Close Brothers
Modern Merchant Banking

Close Brothers
Preliminary Results
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9.30 am

Preben Prebensen – Chief Executive Officer
So I think we should get started if we could. Let me start by saying welcome to the Presentation of our 2018 Results. As usual I am here with Jonathan Howell Group Finance Director. This as you know, will be Jonathan's last results presentation before leaving Close Brothers in November. And I would like to take this opportunity to thank Jonathan for his excellent contribution over the last 10 years. We also have Mike Morgan with us today who will be taking up the position of Group Finance Director following Jonathan's departure. And also present is Adrian Sainsbury who is Managing Director of our lending businesses, Philip Yarrow Chief Executive of Winterflood and Martin Andrew who runs Asset Management. And as usual we will be happy to take questions at the end of the Presentation.

We are pleased to report another good performance for the 2018 financial year. Our profits continue to grow with adjusted operating profit up 4%. And we are proposing a full year dividend per share of 63 pence, up 5% on last year, continuing our long track record of progressive dividend growth. All our businesses performed well. In banking we achieved good underlying loan book growth of 6.6% while maintaining our strong margins and underwriting discipline in a competitive environment.

Winterflood delivered another strong performance benefiting from good retail and institutional trading volumes. And Asset Management had an excellent year with strong net inflows and higher profits and operating margin.

As you know we manage our business for the long-term and we remain committed to our established business model. We focus on prudent underwriting, strong margins and maintaining a sound financial position in a wide range of market conditions. We focus on ways of improving our offering to customers and clients. And we continuously invest to protect, improve and extend our model to deliver long-term value for our customers, clients and shareholders.

Now I would like to hand over to Jonathan who will take you through the results.

Jonathan Howell – Finance Director
Thank you Preben and good morning everyone. As Preben said, we delivered another good set of results last year with growth in earnings and increased dividend and a strong RoE. Overall adjusted operating profit increased 4% to £279 million, with all three divisions performing well. Adjusted EPS was up 5% and RoE remains strong at 17%. And we are pleased to announce another 5% increase in the full year dividend to 63 pence. This reflects our commitment to progressive and sustainable dividend growth while maintaining prudent dividend cover.

Looking now in more detail at the segmental performance. In the Banking Division profit was up 2% to £252 million. This was driven by Commercial up 5% and Property up 3% with good income growth and low bad debts in both businesses.

In Retail profit was down 2% at £81 million affecting lower income and increased investment in the motor finance business. Winterflood delivered another strong performance with profit of £28 million in line with last year.

And finally Asset Management delivered a significant increase in adjusted operating profit which was up 33% to £23 million.

Looking now in more detail at the Income Statement. Income was up 6% overall driven by continued growth in the Banking Division and Asset Management. Costs also increased 6% in line with income to £481 million. Credit performance remains strong and unchanged with a bad debt ratio of 0.6%. And the increase in the bad debt charge reflects provision releases of £8 million in the 2017 financial year.

The effective tax rate reduced to 25%, largely reflecting the 1% reduction in the corporation tax rate. Overall, this resulted in a 5% growth in adjusted earnings per share to 140 pence.

And finally you will have seen our recent announcement of the small disposal which has been treated as a discontinued operation in these results.

Our Balance Sheet remains simple and transparent and we take a conservative approach to both the asset and liability sides. The £7.3 billion loan book is diverse. Over 90% secured and short term and an average maturity of 14 months. Our funding is prudent in terms of quantum, diversity and maturity.

At year end we had £9.6 billion of funding covering 132% of the loan book. This includes both retail and corporate deposits as well as secured and unsecured wholesale funding. We continue to borrow long and lend short and the funding for the loan book had an average maturity of 23 months, significantly more than the loan book. And finally we maintained a good liquidity position with £1.4 billion of Treasury assets at the balance sheet date.

Our strong profitability allows us to support continued loan book growth while maintaining strong capital ratios. Last year we grew our capital base by 9% to £1.1 billion reflecting the increase in retained earnings in the year. Risk weighted assets also grew 9% principally reflecting good loan book growth. And overall the CET1 ratio increased slightly to 12.7%. Both the CET1 ratio and total capital ratio of 15% remain well above regulatory requirements and our leverage ratio remains very strong at 10.6%. This leaves us well positioned to support continued loan book growth and absorb any regulatory changes including the impact of IFRS9.

Today we have confirmed a fully loaded impact of 49 basis points on the CET1 ratio on 1 August. This will be phased on over a 5 year period.

Turning now to the Banking Division where profit was up 2% overall to £252 million. Income was up 5% to £581 million reflecting continued loan book growth with a strong net interest margin at 8%. Costs increased 7% or £18 million on the prior year. Around half of this increase relates to investment and new business initiatives. This includes new strategic investment programmes in IRB and Motor Finance as well as the adoption of GDPR and IFRS9.

Headcount and other volume driven costs also increased, reflecting continued growth in the business. Overall the expense/income ratio increased slightly to 49%. And finally the bad debt ratio remained low at 0.6% with no significant change in the credit performance of our businesses. We achieved good growth in the loan book at 6.6%. This continued growth reflects our strong customer proposition and our diverse loan portfolio. This has lead to growth in both our core businesses and specialist loan books. The Property book was up 12% to £1.8 billion with continued good demand for residential development finance. The Commercial loan book grew 9% with strong growth in the Invoice Finance business and from other specialist businesses. The Asset Finance loan book also grew despite significant competition in parts of this market. In Retail continued good growth in Premium Finance was offset by a slight decline in the Motor book reflecting our disciplined approach in this market.

Looking now at the key metrics across the Banking Division. The net interest margin remains strong and broadly consistent across the three segments. The slight decline on the prior year reflects both business mix and ongoing price competition in some of our markets. Bad debts have generally remained low with continued strong credit performance in all our businesses. And finally the expense/income ratio was flat in both Property and Commercial but increased in Retail due to ongoing investment.

Turning now to Winterflood which delivered another strong year. Income increased 2% to £109 million with strong trading profit across all sectors. Volumes were high benefiting from good retail trading activity and increased institutional volumes. Trading has been consistently profitable with no loss days for the last 16 months. Expenses increased 3% to £81 million, reflecting slightly higher variable costs and settlement fees due to increased trading activity. Overall Winterflood achieved a profit of £28 million in line with last year.

And finally, we are pleased to report a strong performance in Asset Management with significant growth in client assets and profit. We saw growth of 17% in managed assets to £10.4 billion with strong net inflows of 12% of opening managed assets and total client assets are now over £12 billion.

Operating income was up 12% to £116 million driven by the increase in client assets. Expenses increased 8% to £92 million reflecting the growth in the business. And the operating margin increased to 20% reflecting the operating leverage in this business. And overall adjusted operating profits increased by a third to £23 million.

Thank you very much. I will now hand back to Preben.

Preben Prebensen – Chief Executive Officer

Thank you Jonathan. As you know, Close Brothers has a long established model which is focused on ensuring our business is sustainable and profitable in a range of market conditions. This resilient model allows us to continue to perform well through all stages of the cycle. Currently competition remains high for a number of our businesses and we remain focused on maintaining our prudent underwriting and strong margins in this easy credit environment. In the last year we maintained a strong net interest margin, well ahead of the industry at 8% and we continued to lend at conservative and consistent loan to values in all our businesses. Notwithstanding this disciplined approach, we achieved another year of good underlying loan book growth of 6.6% and remained confident in our ability to continue lending while maintaining the quality of our loan book.

All of our business continue to perform well with Winterflood achieving no loss days for 16 consecutive months now and Asset Management really moving forward this year with significant growth in managed assets and higher operating margin.
We have produced a very solid 17% return on equity and a further 5% growth in adjusted earnings per share and dividend. A robust performance at this stage in the cycle. We remain committed to our proven successful model, maintaining our focus on quality of service, protecting our returns and reinvesting through the cycle and for the long-term. We continue to prioritise margins and underwriting quality over growth and we maintain our disciplined approach to funding and capital.

We consider growth to be an output of our Business Model and do not have a growth target. We stick to our disciplined lending both in terms of margin and underwriting and we focus on sectors we know and understand which is why our key ratios have remained consistent over the years.

Motor Finance is a good example of our lending discipline. We are in a highly competitive market, we are not growing, yet we continue to apply our model with prudent LTVs and strong margins. Our core Motor Business remains the second hand car market where the dominant product is still hire purchase and PCP only accounts for around 13% of our Motor loan book.

In Premium Finance we have continued to grow while maintaining our prudent underwriting thanks to a number of new broker relationships in recent years. Competition in the Asset Finance Market remains active from both traditional banks and some of the new challenges. In this environment our priority is to continue maintaining margins, disciplined underwriting and returns. Yet despite this we still achieved 3% growth last year.

Our specialist expertise continues to support strong growth while lending on our terms in the invoice finance business with growing contributions from specialist businesses, Novitas and Brewery Rentals.

We have a long track record of lending successfully in the property finance market and only lend to experienced professional developers and at prudent LTVs. Typically 50-60% of developed value. We do not lend to the Buy-to-Let Sector or provide residential or commercial mortgages. We have a strong market position built on our high service levels, expertise and long established customer relationships. And continue to see solid demand for our lending services in our core market of new build family housing with a typical unit price of around £500,000 where structural demand remains strong.

We also recently announced the disposal of our unsecured retail point of sale finance business which demonstrates our willingness to exit after carefully exploring the market opportunity where we feel the business does not provide a long-term fit with our model.

Our core values of service, expertise and relationships are central to our proposition. Our customers are varied and diverse and we interact with them both directly and through a wide network of intermediaries and distribution partners. Across the Group we have close to 900 customer facing staff who deliver a tailored, personal service to their clients. Our extensive local distribution network and regional presence allows us to build strong, personal relationships with customers and clients and generates strong repeat business.

In the Banking Division, our specialist knowledge supports a wide range of products and financing solutions and our intermediaries value our service led offering and the support we provide for their businesses.

In Winterflood we deal in around 15,000 securities and trade with over 600 stockbrokers, institutions and other market counterparties, demonstrating the strength and breadth of our franchise and the expertise of our traders.

And in Asset Management we provide financial advice and investment management services with over 21,000 direct client relationships. We serve our clients by over 110 professional advisers and 27 portfolio managers across the UK and work with a range of third party IFAs and professional introducers.

Our quality of service is demonstrated across the Group through high levels of repeat business and strong net promoter scores. For example in property we continue to see repeat business of close to 80% and we receive excellent net promoter scores of plus 50 or more in our premium and bespoke asset management offerings.

We take a long-term view to maintaining our quality of service and lasting relationships. And regular feedback from customers and partners is an important part of that process. During the year we launched an extensive voice of the customer and partner programme to more formally listen, analyse and act upon feedback from our customers and partners. And we have undertaken a wide ranging review of the evolving needs of our customer base to help and form our ongoing investment decisions.

We operate in markets where high quality personal service is a real and sustainable differentiator. Our distinctive culture reflects the expertise of our people who deliver consistently building deep and long-lasting relationships with clients and intermediaries. In the last year we have formalised our Corporate Purpose Statement which is to help the people and businesses of Britain thrive over the long-term. And this has generated strong engagement and positive feedback from our employees. And during the year we conducted an extensive piece of work to articulate and define the cultural attributes which unite our workforce and have added prudence, integrity and teamwork to our longstanding core values of service, expertise and relationships. Attracting and retaining engaged and expert employees is critical to the delivery of our service proposition to customers and we are pleased that our regular employee surveys continue to demonstrate strong employee engagement with our latest score at 89%, an excellent result relative to the industry.

We are continuously looking for ways to improve our business, strength our client offering, develop our people and make better use of technology. Our strong profitability means we can invest through the cycle and we take a long-term view of the costs and benefits of this investment. In the coming year we will rollout our new deposit platform which will enable us to provide a wider range of retail deposit products and online access while further improving our customer experience.

We are also making good progress on developing the models, systems and processes required to use the internal ratings based approach IRB, which will optimise our capital position and better reflect the risk profile of our lending portfolio longer term. We currently expect to formally submit our application to the PRA in the 2019 calendar year.

In Premium our ongoing investing continues to improve our service offering to brokers and end customers and has supported strong new business levels in recent years. This year we also commenced a multi-year investment programme in our Motor Finance business aimed at enhancing our service to dealers and end customers and to respond to evolving customer behaviour.

And we continue to invest in our technology and operational capabilities within Asset Management. We recognise the disciplined management of costs is critical to our ability to maintain profitability and invest through the cycle and have remained focused on controlling our expenditure while maintaining our strategic investment in these key areas. We also work continuously to respond to evolving regulatory requirements. This year has seen the successful implementation of a number of regulatory initiatives and continued investment in cyber security.

We are constantly looking to maximise market opportunities for our businesses both in existing and new markets within the boundaries of our model. Recently this has included the expansion of our property business into UK regional markets, focusing on commuter hubs around major cities where there is a strong structural demand for new family housing. In the last few years we have extended our offering to selected regional locations such as Manchester, Bristol and Edinburgh where we continue to see good growth opportunities. As a result around 30% of our loan book is outside London and the South-East.

Last year we acquired Novitas, a specialist provider of loans to the legal profession which has seen strong growth since acquisition and expansion of its product offering in the litigation finance market with a loan book now of over £80 million. We have also seen the successful expansion of our Core Invoice Finance Business and growth in our Brewery Rentals Business which provides financing and servicing of beer kegs and casks to the brewery industry.

The Asset Management Business has built real traction in the last year with net inflows exceeding a billion and a 20% operating margin. We continue to see good long-term growth potential in this business and have further expanded its growth capacity by optimising our adviser force and recruiting additional portfolio managers.

Winterflood continued to build its presence in the institutional market, further growing and diversifying our income and making the most of any opportunities presented by MiFID II.

We also continue to explore new niches to support medium term growth. For example our assessment of market opportunities for asset finance and other services in the German market is ongoing, albeit this remains at an early stage. All of which demonstrates our commitment to investing and expanding our business through the cycle.

As you can see, we have achieved a good performance in the last financial year and most importantly have maintained the discipline of our business model. Although market conditions may evolve we remain fully committed to our proven model which has supported our ability to trade successfully over many years.

In Banking, we remain focused on maintaining our prudent underwriting and strong margins in a competitive environment. At Winterflood we continue to maximise daily profitability but as you know it is always sensitive to changes in market conditions. Asset management has made a significant step forward in the last year and we look forward to building on that progress over the year ahead.

Overall we are well positioned to continue trading successfully through the cycle to support our clients and deliver value for our shareholders over the long-term.

Lastly I wanted to let you know that we will be hosting an Investor Seminar on our Asset Management Division on 4 December here at our offices. So please save this date for now and we will send out more detailed information in due course.

Thank you and we are now happy to take your questions.

Question and Answer Session

Question 1 : Ian White, Autonomous Research

Hi, morning it's Ian White here from Autonomous Research. I have two on capital please. So first I have been thinking about regulatory stress capital requirements post IFRS9, so PRA buffers, Pillar II buffers and the like. Given the requirement to recognise losses up front, but only recognise profits later through the stress scenario, your start to trough capital drawdown under stress should increase under IFRS9 I believe. In that context, how confident are you that the 9% CET1 minimum you have described today will still be appropriate once IFRS9 is fully embedded? That is question one.

Preben Prebensen

Okay. So why don't we take that and then we can take another question. I think a couple of ways we might answer that. One I think is the buffer that we have between our CET1 and that 9%. So Jonathan can follow-up on that. I think the other one is that we do run stresses all the time, including for ICap purposes which we must. And we are now obviously running those under IFRS9 and the outcome of peak bad debts under those stresses is not materially different from the outcome of peak bad debts under the old scenario. It comes a bit earlier but that is all, it is not materially different. Jonathan do you want to follow-up?

Answer: Jonathan Howell

Yes I mean exactly as Preben has said. First of all as you know a fundamental element of our business model is this strong capital base. And we are carrying 370 basis points buffer between our current CET1 ratio of 12.7% and our regulatory minimum requirement of 9%. And we carry

that for good reason to enable us to sort of not only grow the loan book, invest in the business but also to deal with an unforeseen regulatory changes.

Now exactly to Preben's point. We are working 100% now under IFRS9, everything we do, everything we model for business management purposes and regulatory purposes is done on that basis and we are already into our own internal work on the stress testing. And exactly as Preben has said, there is not a material increase in that initial uplift under an ICap stress scenario. We mustn't forget that the cash loss is the cash loss and ICap stress test is done over a three year period. And whatever accounting methodology you use fundamentally over the 3-4 years you are going to end up with the same losses and that is an important thing. Fully acknowledge though the point that you do make is that all things being equal, as you move into an environment with a heavier macroeconomic overlay to the downside then that will bring forward and accelerate the extent of bad debt. But that rapidly falls off in year two and year three under a normalised stress scenario.

Further question
Okay, thank you. And the second one is much more straightforward. Can you give us any even broad guidance at this stage on potential quantum of IRB benefits into FI 19? Thanks.

Preben Prebensen
No. I don't want to be.

Further question
I might as well try.

Preben Prebensen
So a few things about IRB. As we mentioned, we expect to make the formal application in the 2019 calendar year. Just on timing we are not in control completely of the timing of that post the formal application. It depends on how things go. The PRA has to assess all of our models. That takes some time. But you can assume that it is going to be around 18 months or so after the formal application before we would actually see any benefit.

And then in terms of the benefit, I think there are two really important points here. One is we strongly believe that it is the right thing to do because we will be assessed on our risks as opposed to European averages of the things that we do. And we have a very high level of confidence in how we lend and what we do built over a 30 year period. And we think it is significantly beneficial to us to be measured based on what we do as opposed to an EBA guideline or even if that is replaced with a PRA average guideline under the standardised approach.

The second point is we also believe we will benefit from that realignment, but we are not quantifying that in the public domain right now. Again it isn't up to us. We will submit all our models to the PRA. Logically there are certain areas where that alignment should benefit us and I think those are reasonably obvious. There was an uplift from 100% to 150% in the property development financing area which was led by a change in the EBA rules. And in our view that is not consistent with the risks in that business for example. But we don't want to pre-judge the outcome of the PRA analysis of our models.

Ian White
Great, thank you.

<u>Question 2 : Raul Sinha, JP Morgan Cazenove</u>
Hi, good morning, it's Raul Sinha from JP Morgan Cazenove. Maybe if I can have two and maybe a follow-up if we've got time. Firstly, on the retail unsecured point of sale business that you have sold. Can we get a sense of what other portfolios there might be within the Group that would

potentially look similar to that business? And the reason I ask is obviously this indicates that you are thinking through the cycle and it obviously reduces some of the gearing to the down cycle. So if we talk about the overall gearing of the Group to unsecured, do you have a sense of where you want to position that over the next year?

Answer: Preben Prebensen
So let me take that one first. I think the sale of the Retail Point of Sale Business doesn't indicate anything other than our analysis of that business in isolation. So we piloted that for some years. We think it meets a real need and we wanted to explore whether or not it fitted long-term in our model. We actually decided after looking at it for several years that it didn't. We expect a volatility of outcomes there because it is an unsecured business, consumer finance business, to be outside the perameters that we prefer. So that is why we disposed of it. It is a perfectly good business, it is just not one that fits our long-term expectations for what we want to see in terms of that volatility.

We have had about 10% of our lending business in the unsecured area as opposed to 90% of it which has been secured for many years actually. And that is a whole variety of things. You know we provide dealer financing in some of our businesses and so on. So that has been quite constant and that has been part of our long-term bad debt record actually having that kind of 90-10 split. And we are not looking to exit anything else in order to change that ratio. We are perfectly happy with that. So I don't think that you will see us do other things to change our exposure to bad debts to the downside. This is very specific. When we go into a new area we tend to go in for quite a long time to really test it and sometimes we just decide it doesn't work for us. I wouldn't extrapolate at all.

Further question.
Right. When we think about the Motor Finance business, that is an area which some people would consider quite unsecured, but clearly is a secured business, especially the type of business that you do. That obviously has been shrinking in terms of loan book and the broader trends in the motor finance industry obviously challenged at the moment. So can you give us a sense of how much growth aspiration you have because you are investing into that and what type of growth you are looking to get?

Answer: Preben Prebensen
So we think what is happening in our book at the moment is entirely consistent in Motor Finance with what you would expect to see at this point in the cycle. So we, as you know, focus on returns and we focus on underwriting standards. But we have good relationships with dealers. We do business with 6,500 dealers and actually about 40% of them only use us for financing. So that is a very good established position to have. But because of the fact that we focus on returns and we focus on underwriting standards, we know that our market share will rise and fall with the availability of credit and where we are in the cycle. And we were about this point in terms of market share in the times of very easy money going into the credit crisis in 2007/08. At around 6% if you like or just under. That market share grew to 12% at the peak of tight supply in 2012/13 and has fallen down again. That is entirely what we would expect. It doesn't change our view of that market, the way we do it, we like it a lot. So remember that we concentrate on older cars, we concentrate on less expensive cars, we are entirely in used cars. We do very little PCP, we underwrite with eyes on and we really understand the market and therefore, this is a very well risk protected endeavour. It will be cyclical. And right now we are seeing some slowing in demand as well as lots of credit supply. So this doesn't surprise us at all. And I don't think it should surprise anyone that there is a small contraction in this book. We are investing in it because we intend to be in it. People will buy second-hand cars, people will finance second hand cars. In fact the use of financing is growing in used cars and interestingly also the used car market has only declined by 3% in terms of sales year on year to the summer.

So there are changes in long-term trends, there is kind of evolution in the type of car, there is evolution in how people go to market, how they search. Our focus is on our dealers and we are spending money to make our service better to them and actually to help them more to meet regulatory requirements, to use data better and that kind of thing.

And in addition, we will be kind of looking at long-term trends in that market and seeing how we should adapt to them. But it is a very good business for us and we are committed to it.

Further question
If I put everything together that you have talked about, the environment, it would lead to the conclusion that loan growth is probably not going to be stronger than what we have seen this year. And I think obviously the market does have an expectation of a slight slowdown in loan growth. I guess the other side of that is your capital ratio should start to build. So even if you don't think or you don't want to share with us the IRB benefits, could you give us perhaps a directional sense if the capital ratio will build if the current environment were to sustain itself?

Answer: Preben Prebensen
I'll hand that one to Jonathan. Let me handle the loan growth one. So I think it is so important to recognise that we don't target loan growth. Our ten year compound loan growth is 13%. If you look over a long period of time, there are times when we grow at 4% or less and there are times that we grow at 20% and we are agnostic to loan growth. And that is completely fundamental to the way we look at the world. It is not unique I am sure but it is very distinctive. We will continue to do that. And so we look through cycles, we don't change our terms of trade, we don't try and anticipate loan growth. It will happen. The world rewards us with growth because of how we serve the market and we will not change how we serve the market, we will actually improve continuously how we serve the market and there is a strong demand for the way that we do things. It ebbs and flows with the amount of credit, it ebbs and flows with the amount of investment and activity but you know it ebbs and flows. I think we are intensely relaxed about the loan growth number. Capital?

Answer: Jonathan Howell
Yes on Capital. I mean as you know we don't have a publically stated target, but rest assured that there is an ongoing commitment to have a strong capital ratio and that is defined not only by reference to the regulatory minimum we have been talking to, but additional overlays and buffers on top of that and those include the rating agencies, those include depositors and bond holders and equity holders. And lastly the Board itself, we want to hold a buffer that gives us the resilience we need to be able to do all the things that we plan and that may involve some minor acquisitions. That may involve accelerated loan book growth during periods of expansion and it may also involved unforeseen regulatory changes, not that we see any at the moment.

So having said that, how can I help you sort of model and understand our capital plans? The best thing to do is all things being equal with the current structure of the Group, the current level of profitability of the Group, and the current importantly dividend payout ratio, we are at a cover of 2.1 at the moment. When you see our loan book growing at 10% or above, we are in a position where we are consuming capital and we have seen that during periods in the last 10 years. Where we have loan book growth at about 8% we are capital neutral in terms of CET1 ratio and when we are at about 6% then we are beginning to build capital. And that is exactly what you have seen over the last 12 months where the loan book growth on an underlying basis is 6.6% and you have just seen a marginal increase.

And if you look back at Close Brothers in its current structure and level of profitability, those types of ratios have very much pertained absent any one-off changes that we have seen, and obviously one of them was the increase in risk weighted assets for property that moved us from 100% to 150%. But absent those types of things, that is a very good rough rule of thumb. And rest assured

we will hold a strong capital base, but we reserve the right to just adjust that depending upon particular circumstances and growth projections that we have for the organisation.

Further question
Sorry to hog the mic, can I have another one? Just on the deposit, because I think this is strategically, I just wanted to get your thoughts on whether this is a big shift or is it just a small step. The new deposit gathering platform you have talked about, what are the sort of, what is the capability that you plan to offer with that? That is the first question.

Do you think that you are going to ever get into business current accounts? That could obviously be quite transformative. And clearly there appears nowadays with the fintechs which are able to create deposit platforms at much lower cost than historically might be the case. Is that something you have considered as well?

Answer: Preben Prebensen
I would characterise this spend on the deposit platform as putting us into a position where we will have more products for depositors which we think is a good idea if interest rates rise and the idea of a one year or two year fixed kind of with no break, isn't broad enough. So we want to offer more flexibility in the types of deposits that we offer. Bear in mind that in terms of our deposit mix, it is two-thirds wholesale and one third retail at the moment.

And I think that the second point is that we don't see any material change to our funding model. So we can kind of at the margin kind of tweak things and offer things and kind of play on behavioural characteristics and stuff like that. But I don't think you should see us very materially shifting our funding model as a result of this. It is more just to increase the ease with which people can do business with us as opposed to anything else. I think that is the kind of best steer I can give you.

We are not concerned about the cost of attracting deposits. We have the attraction for our SME depositors or our institutional wholesale depositors is the strength of the balance sheet. We have very high deposit ratings. I think second only to HSBC actually in the UK, and we have people that make sure they know the credit story. That has always been very important.

Interestingly, in the credit crisis those deposits didn't budge. So we have always done that. And retail is important. It is deep and we want to just make sure we are sufficiently flexible. But I don't think you should see a significant change.

Question 3 : John Cronin, Goodbody
Thank-you. It's John Cronin at Goodbody. Forgive me for returning to the capital point, but just to question that in the context again of the IRB potential capital build. It does strike me that a number of players in the Sector or indeed consensus forecasts are likely to start taking in some assumptions around capital upside on the back of IRB migration in the forthcoming reporting periods. Should we think about you dovetailing perhaps your organic investment plans together with any potential release if one is taking a two year view in terms of capital build trajectory rather than making lofty assumptions around large excess capital distributions?

And then my second question is just on a particular point of detail noted in the statement this morning around moderation and the growth in the Irish Motor Finance book. And just to confirm is that something you are thinking at a market level rather than an intentional move on your part to withdraw a little perhaps?

Answer: Preben Prebensen
So in answer to the second one, that is a quick one, it is market related. So again our terms of trade don't change, but there is more credit coming into that market. We entered the Irish market with our partners in 2011 when credit was really tight there and we saw a lot of growth as a result

of that. The Irish banks are coming back. We still had good growth there but it is clearly moderating as a result of market factors rather than what we are doing.

Back to IRB and Capital and what we might do with it. I think the thing to really remember is our formal application will go in at some point in 2019 calendar year and we don't know how long it will be between that application and the PRA getting to a point where they will allow us to adopt it for the first portfolios that go through. You have to present the whole plan. You can't just kind of present the first couple of portfolios and then they look at the first portfolios and they will do it on a sequential basis. We really don't know. We observe what other banks, that have gone through, that recently have experienced and it is kind of 18 months post formal application to 24 months post formal application, something like that. We don't know whether that is relevant for us because of the nature of the portfolios we will be presenting compared to what they presented. And we can't speak for the PRA. So we don't think it is prudent. But that is the timeframe, it is quite a long timeframe really.

And then in terms of what we do with it, historically you can observe that we finance loan growth with our capital and that we had enough capital to respond to conditions that would allow us to finance loan growth. That makes a lot of sense for us. And we are prudent and that makes a lot of sense for us. Beyond that we don't really think it is helpful to kind of speculate what we might do with it, it depends on how the world looks at least two years from now. So I think that is really all we think it is sensible to say.

Answer: Jonathan Howell
Can I just add, I think it is a really interesting question you ask and that in terms of our investment programme, that is done on a 3-4 year rolling plan and all investments have to pass you know stringent criteria in order to be accepted and that won't change. Just because at some stage we may get some form of capital benefit that will lower the bar for investment criteria, we don't see that. We will look at you know the situation, we will look at our spending needs, we will look at our investment needs. But we will look at the needs alongside loan book growth and shareholder needs at the time. But to say that we will potentially get some capital benefit and then immediately switch on the taps, it won't work like that, but interesting question.

John Cronin
Thank you.

Preben Prebensen
Any other questions? I think that is it. Thank you very much indeed. Thank you.

End of Presentation