most of the environment. For example, head count in Commercial grew as a result of the GMAC acquisition and the division also added around 30 new sales staff to develop a stronger presence in the larger deal invoice space and mid ticket opportunities in asset financing.

In Retail we increased our front line sales team by around 30 people to service motor and insurance premium clients. Property added another 5 staff to enhance its business development capabilities. Across the Bank, headcount was up 11% due to increases in loan origination staff as well as the back office capacity to support them. Importantly, notwithstanding this growth in headcount, overall costs have been managed efficiently and the expense to income ratio improved from 52% last year to 47%.

The result of this focus and expansion is the demonstrable growth in market share that these businesses have been able to achieve. In Commercial our share of new asset finance related businesses grew from 4% to 6%. Invoice financing is the one area where we faced more competition from clearing banks, but nevertheless we have 13% of the independent market up from 8%. Within Retail our share of used car independent dealership market increased from 5% to 9%. And our share of the overall insurance premium market is approaching 5% with a very significant share of the independent space.

Finally, while property has a very small portion of the overall market, it has a very substantial position in short dated residential lending where we have few competitors.

Overall I think you can see that the hard work and investment in our people has had tangible benefits for banking. It has been a year where we have actively sought to increase our leading market positions and take advantage of opportunities that have emerged in the environment.

While I hope that these comments about the Bank and its strategy today have been helpful, I should note that we plan to take you through the divisions activity in November when we have a detailed divisional presentation scheduled for this business.

Turning now to Securities. As I mentioned earlier, Winterflood through its leadership position in UK retail market making is the driver of the Securities Division. Winterflood contributed over 80% of the Securities Division's £59 million of profit with a £49 million result, its largest contribution since the year 2000 technology boom. We spent a lot of time over the last 12 months talking about the strength and consistency of Winterflood's business that has allowed it to produce such strong results over more than a decade. However I think it is worth underscoring again the factors that drive Winterflood's success.

Winterflood is a leading market maker in the UK and is registered to trade over 3300 securities which is twice as many as its next largest competitor. Put simply, it has a breadth of coverage and diversity of revenue that others in the market cannot match. Winterflood's model is focused around trading and technology. 50% of employees are front line traders and 20% are technology focused. Winterflood trades as a market maker, matching demand and supply for any given security. It does not trade in a proprietary capacity. And as Jonathan has mentioned, with only 4 loss days, of 252 trading days in 2010, Winterflood continues to demonstrate its consistent profitability.

In order for Winterflood to have continued success in its core UK retail market marking business, we need to ensure that the business's key strengths continue to be developed and supported. I am sure you will appreciate by now that technology is a vital element to Winterflood's success. As over 95% of trades occur electronically, maintaining this leading edge is critical. This is no easy task. To give you a feel for how rapidly the landscape here changes, consider the electronic messages that Winterflood's systems have to deal with. That is prices from the fragmented and large number of venues that Winterflood reference which need to be read and updated by the systems to maintain competitive spreads.

In common with the rest of the industry, there has been step change in the demands on Winterflood's systems and the traders who use them. Three years ago Winterflood's systems dealt with 5 million messages per day. Today Winterflood's systems easily deal with 500 million messages per day.

While Julian and the team are clearly focused on their core markets, there are also opportunities for Winterflood to grow selectively in new areas. We have previously mentioned potential opportunities to attract US order flow into UK and European securities through broker dealers and institutions. We have now completed a comprehensive assessment of the market and having already successfully negotiated several deals with broker dealers, we plan to secure other similar relationships. We will do this through a small dedicated marketing presence for the US with staff focused specifically on growing this opportunity.

Europe continues to be an interesting region for us. The landscape there is changing quickly following the adoption of MIFID and we have already taken advantage of this and now trade around 2200 securities across 18 markets and MTF's. We are looking for ways to further leverage into these markets by taking Winterflood's UK experience to capture retail order flow from some of the market participants there.

Finally there is growing industry interest to outsource dealing and execution to third party specialists. We have had a number of approaches by leading industry participants and this area may become quite interesting as a source of order flow for us in the future.

Of our smaller securities businesses, Seydler has shown improved performance. Going forward it is well positioned for the development of the Frankfurt floor based trading platform as well as for the increase in equity capital and debt market activity that appear to be emerging.

Mako delivered a lower contribution for the 2010 financial year against a very strong 2009 result which had benefited from particularly volatile and volume rich trading conditions after the Lehman's collapse in the early part of our financial year. However, Mako has a strong position in its core market making business trading equity fixed income and commodity derivatives and is well placed when market volumes pick up. It also sees growth in its investment management services, primarily through Pelagus which grew to over 750 million dollars of third party money during the year.

As you have already heard, Asset Management's performance this year was subdued. But importantly we are in the midst of a real transformation of this business. And I'd like to take a moment to address why we are embarking on this change.

Firstly, we took a step back and looked at our capabilities, our strengths and our existing businesses. We then looked at the external environment and saw significant amount of change driven predominantly by the movement in the regulatory landscape, notably the retail distribution review. We undertook a significant amount of research to identify key opportunities, including spending time with potential clients to better understand their needs and assess gaps in the market.

The result of all of this is that we have developed a clear strategy based on our capabilities, the external opportunities and our research to create a high growth business in UK wealth and asset management. The focus of this business will be affluent and high net worth investors in the Private Clients business as well as smaller institutions such as family offices and charitable endowments through our Institutional offering. These will be supported by common investment processes and will also leverage the Close Brothers brand.

Finally, we have some good businesses in our Offshore Banking and Administration Division, which provide trust and administration services to offshore clients.

So having laid out the rationale for you, let me run through a little more detail on each. We think it is a very good time to be in wealth and asset management in the UK. As I mentioned before, the external environment presents a number of very interesting opportunities. The Retail distribution review and its impact on the IFA community is one of the most prominent events in the industry. We believe that the RDR offers a significant opportunity for a number of different reasons. Firstly it offers the opportunity to acquire books from IFA's who are exiting the market, choosing to do so rather than having up upskill and change to meet RDR requirements. The RDR also provides us a growing opportunity to market differentiated discretionary services to the many IFA's that remain.

This middle market above the retail banks who typically deal with clients with £100,000 or less and below the ultra high net worth end of the private banking market was the traditional domain of the IFA. But as RDR is causing upheaval in this segment, there are opportunities to step in to better service affluent clients and parts of the high net worth market.

So how are we planning to take advantage of these opportunities? Our Asset Management division was previously a disparate group of businesses that were not integrated and lacked the cohesive strategy and scale. However with around £7 billion of existing funds under management, with experienced investment and research professionals with a good investment track record. With a strong, albeit underutilised brand, and with some 22,000 existing clients, there are some really good parts of the business we feel we can build on.

The first building block is Private Clients. With over 70 people now working on the project to build out this business, it is certainly where most of our efforts are currently focused. Under Steven Mendel's leadership our objectives here are twofold. First, to provide advice seeking clients with consistent high quality holistic advice, financial planning and discretionary services. And second, to provide self directive clients with a range of web and telephone based services to enable them to manage their own wealth.

Our research showed that investors often don't really fall neatly into these categories and that few other firms have the ability to offer clients the opportunity to access the level of service that they want in the manner that best suits them. We think that this flexible and comprehensive service with the transparent approach to pricing will provide a compelling client offer and positions us well in the market.

So let's touch on our key client groups. In affluent we already have £1.6 billion in Funds under Management and a solid base on which to build. The proposition to this segment will extend from reporting to planning and advice as well as access to investment management services through a number of different channels. Face to face, phone or over the internet. Earlier this month we transitioned around 20,000 existing separately managed client accounts representing around £860 million of Funds under Management into our new UK UCITs collectives. Collectives will allow us to extend the reach of our product by improving accessibility, for example, on platforms. Through the common investment management capabilities I will touch on later, it also allows us to deliver institutional quality investment processes to our Private Client base through five risk graded investment strategies.

We will also build on our successful high net worth business, where we already manage around £1.7 billion of Funds under Management for over 2300 clients. In high net worth, we plan to extend our bespoke investment services to a greater number of clients in what is an underserviced portion of the market between one million and five million. Here direct fund manager contact will be supplemented by online functionality and regular portfolio and performance reviews. We're seeking to attract these private clients both directly and through IFA's. Indeed we have already been successful in attracting IFA's to Close's direct discretionary offering through our new IFA sales team.

As I have previously mentioned RDR also presents a unique opportunity to accelerate client growth through the acquisition of IFA clients. I am pleased to announce that we recently entered into an agreement to acquire Chartwell Group, an IFA business based in Bristol with over £650 million of client assets and an established platform of 60 employees with good links into the South-West. We continue to have productive discussions with a range of other advisers and the pipeline of acquisition opportunities over the next year and a half looks promising.

As you can see from the schematic, the investment process not only supports the retail client base, but also underpins Institutional's offer. Previously the division had a disparate group of investment processes run by over 50 professionals. Under Nancy Curtin's leadership, as Chief Investment Officer, we are integrating our investment capabilities to provide a consistent institutional quality investment process. This will be focused on multi asset, multi manager propositions, to service both private and institutional clients and will invest across long only hedge funds, structured products as well as equities and bonds.

We have already taken a number of initiatives forward towards a more coherent investment management capability. We plan to do this by building on our strong investment track record which includes being awarded ‘Best Discretionary Wealth Manager’ for 2008, 2009 and now also 2010, by ‘What Investment’ one of the leading trade commentators.

You may recall that in January this year, the business took full ownership of Fortune, the specialist fund manager with leading hedge fund manager selection capabilities. Fortune is now fully integrated and operating out of the division’s Exchange Square offices.

Finally, underpinning all of this is the Close Brothers brand. While our research indicates that the brand resonates with investors, who saw how resilient the organisation was during the credit crisis, it has not been leveraged into the wealth and asset sector in a meaningful way. Over the coming year you will see us more actively position the brand within our target markets. In fact you may already have noticed on your way into today the refreshed logo appears in our Headquarters lobby and this will be rolled out across the other divisions over time.

Overall, we have already made good progress, having first developed a clear strategy for wealth management, we are now well into the process of executing it. While we plan to take you through the asset management strategy in more detail at a divisional presentation next Spring, other milestones in Private Clients which will occur in the short to medium term include, the pilot of our financial planning and advice proposition scheduled for later this calendar year, a national rollout of that service set to take place in the first half of calendar 2011. And we expect that a fully functional self directed portal will be available to the market towards the end of calendar 2011.

Although the Institutional proposition is less developed, and the majority of the work in client acquisition is just starting, we expect activity in this area of the business will ramp up in 2011 as well.

Naturally, a project of the scale of the Private Client initiative has an associated cost. We anticipate that the total non recurring investment spend will be in the range of £18-20 million. As Jonathan has previously mentioned, £6 million or about a third of this was incurred during the last financial year. And we expect that in the current financial year, a further £10 million will be invested. These initiatives will take time until their potential is fully realised. However as you have heard, the costs associated with the project are expected to be modest in the context of the overall Group and do not in any way compromise our ability to invest in the group’s other divisions. We expect that the investment we are making now will result in a significant contribution from Asset Management to the overall group in the medium term.

To summarise then. The group has had a good year overall and is well positioned for future growth. The Bank is performing well and we are looking to further extend our leadership positions across our specialised lending businesses.

Securities is led by Winterflood, is a leader and is well positioned as market volumes pick up. And while Asset Management is undergoing transformation, we now have clear strategy to build a leadership position in our chosen markets.

That concludes the formal part of our presentations. And I would now like to open the floor to Q&A. Can I just remind you that as we are webcast, I'd ask you to identify yourselves and your institution if you ask a question.

Question & Answer Session

Question 1 : Arnaud Giblat, UBS
Arnaud Giblat from UBS. On the Banking Business, the interest margin trend has picked up. Could you comment on some of the drivers of this? And what you see in terms of incremental business, is that on higher margin? And in Winterflood, the income per bargain has declined slightly, how much of that is volume discount and maybe other drivers?

Preben
Jonathan do you want to take those?

Answer : Jonathan
In terms of the net interest margin, as you can see it has gone up from 9.4% to 9.7%. We have seen a number of trends in net interest margin. Firstly we have seen the Commercial net interest margin coming down slightly during the course of the year, but we have improved margins in both Retail and Property. There is a slight differential there between the three divisions within the Bank. What we see at the moment is across the whole piece that that net interest margin of 9.7% is sustainable or, if anything, just very, very slightly demonstrating the ability to increase. But not necessarily by a material amount.

In terms of the income per bargain in Winterflood's, the impact on the reduction of income per bargain of about 7% during the course of the year was principally felt in the second half of the year. And if you look at market volumes in the second half of the year, there was a drop off across all market participants. Notwithstanding that, Winderfloods were able to increase their market share, and you saw their volumes in the year go up by 10%. And in that process of increasing and maintaining market share and increasing volume, Winterflood did tighten the spread and therefore that is the driver there.

I think in very broad terms, if you are looking at where we were trading towards the back end of the year and the early part of this year, we are looking at an income per bargain in the range of £9.50 to £10 that type of range. And we will just have to keep monitoring that as we move into the year.

In terms of the outlook on Winterflood's, do put that in the context of it was a very quiet August, August is traditionally quiet and we are only six weeks into the financial year. We are very confident about the capabilities of Winterflood and any slight upturn in the market and in any case even in tougher conditions, Winterflood's resilience as we demonstrated over the last 2-3 years.

Preben
And things have picked up actually a little bit in the last couple of weeks there.

Question 2 : Robin Savage, Collins Stewart

Robin Savage from Collins Stewart. I guess your comments about the net interest margin as predicated on the growth. So I wonder if you could just talk about what is a reasonable amount of that planned growth for 2011 that obviously will impact second half probability and the next year?

Answer : Preben
In terms of the growth, first of all you can see, the Bank had a very good year and all of the measures are going in the right direction. Whilst we saw 23% growth in the loan book, we saw bad debt ratios coming down slightly and importantly we were doing that whilst sticking absolutely to our core business, lending through the same channels, the same types of customers, on the same types of criteria in terms of LTV. As you can see from the outlook, what we have said is that that good loan book growth is continuing at the moment. I would put in the first bit of caution, is that 23% as stated today includes 4% of acquisition growth. But as we sit here at the moment, we are seeing the types of trend in loan book growth that we saw during the full 12 months, has occurred in the last 6-8 weeks. And at the moment as we sit here now, we are reasonably comfortable that that growth is continuing.

Further question:
Can I ask two more questions. One is on the Associates. It is quite interesting to see that the balance sheet associate value has gone up from £72 million to £74 million while the profit and loss account there was £6 million post tax. But if you look at the cashflow there is actually an £8 million dividend received from Associates. I wonder if you could just explain the difference?

Another question, very simple one on the Asset Management. Are you setting an expectation for costs going forward of around about £90 million, is that the sort of level of costs you would expect the Asset Management business to have in your view going forward?

Answer : Preben
Shall we take the associate one first. I think this is probably to do with taking the Mako numbers in on an after tax basis.

Answer: Jonathan
I think you were looking at the total cost of investment in the associates. And I think the important thing is to note that as we flagged up about 18 months ago and repeated a year ago, we are looking at very actively managing our capital around the group. And one of the mechanisms for managing that capital around the group is by taking dividends out of those divisions and those businesses as required and reallocating that to other divisions. And what you will have therefore seen is that the big increase in risk weighted assets during the course of the last twelve months was

driven out of the Bank, we saw a 23% increase in the loan book. That translated into a 10% increase in risk weighted assets, a 14% increase in risk weighted assets associated with credit. And so therefore what you are seeing is dividends coming out of those other parts of divisions, including associates, to be reallocated towards the Bank as we run our capital regime. There may also have been some small exchange gains in there as well because some of those are overseas investments.

The other question in relation to the cost run rate within Asset Management. I think what you see in costs is clearly an underlying cost based required to run the current operations as they are. In addition to that as we have stripped out and flagged out for you very, very clearly, you will see an £18-20 million one off non recurring investment spend incurring over last year and this current year and a little bit going forward. And then any further cost changes in the Asset Management division, will really depend upon the level of volume and the level of take-up and the level of growth in the business. So what you are looking at is costs to run the stable state Asset Management division now, plus the non recurring investment spend. Therefore decisions about further run rate expenditure to service growth in the division will be made as and when in the future. But clearly making this type of operational investment, we want to make sure that going forward that we can maximise operational gearing. And that is one of the key aspects of the offering that we are setting out in terms of the scaleability of a mass affluent platform.

Question 3 : Ian Poulter, Cannacord

Thanks, it is Ian Poulter at Cannacord. A couple of quick questions. The first one, I think it was at the Interims you spoke about improving the efficiency of the Bank and the group funding. You obviously added some new funding subsequent to the year end. I just wondered where you see the efficiency side going with the changes there? And the second thing was, given the growth you are talking about, what level of core Tier 1 is going to be comfortable for you going forward?

Answer : Jonathan

If we look at the funding first of all. I mean one of the cornerstones of our strategy in the Bank and for the group as a whole is to be well funded. And that has always been one of the key elements of our strategy and it is still and will always continue to be absolutely critical. And how do we measure that? Well to start with we have got this £5.6 billion of total aggregate funding against the loan book of £2.9 billion. And if you just take equity and wholesale funding, that came in about £2.5 billion at the year end against a loan book of £2.9 billion. So that difference of £400 million is serviced and funded by the £3.1 billion of deposits that we have got both wholesale and retail deposits. So what you have seen is a slight tightening of the funding mix. If you go back six months, we had a loan book of about £2.6 billion against equity and the wholesale funding of £2.5 billion, deposits of £3 billion. Now you see wholesale funding and equity of about £2.5 billion, but against a loan book of £2.5 billion. And this is a range we feel very, very comfortable in. As you know, with the bond issuance, with securitisation, we have introduced another two sources of funding to the Group which we haven't used for a good many years. And what you will see going forward is our approach to funding will be determined by the timing of any funding that we need, the type of funding that we need and the amount of funding that we need. Those three variables will be factored into what is available in the market and at what price. And so what you will see is us moving around the type of range that I have just described, but you will see that mix changing depending upon market conditions.

Further answer: Preben
Just on that, 18 months ago the term retail market was important for us. Because the wholesale markets were still disrupted. What has happened in the last 12 months and particularly in the last 3-6, is that various aspects of the wholesale markets are clearly now open for business and they are more cost efficient for us. And your efficiency comment comes in there. Term retail is not one that we are leading with right now because it is actually less efficient, it is a bit more expensive, but we will, as Jonathan says, continue to use a mix of these things. And we now feel very comfortable that we have half a dozen different sources of quite deep funding.

Further answer : Jonathan
And then in terms of capital, as you know another one of our you know cornerstones is to have good, strong capital ratios. And if we go back over one year, two years and three years believe it or not, you know the number of questions we have had is, are you over capitalised? Do you have surplus capital? And we have been very consistent in that and actually no, we need this capital and we need this capital to service the future not the present. And we are just beginning to move into that period we referred to. And if you recall we sort of said two things, one was to deal with any unforeseen regulatory changes, Basle 3 has just come through. Basle 3 is not going to have a material impact on our capital requirements. But equally we have said, and that is to service growth, and this is exactly the period that we were referring to with this very strong growth in the loan book. Strong growth in risk weighted assets. We have increased our total core Tier 1 capital by about £20-30 million during the course of the year, but because of very strong growth in the loan book we have seen the core Tier 1 ratio come down. We are still very, very comfortable with the level of capital that we have got and I will repeat again that we anticipate this level of core Tier 1 capital, can be used to service growth in the future and so you will start to see a marginal reduction in that core Tier 1 ratio. Do we set an external public target on that? No we don't, but we do have very clear internal targets that are monitored by ExCo and the Board.

<u>Question 4 : Chris Smith, Merchant Securities</u>
Hello, Chris Smith, Merchant Securities. Just a couple of quick ones on the Asset Management Strategic update, slide 31 and 32. Looking at the three targets you have got, the distribution, the investment side and the advertising. Which one of those would you prioritise? Am I reading it right that the RDR opportunity in terms of what that gives you in terms of distribution is the main one? And secondly looking back over the many years of Close Brothers Asset Management, there have been other, you have done this before where there has been a re-launch. Are there things

that you have learnt from the previous times you have done that, that you think this time it is going to work?

Answer : Preben

I can't really comment on previous regimes, but what I would say about what is behind this strategy is a lot of research with existing and prospective clients. I think the external environment is changing and that has not been present before. In fact the disruption around RDR is unprecedented in a UK wealth sense and you see it nowhere else in Europe. So that is different. And I think what is also different is that as we approached our Asset Management division a year ago, year and a half ago, we saw a collection of businesses rather than a single strategy and that really has changed quite fundamentally. What is it that will cause us to succeed? There are some things that are clear building blocks. So we start with 22,000 clients. We start with a brand which is actually enhanced by the performance of the group during the credit crisis. That is the one thing that people really came forward with when we asked them about their reaction to the Close Brothers brand, but that is a very big deal these days. And we start with that, but have never exploited it. We start with a determination around marketing which we haven't had in an organised sense in exploiting some of these existing channels and new channels. Our IFA sales team is much larger than it was and we had not exploited that channel. The employer channel was a good channel for us but we hadn't really pushed it the way we could push it. And the other thing we have done and are still doing is developing an offering which is actually what people want going forward. It is very current and it is all about flexibility and it is all about transparency of pricing and it is all about being able to choose what you want and what you pay for. And on top of that accessing it through face to face or the telephone or over the internet and a web portal is quite different. So as we look at the established competitors in the affluent and the lower end of the high net worth space in the UK, we see some very, as I say, well established and successful competitors, but each of them prioritises different things. And we think there is a way of combining flexibility, transparency, access to investment advice, but also a consolidated view of all of your assets and a flexibility around the approach and the way that the client is serviced which really resonates with people. So we are really quite excited by that actually. And as I say, that is not based on us sitting in a darkened room and dreaming this up. It is based on focus groups, on samples of 300-500 existing clients, 300-500 prospective clients, macro research, talking to IFA's and this is very current and really quite interesting to them. So we do think this is different. And we are also bringing together all of the various aspects of our investment process. We have 50 people that do research and portfolio management in the group. But they have done it historically in different pockets. That has all come together under Nancy Curtin as the Chief Investment Officer and that investment process will underpin both the affluent high net worth side and the Institutional offering. So it will be Institutional and quality applied to affluent high net worth and small institutions. That is very coherent, it is very powerful and it is much more directed and focused than it has been in the past.

Now in the absence of no external change, that would be harder, but we are in a period of tremendous external change. We believe we will get our clients directly through those channels and also accelerate that through acquisition of the likes of Chartwell.

Question 5 : Sarah Spikes, Arden

Sarah Spikes from Arden. I have a question on bad debt. Since you clearly have your three different divisions and Retail and Property have been declining, most of us are forecasting bad debt to decline further next year. Do you expect further reductions in bad debt then in Retail and Property or is it evenly spread? Do you think Commercial will start to decline more next year as well?

Answer : Preben

Of the three, where we are is, we think that Retail has already reached a point where we expect more steady state than anything. The leading indicators in Commercial are looking promising in terms of seeing our bad debt experience move down there. And Property is probably still in a period where it is kind of staying at a reasonably high level and the leading indicators are a little harder to see yet. But I think you can use historical context here as well. We have been in this business for a very long time and we have 25 year peaks that we can observe and those peaks are around the 2.5-2.6%.

PREBEN PREBENSEN

Any other questions? Well thank you very much indeed for coming. Thank you.

End of Presentation