Close Brothers
Half Year Results for the Six Months to 31 January 2019
Tuesday, 12 March 2019
9.30 am

Preben Prebensen – Chief Executive
Good morning and welcome to the presentation of our 2019 first half results.

Mike Morgan, our Group Finance Director, will be taking you through our financial performance. After which I will then provide an update on the group and each of our businesses. We also have several colleagues here today – Adrian Sainsbury who's the MD of our Lending businesses, Martin Andrew, the Chief Executive of Asset Management, and Philip Yarrow, the Chief Executive of Winterflood. And as usual, we will be happy to take your questions after the formal presentation.

The group reported a solid performance in the first half, maintaining strong returns and profitability, while staying true to our disciplined approach and commitment to investing through the cycle. We are pleased to be increasing the interim dividend by 5% to 22 pence.

The Banking division delivered a strong net interest margin, low bad debt and continued loan book growth. This reflects the various contributions of our diverse portfolio of businesses. Asset Management continues to deliver good net inflows and build on the long-term growth potential of the business, notwithstanding the short-term impact of market volatility.

And Winterflood continues to achieve solid profitability, despite operating in a difficult market environment with subdued retail investor activity. Importantly, we have delivered this solid performance while remaining committed to the discipline and long-term potential of our business model. The inherent profitability of our model gives us the ability to invest through the cycle, and currently there are a number of compelling opportunities to do so, which Mike and I will cover in more depth later on.

I will now hand over to Mike who will take you through the first half performance in more detail.

Mike Morgan – Group Finance Director
Thank you Preben, and good morning everyone.

As you can see, we maintained strong returns and a solid performance in the first half. In Banking, our loan book increased 6% year on year, whilst maintaining our strict underwriting and prudent loan to values, supported by good growth from several of our businesses. The net interest margin remains strong at 8.1%, reflecting our strict pricing discipline.

And both Asset Management and Winterflood demonstrated resilience in challenging market conditions. The adjusted operating profit and adjusted earnings per share reduced in the period, 4% and 3% respectively, reflecting the difficult market environment for Asset Management and Winterflood. Notwithstanding this, we continue to generate a strong return on equity at 16.1%. Our CET1 ratio increased to 13% and our leverage ratio also increased to 11.2%. We are pleased to announce a 5% increase in the interim dividend to 22p in line with our progressive dividend policy.

Moving on to the segmental performance. We reported a 1% increase in Banking AOP to £131.1 million, benefiting from our disciplined approach and the diversity of our business portfolio. Profit in Commercial grew 19%, driven by growth in both asset finance and invoice finance, as well as Novitas, with a slight increase in margin.

However, profit in Retail has decreased 17%. This reflects both a slight reduction in margin, as well as continued investment across both our Premium Finance and Motor Finance businesses. And we achieved a modest profit growth in Property Finance, increasing 2% year on year, driven by low bad debts.

Asset Management delivered good net inflows at 7% annualised, although, profit reduced 5% to £10.8 million as a result of negative market movements in the first half.

Winterflood achieved solid profitability in difficult trading conditions with a profit of £9.3 million, down on last year, due to lower trading volumes.

Looking now at the income statement. Income was up 1% at £407 million driven by growth in Banking and Asset Management, offset by lower trading income in Winterflood. Expenses increased 5% to £247 million, which largely reflects continued investment in the Banking division. Impairment losses reduced 4% to £22 million, reflecting continued strong credit performance across all our businesses and the current benign credit environment. Overall, adjusted operating profit reduced 4% to £139 million, representing a solid performance in current market conditions. The effective tax rate remains at 25% and we delivered £104 million of profit attributable to shareholders, in line with the prior period.

We have a strong and transparent balance sheet with a conservative approach to both assets and liabilities, which principally relate to our lending activities. We have maintained a prudent level of funding, well in excess of the loan book. We continue to "Borrow long and lend short" with the average maturity of funding at 22 months, significantly ahead of the loan book maturity of 14 months. We maintained a prudent liquidity position, while continuing to optimise the level and mix of treasury assets. At 31 January 2019, we had £1.2 billion of treasury assets, with the majority held with the Bank of England.

Our funding base is well diversified and includes access to both retail and corporate deposits, as well as secured and unsecured wholesale funding, helped by our strong and stable credit rating. We have made limited use of the Term Funding Scheme, which accounted for only 5% of our funding at the period end. We continuously optimise our cost of funds, which benefited from disciplined deposit pricing and renewal of facilities in the first half. And we have rolled out a new deposit platform, which allows us to expand our customer deposit offering and further diversify our funding sources.

A fundamental part of our business model is ensuring that we have a strong capital position, which supports our ability to lend through the cycle, invest in our business and pay a progressive dividend, while continuing to meet all regulatory requirements.

In the first half, the CET1 ratio increased to 13.0%, reflecting strong profitability and slower loan book growth at this stage in the cycle. The total capital ratio also increased to 15.2% and the leverage ratio also improved further to 11.2%. Our CET1 capital grew 5% to £1.1 billion, and risk weighted assets increased 2% to £8.7 billion, broadly in line with the loan book growth. Our strong capital position provides good headroom of 350 bps to fully loaded capital requirements of 9.0%, which gives us flexibility to grow and invest in our business and also to absorb any changes in regulatory requirements. Longer term, we are continuing our preparations for a transition to IRB, and currently expect to submit a formal application by the end of 2019.

Moving on to the Banking division. We achieved good income growth of 4% to £303 million, driven by Commercial. The net interest margin remained broadly stable at 8.1%, reflecting our pricing discipline, despite continued competition in many parts of our business.

Expenses increased 9% to £150 million, which reflects both, the continued growth and investment across our businesses. In the first six months, over half of the cost increase related to investment in infrastructure and strategic initiatives, while the business as usual costs grew in line with income. We invest for the long term, so there will be times when in the short-term, costs may grow faster than income. But over time, our objective is to keep income and cost growth broadly in line. Our expense income ratio at 50%, remains well within our historical range and the compensation ratio remained stable at 28%. And we continue to deliver a strong return on net loan book of 3.5%.

Overall, the loan book increased 2% to £7.4 billion, in line with the prior period, and was 6% higher year on year. Our portfolio is diverse and each of our five businesses represent a broad range of activities. And the growth rates in those businesses will vary, reflecting their specific market dynamics.

The Commercial loan book increased 5% overall, with good growth in both Asset Finance and Invoice and Speciality Finance. Despite the ongoing competition, the Asset Finance loan book increased 5% supported by growth in specialist sectors such as transport and contract hire.

Invoice and Speciality Finance increased 6%, with continued growth in the core invoice finance client base and Novitas. The Retail loan book increased marginally, as good growth in Premium Finance was offset by a slight contraction in the Motor Finance book, as we continued to hold our credit standards in a highly competitive sector.

The Property book was broadly flat, due to the timing of larger repayments in the period, and the pipeline remains solid.

Looking now at the key metrics across the Banking division. The performance across the segments reflects the diversity of our businesses and their different market dynamics. Overall, the bank ratios remain strong and broadly stable on the prior period, but with some variance across the segments.

The net interest margin in Commercial increased to 8.3% reflecting business mix, with growth in higher margin products. Bad debt remained in line with last year and we continue to see low arrears and strong collections. The expense / income ratio reduced to 56% due to strong income growth in the period.

In Retail, the net interest margin reduced to 8.4% due to growth in lower margin products such as our Irish motor book and commercial loans in Premium Finance. Bad debts remained stable, and the expense / income ratio increased due to the continued investment across both Motor Finance and Premium Finance.

And finally, the Property net interest margin reduced to 7.1%. This reflects lower fee income, as well as the recent increase in the base rate, which directly impacts margin in this business, due to the structure of some of our contracts. We continue to see strong credit performance across our property portfolio, and there were no material new provisions in the period. The expense / income ratio increased to 26% but remains low for this business.

Moving on to Asset Management, which delivered good net inflows at an annualised rate of 7% of opening managed assets. Overall, managed assets reduced 1% to £10.3 billion as negative market movements offset the good net inflows in the period.

Operating income was up 4%, driven by good growth in our investment management fees, reflecting the strong growth in managed assets in the last financial year, although income from advice and other services reduced slightly. Expenses increased 7% to £48 million, reflecting continued investment in front office staff and research capability. And we continue to focus on improving operational efficiency through ongoing investment in technology. Overall, the adjusted operating profit reduced 5% to £10.8 million, with an operating margin of 18%.

And finally, Winterflood, which delivered solid profitability, with only one loss day in these difficult market conditions. Income decreased 18% to £46 million, impacted by lower trading volumes, with average bargains per day down 24% on the prior year. Expenses reduced 11% to £37 million, reflecting lower variable costs. And overall, Winterflood achieved solid profitability, and delivered an operating profit of £9.3 million. So, as you can see, overall a solid performance across our businesses, in the current market conditions. Thank you, and I will now hand over to Preben.

Preben Prebensen – Chief Executive Officer
Thank you, Mike.

Our consistent strategy at Close Brothers focuses on the sustained long-term performance of our model. We have maintained our discipline and prudent underwriting and continued to deliver strong margins. In the first half, the net interest margin remained stable, and well ahead of the industry, while bad debts remained low across all our businesses. At this stage in the cycle, competition remains active, but we continue to lend at conservative and consistent loan to values.

Notwithstanding our discipline and the competitive environment, we achieved good loan book growth of 6% year on year, while maintaining the quality of our loan book. Importantly, we continued to deliver strong profitability and returns, with adjusted operating profit of £139 million for the first half, and a strong return on equity of 16%. This in turn gives us the ability to invest through the cycle, and we have a number of significant strategic initiatives under way.

This consistent approach means that we can continue supporting our clients in a wide range of market conditions, while delivering good returns and progressive dividend growth to our shareholders.

This familiar slide illustrates how we have performed through the cycle in previous years and over the long term. We do not chase growth and consider it an output. With faster growth in periods of low credit supply and slower growth in more competitive market conditions.

The current market is in many ways similar to that in 2004 – 2007, with active competition and aggressive underwriting in the credit markets. And as you can see, our growth has been moderating over recent years, reflecting the high supply of credit at this stage in the cycle. But as demonstrated over a number of cycles, we do not change our approach. We stick to our lending standards, protect our margins, and continue to invest. And this allows us to continue to deliver strong returns, support our customers, and maintain our progressive dividend in a wide range of market conditions.

In the Banking seminar we held, at the end of 2017, we illustrated to you the diverse range of businesses within our Banking division, and the resilience and opportunity created by our specialised and differentiated portfolio. Our business model continues to be supported by the portfolio effect of these businesses, which enables us to achieve growth in a range of market conditions. During the first half, our Commercial segment performed particularly well, with contributions from our niche and specialist Asset Finance businesses and good growth in our core Invoice Finance client base.

It also benefited from an increasing contribution from Novitas, our specialist legal fees business, which is now expanding into litigation finance. Novitas has continued to deliver strong growth and performance since we acquired it in 2017; a good example of a recent investment which is already delivering returns.

Within Retail, we continue to hold margin and prioritise credit quality in the competitive Motor Finance market. Despite a further small contraction in the Motor Finance loan book overall, our new business levels have stabilised.

The Premium Finance business continues to benefit from the significant investment we have made in recent years, and we continue to see new broker wins and increased penetration of existing brokers. This business is a further example of the strong positive returns we have achieved through our model of investing for the long term.

And in the Property segment we continue to see good structural demand for residential property development finance. Our focus remains on smaller developments of new-build family housing, and on extending our offering to high-quality regional locations where we see good growth potential.

The key ratios for the Banking division are where we would want them to be at this stage in the cycle. The strong net interest margin of 8.1% for the first half remains stable, supported by our strict pricing discipline, expertise, strong relationships and quality of service. We have not seen any significant change to the current benign credit environment in the period, and the continued low bad debt ratio of 0.6% reflects consistently strong credit performance across our lending businesses, supported by our conservative underwriting, prudent LTVs, and local underwriting expertise.

Investing through the cycle and for the long term is a key differentiator of our model. This in turn supports our growth, our returns and the quality of our business. As Mike said, the expense / income ratio was at 49.5% for the first half, which compares to a 10-year average of 48.3%, and remains well within our historic range of between 47% to 52%. Despite a number of significant investment programmes across the bank.

Our strategic commitment to investing, means that we currently have a number of ongoing strategic initiatives aimed at further improving and extending our business. During the first half we successfully implemented a new platform for customer deposits, migrating 37,000 customers and £3.8bn of deposits onto the new platform. Later in 2019 we plan to launch a broader proposition of online savings products such as notice accounts, and over time, ISAs and easy access accounts – further diversifying our funding mix.

We have also initiated our multi-year Motor transformation programme, aimed at enhancing our infrastructure and service proposition in this business. This long-term investment initiative is expected to improve the operational efficiency of our underwriting and customer on boarding processes, deliver higher sales effectiveness, and a better user experience for dealers and end customers. We also continued to invest in the systems and processes required for a transition to the Internal Ratings Based approach to managing our capital requirements. We are progressing well towards making our formal application to the PRA and currently expect to do so by the end of the 2019 calendar year.

Each of these investment programmes is expected to deliver real, tangible benefits to Close Brothers. The customer deposit platform will, in time, allow us to access cheaper funding, from a wider range of different products. Our Motor transformation programme will eventually have a positive impact upon our new business volumes.

And the IRB approach is expected to give us a risk weighting that better reflects the risk profile of our lending, and enable us to make even better credit decisions through enhanced data use and risk management.

We recently ran a seminar for you on our Asset Management business, which outlined how we took a strategic decision a number of years ago, to invest and develop this division, and to leverage our expertise and existing footprint in the UK wealth market. The benefits of that investment have been proven out in recent years, and even in the challenging market environment experienced during the first half, we continued to achieve good net inflows of £376 million, an annualised rate of 7%. We now hold £10.3 billion of managed assets and an increasing proportion of integrated assets within both our advice and investment management services. We continue to invest in improving our operating efficiency through new technology, and are making good progress towards upgrading our client relationship management systems and digital functionality.

The Asset Management division continues to have attractive long-term growth potential. We remain focused on maintaining the strength of our client proposition and on growing organically, supported by an institutional quality investment engine, multi-channel distribution and robust and scalable technology.

And finally, Winterflood, which has remained solidly profitable despite difficult trading conditions. Winterflood experienced a significant reduction in trading activity from retail investors during the first half, with a corresponding impact on income. Despite this market environment, Winterflood maintained its leading market position and remained focused on maximising the daily trading opportunities available. It is a particular achievement that the business experienced only one loss day during a turbulent period, thanks to the close management of our risk exposures and expertise of our traders.

The long-term profitability of Winterflood remains very strong, and over the past ten years has an average of only seven loss days, and has returned a profit in every month of that period. The first half performance demonstrates that Winterflood remains well positioned to continue to trade profitably and provide continuous liquidity to its customers in a wide range of market conditions. We also continue to deliver high quality execution services to retail intermediaries and maintain the ongoing development and extension of our offering to institutional clients.

We continue to demonstrate that our proven and resilient model, allows us to support our customers and deliver good returns in a wide range of market conditions. The Banking division continues to benefit from our diverse portfolio of businesses and strong customer focus, allowing us to maintain growth and strong returns. We remain committed to our disciplined approach and prudent lending criteria, protecting our margins and maintaining the quality of our loan book. And our model allows us to maintain a long-term focus by continuing to invest in our businesses through the cycle, with a number of compelling initiatives, ongoing.

In Asset Management we remain focused on the long-term strength of our proposition and on growing our client base organically and with selective hiring. Winterflood continues to maintain its market-leading position and maximise its trading opportunities in a wide range of market conditions. Overall, we remain well positioned for the long term and remainder of the financial year.

Thank you, and we'll now be happy to take any questions you may have. As usual, please may I ask that you give your name and company before asking your question.

Question and Answer Session

Question 1 : Charmsol Yoon, UBS

Thank you for taking my questions. I just have one, and my name is Charmsoll from UBS. I appreciate your longer term goal, to keep the cost growth in line with the revenue growth, but just looking at 2020 does it sound fair that the cost growth will be higher again than the income growth, given your commitment to continue to invest and assuming the mid-single lone, mid-single digit loan growth and stable margin? Does it sound fair?

Preben Prebensen

So, I mean I think our comment on that would be that it's very important to look at this over the long term. It's very important not to just take a six month period and extrapolate from there. We will maintain long term investment, these are very interesting investment propositions for the firm, but at the same time we clearly recognize that 9% and 4% is a bit too much of a distortion. And so I think you should not extrapolate from a single six month period. The best reference point is that long term EI ratio, where the ten year average is 48.3 and we're at 49.5. That's actually the best reference point, that's the what we really look at over time and we get less concerned about a single six month period.

Further question

Sorry just to follow up. So, regarding your investment plan, what are the areas you plan to invest further or in your budget in ten year in your second half?

Preben Prebensen
If you look at the businesses first, we've made a significant investment in premium, and those benefits are already visible in terms of broker wins, penetration and that's feeding through to the growth rate in that business. So we're kind of towards the end of that multi-year investment program. Conversely Motor we are more at the beginning if you like, of that multi-year investment program. That will also bring specific benefits in the on boarding process, and the accept rate. We reject 45% of applications right now. So if we can optimize that process and increase that accept rate, just a little bit, that could have quite a significant impact. And Treasury, another example if you like on the business side we made the transition of our customer base and deposits and we're now right at the point of rolling out a suite of online products. That will also bring economic benefits to us, through a lower cost of funds. Obviously the extent of that will depend on what interest rates do, and what volumes do, but we're now in a position to benefit from that.

And the final one that we cited is IRB. Again that is a multi-year program, we're well into it. And as we highlighted, we expect to make that application formally by the end of this calendar year, and I think as you know, through other banks experiences, you've got to kind of look forward eighteen months or so beyond the formal application date before there is actually an adjustment to regulatory capital. But we expect that also to bring us benefits. So each of these things are rigorously tested by us in terms of their long term economic benefits to the firm.

Preben Prebensen
Yeah

<u>Question 2 : Raul Sinha, JPMorgan</u>
First question on the NIM, and the tick up in NIM from the second half the year to the first half. I guess what I'm trying to understand is how much of that is deliberate, in terms of the areas you're choosing to grow and how you manage your balance sheet, versus how much of that is just a by-product of the environment that you are in. And so, one of the factors is it's obviously been wholesale funding costs have been going up for the industry. That doesn't seem to have had any impact on your margin so far. Could you comment a little bit on whether or not we should expect this NIM resilience to continue, or would there be some negative impact still to come this year?

Preben Prebensen
From funding costs?

Questioner
From funding costs as well as let’s say mix?

Preben Prebensen
Okay. So Mike pitch in by all means. But I think Mike went through what had happened in the Commercial Division, where we had actually an increase in NIM, from 8% to 8.3%, and the Retail Division where we had a decrease in NIM from 8.7% to 8.4%, and in property from 7.8% to 7.1%. So you have to look kind of behind even those three things to look at what's happening across the wider portfolio. We have seventeen different businesses in the bank by one definition, you can actually split it down even further and add to that number, but you need to look at each of those.

To your point about how we manage this. We have return criteria for all of our businesses. We have return on equity hurdle rates for all of our businesses. We don't consciously allocate towards higher NIM businesses, because all our businesses are delivering above our minimum hurdle rates. So, this is not a kind of conscious

allocation, it's a product of having seventeen different businesses that have different competitive dynamics, different supply and demand dynamics, at this point in the cycle, different growth rates, different competitive kind of dynamics. And so 8.1 is a product of all of those things rather than a conscious decision, top down to manage them, other than setting hurdle rates that they all need to pass. So you know you could look at it, and say that at our return on equity everything is way above our cost of capital. So we should, providing they stick to their loan to values, providing they stick to their hurdle rates we allow them to grow. There are some things that did move those things around though, which go to mix. Not because we pushed them to change the mix but because changes in mix happen all the time.

So a couple of examples. So in Motor, we did a little bit more in Ireland, in Premium we did a bit more in commercial lines as opposed to personal lines. Those things affect mix. And then actually, within the commercial division Novitas is growing strongly that's a high margin business, so that has a bit of an impact on our NIM et cetera. But it's very important that that we don't kind of top down manage that number. It's a product of all of our various businesses doing what we want them to do.

On the funding costs.

Mike Morgan
I was just going to just add one point, is that also between the first half and the second half was more days in the first half. So you get three extra days interest, so, on the second half obviously you won't get that. So all things being equal you would get a higher net interest margin in the first half because you were talking about H2 to H1, so you would see a drop off there. So you need to bear that in mind as well.

Preben Prebensen
The other point you asked about was funding costs. So actually our funding costs went up by 10 basis points in the first half. And that would have had a downward impact on NIM by the same amount, it's after funding costs. And that's a reflection of the base rate increase which was feeding its way into our funding costs. In some places it doesn't affect us immediately. I think 75% of what we do is at a fixed rate and in other places it affects us more immediately, and Mike alluded to this in Property where some of our contracts have floors, and as the base rate goes up it eats into some of the benefit of that floor. And we have one more base rate to go, of 25 basis points probably that would eat into the benefit of that floor and then we're in a position where that no longer affects us.

So that was one of the things that was in that property NIM change from our perspective going forward. This is a model where mostly we lend at a fixed rate. You know, it’s all about how much of rates we can actually pass on, and that's partly a competitive dynamic and it's partly how protected our businesses are.

Questioner
Maybe just a second one on capital? You've flagged that your 350 basis points above your known minimum requirement. Actually you don't say it's a known minimum you just say that's your minimum requirement, So it sounds to me that that's an all in number. I think in the past you've talked about 150 basis points potential benefit from.

Preben Prebensen
Just on that, that’s a fully loaded number. About 350 fully loaded.

Mike Morgan
That’s a fully loaded number.

Raul Sinha
Yes, I think in the past you've talked about the property book as that transitions to IRB, you expect some benefit. I think you've lost a 150 basis points in the past. So if you put those numbers together it seems to me that you would be operating well above, significantly well above, your minimum requirements and in a period where loan goods is not very strong, you know, you are going to build more capital over the next few periods. So I guess the simple question is, if you're going to stick to that cost income ratio's discipline that you've talked about just now, what are you going to do with all this capital?

Preben Prebensen
So a few things. One is we will not prejudge the benefit of moving to IRB. That is in the gift of the PRA not in ours. So, we won't be drawn on what that might be.

We see it as being a very important part of managing the book, going forward actually, and a very important move in the maturity of the organisation that we are judged based on what we do as opposed to European averages of what we do. So we would do it irrespectively because we think it's an excellent tool. You're right that we had a move up in that risk weighting of our property lending. It was actually from 100% to 150%. And that is correct and obviously we'll be submitting that portfolio along with other portfolios. But we won't prejudge that outcome, and in any case it's several years away.

In terms of the point about surplus capital. This is an organisation that has always benefited, and our shareholders have always benefited from us having surplus capital. Because when a contraction in credit supply happens, we can continue to maintain our lending standards, and grow when others don't. And that is something that we will do again. And so I think it's not in the interests of all of our stakeholders that we run at a kind of more stripped down level of equity. It's much more important that we build our optionality against outcomes including that. And I think that that's the most likely scenario, but this is several years away. So again it's too early to really talk about it.

Raul Sinha
Thank you.

John Cronin, Goodbody
John Cronin here from Goodbody. Just a couple of questions to follow on the IRB points. Look I appreciate your comments around it being several years away, and that you're not going to prejudge what the ultimate outcome may or may not be. Presumably some exercises have been conducted to make an assessment at a firm level, in terms of the potential benefits that could be extracted, again appreciating the long time frames in the mix. I guess, look, just trying to think about it directionally, would that be likely with special buyback or special dividends likely to feature in the minds, or would there be an exercise underway to identify possible growth opportunities to put that capital to, in terms of potentially enhancing returns further?

And then secondly a point of detail. Excuse me, on the motor finance business just trying to understand the competitive landscape there at the moment. You mentioned that it's very competitive but trying to understand better because that, is there any let up? Is there any sense that competitors are beginning to, beginning to act a bit more rationally in your view? And if there are any further comments you can make around the performance of the Irish business, appreciate your volumes picked up a little bit on its lower margin but again zoning in on competitive trends there, anything you could say that would be helpful for us to understand that better would be great?

Thank you.

Preben Prebensen
Okay. Why don't we talk about motor first and I'll come back again on capital point.

So the motor business in the UK remains quite competitive. So I think we've all seen what's happened to new car registrations. In fact there's been much less impact on used car registrations, and used car finance penetration has gone up in the last year so that's actually helpful. In terms of our position there, as you know we don't target either growth or market share. We target returns. And our market share tends to move quite a lot actually through the cycle. So before the credit crisis it was around 6%, of point of sale used car financing. It grew to 12%, actually in the peak when others pulled back, and it's down around 5 to 6%. Now I think it's closer to 6% now. So that's exactly what you would expect it to do in that cycle. We don't really see any let-up in the competitive dynamic there. It's quite competitive. And we don't really see any change in behaviour across that piece right now. So there's a lot of aggressive lending on LTVs, there's a lot of aggressive lending on price.

In Ireland we did have a little bit of growth there, and you know that market actually has been good for us. We've grown that book quite a lot, but the Irish banks are back there too, so that's becoming more competitive.

Back to the capital point, I mean we're not going to be drawn on how much IRB is going to be worth to us. We've obviously modelled it. The cost benefit analysis is very clear to us. In terms of the additional optionality it gives us but that optionality may find itself in loan growth. It has in the past. So three times in 30 years we've been in a position where we've been able to grow the loan book, very significantly without recourse to our shareholders, without having to go and get equity. We want to be able to do that again. We may find other things to do with it as well which are more opportunistic, or in line with the strategic imperatives that we have always had. But we won't really be drawn on that, and it is some way away in terms of whether we would kind of optimize the capital structure through it. I mean again, that would be one of many options but it's not something which is kind of uppermost in our minds.

The most important thing for us is that for 30 years we've been able to respond to opportunities to maintain a consistent high return model. And experience, I think 13% 10 year compound growth. And if you go back farther and farther, it's still kind of in that in that order of magnitude without recourse to shareholders. That's an excellent position to be in. And that's our primary objective.

John Cronin
Thank you.

Preben Prebensen
Any other questions?

Thank you very much. Thank you.