Close Brothers Group plc

Investor Event 2021

Edited transcript

Tuesday 15th June 2021

Adrian Sainsbury, Group Chief Executive Officer

Good morning and welcome to the Close Brothers' Investor Event. I'm Adrian Sainsbury and I am here this morning with members of my leadership team and we look forward to sharing with you our perspective on the Close Brothers Group and our strategy.

Let's start with the agenda. First, will be my presentation on the Group's strategy, following this, Mike will give a brief overview of how our strong financial resources support the delivery of our strategy. We'll then move onto a presentation from our Group Treasurer, Andy Townsend, who'll be talking through our approach to funding and how the treasury function supports the growth of our businesses.

You'll then hear from each of our business Chief Executives, who'll give you their view of their business, its prospects and strategy. First up, you'll hear from each of our Banking Chief Executives. With Neil Davies talking through the Commercial business, Rebecca McNeil speaking on Retail, and Frank Pennal on Property. We'll then move onto the Asset Management business with Martin Andrew, and finally, Philip Yarrow will talk you through Winterflood.

There'll be opportunities for you to ask questions after the Banking presentations and also following the presentation on Winterflood. Your questions can be asked either via the telephone conference line during the Q&A sessions or you can submit them over the webcast at any point during this morning.

Current circumstances have dictated that this has to be a virtual event. However, engagement with our analysts and investors is important to me and I look forward to seeing you in person in the near future.

Strategy update

Adrian Sainsbury

To begin with, I'd like to remind you of the breadth and specialism of the businesses that make up the Close Brothers Group. We've three separate divisions in Banking, Asset Management and Winterflood, each serving distinct customer bases with a range of specialist products and services.

Within Banking, we have three primary business lines: Commercial, Retail, and Property. Each in turn made up of multiple specialist lending businesses in distinct markets. Commercial provides asset, invoice and speciality finance solutions against a wide range of asset classes, principally to small and medium sized businesses. Retail provides intermediated lending, principally to consumers, providing second hand car finance through motor dealers and premium finance through insurance brokers. And Property provides short term residential development and bridging finance for professional property developers.

Close Brothers Asset Management provides financial advice and investment management services to private clients in the UK and has £16 billion of total client assets and Winterflood is a leading UK market maker, delivering high quality execution services to stockbrokers, wealth managers and institutional investors, as well as a full service investment trusts team and Winterflood Business Services.

At our Full and Half Year results, I talked about how important it is that we continue to protect and take our business model forward. Let's take a look at what differentiates this model and puts us in a very strong place to continue to deliver on our long-term track record of growth.

In Banking, our success is supported by our disciplined pricing and underwriting criteria. We consistently apply these criteria at all stages of the economic cycle. Our lending is predominantly secured or structurally protected, with conservative loan to value ratios, small loan sizes and short maturities. We don't operate in the undifferentiated, volume driven markets, which are dominated by the larger banks and we prioritise pricing and margins over volume. Ensuring we have a strong capital, funding and liquidity position, which allows us to protect and grow the business model while meeting all regulatory requirements, is also key.

Our focus on service and personal approach gives us a deep understanding of the needs of our customers, clients and partners, allowing us to offer high service levels and flexible solutions across all of our businesses as we deliver a human fronted, tech enabled approach. We're experts in the industry sectors we serve. In Banking, this leads to fast lending decisions and access to funds when customers need them most. Close Brothers Asset Management, and Winterflood are strong examples of the expertise of our people in their specialist fields, which underpins their success in wealth management and trading.

We've a unique culture at Close Brothers. A relentless customer focus and long-term approach to everything we do are embedded throughout our organisation and I truly believe that this is one of the most important foundations of our success, with our culture key in driving our strong financial performance.

Finally, we lend in a variety of sectors, locations and asset classes, which supports our performance, particularly during challenging times. CBAM and Winterflood also provide

additional income streams. So each of these strengths has contributed to our long-term track record, enabling us to deliver loan book growth, profitability and dividend progression over the years, with each of our businesses supporting our overall performance as a group.

Looking further at how each of our businesses combines our key strengths and unique culture to drive this strong track record. In Banking, our consistent pricing discipline supports our high returns and net interest margin. This is combined with our prudent underwriting, leading to a low bad debt ratio as we maintain this discipline throughout the cycle, with loan book growth remaining an output.

In CBAM, we've seen strong growth with assets under management more than doubling since 2014 and strong net inflows within the historical range of 6-10%, capitalising on our vertically integrated and multi channel distribution.

And Winterflood, which has generated good levels of income throughout all market conditions, growing income over time and has really excelled with the volatility and surge in retail trading we've seen since Covid-19.

Our diversified portfolio of businesses is an important part of our success and resilience over the years. Close Brothers Asset Management and Winterflood contribute to the diversification of the Group, which has supported the stability of earnings and in turn the dividend, particularly in challenging times, as evidenced by this chart. It also allows us to continue investing to grow the business through the cycle. Each of these businesses are valuable components of the Group, with a solid contribution to the Groups' profits. Strong ROEs and attractive growth potential.

I've outlined our long-term track record of growth, profitability and dividend progression over the years. It's our strategy, our culture and our responsibility that form the foundations for this success, enabling us to deliver on our purpose: to help the people and businesses of Britain thrive over the long term.

I introduced our responsibility as a core component of our model when I took on the Chief Executive role last September and as we've navigated through this challenging external environment, our responsibility has been more important than ever.

Our strategy places exceptional service at the heart of everything we do. Each of our diverse, specialist businesses have deep industry knowledge so they can understand the challenges and opportunities that our customers and clients face.

Our culture brings out the very best of our people and embeds our long-term approach and our responsibility reflects our duty to help address the social, economic and environmental challenges facing our businesses, employees, customers and clients.

Our purpose guides everything we do as a business and conveys the important role we have to play in supporting small businesses and individuals. It means helping people and businesses unlock their potential and plan for the future with confidence. Building relationships that stand the test of time and it means that we continue to be there for the long term, making decisions that are right for today and for generations to come. I genuinely believe that our purpose is at the heart of our business, guiding every decision we make and our people believe it too, as reflected by our recent Employee Opinion Survey results.

Earlier I highlighted our unique culture as one of the key foundations of our success. It combines our values of service, expertise and relationships, with our ways of working: teamwork, integrity and prudence.

Taking each in turn, we pride ourselves on our excellent level of service, evidenced by strong net promoter scores and high levels of repeat business across our businesses. We're committed to attracting and retaining talent, growing and building the expertise of our people and I'm really pleased that our most recent Employee Opinion Survey showed that 97% of our colleagues feel they have the skills and knowledge to do their job well.

We take the time to understand and build strong long-term relationships with our customers and clients. Teamwork and promoting a fair and open environment are really important to us, with almost all of our colleagues believing that their team work well together to get the job done. We're committed to acting with integrity and doing the right thing, reflected by 97% of our colleagues agreeing that our culture encourages them to treat customers and clients fairly. And finally, we always take a prudent, robust and transparent approach to risk management.

These values ensure we continue to provide excellent service for our customers and clients over the long term, bringing out the best in our people and supporting our strong reputation.

As discussed at the Half Year results, we've evolved from our previous strategic objectives, 'Protect-Improve-Extend', to 'Protect-Grow-Sustain'. Today, together with my Management team, I'll give you further details of how we think about these, to ensure we can maintain and take forward our strong long-term track record of success.

Our first strategic objective is to keep our business safe by maintaining and enhancing our model's key strengths. To protect our business, it's essential that we continue to invest in it. Our high levels of personal service and specialism are real points of differentiation. We don't compete on price. Our model is fundamentally different to the high volume, low service model pursued by many other institutions.

Through our direct sales force, we've deep knowledge of the industry sectors and asset classes we cover. This, in turn, leads to lending decisions informed by experts and faster access to funds when our customers need them most. Our investments and cost base support the generation of our strong margins, resilience and the future growth opportunities. While we continue to focus on disciplined management of our BAU cost base, it's also essential that we continue to invest in our model, as we've successfully done in the past, to ensure its core, differentiating strengths are not compromised.

On this slide you can see several examples of how we're investing for the future. As we look to build on our track record of successful investments, some of these programmes are focused on protecting our business, strengthening systems and operational resilience and adapting to regulatory change. Others help us grow and sustain our business, for example, by strengthening our customer proposition or driving operational efficiency. And although we continue to invest in our technology, we see this as a way of supporting our human fronted approach, making our experts even more valuable. Our businesses will talk through some of these investments in more detail later on.

Disciplined growth is important and that's why we've included it as a new strategic objective. As I previously emphasised, this doesn't mean we'll achieve growth at any cost. We do not

manage our business to a growth target, but instead prioritise consistency of our lending criteria and maintaining strong returns across the businesses. Loan book growth in the lending businesses will absolutely continue to be an output of our business model.

Although none of us could have predicted the disruption caused by Covid-19, we have navigated its challenges well so far, benefiting from the playbooks and simulations we'd run in prior years to prepare for a downturn. This has allowed us both to support our customers with over 130,000 Covid-19 related concessions offered, totalling £2bn. Whilst at the same time writing record volumes of new business and delivering over £700m of loan book growth.

We've lent over £1bn of loans across the UK Government schemes with the majority in CBILS loans. We made a strategic decision to focus on this scheme over the Bounce Bank Loan Scheme, as it enabled us to apply our normal underwriting discipline and pricing.

We've capitalised on increasing trading volumes in Winterflood and made the most out of demand in our core markets, such as Motor Finance. So, we've been able to maximise the opportunities available to us in the current environment and in the first nine months of the 2021 financial year, we've delivered 8% loan book growth. While we still can't know how the next phase of the cycle will play out, it's our strategic priority to be ready for it.

Historically, this is when we have capitalised on the consistent application of our business model. So we're prepared, operationally and strategically, to continue to support our customers and outperform for our shareholders.

Looking ahead, we're confident that we can continue to grow profitably. We'll continue to assess new growth opportunities that fit with our successful model across our businesses, in existing and new markets. Our business presentations will touch on some of these opportunities in more detail later on.

We have a strong track record of delivering disciplined growth through our existing book, but also in new markets. We're constantly looking for new opportunities and tend to target segments of the market where clients value our personal service and expertise. Over the past 13 years we've more than tripled our loan book, with growth from our existing business as well as from new opportunities. But, how do we assess these opportunities?

As you can see on the right-hand side of this chart, we've developed what we call our 'model fit assessment framework'. In addition to looking at the strategic fit of each opportunity with our objectives to Protect, Grow and Sustain the business model, we also look at eight other criteria, to ensure growth opportunities fit with our model and with our culture and way of doing business.

These filters include more tangible attributes such as the expert, relationship-based and specialist nature of our businesses, the long-term prospects and strong margins, but also include cultural fit. As it's important that we keep intact our responsible way of doing business. Although these are not mutually exclusive filters, this framework ensures we are growing in line with the model and preserving the attributes that will continue to generate value for our shareholders.

Our final strategic objective – Sustain – reflects our long-term approach, which is genuinely embedded in everything we do. That's why it's important that we secure the future of our business, customers and the world we operate in and that we do it responsibly.

We recognise that to help the people and businesses of Britain thrive over the long term, we've a responsibility to help address the social, economic and environmental challenges facing our business, employees and customers, now and into the future.

This collective responsibility is reflected through the sustainable objectives we set ourselves as a business: promoting an inclusive culture and supporting new ways of working and social mobility; reducing our impact on the environment and responding to the threats and opportunities of climate change; promoting financial inclusion, helping borrowers that might be overlooked and enabling savers and investors to access financial markets and advice to plan for their future; and supporting our customers, clients and partners in the transition towards more sustainable practices.

Acting responsibly and sustainably is not a new concept for our business. It's always been our business.

Looking at how our responsibility is reflected across our different stakeholders. For our people, this can be seen through our strong scores in our recent Employee Opinion Survey, with engagement at 91%, and through our commitment to further increase our diversity and nurture our inclusive culture. We continue to partner with organisations such as the Business Disability Forum and now have 33% female senior managers, exceeding the Women in Finance Charter target.

We recognise that putting customers' interests at the heart of our business is central to our success. We also engage with our largest suppliers regularly, with our annual survey indicating that the majority of our suppliers feel positive about how we treat them.

From an environmental perspective, we're supportive of the ambitions of the Paris Agreement on net zero goals. And we're targeting becoming operationally net zero through our Scope 1 and Scope 2 carbon emissions by 2030 and have already seen a 20% reduction in the 2020 financial year. Over the next 12 months we'll be working to gain a deeper understanding of our indirect scope 3 emissions and help shape our own transition roadmap towards lower emissions.

Our goal is to create long-term value and a lasting, positive impact on society and so engaging with local communities is integral to how we operate and conduct business. We take great pride in helping SMEs achieve their ambitions and continue with initiatives such as the Close Brothers SME Apprentice Programme, now into its 5th cohort.

We're proud to be an organisation that supports social mobility and creates equal opportunities for all, regardless of background. We offer coaching, advice and mentoring to students from disadvantaged backgrounds and provide access through structured work experience opportunities, such as through our partnership with UpReach. And we've established programmes to develop talent, with 75 individuals having gone through our graduate programme and nearly 40 trainees completing or still participating in our Aspire school leaver programme.

And now I'd like to show you a quick video covering just a couple of the ways that we're putting our responsibility into action.

Video Playing

To summarise, the disciplined application of our business model supports a long track record of growth and profitability. This is supported by our unique culture and our long-term approach, which is truly embedded throughout our business and how we do business with our customers and clients.

Our diversified portfolio of businesses further supports our resilience and growth over the long-term, with each of our businesses a valuable component in its own right.

You'll hear this morning from our business Chief Executives how we'll Protect, Grow and Sustain our business model and we're well positioned to continue delivering for our stakeholders.

Acting responsibly and sustainably is fundamental to our purpose, strategy and culture.

I'll now hand over to Mike Morgan, who'll cover the strength of our financial resources to deliver on our strategy and I'll come back for each of the Q&A sections and wrap-up.

I hope you enjoy the rest of the presentations.

Our financial strength

Mike Morgan, Group Finance Director

Thank you, Adrian and good morning.

We have a strong balance sheet to support the delivery of our strategy, supported by our disciplined approach on both assets and liabilities. Our disciplined underwriting criteria and the expertise of our people give us confidence in the quality of our loan book, which is diverse and over 90% secured or structurally protected.

As Andy will cover in more detail shortly, our funding base is well diversified, we 'borrow long and lend short', and since the start of the Covid-19 pandemic, we have also increased our funding and liquidity levels, which has enabled us to take advantage of market opportunities.

Our CET1 capital ratio stood at 15.5% at the end of April, with significant headroom against minimum regulatory requirements. We have a strong capital base which allows us to fund growth, and to support a sustainable dividend, while meeting our regulatory requirements. In addition, we have a simple capital stack and have flexibility to raise AT1 to supplement the Group's capital structure.

The consistent capital generation of the Group, combined with our disciplined approach to lending and prudent management of resources, places us in a strong position to take the business model forward.

Investing through the cycle remains a priority for the Group and allows us to protect and grow our business, with ongoing investment critical to ensuring we maintain regulatory compliance, and our operational and cyber resilience. Our multi-year investment programmes continue to progress, delivering tangible benefits and supporting growth in the business. The investment we have made in recent years has also given us some real benefits in responding and adapting our business to the recent challenges of Covid-19. You will hear more about some of these programmes and benefits this morning.

While our strong financial resources allow us to continue investing through the cycle, our strict cost discipline and constant focus on becoming more efficient are also key to creating further investment capacity. As illustrated by this chart, Banking 'business as usual' costs have remained broadly stable over the past three years.

Looking ahead, in the Banking division, we are progressing well with our key strategic programmes. Although cash investment spend is expected to stabilise over the next financial years, depreciation related to those programmes will continue to increase. As I said earlier, we'll continue to exercise strict discipline on our operating costs.

In Asset Management, as we continue to invest in the business to deliver growth and scale, the cost trajectory will depend on the rate of hiring, with investments in technology projects expected to continue.

In Winterflood, we have a variable cost base, which is mainly driven by compensation and settlement costs.

One of our key investment programmes is the transition to the IRB approach to capital management. We have invested significant time and resources on this project and are pleased with the progress to date. The transition to IRB provides us long-term strategic flexibility to fund growth and the benefits are compelling. It will optimise our capital efficiency, resulting in risk weightings that better reflect the risk profile of each of our lending businesses.

More importantly, it will enhance our risk management framework which has been evolving to reflect the maturity and size of our organisation. In December, we submitted our initial application to the PRA. We are progressing through the first phase of the PRA application process and continue to work with the regulator to support their review. Our Property, Motor and Energy portfolios, where the use of models is most mature, have been submitted with our initial application. Other businesses will follow in future years.

We are not providing guidance on the quantum of expected benefit or the timing until approval, although from what we have learned from other banks going through the same process, there is an expectation that it will take at least 18 months until approval and implementation starts.

We will provide you with further updates on this important milestone for our organisation as we move through the applications process.

Treasury & Savings

Mike Morgan

As well as hearing from our business Chief Executives, we thought today would provide a good opportunity for you to hear from our Group Treasurer, Andy Townsend. Andy joined Close Brothers in November last year and prior to this, was Group Treasurer at Nationwide and Standard Life Aberdeen. I will now hand over to Andy.

Andy Townsend, Group Treasurer

Thanks Mike, and thank you all for joining today.

You will shortly hear more from my colleagues about what Adrian described as maximising the opportunities available to us. Of course, we need to be able to finance that growth, and to do so in a way that is sustainable and aligned with our business model.

Adrian and Mike both talked about prudent management of financial resources as one of our distinctive strengths and I will spend a few minutes explaining how that shapes our approach to all things funding and liquidity.

Diversity and specialism have been used to characterise our lending, and this could equally be applied to our borrowing, best described with reference to six broad themes. You can see from the chart on the right hand side that our liabilities are spread over a large number of deep and liquid markets, balanced across both wholesale sectors and customer deposits.

We have steadily broadened and deepened our access to those markets and are happy with our current diverse funding mix. It reduces concentration risk and ensures we can flex our position through the cycle.

On the Savings side, investment in our customer deposit platform over the last few years has allowed us to acquire deposit balances across a broader product range with improved servicing capabilities and increased scalability. And regarding wholesale markets, despite the relatively modest balance sheet size, we have established and developed an array of liability classes, offering real flexibility and providing insurance against dislocation within individual markets.

This funding capability includes the option to make use of high-quality loan assets to access a number of forms of extremely cost-effective collateralised funding.

Wholesale market access in particular is underpinned by our Moody's credit rating of Aa3, one of the strongest in the UK.

The longstanding approach of 'borrow long, lend short' is central to our funding model. It is, and will remain, core to our strategy, with the average maturity of allocated funding well ahead of the average loan book maturity. We do however take a holistic approach, also considering factors such as cost, investor preference, secondary liquidity, maturity concentration and encumbrance.

Liquidity risk is managed in a similarly prudent manner, with a Liquidity Coverage Ratio in excess of 1,000%, well ahead of both our internal risk appetite and regulatory requirements. The majority of that liquid asset buffer is held in the form of deposits at the Bank of England.

Let me expand on briefly how these themes operate across both wholesale and savings areas of the business. Starting with wholesale, we are well-represented across sterling bond markets with senior and subordinated public bond issues, private placements, a public securitisation programme, private secured funding arrangements and money markets deposits

In addition, we have access to Government funding schemes, and are participants in the sterling monetary framework, better known as the Red Book to people of my vintage. This combination of breadth of access together with relatively modest requirements means that we are not beholden to any one market and can optimise both cost and mix of funding.

Whilst we are not an especially prolific issuer, it is worth highlighting our recent debt issues. We accessed the senior market at the end of 2020 and raised subordinated debt in the form of tier 2 just a couple of weeks ago. Both transactions were noteworthy for a number of reasons: extending our maturity profile to 2030, setting firsts for both pricing and over subscription in the Sterling market, and benefiting from an orderbook populated by a list of the key sterling investors, many of you with us today.
The recent Tier 2 was combined with our inaugural liability management exercise, not only retiring 86% of the less-efficient existing securities, but also providing a liquidity event for investors, which represents a further stage in the maturity of our bond market franchise.

These initiatives have not only supported net interest margin through fine pricing, but also had a knock-on impact on secondary market performance of our existing bonds, supporting both our pricing and liquidity in credit markets, positioning us well for future debt issues. I am particularly appreciative of your support as we have sought to actively engage the sterling investor base over the last six months or so.

We also have an established presence in secured funding markets, both private and public. You will shortly hear from Rebecca and Neil, who's businesses provide collateral used to secure these borrowings. Whilst established in most sectors, there still remains scope for growth. For example, one market we have yet to access is that for Green Bonds. I note the exponential increase in activity therein, and we will work closely with our Sustainability team to explore opportunities in that area.

Access to debt capital markets helps us to maintain and indeed extend our 'borrow long, lend short model', with maturities typically well in excess of those available in retail deposit markets. The recent 10-year issue makes us better positioned to target additional longer maturities in future. This is, in part, what we mean when we refer to a programmatic approach to issuance.

Our Moody's rating of Aa3 is a standout within the UK and represents a real competitive advantage. That rating is derived in part from their Loss Given Failure framework, whereby protection provided by loss-absorbing liabilities generates an uplift in rating. Our recent Tier 2 issue should ensure we retain that uplift as described.

Let me turn now to our Savings business, which of course represents a very different proposition to wholesale, particularly with regards to competitive pressures. Nonetheless, here too, we pursue a strategy of diversification, and run a portfolio sourced though a wide range of channels and comprising a range of product categories and customer segments.

The Customer Deposits Transformation Programme supported growth in this area, reducing costs and providing further diversification. It has been genuinely game changing. The programme included a full replacement of the back-office systems, improving resilience and creating a strong foundation to grow our proposition. Since we launched the platform in December 2018, we have brought to market our new notice account and ISA product ranges, and our online portal increasing customer choice. All of these have driven significant growth in Customer deposits, particularly within the retail savings book.

Retail deposits have grown by 41%, an increase of £800 million, equivalent to almost £10 every second. Our overall customer deposits now stand at £6.4bn. Our mix of deposits has also shifted from being primarily the more expensive fixed term offering, to the less expensive notice accounts and ISAs. ISAs, for example, are typically around 20bps cheaper than their non-ISA equivalent. This growth has also supported us in changing the mix between retail and business customers, helping reduce reliance on larger corporate customers, supporting both additional diversity and access to cheaper and typically more stable sources of funding.

If I had been speaking to you three years ago, this part of our business would be wholly reliant on postal applications for fixed term deposits only. We now have almost 40% of our retail customers registered for online banking, many of whom are new to Close Brothers. This has also been particularly valuable in a Covid-19 environment, as it has mitigated the challenges of offering a postal channel whilst working remotely.

The platform also allowed a step change in our operations, reducing manual processing and changing focus to strong customer service and product development and marketing. Our business is operating with the same headcount despite significant growth in deposit balances and customer numbers and our savers seem to approve - we have maintained very high levels of service, with a customer satisfaction score of 84%.

Looking ahead, we are working to further extend the product range, with easy access accounts both inside and outside of an ISA wrapper under consideration.

We are also building the Close Brothers Savings Brand, broadening customer reach and raising brand awareness through our targeted brand campaign. You may have seen the recent adverts we have been running in the Times newspaper.

To summarise, our approach to funding is aimed at ensuring that Close Brothers is in a position to maximise the opportunities available to us. We do this based on the principle of ‘borrow long, lend short’. We have established a presence across a wide range both wholesale and retail markets. We continue to broaden and deepen that presence through both investment and market engagement. We retain a focus on optimising our cost of funds, in support of the Banks’ net interest margin. All of which leaves us well placed to continue to successfully fund and support loan book growth in the business.

Thank you and I will now hand back to Adrian.

Commercial

Adrian Sainsbury

Next, we'll look at the Bank's lending businesses starting with Commercial and I'd like to introduce Neil Davies.

Neil is the Chief Executive of the Commercial business, a role he took on in 2020. He joined Close Brothers in 2007 and has run the Asset Finance & Leasing business since 2016, leading the division and the delivery of several new initiatives since then. Neil has over 30 years of experience in business lending which he brings to the role.

Neil Davies, Commercial Chief Executive Officer

Thank you, Adrian.

Commercial comprises 22 business areas in the UK, ROI and Germany, has over 800 staff and a total loan book of £3.8 billion at April 2021. We are primarily a business-to-business lender and tend to work in specialised niches, within the Commercial division.

The Asset Finance business has a loan book of £2.7 billion, with around 25,000 customers and provides asset financing, hire purchase and leasing solutions across a diverse range of assets and sectors. These businesses operate from 15 offices. Internally, we segment Asset Finance into transport, industrial equipment and specialist lending. Specialist lending includes areas such as energy finance, Braemar who lend to professions such as dentists, and wholesale fleet who deal with car contract hire companies.

Another part of the Commercial division, the Invoice & Speciality Finance business, has a loan book of £1.1 billion and works with around 5,000 small businesses, providing debt factoring, invoice discounting and asset-based lending. This area also includes some smaller specialist businesses, such as Novitas and Brewery Rentals.

Much of our lending is in specialist niches. Many of our customers are SME's and at one end, we will lend £10,000 for dentist chairs, £40 million of invoice discounting to a temporary staff provider, through to £80 million on a series of linked energy sites.

The two longest established asset lending businesses in this area are industrial equipment and transport; they have been lending for over 30 years and they sustain long term customer relationships. Average deal sizes are around £70,000.

The majority of their customers don't buy a new truck, or CNC drilling machine every month, or even every quarter. But, when they do want a new truck or a lathe, they may be part exchanging equipment already on a finance deal with us, or in some cases may be interested in our view on the five axis versus the four axis milling machine. They may just want a quick easy deal from someone they know and trust.

Of course, most of the equipment we finance is standard: trucks, vans, excavators, print equipment, industrial presses, cranes, crushers, trommels. But we also finance some leading-edge products, things like electric vans, large and small, compressed gas trucks and often do this in special arrangements with suppliers or customers. For example, we finance electric black cabs for London, but we also finance the same manufacturers' demonstration fleet of electric vans.

We like to gain real life experience on a small scale to fully understand the issues and benefits before expanding our appetite, we actively seek new business areas constantly.

Often finding an asset type, we research the market, probably doing a few deals, and if we like it, then try and find a specialist, or specialist team to grow that business. Examples of this approach include ABL (Asset Based Lending) in Invoice, Energy Finance and Personal Contract Hire. Nearly half of the Asset Finance loan book is from post 2008 initiatives

Many SME's are owner managed. They remember who has helped them, who maybe had difficult conversations with them, but were clear and honest.

Sustaining excellent customer service is hugely important to us, the latest net promoter score for our Asset Finance business was over 70%. But I'm more interested in repeat business levels, maintaining strong relationships – with Close Brothers - not with individual employees. It's key to our long-term success and protects us against competitor activity.

Much of the equipment we finance in transport and industrial equipment depreciates slower than the loan amortisation, equity builds, this can enable us to lend new money more safely, even with reduced deposits where necessary. Or even refinance the existing equipment for a higher value than the outstanding loan.

In market testing, we found that our customers liked Close Brothers, and had a real rapport with our operations staff. Actually, most of them spoke more to operations than sales, and they knew them by name. That was an important lesson to learn at the point we were designing new systems to take us more digital. When we examine our operational design, the spans and layers for our business don't look "standard". Particularly in sales, we have many people with only one or two direct reports, but this ratio allows us to build specialist knowledge through the salesforce; it helps us grow managers, it means that all significant customers have more than one point of contact and a more collegiate way of working.

We operate a direct and indirect model to market, about half our business comes from a third party; that could be a manufacturer or dealer, an advisor or broker. But regardless of how a deal comes to us, we like to see the customer face-to-face. We believe that this leads to better credit decisions, lower fraud levels, and better customer service.

Our sales people are also involved when a deal goes wrong, we find it helps with recoveries and sales people learn from it. It helps them understand why we maintain discipline around our credit quality and also why we prioritise returns.

In many markets, we provide standard finance on standard documentation. But particularly in our Invoice and Leasing businesses, we have the expertise and capability to create bespoke transactions. This could be simply the mix involved in an invoice ABL (Asset Based Lending) deal with debtor book, stock and property or a multi-currency transaction in Leasing through to buying receivables based on a one-off document. All of our deals need to meet our credit criteria and pricing thresholds, no lost leaders.

So, how have we achieved our long-term track record? Why are we resilient? And how have continued to both sustain our position and grow the business throughout the cycle?

When our competitors lend more cheaply than us, when money supply is plentiful, and we won't change our pricing, or lending credit criteria, we do grow more slowly. But we still grow.

Actually, we grow overall, some of our business may not grow every year, but that's the benefits of a diversified portfolio of businesses, even as a Commercial division level. You can see that from the slide, in years 2016-2018.

Our strong focus on returns and pricing discipline can be seen through the consistent net interest margin we are able to generate. Our focus on credit quality and our prudent underwriting approach is also demonstrated through our bad debt ratio, which has remained relatively stable.

Looking now at some of the recent deals we have worked on. We can't help every customer in trouble, but even a quick no is appreciated. Where it makes sense to us to support our customers who are experiencing cash flow issues, it's often rewarded with loyalty.

My first example is a company in Anglesey. Over time, they will be creating a green powered estate on the site of one of Anglesey's largest employers until it closed in 2015. We have funded equipment from blue machinery with whom we run a vendor finance scheme, and this will enable the recycling of various materials. This includes taking non-recyclable plastics back to oil.

Our loan is backed by an 80% government guarantee, but we also have a £200,000 deposit. We believe the equipment value to be greater than the outstanding loan balance and that the gap between equipment value and amortised balance will increase in our favour over time.

DecTek is a company based in Pontyprith, in Wales. They are an award-winning printer and manufacturer of advertising, marketing and promotional products. Given the nature of their business, they were impacted by Covid. We granted them a three-month moratorium and also provided a CBILS facility to support the growth of the business as they entered into new markets.

You will now see a video from Mike, the founder and managing director of DecTek.

Video Playing

The Commercial division is a face-to-face organisation, internally and externally, but even before Covid, we recognised that not all of our customers were the same, and that it's not always economic for us to spend too much time on lower value lending.

Three years ago, we had over 60 different documents for hire purchase transactions. We didn't have economies of scale. In some areas, nearly half our deals were administered and paid out in the last week of the month. What we needed was to standardise workflows, to capture clean rich data, to reduce unnecessary complexity, to have electronic documents, customer portals, but not damage our model and most importantly, persuade our people to embrace the changes and work with the new systems.

So, we began the Asset Finance transformation program. This would automate or semi automate the non-value adding parts of the customer journey; protect the business whilst at the same time giving us scalability and flexibility. A key decision was to buy not build.

We moved to agile working in the project, this is adding value every 30 days. This meant we could launch minimum viable products, as long as they worked and were better than what went before. We launch to start seeing benefits, then continually improve and innovate.

Often, we describe the Asset transformation in three pieces: front office, a customer relationship management tool; middle office, proposal to pay-out; and back office, bill and collect. But the hidden gem is the access to quality data. With the right data we can open up digital channels for customers to use, we can more easily report, react more quickly to regulatory changes, seek more customers that look like existing good customers and manage the salesforce better.

During Covid, we took on the CBILS product in-house but based on our front office system, we automated the eligibility testing. This took us 10 days to build, test and launch, but it meant our look-back risk is significantly reduced because we had complete consistency. We were also approved to offer Bounce Back loans but we didn't view this as a value adding product from us at least for the vast majority of our customers. We didn't give the product to our sales force, but our collections department used it for some customers where we believed it appropriate.

Our total Bounce Back exposure is over 106 deals and £2.3m. Without the new front office system, we couldn't have written CBILS deals as safely. We have already far exceeded the benefits case associated with the project, we would have struggled to report to the Treasury and BBB. With new IT projects people often talk about adoption or rejection, we treated our transformation as a people project.

We had made using the new system part of the credit process, if a deal wasn't in the system, no credit approval. So, we engineered adoption. But the last year has demonstrated the real value to our teams and now the system is embraced. The middle office product is currently in user testing for a late summer launch and a supplier is contracted for our new bill and collect platform with work already underway.

We know smaller SME's often do their paperwork in the evening, that being able to get a statement from us at 9pm would improve their experience with us. But I want us to contact them the next day, by telephone – did they get what they wanted? Do they want us to schedule the same next month? Next year? We don't want to lose that customer rapport which differentiates our model.

The UK Invoice Finance market is worth £21bn. 70% of the market is with the four main clearing banks and we sit in 6th position in the table, with around 15 other mainstream providers behind us. The model is the same, we don't compromise on price or credit quality.

I have some customer quotes which I think nicely sum up this business:

"They were very accommodating".

"We are a privately owned business and relationships are important to us".

"Our main operating issue is cash flow, so we have an invoice discounting facility with Close Brothers, but they also offer a stock facility. Stock is the biggest item on our balance sheet and it's not funded by mainstream banks". Now I'm not sure their belief on stock finance is true, but that was a quote from the finance director of a large SME.

Another quote is: *"We want to grow the business, growing increases working capital requirements, but we also want to increase automation which means capital expenditure. We think Close Brothers will support us on both requirements"*.

We continue to invest in this business as well. Our factoring platform was replaced in May this year and we are in discovery for a significant upgrade of our IDeal system – this is the system which takes data overnight from our customers ledgers and gives us a real competitive advantage.

M&A is currently increasing in our target markets, and invoice discounting and or asset-based lending is increasingly used to help finance changes in ownership.

We view Invoice Finance as an early warning system for other parts of the business, it's a barometer of demand and this is exactly what we saw with the lockdowns during the past year. The Invoice Finance sales volumes were closely linked to the performance of the wider economy. As various parts of the economy shut down, sales volumes dropped because SMEs were no longer generating invoices at the same level. Obviously as the wider market activity picked up, so did our cash out volumes. The lockdown periods are mirrored in our cash out figures.

Our businesses also adapted during Covid, mainly to support our customers. Most of you will be aware that we have a brewery business. I think it's an interesting example of how our businesses understand their sector and adapt when required. When brewers couldn't sell their beer, they had two requirements: empty the kegs and casks in an environmentally friendly way; and reclaim the prepaid VAT. We were the trusted partner chosen to decant more than 130 million pints of beer for many of the UK brewers, but also provide an audit trail for HRMC.

I said earlier that we constantly seek new ideas and markets, two examples are Energy Finance and Wholesale Fleet. Both of these followed the model: research the market, write some test deals, then employ the specialists we want to grow that market.

In Energy, our product mix has changed as the UK subsidy regimes changed, initially very weighted towards onshore wind, we now have a mixture of onshore wind, solar and reserve market installations.

Turning to our Wholesale Fleet business, this has seen negligible credit losses through its history, with 100's of million in volumes each year. We still look at every deal on its merits, a bigger deposit, maybe a bigger supplier discount, it can make a deal work, make it asset secure.

Our customers appreciate us working with them to structure deals that work for them, their customer, and us. They know they pay for that service through the margin we charge. They may mention our rates to us regularly, but our customers are 36 of the top 50 contract hire companies in the UK and all of them still deal with us every month.

We were always at the front in lending on electric vehicles and now have a deal to finance the Octopus Energy product offering electric only cars to its customers.

This is a coherent profitable business. We maintain the key elements of the Close model, face-to-face, consistent underwriting and pricing, niche specialists, bespoke where it adds value. Our new systems will add consistency and scalability and we will enter new business areas where it makes sense.

Thank you.

Retail

Adrian Sainsbury

Moving on to the Bank's Retail lending business, I'd like to introduce Rebecca McNeil.

Rebecca joined Close Brothers in April 2018 and was appointed Chief Executive of the Retail business in 2020, with responsibility for the Motor and Premium businesses. Prior to joining Close Brothers, Rebecca was at Barclays, latterly as the COO of Business Banking.

Rebecca McNeil, Retail Chief Executive Officer

Thank you, Adrian.

Retail predominantly provides loans to consumers and small businesses through our intermediary broker and dealer partners across Premium and Motor Finance.

Motor provides point of sale finance for customers to purchase used cars, motorbikes, and light commercial vehicles, and funding for dealers' forecourts partnering with over 6,000 dealers and brokers across the UK and providing finance for around 280,000 customers, typically financing used cars around 3 to 4 years old, at the £7,000 to £8,000 price mark.

Premium finances insurance policies for businesses and consumers from home and motor policies to indemnity and broader business insurance serving over 3 million consumers, and providing finance to 1 in 7 families in the UK.

Combined, the businesses have a loan book of £2.9bn, representing 35% of the total Bank loan book. We have seen consistent growth across the business over a number of years. Our Retail business is complementary and cyclical; we saw loan book growth in our Motor business from 2012 to 2017, which then plateaued and Premium enjoyed a period of growth from 2015 to 2019. More recently, we have seen Motor return to growth following our investment programme. The complementary nature of the two businesses supports the organisational decision to bring them together under single leadership.

The NIM is high for the markets we operate in, though pricing pressure exists in each market driven by growth of Motor lending in Ireland and consolidation of brokers in Premium.

We see strong net promoter scores across both businesses which perform favourably amongst our UK banking peers a testament to our human fronted, tech backed approach to customer service. And, we remain confident in the overall quality of the Retail loan book, underpinned by our prudent underwriting and pricing discipline

The bad debt ratio for the 2020 financial year primarily reflected the impact of Covid-19 on the forward-looking recognition of impairment charges under IFRS 9. The bad debt ratio for the first half of the 2021 financial year is reflective of improvement in macro-economic forecasts and scenario weightings, but also good progress on curing of forborne loan balances.

When looking at our Motor Finance business, you can identify four strengths to our model. Firstly, longstanding relationships with our dealer partners who we support through our local sales network. We have consistently seen a strong dealer satisfaction demonstrating the strength of our relationships and value proposition, centred around customer finance, dealer funding, compliance education, and business insights.

Secondly, the service provided by our Operations teams, who continually work to uphold the best standards. Over three quarters of dealers' state we are their first-choice provider, and 90% rate our sales service as very good.

Next, our prudent and consistent underwriting based on a complete view of the customer, partner and asset, with only a small proportion of our business written under higher risk PCP products. Underwriting speed and capacity will further improve as we launch our new underwriting platform in late summer, which will increase auto decisioning and improve our accept rate.

Lastly, our reputation in the market has strengthened year on year, which has been demonstrated through the continued rise of our brand equity score to 61 from 46 back in 2017, with the highest score among our direct competitors being 52.

Within Motor, we operate across five dealer segments, predominantly smaller independents, with some focus on mid to large sized national dealerships. Within these dealer segments, a typical Motor Finance customer is in full time employment, with a good credit history, and their car is essential to them. As well as consumer finance, we add value to our dealer partners with our levels of service and expertise, and our commitment to lending through the cycle.

To improve the service we provide our customers and dealer partners, we invested £33m in a programme to develop our proposition, enhance operational efficiency, improve our underwriting and collections processes and upgrade legacy technology, increase sales effectiveness and customer experience.

This has resulted in substantial benefits and improvements to the experience for our customers and partners, culminating in overall increases in new business volumes in our UK business. Our H1 2021 UK new business volumes were 57% higher than that of H1 in 2018, highlighting the success of the investment to date.

We will ultimately deliver more efficient and accurate lending decisions, an improved control environment and process, new digital capability, and increased net promoter scores and brand equity scores of +65 and 61 respectively. And, with the deployment of our new underwriting platform through our credit optimisation project, we are forecasting an increase in accept rates amongst other benefits.

Our typical asset is a used vehicle, which enables us to avoid any sharp initial depreciation as the asset leaves the forecourt, and also enables us to minimise the impact of emerging trends as we can monitor their impact, a good example being the rise of electric in the new car market. The time to flow to the second hand market gives us greater ability to learn and design the right products.

Our typical customer sees their car as an essential asset. This, coupled with the lower value associated with used rather than new cars, makes our portfolio less susceptible to changes in legislation, sentiment, and demand.

We perform regular in life valuations, with residual value and auction performance analysis to ensure residual value at inception remains adequately and conservatively set. This, along with most agreements being hire purchase or conditional sale rather than PCP or PCH, further reduces our levels of residual value risk.

A strength of our model is the ability to continue to lend through the cycle, as we did in 2008, which enabled us to exceed growth in the market. Since the easing of Covid-19 restrictions, we have again outperformed the market by sticking to our model and continuing to lend through the cycle as our competition retreats.

We mentioned earlier that one of our strengths is our longstanding dealer relationships, where we are more than just a finance partner. The quote you can see provides an example of how we focused on providing continuing strong service levels throughout the Covid-19 pandemic. And we also have a video from one of our dealers, Comber Commercial Centre, who I had the pleasure of visiting in 2019, sharing their thoughts on our compliance expertise.

Video Playing

The ideas and initiatives outlined on this slide represent exciting growth opportunities for us as a business.

Different routes to market – we embrace the explosion of digital disrupters into the automotive ecosystem and at an industry level, celebrate the fact this is creating more frictionless and digital means for a consumer to find a vehicle to suit their needs. We don't primarily see this as competition or a threat, rather an opportunity to partner with these organisations and help position Close Brothers Motor Finance wherever the customer is going for their automotive needs.

Through our transformation programme, we've developed a set of data links called API's that enable us to connect into various partners and allow our finance to be positioned at the appropriate point in the customer journey. Of course, we will continue to digitise the end to end customer journey and we will do this through the continued evolution of our own offering, but increasingly partner with organisations who are developing digital capability.

Dealerships – we continue to see the dealer as critical in the automotive ecosystem and our continued high-touch account management service is evidence the fact that we will continue to support our dealers. And, many of the partners I have just spoken about are creating new digital routes into the dealership itself.

We focus on supporting our dealers with funding for their business, helping them act in a compliant manner, the retail finance solutions we offer and we are increasingly developing our insights proposition to better help the dealer manage stock on the forecourt which will help the dealer increase speed of sales and profitability as well mitigate the potential for loss.

AFV's – the rise of Alternative Fuelled Vehicles is welcome and one we very much support as part of our sustainability agenda, however, these changes are not yet filtering right through to the used car marketplace. That said, we are readying ourselves for this and have been developing our credit policy to support our dealer partners as AFV's hit their forecourt. And we have developed insight and information to educate our colleagues and our dealers on the options for AFVs, so they can, in turn, support customers with their buying decisions

Now looking at our Premium Finance business, there are four distinctive strengths to our model.

Firstly, long-term, broker relationships developed by our sales and operations teams who support our brokers in the long-term, with an average broker relationship lasting 10 or more years.

Secondly, our teams' SME and consumer credit lending expertise enables us to support our brokers with their regulatory and compliance requirements and we deliver an accredited sales training programme to our brokers to further aid them.

Next, we deliver our service through technology and processes which are fully integrated with the brokers insurance or software houses to provide excellent speed of service. We also offer

additional value through our payment services and data analytics capabilities, which are unrivalled by our competitors.

Lastly, all this technology is underpinned by strong operational resilience, which has resulted in limited downtime and consistent availability of our service.

Premium services two primary groups of customers, personal and commercial.

Our personal lines customers represent a broad range of demographics, age, and affluence, who we support by helping to make insurance more affordable by spreading the cost of the insurance payment over 10 or 11 months. This would typically cover commodity products such as household and motor insurance, and we fund insurance for one in seven families in the UK.

Our commercial lines customers are typically within construction, transport and manufacturing sectors, who use our products to improve cash flow and preserve lines of credit. We fund insurance for one in 20 businesses across the UK and Ireland. Premium Finance approves a new loan every 2.4 seconds.

We are focused on achieving great customer outcomes across both our personal and commercial lines products and this can be evidenced through our NPS score of +62, which is higher than our UK banking peers, as well as our positive customer service metrics and low level of complaints.

The high barriers to entry in the Premium Finance market from compliance and regulation, to technology, infrastructure, and expertise, mean that our direct competitors remain broadly the same over time. However, the strength of our service and relationships is key to maintaining an excellent customer experience and maintaining our position in an extremely competitive market, with high levels of M&A activity seen between brokers.

The diagram on the right-hand side of the slide shows the breakdown of the £50bn total non-life UK insurance market. Of this market, approximately 14% is funded by third parties including ourselves.

To continue to stay ahead and retain our broker relationships and market share, we invested £30m+ in improving our process and proposition to enable us to continue to provide a superior service and experience to our customers and brokers. This investment enabled us to increase our loan book by 49% since initiation and win some significant Broker relationships, driving £1.2bn of additional volume since 2015 annually.

Looking to the future, data and digital are key trends for Premium Finance. We are able to use data to provide our brokers with better insights and help them build their customer proposition, and to ensure great customer outcomes. And, building out our automation and digital platforms will help our partners and customers to self-serve where they want to and if they want to, leaving space for higher quality conversations where they are needed, developing on our aim to be a human fronted, tech backed organisation.

In summary, we aim to deliver great customer outcomes, have a strong growth record, a differentiated proposition, a stable business, a strong reputation bolstered by experienced colleagues, and are well positioned for future growth.

Property

Adrian Sainsbury

The next business we'll discuss today is our property lending business and I'd like to introduce Frank Pennal. Frank will take you through our Property business and how it contributes to the delivery of the Group's strategy. Frank's spent 36 years in specialist property finance. The last 24 of those years with Close Brothers, 16 of them leading the business as Chief Executive. Driving its profitable growth during that time.

Frank Pennal, Property Chief Executive Officer

Thank you, Adrian.

The Close Brothers' Property business comprises of two main businesses: Close Brothers Property Finance, which amounts to around 75% of the loan book, and Commercial Acceptances, which makes up the remaining 25%. More recently we have established a bridging business in Manchester, which I will touch on later.

Property Finance was established about 38 years ago and has been a continuous lender to the residential property development market ever since and including through the recession of the early 90's and the Credit Crunch of the late noughties. Commercial Acceptances was established in 1982 and acquired by Close Brothers in 2008; it similarly has lent through good and bad times. Both businesses provide a similar high-quality customer proposition based on market understanding and speed of delivery provided by our specialists who are widely acknowledged as the best of their type in the market.

The businesses are run as two separate brands targeting different niche areas of the property development market, but both share common characteristics. Both businesses' core activity is residential development, the primary differentiator being that Property Finance principally finances new build development throughout the UK, whereas Commercial Acceptances finances conversion of existing stock principally within the boundaries of the M25. Both have market leading positions within their specific areas of operation. The businesses complement each other, with cross referrals a regular feature.

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

We have seen significant growth in our Property loan book in recent years and the book now stands at around £1.6 billion, approximately 20% of the Bank's loan book. To further illustrate the growth, when we acquired Commercial Acceptances in 2008, it had a loan book of £80 million and a staff of eight. The loan book has since increased to approximately £400 million supported by a team of 30. Our average loan size is c.£1 million. This is down to the mix, with Commercial Acceptances at around £500,000, against £2 million for the average new build Property Finance development.

Loan tenor also varies, six to 12 months is the average for Commercial Acceptances and Property Finance is longer at between 12 and 18 months, a function of the larger development size entertained by Property Finance and the fact that it is funding new build whereas the majority of Commercial Acceptances loans are refurbishment projects. We lend with a maximum loan to gross development value of 60%, and typically in the range of 50 to 60%. The average across the loan book is 55%.

I mentioned that Commercial Acceptances also provides bridging finance, it's approximately 30% of its loan book. This is short term, secured lending typically against property acquired at

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

We have a strong position in the residential development finance market, where we are the largest non-clearing bank lender by market share. Latest Cass Business School research evidences that we have a 10% share of the total residential development market.

This slide illustrates what, when taken collectively, differentiates us from the rest of the market. We have consistently lent to the market, and actively grew the loan book during the Credit Crunch, when virtually all other lenders stopped lending. We have not sought to change the terms of our core offering, and this consistent approach is recognised by the vast majority of our clients, and certainly all those who traded through the Credit Crunch period and were let down by other lenders.

We very deliberately sought to expand our offering in the regions in 2014. Whilst historically we had always promoted ourselves as a mainland UK lender, at that time the majority of the book was within London and the South East; as the regional economies recovered we sought to expand our presence in the stronger cities and market towns across the UK. Now virtually 50% of the Property Finance loan book is outside London & South East, predominantly supporting family owned businesses building traditional family housing.

We have strong presence in Scotland, and more recently lost the mainland UK tag as we have built up a small business in Northern Ireland. We have recently expanded the bridging model by opening an office in Manchester, and this business is now consistently profitable within 18 months of set up. We are confident in our regional exposure, where the quality of borrower is high, and on a par with that seen in London and the South East.

The expertise and quality of our team are critical to our success and approaches from other lenders are a regular feature. However, in the past 25 years, we have only seen two senior departures to other lenders, and whilst we pay our people well, this says more about the culture we have created than anything else. The experience of our lenders means they understand our credit appetite facilitating speed of service, with our mantra being a quick yes, and a quicker no.

Our clients recognise the quality of service and lend in all markets approach and this is reflected in the level of repeat business, which consistently tops 75%. We lend within conservative parameters, and aim to attract like-minded borrowers who see the sense in not over stretching themselves in the knowledge that they are dealing with a bank that has been, and will be around for the long term and has a consistent appetite to lend, aided by highly experienced specialist lending teams.

Virtually all other specialist lenders in our market are now lending in the range of 65% to 70% loan to gross development value. The vast majority of our borrowers are not driven by the highest percentage lend; they have equity. We are only willing to write business on our terms and with developers we want to work with, and it follows that they want to work with us.

This slide supports our lending through the cycle narrative, with the loan book peaking in 2019. However, the Covid impact is clearly evidenced in the loan book as lower drawdowns and higher repayments saw the loan book reduce in FY20 and HY21, with the Q3 loan book broadly stable on the position at HY21.

Drawdown levels were impacted both by on-site Covid measures and developer hesitancy around new developments, and repayments by a combination of pent up demand post-lockdown and buyers taking advantage of the Stamp Duty holiday and the, since revised, Help to Buy scheme. The repayment levels have since started to moderate and we should return

to loan book growth as the stamp duty holiday is phased out, and the new Help to Buy schemes, which are less favourable, kick in.

We have a solid undrawn pipeline of just over £1bn, up 11% on HY20, which leads us to anticipate growth as repayment levels fall. It is evident from the graph top right that we have not sought to compete on price, with the NIM still running ahead of 7%. Nor have we sought to compete by increasing our loan to gross development value, which remains the lowest amongst the specialist lenders at maximum 60% and this is reflected in the levels of bad debt seen in recent years.

Prudent lending at attractive margins, justified by a best in market service-driven proposition means that loan book growth will continue to be an output.

We are blowing our own trumpet a little bit with this slide. We receive numerous testimonials from our clients, and three are shown on the slide. Nicholas King Homes are longstanding clients, and operate in the Bucks, Berks, and Herts region, typically building family houses. We are their lender of choice. Nicholas is a vocal supporter of what we do and has encouraged a number of other developers through his senior position within the Home Builders Federation to make use of our services.

Beechcroft are one of our larger clients and backed by the Carlyle Group. They operate throughout the South of England in the upmarket retirement home sector. I have known Chris Thompson, the CEO, since he joined Beechcroft in the 1980's. Beechcroft only borrow from Close Brothers.

The third testimonial is from the Managing Director of Amara Property, who is featured in one of our adverts, shown on the right of the slide.

Our client's range in size from small family owned businesses operating out of one or two towns within a county, to large regional, but still privately owned developers. We provide finance to two of the top three privately owned housebuilders in the UK, both of whom feature in the top 20 largest housebuilders list.

The average value of new build residential unit sold is about £550,000, and at any point in time the Property Finance business is financing in excess of 5,000 units across the UK. Briahaze are a good example of a smaller developer, and one of many longstanding borrowers, they illustrate nicely what our business is about.

Video Playing

This slide addresses the current lending market dynamics. Put simply the market remains competitive for both Property Finance and Commercial Acceptances. Whilst the early days of first lockdown saw a number of lenders pull out, pause lending, or scale back their offering, virtually all have returned and many are more aggressive than previously, with some as a consequence of CBILS use, and with others an undimmed appetite to grow their lending, in many cases uplifting LTGDV support to do so without necessarily uplifting pricing. This is particularly true of the specialist lender and private equity backed market.

Clearing banks appetite continues to reduce as they struggle to get the level of returns to make it an attractive sector to continue to operate in and fail to offer the level of service/expertise that might justify a better return. With established developers, our name in the market means

that we are usually the first port of call when a developer funded by a clearing bank is looking either to replace or add to the lenders they deal with.

In the context of Covid, the uplift in market values in 2020 caused by the Stamp Duty holiday, and rush to benefit from the old Help to Buy scheme, led to house prices growing by 7% when a fall in values might otherwise have been expected. The extension of the Stamp Duty holiday has continued to underpin activity and house price growth in 2021, in part underpinned by continued low level interest rates. However, as the Stamp Duty holiday is phased out and the furlough finally ends, we anticipate that some of the intense competition we are seeing will reduce. Other factors impacting the dynamics in the market include a continued shortage of housing, and a desire on the part of the Government to see more houses produced.

I mentioned earlier that we built up our business in Northern Ireland, and we have recently established a bridging business in Manchester, which in its first full year of trading, will show a profit, and is trading ahead of our plan pre-Covid which, given it was a start-up is very pleasing.

In determining to effectively replicate the Commercial Acceptances model in the North, we did look at the possibility of making an acquisition, but we could not find the quality of loan book or Management, hence the start-up approach. Whilst Commercial Acceptances have a small percentage of their loan book outside the M25, they are essentially following existing clients when lending outside their core geographic area. The opportunity for further growth of this business via regional representation in the Midlands and South West is currently under consideration.

In addition and with an eye to the future, and tomorrow's developer, we have set up an in house team largely comprised of our younger lenders, to determine how best we might attract early the next generation of developer, with funding being one of the greatest barriers to entry into the development market. In essence, we will be offering a mentoring programme utilising the expertise that exists within the business alongside those of the professionals we employ (legal, valuation, and build monitoring experts), aligning with the likes of the Home Builders Federation, who are running a similar programme and whose membership account for 80% of all houses built within the UK.

We have good visibility of the future pipeline. We are well positioned to deliver future growth over the long term, and our priority will be to maintain our margins and the high quality of our loan book, and take advantage of opportunities that arise to grow our loan book both on the back of initiatives and adjustment to the market dynamic.

In summary, prudent lending at attractive margins, providing excellent service, and with loan book growth remaining an output. Long term growth. A continued focus on lending to high quality counterparties in the regions. Although the lending market is anticipated to remain highly competitive, we remain confident in the high touch model and have no plans to adjust lending criteria. We are proactively developing ways to identify and capture the next generation of developers early.

Thank you.

Adrian Sainsbury

That concludes the presentations from our Banking businesses and we will now move to Q&A on the presentations we have seen so far on the Group, Treasury and the Banking businesses.

You can ask your question via the telephone conference line or by typing it into the webcast. I'll now hand over to the moderator to start the Q&A.

Q&A session 1

Question 1

Raul Sinha, JP Morgan

Good morning everybody, thanks for taking my questions. I've got quite a few, but perhaps I might start with three and come back if we get more time.

Firstly, I think you reiterated quite a few times that loan growth is an output of your strategy and your pricing discipline, but this cycle is obviously quite different from historical ones in the sense that mainstream banks are coming up with very strong capital and liquidity, which was very unlike the case post the GFC where you saw strong loan growth. And yet what we have seen this year is your loan book has picked up again to roughly 8% from being flat the previous year. So I was wondering if you could talk a little bit about what you are seeing in terms of the combined competitive landscape across your many businesses, and what that means for the loan book trajectory going forward. That's the first one.

The second one is on your cost outlook commentary. I was wondering if you could give us a little bit more colour on your statement that your cash investment spend is expected to stabilise over the next few years. If I just look at the numbers, investment spend has doubled over three years and is up 30% over the past year. So a little bit more colour there would really help.

And then thirdly, just trying to understand technology and your positioning in terms of technology platforms. Could you give us an overall sense of how many of your businesses are on brand new technology platforms, how many of them are on legacy or let's say platforms that could be upgraded, just to give us a sense of where you are in the technology transformation process. Thank you.

Adrian Sainsbury

Thanks Raul, and I'll take each of those in turn. As you rightly picked up and it was reiterated a number of times during the presentations, loan book growth will always be an output, and as you also alluded to, we're at an interesting stage of the cycle. If I look back a year ago just leading into lockdown and then the two months afterwards, if you look at our Q3 statement last year, the loan book had actually turned down, the growth had actually turned down slightly. Since then we've quite interesting growth across the businesses that we've alluded to at our Full Year statement in September and the Half Year in March, and we've seen different growth across each of the businesses, as we've touched on.

You rightly point out the cycle is different this time. The banks are better capitalised. We've seen a unique position of government support both for consumers to avoid unemployment and

SMEs to avoid insolvency. That clearly has had a very positive impact on the UK economy. It's also kept a number of banks in a position where they can keep lending.

If I look at the growth that we've seen, the 8%, I think that's a good number for the position we've seen. It's been well managed and it's spread well across the businesses. Particularly notable you'll have picked up in the Motor Finance UK business, we've seen growth from a business that's a good margin business. It has been shrinking as Rebecca indicated, in previous years, and its return to really good core growth for us, so that's good.

And Asset Finance as well, another key business for us, as Neil highlighted. We've benefitted from the CBILS loan scheme. We made a really good strategic decision there not to go for Bounce Back, in my mind, where it's much lower margin, it's a 2.5% gross yield, so a NIM of 1%, and also it's effectively self-verified by the SME, so lower risk as well. So in that business we've seen good growth as well. So, loan book growth overall at 8%.

Your question's a little bit forward looking of course on what do we expect to see. So as I alluded to, the competition has stayed in the markets. That's been possible because of the government support. But we're seeing a lot of that change as we stand. If we think about it, the furlough scheme is about to fall away. The CBILS scheme and the Bounce Back schemes ended at the end of March. There's a drawdown period on various types of product up to the end of November. But clearly those schemes are coming to an end. In the property market, the Stamp Duty cut up to £0.5m is being phased out in the period up to September as well. So there's a lot of support moving out of the market. There's a lot of customers now, SMEs, who will have to start paying rent again. They'll have to start paying an HMRC holiday as well. So there's a lot still to play out I would say here. And that's where our preparation we've talked about on the playbooks and simulations have helped.

Interestingly, we had a strategy event with our Group Board last month, and we went back to the playbooks and we looked at a couple of simulations. Let's say let's hope the one we hope we'll see is a smooth move for the economy from here, the vaccines work, there's no further significant lockdown in the winter etc. I think 8% is good loan book growth in that environment, and I'll touch on each of the businesses in a second.

We also looked at a more discontinuity, more bad news sort of environment. Clearly that is more likely to show the 20% opportunity. That's where I think some of the players in the market may struggle more. Peer-to-peer lenders we've already seen some impact on. And that's where our expert model, our high touch model, our repeat lending through the cycle, and the benefit of having 90% of the business secured or structurally protected, really comes out.

I'll just touch on the businesses as the Chief Executives have done very quickly and where they're placed. If we look at the Commercial businesses, Asset Finance has performed really well with the CBILS Scheme. We still have a pipeline to draw there as I alluded to, up to September sort of November time, so that's positive. We have an application agreed with the British Business Bank on the Recovery Loan Scheme as well. Also interestingly, we wrote record volumes in Asset Finance from lockdown lifting last June. We estimate that about 50% of the business that was on CBILS we'd have written anyway as well. So the Asset Finance business is well placed, together with some of the initiatives that Neil talked about.

Invoice Finance, Neil highlighted the volatility of that cash out book that follows the sales volumes of SMEs. Clearly as the economy rebounds we'd expect the cash out or our loan book in Invoice Finance to pick back up. Importantly, we still have the clients there.

In Premium Finance, let's move onto the Retail businesses, we did have the usual seasonal downturn in January, and in the most recent lockdown, we have seen a little bit of new

customers not moving into a used car or a new car and not needing a motor policy, so that's been a slight impact as well along the way. And there haven't been new drivers able to sit driving tests so haven't needed a policy for the first time. Clearly we'd expect that to revert as we go forward.

Motor I think has been a great story, the way that business has adapted, and as I mentioned moved the volumes up, and we saw record volumes throughout the period after lockdown lifting last June. I think that's really interesting because there has been talk about the Motor Finance business that we have been open to disruption. Clearly, after lockdown in April and May last year, that would have been a point where consumers could have thought, I don't really want to see a car dealer, now's the time to go to an online only finance house. Very clearly that's not what we saw. So the Motor Finance business going well as well.

And lastly in Property, Frank highlighted the undrawn pipeline we had, £1bn it stands at at the moment. We have very good long-term relationships with our customers. So I think the loan book position overall for the Bank benefits from the diversity of those businesses, and we're well placed, as I opened up the answer.

I'll move on now, Raul, to the cost position that you asked about. In the Bank we've had a cost to income ratio over a long period in the range of 48-52%, and it's been pretty stable in that range for quite a while. BAU costs are very strongly managed by us across the piece, and they've been pretty flat as Mike's chart showed earlier as well. Apart from they dipped last year as we had a reduction in the discretionary bonus pool, and a bit of T&E saving in lockdown. Pretty much if you look over the long-term, the costs of BAU in the Bank have been pretty flat.

I don't apologise for the investments that we've made in the business, they're important; that's what supports the very strong NIM that we've had. And all three of the presentations we saw from the Bank CEOs showed the NIM well above the market average, the UK banking average, nearer 3%, and our NIM stabilising at 7.5%. The investments we've made, whether they're in Motor, driving that new business, in Asset Finance, all of those investments drive that.

If I look at the other areas of the Group, Winterflood has a highly variable cost base. We'll talk a little bit after the Q&A about the Winterflood business. That's done really, really well clearly since lockdown started. The cost base is pretty well correlated with the income line there. And in Asset Management, the cost base is driven in part the increase by our investment in new hires that are driving the strong total client assets that we've seen as well. So overall, the cost base is performing well I would say, Raul, and the investments deliver that, which is where your last question went on technology platforms, and I'll touch on each of those now.

We touched on these with some of the investments the Chief Executives talked on. So, starting with the Commercial business. Neil highlighted that we're doing a full re-platforming. It started with Salesforce that's in and new and working well, and has led to some of that new business, and it's moving through middle office, that's advancing. The last stage is our bill and collect system, where we're moving from an old version of a platform with Alpha, onto their new version, and that will take place in the coming years.

In Invoice Finance we've just re-platformed a part of our business that does factoring. We'll also be looking at our invoice discounting side, IDeal, in the coming years as well, that's a very important product for us and I believe gives us an advantage in the market for having an interaction with our customers on a day-to-day basis with their accounting package and reducing fraud.

Moving onto the Retail businesses: in Motor we have an historic system, Cars that drives the business is the core platform. That's working well, it's very stable, but will need upgrading. And we'll look to whether we can move that at the time to the platform that Asset Finance is on as well to drive efficiency; we'll look at that in future years.

In Premium we do have a legacy system, and what we've done with the investment that Rebecca talked about was basically remove some of the wrappers around it and put in other platforms that work well with it. So, that system again is working well. And Rebecca described the barriers to entry and that system is a key part of supporting our place in the market.

If I move on to some of the other businesses, you'll hear from Martin Andrew and Phil Yarrow shortly, but I would contend that we have a technology advantage in Winterflood that Phil will talk on, and similarly Martin will talk about the re-platforming of our business that's well advanced in Asset Management and is moving into the final stages in the 2022 calendar year.

Thanks, Raul.

<u>Question 2</u>

Benjamin Toms, RBC Capital Markets

Morning everybody and thank you for taking my questions. Two from me please.

Firstly, conceptually what level of NIM does management think that the Banking division can get back to in a normalised world post Covid-19, assuming no rise in interest rates?

And then secondly, probably a question for Andy, what's the longer-term correct level of CET1 ratio for this business? And if you're not able to put a number on it, perhaps you'd give us some colour why, unlike other banks, Close Brothers doesn't use a CET1 management target externally?

Adrian Sainsbury

Thanks, Benjamin. I'll answer both of these and Mike might come in on some more detail on CET1 as well.

If I start with NIM, the three charts that each of the Chief Executives showed, I'd call it a moderation over the last, let's say, seven or eight years. But clearly our NIM as it stands today at 7.5% underlying, as I touched on, compares very favourably with the UK banking market of about 3%.

We benefit from the diversity of our businesses that we've already highlighted. And some of the businesses are at higher NIM than others. We disclose the level of the three businesses that we've presented so far.

I did give effectively some guidance at the time of the Full Year results in September. And if you look back at our investor presentations at the Full and Half Year you will see a chart with some up and down through Covid where we peeled back and showed the underlying position.

So, in the first half we had a reported NIM of 7.5% but we're saying the underlying is 7.5%. I think that's a good guide for what we're seeing going forward in the stable environment that you talked about with no interest rate rises. I think that's a pretty good indicator of what we're seeing and what we expect to see.

Now, clearly there are some ups and downs, as I mentioned. So for example, in the Commercial businesses, as a result of CBILS we have a small pass through to recognise the benefit of the 80% government guarantee. Over time that will unwind, as an example.

In the Retail businesses, I talked about the Premium has seen some seasonal fall down and some Covid impact. That's one of our higher NIM businesses of course, so when that picks back up that will help for the future.

In Motor, notably the growth has been in our UK business which has a notably higher margin. We have a different operating model in the Republic of Ireland. So, growth in that business is good as well. So, overall I think 7.5% is a good guide.

You were also alluding to what we saw last time, and we did actually manage to increase NIM after the GFC. Clearly, as Raul's question led to as well, it was a different picture then, there were banks pulling out. We haven't seen that yet. I think that sort of opportunity to accrete NIM is more likely in a discontinuity scenario; the one we all don't hope for of course. That's where we're more likely to see this. I would say 7.5% NIM is a good performance and a standout for Close Brothers.

If I move on to CET1, you're right that we don't have a target. As Mike's slide showed with the CET1 at 15.3% we're broadly double the regulatory minimum we have there. There are some headwinds that are helping at the moment. We have the software intangibles, probably around a 40 basis benefit there. The IFRS 9 transition, broadly maybe a 100 basis points benefit. Those things will unwind over time.

CBILS also obviously has a lower weighting than standard hire purchase to SMEs to reflect the 80% government guarantee. That benefit will unwind over time.

On the other side we will have IRB coming in, as Mike highlighted we expect about 18 months from here to go through the process, and then implement the IRB ratings. So, that will have a change on our CET1 at that time.

I think it's highly important that we have a standout CET1. So our investment thesis is very clearly three clear ticks on capital, liquidity and funding, our distinctive model that we've talked about. And that leads to the progressive dividend we've had. I think the CET1 is important in that.

Now, also of relevance, and it fits with the question that Raul had on the loan book growth rate, broadly speaking at around 7% we're CET1 neutral. That's what supports the CET1 growth in the loan book. If the growth was, say, 5% we'd accrete CET1, if it was 9% we'd consume a bit. And I've given an indication of where we see loan book growth already. So, I think the CET1 is at a strong position, as I've mentioned.

I was asked at the time of the Annual Results what our position is on returning capital to shareholders. Our position is very clearly, we need to be prepared for whatever the economy shows next. And that includes a strong CET1 to support loan book growth if it's there, and I think that's the right answer for our shareholders. We're not dogmatic though, and if it turns out that the loan book growth does moderate and we do accrete a lot more capital, clearly that would be an open question at that time.

<u>Question 3</u>

Jason Napier, UBS

Good morning and thank you for taking my question. I must say thank you for the massive amount of effort that you've obviously put in to preparing all the material for today. There's a lot of material I'm going to have to go back to study.

First one, I guess Adrian for you, and coming back to one of the questions that has already been posed around operating leverage in the business. Quite clearly Banking has delivered negative jaws for the last three and a half years and there has been a lot of investment, but I guess it's sort of natural modelling on the sell side to assume faster revenue than expense growth going forward. So, I just wonder in a par environment, what sort of operating leverage you would be encouraging shareholders to expect from the business. How much faster should income grow than costs given the shape of some of your plans that you have for the business? That would be the first one.

Secondly, a question probably for Frank or for Neil on the Commercial and Property side. IRB approval may see capital allocations fall by, I don't know, 20% or 25% I would guess in something like Property. Would that actually matter to the volume outlook? If we model it through someone like a Paragon it seems like they might be able to drop their incoming yield on Property from 10% to perhaps 8%. Would that actually win you any more business if you were allocating less capital to that or is it more about the high-touch relationship side of the business?

And then thirdly, clearly investors are still really worried about credit quality, and you've alluded to some of the potentially transient benefits that your customers might be seeing from things like furlough and so on. I wonder whether you could talk a little bit about what the high tempo data on credit risk is saying. Your Invoice Finance chart shows that revenues look like going through your customer books are as high as they were pre-Covid, although they're not discounting as much as before. What are you seeing on credit risk from those sorts of measures? How far forward can you see? And how worried should investors be?

Adrian Sainsbury

Thanks Jason, and firstly thanks for your feedback. I do agree, I think our IR team have done a stunning job here in particular, so thank you for that.

If I move onto the operating leverage question, building on the point I had before on the Bank being in a pretty solid range of 48% to 52% you are correct that we've had negative jaws for recent years. And quite clearly shareholders and investors would expect over the long term that the income would grow faster than costs. I completely agree with that.

We've highlighted that the BAU cost is in a very solid management position, that's correct, and we've also highlighted the merits of the investment programmes and I think they are absolutely key. They are at different stages, so the Premium Finance programme where Rebecca highlighted the major broker wins and transformation in our loan book there, that's concluded. The Motor Finance transformation is moving towards the end. Neil highlighted that we're advanced on our Asset Finance programme, I guess broadly half the way through. Similarly, when we get to Asset Management you'll hear that it will be concluding broadly in 2022 as well.

So we do have these investments and they're at different phases. The deposit platform that Andy talked about also is effectively concluded. And that's where Mike highlighted that the cash spend is effectively stabilised, but there will be some depreciation pick up that will continue in the coming years as well.

So that means BAU costs under very strong management, and clearly we look at opportunities there to push back on those costs, but I also need to highlight the importance of supporting the NIM, supporting this high-touch model as well. So those are the key things I would say.

On the other side of the cost:income ratio of course is income itself, and I think it's important where we've talked about disciplined growth to look at the top line, and that's one of the nuances that we've done with this change to protect, grow and sustain, and bring out the importance of disciplined, well managed growth. And we saw a top line story in H1 of +13% on the income line. That clearly compares well with the major UK banks, and that's something that I think is also an important part of our model, and fits in that 'model fit assessment framework' that we have.

So we don't look at cost as a single dynamic, it's part of the overall story that we have, and the overall picture of how we drive the Group. And Mike has very strong management of that, with the Chief Executives, going forward.

I'll touch on the IRB and then I'll hand over to Frank and Neil to build on the question. As we mentioned, we won't see the benefits from IRB probably for 18 months or so, and we're not disclosing what the capital benefit might be on CET1. It's worth noting, most importantly, that we won't change our pricing position or our risk as a result of IRB. If I look back to when there was the change maybe five or so years ago in the residential property development market, as a result of the EBA requirement of 150% weighting on all property loans, whether it was some, let's say dodgier development in Greece, relative to a very high quality with planning agreed development in the UK, and it went to 150%, we didn't change our pricing position and we didn't change our risk. We have a long-term view for our customers of what's right. We will continue within that vein. We price for the relationship, we price for the service, and that's what we will do. Frank, would you build on that in any way and how you see opposition in the market?

Frank Pennal

Yes. I mean, I would say the IRB benefit that we get will be for the benefit of the Bank generally, and as Adrian has already said, we're providing a very high-touch service-driven proposition and have absolutely no plans to adjust our pricing in the same way again. As Adrian has said, we didn't adjust our pricing when our weighting went up to 150%, so no plans to adjust the pricing at all. Continue with the high-touch service-driven approach.

Adrian Sainsbury

Neil, so the first three books that we have in IRB are the Energy books, so it's not the whole of Asset Finance, to be clear; it's the Motor Finance where we've had an established scorecard for a long time; and Frank's Property business. In Energy we have the slotting model, so that's the one that it will be first in IRB, and I don't see any change there either in our approach. No.

Okay, and if I move on to the last question, which was about credit position and our forbearance position. In the Q3 statement we highlighted that our forbearance book had moved down to £1 billion, and we also have highlighted that the amount of customers that haven't resumed payments within that is very modest. We haven't disclosed the exact percentage, but it's very modest within that.

I'm very comfortable with what we're seeing in our books across the piece, and we have coverage of our various stages under IFRS9 of 3.3% as well. Most fundamentally, as all of the Chief Executives highlighted, we have our expert model, 90% of our lending is secured or has

structural protection, so even if an agreement does move into a problem position, we have our good recovery prospects as well.

If I look at the trend that we've seen on bad debts from H1 20, the H1 trend since then, it was 0.9% in H1 20, it was then 3.7% in H2 20, as we took the large impact of IFRS9. In H1 of this year it was 1.3%, so a significant drop, and you'll have seen from the Q3 statement it's moved to 1.1% now for nine months. So that shows the trend.

To help with the question, we're not seeing anything dramatic in our books that's leading us to concern at all, we're comfortable with the staging that we've done, and it's worth noting that we took a highly prudent approach. So, for example, in Commercial we put any SME that asked for a payment holiday into Stage 2 under IFRS9. That wasn't a regulatory requirement at all, it was a prudent approach in line with our approach overall, and we've kept those customers in Stage 2 even when they've started repaying at this stage as well. So I'd say we have a prudent approach and we're well positioned.

On the Invoice Finance business you talked about, Invoice Finance is a business that can be suspect, particularly in downturns, to fraud from the customer. If the customer's struggling, they may look to make a fictitious invoice. I already talked about in the investment answer about our IDeal system that's really got an advantage of spotting such an issue early. We're not seeing events in our Invoice Finance book either that are giving us concern at this stage. Clearly that's an important aspect across the business, and as we've highlighted all the way through, credit quality and pricing are our two fundamentals of what drive us.

It's worth noting even on the Motor business where we've seen record new business volumes, it's at a slightly better credit position as well, despite the record volumes that we've seen.

Jason Napier

That's really helpful, thanks very much.

Adrian Sainsbury

I think we've got a question from the webcast now.

Question 4

Jens Ehrenberg, Citi

On growth expectations within Property, what is your expectation for the regional split going forward? Having a relatively equal split between London & South East and other regions, do you expect this to become more skewed towards other regions over the next three to five years.

Adrian Sainsbury

Thanks, Jens. I'm going to hand that to Frank quite quickly, and as you'll have seen on the slide, we have moved from a position where the regions have grown to broadly 50/50, and clearly to achieve that in recent times the new business in the regions has been stronger than London & South East. Frank, would you build on that?

Frank Pennal

Yes. I think in the short term at least over the next two or three years, I would see the growth in the regions continuing. I think it's important to stress the quality of our borrowers are as strong in the regions as they may be in London and the South East, so we don't have any concerns on that front. And the types of developments that we're considering are also similar across both marketplaces. In the longer term, I mean, it very much depends what happens in the London market. So there may well be, if there is more of a move back to London. At the moment we're seeing the opposite in terms of people migrating away from London to some extent and that's obviously helping with the regional growth, but if that were to change, and perhaps we're probably looking beyond the three year time horizon, then we'd be perfectly open to growing our book in London & South East. But I think, to answer your question, I can see the 50% perhaps moving up to 60% over the next three years.

Adrian Sainsbury

Thanks, Jens.

Jens Ehrenberg

On the growth initiatives for Retail, particularly on alternatively fuelled vehicles and other new areas to consider, can you give us any indication as to what you would expect this to come into effect?

Adrian Sainsbury

Okay, Jens. If I interpret that question, I think you're looking at when the retail initiatives will kick in and the benefits from them, particularly on the AFVs, and I'll hand on to Rebecca in a second.

Clearly AFVs are a growing share of the market, and it's largely led in the used market at the moment with hybrids, but we surely expect that electrics will come into the second market at one stage. So as we alluded to we're doing quite a lot of work on how we can move into that market, what the residual position would be, and how we should play. Rebecca?

Rebecca McNeil

So with the partnerships opportunity that we talked about, we're seeing that now disruptors are in the market. Close Motor Finance has 33 years of providing finance and that puts us in a very strong position to work with potential partnerships. So that's an opportunity that's live now and we have a few conversations that are ongoing. Equally, the conversation with dealers and growing our dealer base and also growing what we do with the dealers that we already have on book is live now following our transformation: the implementation of Salesforce, better sales tools, our credit optimisation platform, the APIs we talked about. All of those things enable us to do more with the dealers that we already have on book. So both of those growth opportunities are live.

AFV is further out, that's very much an emerging market for the used finance market. However, what we can do is see what's coming down the line, because we can watch the new car market and we can watch what's developing, what new cars are coming down the track, what that might mean for credit policy. And one of the things we can do is enable our colleagues and our dealers to be on the front foot when they're talking to consumers about what is potentially the right car for them. So we spend a lot of time, produced a lot of collateral for our colleagues and for our dealers to use with consumers to educate them on the different types of electric and alternatively fuelled vehicles. But we see that being much further down the line for the used car market.

Adrian Sainsbury

Good. We've got another webcast question I think.

Question 5

Ian Gordon, Investec

You've now written over £1bn under the various government-backed schemes, mainly CBILS: firstly what do you see as your likely peak to aggregate lending under such schemes, including existing CBILS pipeline commitments and/or the recovery loan scheme?

And secondly, how do you think about the concept of risk transformation in your book implicit from the 80% government guarantee and presumably a lower loss given default?

Adrian Sainsbury

Thanks, Ian, I will hand on to Neil to give us more extra detail in a second. So as we talked about, you're quite correct £1bn is broadly correct and the vast majority of that is on CBILS. We have around £25m on the larger CBILS scheme and as Neil alluded to, less than £3m on Bounce Back and I've already touched on why we see the CBILS was more suitable for our customers and more suitable for our model. We do have a limit agreed with the British Business Bank that we're not disclosing but it accommodates our pipeline well and Neil will touch on in a minute how we're working through the pipeline and the timing of the events that that comes through.

The Recovery Loan Scheme, we do have a limit agreed with the British Business Bank of £300m. I do see that scheme as less attractive for customers and I think there will be less demand. The main reasons being there is no free period for a year on interest and fees and also it needs to be a loan where the bank wouldn't have agreed the loan without the government guarantee. So agreeing loans where you don't really want to isn't directly in our sweet spot clearly given that we're focused on credit quality. So Neil will touch on that in a minute.

In terms of the risk transformation and the 80% guarantee, I highlighted the CET1 benefit of that. We didn't really take a different lending approach at all though. The benefit of the CBILS in my mind is we went through our standard credit approach. Neil touched on the investment that we've made in our system that enabled us very quickly to effectively verify that the application from one of the CBILS prospects met the screen criteria. That's great as an audit trail for the British Business Bank ultimately.

And then we did our standard credit work, we took our standard security package as well. So the loss profile clearly would be less because then if a customer fails there would be a risk share with the government but that's not why we lent on this. We lent because it was the right thing to do for the customers and we think the lending stood up in relative terms on its own right.

Neil Davies

So on CBILS, we've still got some way to go because term loans can be paid out until the end of August, asset finance deals until the end of November. Obviously we'll see how they flow through.

The RLS is of more interest to Invoice than it is to Asset Finance. We've identified a couple of types of deals where it will be applicable but the basic premise is that it's a deal that we wouldn't ordinarily do. And if we wouldn't ordinarily do it, we're not sure that taking a government guarantee is something that would take it through to us. We could see it had some benefits where we've got an existing customer that we think we should be supporting.

On the LGD side, we did some CBILS where it was unsecured loans but very few. Most of the business we wrote was standard business that we would have written probably anyway. And the expected losses on our normal book isn't hugely dissimilar to the 80% guarantee when a deal goes wrong, so we're not expecting it will change our LGD significantly at all.

Adrian Sainsbury

Thanks Neil, and Ian, the pipeline that Neil alluded to broadly runs through until the end of November to draw, Neil I think it is. So we've got some visibility for the coming months there as well.

I think we have another webcast question.

Question 6

Gary Greenwood, Shore Capital.

Why do you run with such a high liquidity coverage ratio more than 1,000%?

Adrian Sainsbury

That's a good question, Gary I'm going to ask for Mike to step in on that one probably in a second. So it is over 1,000% and it has been for some time and I mention our investment thesis of very strong three clear ticks on capital, liquidity and funding. Mike, do you want to talk us through the number there?

Mike Morgan

Thank you, Adrian, yes. Good morning, Gary. In very simple terms, Gary, it's because we borrow long and we lend short. We have strong liquidity levels as you know and as we went into the pandemic we increased those, so they had been running at around about £1.3bn and we pushed those further up to around about the £2bn level. But it's really down to that borrow long, lend short.

Adrian Sainsbury

Thanks, Mike, and the next question, we've got some more on the webcast I can see, three or four, five, good.

Question 7

David Coyne, Setanta Asset Management

Firstly, can you discuss what new areas of lending you are considering or testing?

Secondly, I haven't heard the Group talk about open banking before. Does the Group fall under its remit and if so how has, or will it, impact the Group and how much investment has been made to date?

Adrian Sainsbury

Okay thanks David. On the new areas of lending, each of the Chief Executives highlighted areas they're looking at the moment and also our very strong track record of not only driving the core business at the strong NIM but also finding sensible extensions that fit with our model.

The new development we talked today about was the 'model fit assessment framework' and each of the Chief Executives is constantly looking with their teams at sensible extensions that fit with those and we touched on a number of those in the presentation.

Open banking as I see it, is more strongly correlated with current accounts and banks there, so we haven't needed to make an investment to look at open banking, we don't do current accounts to start with. Now clearly some customers would like to tie in potentially their deposit product and I guess that's more realistic now that we've made the Deposit Platform transformation that we've done. But open banking is not a big issue for Close Brothers.

The next webcast question.

Question 8

Alvaro Ruiz de Alda, Morgan Stanley

Can you provide any guidance regarding the funding plan, including any AT1 issuance in the near future?

Adrian Sainsbury

Thanks, Alvaro, and I will hand over to Andy on this one in a second. Andy highlighted the very successful Tier 2 that we've done in the last couple of weeks where we got very favourable pricing in the market, I think the tightest pricing on that instrument that's been seen in the UK banking market for a decade or so. And clearly, we have a very simple capital stack, as we talked about. And AT1 is something we've not used before but it's a very favourable market. Andy, do you want to talk a little bit about that?

Andy Townsend

Thanks, Adrian. So really the phrase we've started using increasingly is taking a more programmatic approach to issuance. To illustrate that, we've been back to the sterling market twice within just over six months, having been fairly sporadic prior to that. And we've been asked what might that mean in practice when we say programmatic. There's probably two or three aspects. I would like to think we'll be relatively predictable, regular; we've been happy to say that we would think that that would translate into at least one market transaction a year, maybe three every two years; that we would ensure that our different asset classes get supply, so whether that's senior, whether it's subordinated or indeed secured.

And the other aspect that's interesting I think is ensuring that we've got a range of maturities across the curve. I've mentioned the fact earlier that we've gone out to 2030 now, well having this pricing curve a) allows both ourselves and investors to assess what fair value looks like both in the secondary market or a primary issue, and of course if there are obvious periods

which don't have bonds there, then that's something that all things being equal, we would look to target.

In terms of additional Tier 1, as you can imagine we've been asked about it very recently, both during and following the Tier 2 transaction, but I'm not sure I can add much to Adrian's comments to the effect that clearly we've had some capital tailwinds. We do recognise it will be very well received if we did so, but no immediate plans.

Question 9

Jackie Ineke, Morgan Stanley

When do you expect to implement the IRB approach and what is the expected impact in CET1 or capital ratios?

Adrian Sainsbury

Thanks, Jackie. As Mike indicated based on the other banks that we've seen implement IRB and the pathway through the PRA, it's broadly, we expect, 18 months from here before the initial models that we have, as I touched on, Property, Energy and Motor, will be implemented. We're not giving any guidance on the capital benefit that may accrete to in that 18 month timeframe. Clearly that's in discussion with the PRA as they assess our models and we'll keep the market updated on that as we move through the coming 18 months.

Question 10

Jerry Upshall

Regarding Premium Finance, please could you clarify your market share which you cite as 7%? My understanding was that you had a much higher share of the UK premium finance market.

Adrian Sainsbury

I'll hand that on to Rebecca quite quickly, Jerry, and that's largely because of the independent space that Rebecca had a slide highlighting around £3bn for the independents, that's where the higher share of 40% comes through. Rebecca.

Rebecca McNeil

Yes, it's a fairly full market in that insurers may choose to self-fund, there may be direct debits, consumers may pay with credit cards and then also you have premium finance, of which there are a few main players which broadly stay stable over time because of those barriers to entry that we talked about previously. So when we talk about our market share, we're looking at a very large market overall for how consumers may choose to finance their insurance premium and then we look at a smaller subset of that where there is premium finance provided by a few main players in the UK market.

Adrian Sainsbury

Thanks Rebecca, I think we have one more question on the webcast.

Question 11

Jerry Upshall

On Motor Finance, please could you comment on the potential for Close Brothers to leverage its model into the below prime segment, either organically or by acquiring an existing lender such as Advantage Finance?

Adrian Sainsbury

Good question again, Jerry. Clearly, we look at available spaces in the market all the time. We are largely in the primer end clearer than the sub-prime there and that's been a conscious choice. We have looked at the sub-prime market before and the risk dynamics, we were less attracted to. Rebecca.

Rebecca McNeil

We'll scan for opportunities across the market and many opportunities will come to us as well, being a very established player. No one that we're looking to purchase currently but we'll continue monitoring that and as Adrian says, our spot is generally the used car market and towards that more prime end.

Adrian Sainsbury

Okay that concludes all the questions that we have. We've now got a ten minute break. By remarkable coincidence, we were planning to take that break at 11:15 and that's where we are. So if we can reconvene and I'll kick off again at 11:25 and we'll revert with Winterflood and Asset Management.

Close Brothers Asset Management

Adrian Sainsbury

Welcome back. Now we'll move onto our wealth management business, Close Brothers Asset Management. And I'd like to introduce Martin Andrew. Martin joined Close Brothers in 2005 and has been CEO of CBAM since 2008. He's led the impressive growth in assets under management and you'll see we've significant potential to continue CBAM's growth and development. Martin.

Martin Andrew, Close Brothers Asset Management ("CBAM") Chief Executive Officer

Thank you, Adrian and good morning everyone.

Over the last decade, we have built a distinctive wealth management business which has delivered strong growth by executing a clear strategy and business model and by making disciplined long-term investments. After 13 years as CEO, as I look forwards at the changes in the UK wealth market and our position in it, I feel extremely confident about our future prospects and I'd like to explain why.

First some facts and figures. CBAM is a vertically-integrated top 20 UK wealth manager with £16bn of total client assets generating 10% of the Group's AOP.

Our core capabilities are advice, multi-asset investment management and custody, which we then combine to create different propositions tailored to client preference and client size.

Our clients range from mid to high net worth individuals mainly resident in the UK. And overall, we directly serve around 22,000 client families.

Our strategic aim is to gather assets into our investment management and platform through three main distribution channels: our financial advisers; our private client investment managers; and via third party IFAs. The success of our model is evidenced by the fact that 93% of our total client assets across these channels are under our investment management.

We're a national business operating out of 11 locations with around 90 advisers, 65 investment professionals and 700 employees in total.

We differentiate ourselves in ways that are important to clients and that maximise our success.

For example, we deliver propositions to clients through strong personal relationships that last for many years, often decades. These personal relationships are founded on excellent service, investment expertise and prudent advice, using the extensive experience of our practitioners. We operate a fiduciary style approach in which our clients' interests are paramount.

Our culture supports this approach. For example, we have a collegiate culture because we recognise that it takes all parts of our firm to provide excellent service and because we also recognise that debate and teamwork create better results than individuals working alone. We recognise that private clients have a different attitude to risk and return from institutions and we reflect this in the way we construct portfolios and the way we measure performance and risk.

Over time, great propositions and service and a strong culture build our reputation. Our reputation is critical because most of our new client growth comes from referrals. Our reputation in turn, is built day-by-day, through the work of our practitioners for clients. And we're proud that this has been recognised by a number of industry awards over the years.

Finally, our business model is distinctive. We were an early adopter of vertical integration, before the implementation of the FCA's Retail Distribution Review at the end of 2012, and we've also built a degree of balance in our distribution that is rare in the market. This provides us strategic strength and flexibility.

Some vertically integrated businesses are integrated at the firm level, for example by owning an asset management business and separate advice and platform businesses, perhaps under different brands. We believe that our advantage comes from integrating at the client level, by having the technology and culture to support that, by providing propositions at an attractive price and by making our investment management accessible across several channels.

Our strategy has delivered a strong track record. Over the last seven years, our net inflow rate has been strong, at between 6% and 10% of opening assets, above the majority of our peers. This has enabled us to double our assets under management in the same time period.

We have also maintained our operating margin whilst simultaneously investing heavily in both top line growth and technology.

And finally, our return on equity has remained high and has significantly contributed to the overall Group returns, highlighting the diversification benefits to the Group.

We believe that our strategy positions us well in the changing UK wealth market.

The market is large and mature, with structural growth drivers. Beneath the headline growth, there are significant changes underway, for example, advisers increasing use of platforms has been evident for many years and is set to continue. There is mounting consolidation in the IFA sector, driven by demographics and economic pressures and fuelled by private equity interest in restructuring a fragmented market. We see increasing adoption of vertical integration and increasing trends for discretionary wealth managers to offer advice. We see new entrants from retail asset managers, as they look for new growth to offset the impact of passives on their core business, and from UK banks, as they seek fee income growth from wealth management.

Against this backdrop, we believe that our long experience of operating a vertically-integrated model, our multi-channel approach to distribution and our progress on building the technology to support our model, put us in a strong position to succeed. In addition, we believe we are well placed to respond to any changes in client preferences because we offer propositions at different price points, for example, telephone as well as face-to-face advice, passive as well as active investment, and our self-directed investment portal without any advice.

This slide explains multi-channel distribution and vertical integration and why we adopted this model.

Firstly, in terms of distribution, we wanted to maximise the number of channels that could provide growth as shown across the top of this slide.

We therefore set out to grow our teams of practitioners and we deliberately chose to have both advisers and investment managers because we believe we can reach more client opportunities with both of these roles than we can with just one. We expanded our advisers through acquisitions and hiring and we've have expanded our investment manager team through hiring. We also built a salesforce covering third party IFAs to provide additional flows into our investment management. At the time, some people said we couldn't have both our own advisers and also serve third party advisers, but we have found that it has been possible.

So, our advisers, our investment managers and third party IFAs are our main distribution channels. In addition, we have also built a self-directed investment portal, which is currently small scale, but in the longer term offers interesting optionality if we want to develop digital or hybrid investment advice as an additional distribution channel.

Having established our main distribution channels, we also wanted to maximise the revenue potential through those channels. This brings in vertical integration, as shown down the left hand side of this slide, where we deploy our advice, investment management and platform in various ways in each channel, with our overall assets under management split roughly 50/50 between our Bespoke teams and our Funds team. This vertical integration helps to mitigate the threat of margin compression and maximises revenue potential.

By example, our advisers have the greatest revenue potential because for the majority of their clients, we earn fees for advice, investment and platform. The overall cost for clients is competitive and we share economies of scale with them. Our advisers are restricted to CBAM for investment advice, but the high level of choice within our investment propositions has enabled us to capture just over 80% of our advised clients' investment needs within CBAM.

Our bespoke investment managers principally earn investment fees, which include an element for platform. Our investment managers are increasingly referring clients to our advisers or they are pitching together with our advisers to offer a holistic wealth service for new high net worth clients.

Third party advisers, by definition, will only generate investment management fees.

Looking horizontally across this chart, we aim to be as efficient as possible. For example, we leverage the same custody capability across all four channels. We also offer the same investment management propositions at the same price across all channels. It is helpful for our own advisers that we distribute the same investment propositions that they use to third party IFAs because success through external IFAs demonstrates to our advisers and their clients that being restricted does not mean second class. Not all restricted wealth managers offer their investment propositions outside their own captive advice channel and we believe our open channel approach gives us a transparency advantage.

Our approach to servicing clients is distinctive

First, our clients are looked after by a qualified practitioner, either an adviser or an investment manager or perhaps both, whose role is to serve clients and act in the clients' best interests. Our clients aren't looked after by a generic relationship manager, whose role can be to focus more on the firm's best interests by maximising sales or revenue.

Second, our investment managers have a combined role of relationship management and investment management. This delivers a high level of personal accountability to clients and it helps build trust. It also helps attract talented investment professionals who want to work in an active investment team.

Third, all our investment managers, whether they manage segregated portfolios or our funds, work openly together in a collegiate culture of ideas and debate. All investment managers therefore benefit from the combined expertise of the firm and clients benefit from the wisdom of many, not just their own manager.

Finally, our clients typically have a very long time horizon for their wealth, usually across generations. Their relationships with us last for very many years. We therefore align our thinking as a business to their long term time horizon. For example, our investment management time horizon is measured in years. When we look at investment performance, we focus on longer term measures, not short term. When we invest in growth, we take a long term perspective, as is evidenced by the evolution of CBAM over the last 10 years. When we invest in technology or change, we also take a long term perspective. And we believe that a strong alignment in the time horizons between clients and the business, is key to building a great private client business with lasting value.

We have invested consistently to create the technology to support our business model and we're a long way through implementing a number of key technology projects. This leaves us well positioned to grow and scale the business in the future.

The aim of our technology strategy is to improve efficiency, operational resilience and client experience, by using best of breed applications, digital technology and selective in-house development. The overall technology architecture is complex because it has to cover advice, investment management and platform, and different usage of these services across our client base.

We have therefore established a significant and experienced, in-house change management team who have designed our technology strategy and led its implementation.

To gain access to best of breed technology, we established a strategic partnership with IRESS for many of our core applications. Our journey with them started with a major re-platforming project, which we successfully implemented between 2017 and 2019, which put all of our clients onto the same custody and investment administration system.

At the same time, we also introduced a common digital portal for all our clients using IRESS technology. This portal also includes an execution capability, which enabled us to launch our self-directed, digital investment portal for a modest incremental investment.

We are currently working on a major CRM project with IRESS, which had its first implementation in March this year. In stages over the coming months, we will extend this to all our clients, bringing significant efficiency and client experience benefits. Importantly, it will also provide the back bone for further digital developments such as integrated client video conferencing, electronic document exchange and signing, online fact-finds and online account opening.

Over recent years, we have also developed our own in-house investment management and risk management systems, which we have tailored to our investment process. They will help improve our investment managers' productivity, thereby releasing them to spend more time on investment and client issues.

Finally, we are investing in a number of technology automation projects in areas such as client onboarding, dealing, settlements and reconciliations, to increase efficiency and resilience.

We expect most of these technology investments to be behind us by the end of calendar 2022. We also see scope for operating margin improvement, with greater scale and greater efficiency.

We've delivered strong assets under management growth over the last seven years and maintaining this level of growth requires consistent success in a number of different areas of growth.

The foundation layer of growth comes from serving our existing clients to a very high level. This requires value-added advice, good investment performance, slick administration and low turnover of relationship personnel. Doing this well produces growth by clients rewarding us with a greater share of their wallet and also referrals to new clients.

The next layer of growth comes from our business development activities in a number of channels including IFAs, professional intermediaries such as trustees and consultants and our relationships with employers, where we are a leading provider of financial education in the workplace. We also work with our colleagues in the Banking division to source client referrals.

An additional part of our business development focuses on developing our propositions and finding new markets to generate growth. For example, we are planning to strengthen our proposition to international clients and to that end, we have recently opened a Guernsey office. We are also focusing on expanding our Charities proposition.

The final layer of growth is inorganic, where we look to hire talented professionals who can build a client bank or where we look for bolt-on acquisitions. For example, over the last four years, we have hired 17 additional private client investment managers, representing around a 50% increase in our team and enabling us to open three new investment management locations, including an office in Mayfair. In addition, over the last 11 years, we have made and successfully integrated seven IFA acquisitions and we continue to look for further in-fill acquisitions, both on the advice and investment sides of our business, if we can find high quality businesses which fit strategically and culturally, at the right price.

Our fortunes in each of these layers of growth will ebb and flow to a certain extent over time. The important thing is that we strive to remain active in all of them over time, with the aim of trying to keep our net inflow growth rate in its historic range of 6-10% a year.

ESG has become a significant aspect of our business over the last few years and it's here to stay. We believe that the distinction between ESG and non-ESG propositions will blur over time and our whole investment proposition will become increasingly sustainable. In the long run, we therefore believe that this will not be a major source of differentiation or additional growth. Rather it will be an essential feature to maintain our historic growth.

We have actively responded to the increasing focus on sustainability and ESG issues. For example, three years ago we embedded ESG criteria into our in-house research. We also launched a Socially Responsible Investment proposition. More recently, we've launched two sustainable funds and we are currently developing further ESG and SRI propositions for our bespoke managers.

We are signatories to the UN Principles of Responsible Investment, we've strengthened our approach on stewardship and voting and have appointed a dedicated Head of Responsible Investment.

More broadly, we have established an ESG committee to develop our overall ESG strategy. This will cover not only the development of our ESG investment propositions, but also a framework for engaging with our clients on their ESG preferences and reporting on them, complying with regulatory disclosure requirements at the product and firm level and overseeing our own corporate ESG agenda, for example, by reducing our own carbon emissions and promoting diversity and inclusion.

The business is an excellent strategic fit with Close Brothers.

We believe our vertical integration and multi-channel model is the right one to succeed in the changing UK wealth market. We have demonstrated our strategy's success in our growth track record and strong returns. Importantly, we are confident that our culture and people will continue to support this success in the future.

Given the attractive opportunities we see in the market, we will continue to invest in this business to deliver long term growth.

Thank you, and I'll now hand back to Adrian.

Winterflood

Adrian Sainsbury

Finally, we'll look at our securities business, Winterflood. And I'd like to introduce Philip Yarrow. Philip has been at Winterflood for over 20 years, initially leading the development of our electronic trading capabilities and building the client base. He's been the Chief Executive of WINS since 2015, delivering impressive returns and growth. Phil.

Philip Yarrow, Winterflood ("WINS") Chief Executive Officer

Thank you, Adrian and good morning.

Winterflood is a leading market maker providing liquidity in all UK equities from the FTSE 100 down through the small cap stocks and of course, complete coverage of the AIM market.

We also provide extensive execution services in North American and European equities, as well as trading in the fixed income markets.

We have four main business lines.
Firstly, market making & electronic trading, this is our core business. Our model is quite unique in that we are single capacity and we focus primarily on trading. We have been acting as a market maker on the London Stock Exchange for over 30 years, and with over 90 traders and sales traders, Winterflood has one of the largest trading floors in the City of London that underpins our high-touch trading model.

Think of us as a daily trading business, reacting to the order flow from our clients and the trading situations that present themselves each day.

Secondly, our investment trust team was established in 2002 and this is the only area where we are full capacity and provide the full range of services of corporate finance, corporate broking, sales and research, and of course, market making. We act as corporate broker and advisor to over 55 corporate clients with a combined market cap of £33 billion across a diverse range of conventional and alternative asset classes.

Thirdly, Winterflood Business Services has been operating for ten years now and provides outsourced dealing and custody solutions.

And lastly, we also provide sales trading services to institutional clients, both here in the UK and in the US. The US initiative is relatively recent, with our new US broker dealer receiving authorisation from FINRA and the SEC in the Summer of 2019. This allows Winterflood to trade directly with major US institutions and it extends our geographical reach into a new market, with access to new clients.

The majority of Winterflood's income relates to our trading services as a market maker but you can see from the pie chart, that 15% is derived from sales trading commissions, administration fees from WBS, and of course, corporate broking fees.

As a market maker, we are required to provide continuous prices and liquidity, regardless of how volatile market conditions might be.

We have a very strong reputation and our clients really value our service, especially during the periods of heightened volatility we have experienced in the past year. Evidenced through our very strong performance during the Covid-19 period.

We actively compete on price to win order flow from clients, both directly on the London Stock Exchange and through our electronic trading engine that is linked to our client's trading platform.

Our main trading engine is called Winner. It's a high-volume trading system, developed in-house, and handles over 90% of the firm's client business by volume of trades, and is absolutely key in supporting the trading websites of online stockbrokers.

For example, in 2020, based on recently published reports, we can see that Hargreaves Lansdown executed over 35% of its UK equity trading with Winterflood by value, rising to 55% in exchange traded funds; making Winterflood a key execution partner for the firm and its retail clients.

In terms of clients, we only trade with regulated counterparties such as retail agency stockbrokers and institutional asset management companies. We do not deal directly with private investors. However, they can access our prices through their stockbroker or wealth manager.

Turning to investment trusts. Here we provide not only market making services, but also research, sales and corporate broking.

Our highly rated research team delivers high quality research to 2,400 registered clients. Whilst our corporate team have built a market leading position in fundraising across both primary and secondary issuance.

Winterflood has a leading corporate client base, both by number and diversity. Recently, we were delighted to act for the Baillie Gifford Schiehallion Fund's recent placing in April, one of the largest fund raisings for an investment trust in the last few years, raising $700m.

We are also currently supporting the IPO of the Liontrust ESG Trust that was announced in May, which we expect to list later this month.

We are also always seeking to grow our client base and we believe that our Business Services Division will allow us to attract new clients such as platform providers who wish to provide their IFAs clients with access to a wider range of asset classes outside of traditional mutual funds.

And finally, whilst we focus on protecting our market leading position in the retail markets, we are also continuing to grow our market share of institutional trading. We are making positive progress in expanding our institutional client base who are keen to gain access to our liquidity. 2020 has enhanced our reputation with longstanding institutional clients and has also accelerated our relationships with many other institutional clients, who have traded with us much more frequently.

Our distinctive strengths are built around our people, our technology and our culture. These three factors underpin Winterflood's proven and resilient business model.

When I talk about Winterflood, I always make a particular reference to our amazing people. As it is they who drive the success of our firm. Today we employ 300 staff, broadly split 100 in the front office, supported by 200 staff in operations, technology and WBS. We have a one team mentality, and we think of ourselves as being part of the Winterflood family.

We take a long-term view to developing talent and succession planning. Our senior traders who oversee the firm's trading books have on average 14 years of experience and they pass that knowledge and expertise on to the new talent that we continue to grow.

Not all of our traders were with us during the global financial crisis over ten years ago, but this long term approach has ensured that the latest generation of traders have passed the recent market stress of the pandemic with flying colours and have shown real resilience since March 2020 by trading in this volatile market. Credit to them. And it gives the whole firm and its staff huge confidence to take on future challenges that may come.

Technology is of course key to our business. Some 50 staff support and develop our in-house trading and back office systems, and of course our customer facing systems. Building our own software allows us to design bespoke solutions for our customers and to further embed our services into their platforms.

In fact, 97% of all client orders are received and executed electronically. And this gives us more capacity, freeing up human traders to focus on the larger, more complex trades for our clients.

Our technology gives us tremendous capacity and has allowed us to trade well in excess of 100,000 trades a day regularly since November. We have maintained 100% system uptime in the last twelve months, despite the unprecedented levels of market activity and record levels of trading.

The firm has a strong culture too. The staff defined the firm's values many years ago and these are set into our code of conduct, which we refer to as "Our Way", and this sets out how we expect everyone to act and behave.

And lastly, our focus is very much on a high-touch model. Our traders provide risk capital through their market making activities and our sales traders provide execution expertise in particular trading situations for our clients. Similarly, WBS is a high-touch model focused on client service and administration of assets.

Winterflood has an enviable track record of long-term profitability and strong returns throughout the cycle. You can see our track record since 2008 and that we are consistently and solidly profitable and resilient, with good returns on capital even in the most challenging of markets.

We have stuck to our core business model of trading and we do what we know best.

In FY20, our return on capital was 50%, rising to almost 70% in H1 this year, which is really extraordinary and reflects this current super cycle in the equity market. Even in the quieter years such as 2019, when retail investor appetite was at a very low level, with daily bargains at 56 thousand, WINS still produced £20m of operating profits.

During FY20 and HY21, our operational capacity was able to handle the significant increase in daily volumes. Our daily average messages being processed by our client system, Winner, rose from 440k in 2019 to 1.2m messages a day in 2021, with a new record of over 2m messages set on the 9th November when the Pfizer vaccine was announced and we did 227k trades on that day alone.

So, record volumes and some very big days in 2020. And this is where you can see we are a technology firm that has scale and resilience.

Also, our highly skilled traders have a strong focus on risk management, which is evidenced by minimal loss days and volatility of earnings. We have not had a single loss day in the last 14 months.

Our competitors generate a smaller proportion of income from market-making and are more reliant on non-trading revenue streams related to corporate broking.

Winterflood's coverage of UK and international equities is very broad and deep, from large cap to micro cap stocks. We also trade a huge range of exchange traded products, as well as investment trusts and fixed income. This diversity across different markets and sectors helps create a portfolio effect and to an extent, protects us through the cycle as different sectors are in or out of vogue.

We have a market leading position in trading AIM and smaller company stocks, with significant expertise at this end of the market. With the AIM market sector very much in vogue with investors during the last 18 months, finishing up 21% for 2020.

This diversification also makes us more attractive to clients, as we become a one stop shop for their trading needs. Clients like being able to trade everything from FTSE to AIM to all the US stocks via a single electronic connection.

The scale of our market making business in UK equities is very significant. The tables on the right hand side of this slide are based on Bloomberg data and show our market share in UK equity trading in 2020 relative to our competitors. In 2020 our turnover in UK shares alone was over 521 billion, with a value of £135 billion. So according to Bloomberg, that ranks Winterflood as number one in terms of shares traded and seventh by total value traded in UK equities.

Winterflood has a leading market share in UK retail equity trading. This retail market is showing signs of continued organic growth and that is very encouraging for us.

The pandemic has had a structural impact on retail trading, encouraging people sitting at home to look at their finances and consider the equity market as a savings vehicle.
Many of our stockbroking clients have reported very strong growth in new account openings especially from a younger demographic, with Hargreaves Lansdown recently noting the average age of its new clients has fallen from 45 to 37 over the last eight years and reporting record net new clients in the latter half of 2020.

We have now seen 15 months of very strong volumes at Winterflood, and we do not think that volumes will return to the pre-Covid levels of circa 57,000 trades a day.

So this is very encouraging for us and we hope a new generation of younger investors will continue to grow the wider UK retail equity market and that will continue to grow our trading volumes.

With WBS we saw an opportunity to grow into an adjacent market, with a focus on retail platforms and targeting a different client base providing different revenue streams.

WBS provides outsourced dealing, settlement and custody services to asset managers and retail platforms. Today, WBS provides services to over 90,000 retail clients on its platform and over 50 institutions.

WBS has a sticky annuity style income stream based on assets under administration and we also benefit from trading commissions, so quite different to our core trading business.

WBS has grown significantly in the last few years and had assets of £5.7 billion under administration at the end of April. We continue to see potential for strong growth with a good pipeline of prospective clients.

Our award-winning proprietary technology is highly scalable and allows us to support this growth in assets and trading volumes.

WBS has benefitted from the growth in passive investing as the use of Exchange Traded Funds has proliferated, with our innovative system supporting fractional share trading for ETFs.

WBS supports not only well-known platform clients but also FinTech clients that wish to offer equity style trading in savings wrap accounts.

And pleasingly, WBS has also become one of the largest electronic trading clients of Winterflood, delivering significant equity flows from its platform customer base.

So in summary, we take a long-term view to strategy and are patient and disciplined when building our growth strategies. We stick to what we know best, and believe that our unique high-touch model will continue to deliver a strong and consistent performance.

But we are mindful of longer-term trends and will adapt our business accordingly and that is what you see with our two ongoing growth strategies of WBS and also extending our institutional client base, both here in the UK and the US.

We continue to protect our market leading position across the equity markets that we have built up over the last 30 years. And we protect the firm's reputation, and we ensure that we operate with the highest standards of integrity to protect our culture.

We are proud of our long-term track record of profitability throughout the cycle, and we are very pleased with our exceptional trading performance in 2020 and in this financial year.

Thank you and I'll now hand over to Adrian.

Adrian Sainsbury

Thanks Phil, and that concludes our presentations. And we'll now move to questions on CBAM and WINS, and any other questions that you may still have.

As before, you can ask a question via the telephone conference line or by typing into the webcast.

Q&A session 2

Question 1

Benjamin Toms, RBC Capital Markets

Hello and thank you for taking my questions. I've got two please. Firstly, probably for Martin, what proportion of the Bank's AuM can be classed as sustainable, responsible investment funds?

And then this is a kind of more broad ESG question, when do you think that Close Brothers might sign up to the net zero banking alliance?

And then, Philip, I think you mentioned in the presentation that Winterflood trading levels had been very strong now for over a year, and you also stated that the business has moved on from 60k bargains a day. What do you think a post Covid-19 average number of trades daily look like? Thank you.

Adrian Sainsbury

Martin, would you like to kick off on the split of the AUM and the ESG element of that?

Martin Andrew

Yes. Thank you, Benjamin. The portion of our assets under management that are in our discrete ESG or SRI propositions at the moment is relatively small because they're relatively new. They are growing quite nicely.

More broadly, as I mentioned, we've embedded ESG criteria into our equity research for the last three years, so to varying degrees, you could say that ESG criteria are embedded in a very, very large proportion of our overall assets under management.

Adrian Sainsbury

Thanks, Martin. Moving to the wider ESG question, as I said, we are completely supportive of the ambitions of the Paris Agreement. On Scope 1 and 2 emissions we'll be operational net zero, our target by 2030. And, as I mentioned, we'll be doing a Scope 3 audit more widely, probably kicking off later in 2021.

I'd say we've made a good start here. Group wide our Scope 1 and 2 emissions are targeted to be down 10% FY21 on FY19. Our fleet vehicle emissions are targeted to be down 10% in FY21 over FY20 as well.

Senior management, we have in our incentive plan targets that relate to ESG. And I'm pleased to say that we recently had a B- score from CDP in their assessment on corporate carbon capture as well.

Other wider points I'd just bring out. We have no exposure to fossil fuel extraction or mining. As Neil highlighted on the Energy team, we've written broadly £725m since our Energy Renewables team joined in 2014 as well.

On our own emissions on fleet cars we stopped for our own staff being able to take a petrol or diesel in August last year. And they won't know this yet, but we're withdrawing any other than

electric from January next year. So, we're moving to electric only there from next year. And Martin highlighted a number of the ESG funds that we're launching on our overall trend to more ESG investing.

Phil, would you like to pick up the bargains point?

Philip Yarrow

Yes, of course, Adrian. We do feel that the structural impact that we've seen in retail trading in response to the pandemic will continue. We've observed Hargreaves Lansdown and AJ Bell, both of them actually reporting strong trading volumes, significant growth in customer numbers, and also growth in customer numbers from a younger customer demographic.

And Winterflood has certainly seen strong trading volumes during the last 15 months. So, we don't expect our daily trading volumes to revert back to those pre-Covid levels of around 57k trades a day. But we are seeing a moderation in trading volumes as we go into the final quarter of this financial year, and we anticipate trading levels will moderate to somewhere between the pre-Covid levels and the elevated levels that we've seen during the Covid-19 pandemic.

And just to remind you, we did say that in our Q3 trading update that the average daily bargains were at 120k trades a day in Q3. And during the first half of the year they averaged 97k trades a day. So, moderation in trading bargains in the final quarter, and we expect to see our volumes going forwards somewhere between pre-Covid levels and the levels that we've been seeing so far this financial year.

Adrian Sainsbury

Thanks Benjamin.

<u>Question 2</u>

Jens Ehrenberg, Citi

Thanks for taking my questions. I've got two questions on CBAM so they'll probably end up being for Martin.

The first one was, I think on slide 77, you mentioned that you would consider inorganic growth acquisitions as well. Can you give any more indication as to what part of the value chain you'll be looking at? Would that be trying to consolidate within the financial planning space more than on the product side? Any additional colour there would be helpful.

And the second question I had was on your vertically integrated business model, I think on slide 75 you mentioned that your investment managers are also taking the role of relationship managers. I'm just curious, given that you have in-house advisors and you have third party advisors, are third party advisors completely comfortable that your investment managers build relationships there as well, given that you have an in-house advice business? Or have there ever been any concerns in any particular way how you manage that? Any colour on that would be appreciated, thanks.

Adrian Sainsbury

Martin, if you could pick those two up.

Martin Andrew

Thank you, Jens. Taking the first one, so what part of the value chain would we be interested in on acquisitions. There are really two sorts of acquisition opportunities we're interested in: one is in-fill acquisitions of IFAs, which we've done seven in the last 11 years, as I said in the presentation. So there, the opportunity is to integrate an advice business into our vertically integrated model, and off the back of that, the main benefit to us is a revenue synergy.

The other sort of acquisition we're interested in, again more in-fill and more bolt-on, is on the investment side, where we've looked at a number of opportunities over the years. And the opportunity there is, if we can find a high-quality business that will fit well, culturally and strategically, the main benefit to us is gaining more scale in an operationally geared part of our business, and potentially obtaining some cost synergies from the middle and back office. So, that's what I would say on the acquisitions.

And on the question you had about third party advisors, yes there are potential sensitivities around how we manage client relationships that come to us through third party advisors and those that we manage directly ourselves, either through our investment managers or our advisors. And we are very, very strict. There is a Chinese wall that we put around any client who's sourced, introduced to us via a third party IFA. And our own advisors will never go anywhere near those clients. So, we're very, very strict on that because it's absolutely fundamental to give confidence to third party IFAs that they can trust us by introducing their relationships to us. And if they do so we recognise that they're their clients and they're in charge of that overall relationship, and we're very much supporting them in their relationships.

Adrian Sainsbury

Thanks Jens, if we could move onto the next question.

<u>Question 3</u>

Ed Firth, KBW

Morning and thanks for the presentation. I guess I have two related strategic questions.

If I look at the wider banking market at the moment, I guess you would say it's characterised by a massive change in terms of digital new entrants, application of artificial intelligence, people targeting new markets etc. I'm just struggling a bit to get a sense of what are you seeing from your competitors in your market? My sense is it's not changing an awful lot. Is that fair or are you seeing a lot of new people attacking some of your more lucrative segments? I guess that would be my first question.

And then my second question would be, it's probably a question you get very bored of being asked but I'll ask it again anyway, if I look at some of your businesses they're not obviously related to others of your businesses, and obviously Asset Management would be an obvious one. I'm just wondering why you think you're the best owner necessarily for that business. I think you talked about further acquisitions to scale it up; I guess Asset Management is a scale business. I'm just questioning or wondering why it wouldn't make more sense for that business to be scaled up into some of the huge mega asset managers that are around, if that makes sense.

Adrian Sainsbury

Thanks, Ed, for those two. Just on the wider banking market, you're absolutely right, clearly there is a lot of investment, new entrants etc. What we brought out is the merits of our model, the service, expertise and relationship, the high-touch, the experts that we have, the face-to-face on a number of our businesses, whether it's going to see a motor dealer, going to see an SME or going to see an Asset Management private client as well. We see real value and a space in the market that will continue for that high-touch model. And that's evidenced, I gave the example of Motor Finance after lockdown lifted, and effectively the pent-up demand that had built during April and May in lockdown last year led to a big rush into motor dealers and a finance opportunity for us.

So, I absolutely believe there's a place in each of our markets into the future. We do look at disruption potential extensively. I mentioned earlier the May strategy event that we had with our Board; not only did we talk about the playbooks, we also talked about the disruption potential in our businesses as well. And that is different in different markets. We've highlighted some of the barriers to entry that we benefit from, whether it's the proprietary technology we have in Winterflood, whether it's the face-to-face direct expert salesforce we have in Asset Finance as well. So, I believe we have a wide strength of businesses.

What we're looking to do with some of our investment programmes is digitally enable our experts to make our experts even more valuable. And clearly that's where I think we will have a price to play and that's where we will generate the higher NIMs as well going forward into the future.

Some of our competitors largely have undifferentiated models, low-touch models, sausage factory type models. And that isn't where you provide that very high level of service that gets the net promoter scores, the return levels of business that we've talked about as well. And that's where we think absolutely the Close Brothers' model is different and wins.

If I look at the wider business and the corporate strategy question you raised, if you look back to slide 9, you'll see there the merits of Asset Management and Winterflood as well. And when I talked about the 'model fit assessment framework', one of the circles is diversification. So, as an example, what that slide is highlighting, after the GFC when the Bank incurred some bad debt losses after the financial crisis, and indeed also again when Covid hit and the Bank had some IFRS 9 uplift, the real diversification of Winterflood seeing its trading revenues pick up at that time really stood out. So, that's absolutely key.

And similarly with Asset Management as well. Both businesses have attractive RoEs on any measure, over 30% as we stand today, very attractive. And Martin has highlighted the sorts of areas we are looking to grow Asset Management in into the future.

Thanks Ed.

Ed Firth

Could I just come back on the competitive question? Broadly speaking, is it the same competitors you have been competing with for the last five years or are you seeing new digitally enabled, whizzy tech type guys coming in? How is the landscape changing or not at all?

Adrian Sainsbury

It's different in different markets. One of the beauties that we've highlighted is the diversity of our businesses. I'll touch very briefly on each of them:

If we look at Property Finance, as Frank highlighted, it isn't really the major banks where we're playing. So, for example, some of those in the sub £10m space, the lower scale of that, have moved to a more factory approach where it isn't a relationship manager calling on the client. So, that's a change there. On the other side in that market we have seen other players. You'll have seen OakNorth as an example, coming into the market. And as Frank highlighted there are players like that as well.

There have been some peer-to-peer lenders in the property space, and some of those have widely been covered as running into some problems.

In the Commercial space, Neil highlighted in Asset Finance there's broadly 200 competitors. Most of them actually didn't have access to CBILS, the government scheme or Bounce Back in that period, so I would say the market there is fairly similar on competition. Even before Covid we saw some players pulling back, moving away – I won't quote the competitors here – but some of them moving away from the broker space as an example.

Invoice Finance I would say is pretty similar. It's been 40 or 50 competitors for broadly 15 or 20 years now.

And in the Retail space, Rebecca highlighted where we play in the independent space. I would say broadly consistent competition there.

Motor there's been a lot of new entrants, as we talked about, particularly in the digital space. And you will have seen some of them advertised on TV.

Our objective is to improve our customer journeys across all of the businesses and to compete in that method along the way.

Ed, does that answer your question?

Ed Firth

That's very helpful. Thanks very much indeed.

<u>Question 4</u>

Jason Napier, UBS

Thank you. The first question for, I guess, Martin on CBAM. The total income margin of around 90 basis points, I would guess that you wouldn't be uncomfortable in saying that strategically you're planning for that number to ebb lower over time. But correct me if I'm wrong on that. And I just wondered, you know, what the sort of moving parts are in defending the PBT line, if you like, against that, and strategically whether that has to drive some kind of reaction around shape of the business and so on.

And then secondly, on the Winterflood side of things. Philip, for you, the Winterflood Business Services piece I guess is quite small, it looks like it's about five-ish million of revenue at the moment, but the counterparties that you list on the slide are vast, and the AUM is not. So I just wondered, what drives revenues in that business? Is it really the AUM side of things or is it trading volumes and how significant might that business be, given that you're dealing with the likes of Vanguard and Aviva? Thank you.

Adrian Sainsbury

Thanks, Jason. Martin, do you want to kick off with the CBAM operating margin?

Martin Andrew

Yes. Thanks, Jason. I think the question is around the income margin, around 90 basis points, and yes, I mean you're right that there is downward pressure on revenue margins I think endemic in the industry. We're not immune from that. The causes of that are intense competition and regulatory pressure I would say.

Our observation would be that most of that is manifesting itself in clients or advisors switching to lower cost solutions rather than the prices of specific solutions declining over time, and we're not immune to that business mix shift which I'll comment on in a moment. I think we're well placed though on that, because we do have a choice of lots of different propositions at different price points. I mentioned we've got passive investment and active investment, and if our clients switch from active to passive we will see a drop in revenue margin, but we're keeping the client. And given the cost of acquiring a new client, I'd far rather keep them, albeit at a lower revenue margin than lose them all together.

So, I think how our revenue margin behaves over time is going to be as much driven by the mix change within our business than the declining fees overall. So, for example, if we grow our bespoke investment management business quite quickly, that's at a slightly lower revenue margin than the total so that will bring it down. On the other hand, if we're able to do some IFA acquisitions and integrate those into our vertically integrated model, that side of our business has a higher revenue margin than the average, and that would increase it. So, I think probably our expectation would be probably stable to gentle decline, but largely determined by the shape of our underlying business mix.

And then in terms of your second question of how we defend our profit against that sort of backdrop, it's really a twin track approach. The first is to grow and gain scale, because we know there are scale economies in the business, so that's one of the reasons why we're so keen to invest for long-term growth because we think that greater scale will offset, to some extent, any compression in revenue margins.

And the second part of the approach to deal with that is to use technology to try and take operating costs out of the business, as the business grows, to try and become more efficient over time. And I've talked about a number of our technology investments designed to do that.

Adrian Sainsbury

Thanks, Martin. Phil, do you want to pick up on the WBS AuM scale versus the client base?

Philip Yarrow

Yes, of course, and thank you for your question, Jason, and thank you for your comments around the counterparties. We're very proud of the blue chip list of counterparties that we have for WBS.

WBS is interesting for us because it diversifies the Winterflood income streams and it helps support our market making business, provides diversification. It's a fee driven model, so the mix of revenues from WBS is a mix of fees from administering assets for our clients, but also commissions driven from trading volumes.

WBS's revenues tend to be, because of the fee driven nature, much more annuity style income stream, they're more sticky and therefore they're less cyclical in nature in comparison to our market making business, which is very much a daily trading business.

We're certainly delighted in the growth in assets under administration at WBS in the last year, it's a growth of just under 40% from £4.1bn up to £5.7bn as at the end of April. And we do have a healthy pipeline of clients and we expect that AUA to keep growing.

WBS is now very much part of the WINS family, and it benefits from this sort of operational business support that Winterflood can provide it. WBS does have a healthy profit margin after direct costs, and we expect that profit margin to continue to grow and improve as the business scales and benefits from our technology economies of scale. So, I would describe WBS as being a relatively small part of Winterflood right now, but it's a business that we continue to develop and is a very interesting opportunity for us in the longer term.

Adrian Sainsbury

Thanks, Jason. We've got a couple of webcast questions I think.

Question 5

Gary Greenwood, Shore Capital

Firstly, to what extent does CBAM's customer base overlap with the rest of the Group, i.e. are there any cross referrals?

Secondly, you mentioned scope for operating margin improvement in Asset Management when technology investment completes. Where do you see the margin normalising to?

Adrian Sainsbury

I'll start off on the first question and then I'll hand over to Martin. Clearly, Martin highlighted the client base in Asset Management, and it's in the wealthier end of individuals. In our Savings base, clearly we have a range of wealthy individuals as well, and we've touched on we have limited interaction between the Bank and CBAM, but there is some, so there is the opportunity, let's say, for retail saving investors who've got more than the £85,000 of deposit over the government guarantee to introduce that over to CBAM. We have, over the last five or six years, had an emerging programme where we look at relevant Bank businesses, and potential for introductions to CBAM at some stage in the future.

And that can be quite a long burn. It might be a property developer who, unlike the video we've seen, doesn't have children to pass the business on to and is looking for an exit. There may be a chance there. Similarly, directors or owners of SMEs who may want to exit the business and therefore have capital come in at that time, there's a chance to introduce our motor dealers.

So we have some type of introductions across the Group. We've also seen some success from members of staff also moving over to Asset Management. It's a great system. I'm there myself, funnily enough. And on the other way we do have some Asset Management moving into the Bank as well. Martin, would you build on that answer and then offer the operational margin as well?

Martin Andrew

Yes. I would echo what you said on the overlap for the client base, I think there are some opportunities and we've done a good job in the past in exploiting those. In terms of operating margin improvements and where it will stabilise to, I'd make three points really.

Firstly, as we've said, there are scale economies in our business and we know that all other things being equal, as the business grows, our operating margin should drift upwards. It's worth noting that relative to a number of our listed peers who have higher operating margin, we have a lower scale than quite a number of those, which I think is worth bearing in mind.

Secondly, when you look at operating margins, it's also worth looking at net inflow growth rates at the same time, and if you look across the listed wealth management players, there is somewhat of a negative inverse relationship between net inflow rate and operating margin. Our net inflow rate has been higher than many of our peers, but our operating margin is a little bit lower than some of our peers, and that is because we've been investing in growth and, as we said in the presentation, we very much believe in that. We're taking a long-term view, we have been rewarded with a high level of growth and we expect that to feed through to profits over the medium and longer term.

And the third thing I would say is just pointing out the technology and operating model changes that we're making, which would give another source of improvement to operating margin over the medium term.

Adrian Sainsbury

Thanks, Martin. We're actually coming towards the end of time, so to conclude today's event could I say thank you for your time this morning and for your questions.

I hope you've enjoyed hearing insights from each of our businesses, their distinctive strengths, and where we see the trends and opportunities in their markets.

In Banking, we're well positioned to maximise opportunities in the current cycle, and we see long-term structural opportunities in several of the businesses.

We continue to assess potential new initiatives whilst further penetrating our existing market niches. And I'm particularly excited by those arising from the sustainability space, for example, growing our green energy business and alternatively fuelled vehicles. And we see opportunities arising from customers evolving preferences to use digital, as we've mentioned.

In CBAM, we see long-term structural growth opportunities in the wealth management space, and in WINS, we've seen a structural shift in retail trading volumes since the onset of Covid-19, as well as the continued growth of WBS, which is capitalising on the trend for outsourcing.

With a distinctive business model and a strong culture, which drive our long track record of growth and profitability, our strategy is focused on protecting, growing and sustaining the business, ensuring we continue to deliver for our customers, for our people and for our shareholders over the long term. With a diversified portfolio of businesses, each well positioned in their respective markets to continue to deliver disciplined growth whilst maintaining our focus on service, expertise and relationships.

We're well positioned to make the most of the current market opportunity and also continue to assess new opportunities in new and adjacent markets to take the business forward.

Thank you, and I look forward to seeing you in person soon.