Close Brothers
Modern Merchant Banking

EDITED TRANSCRIPT - Preliminary Results 2020

Tuesday, 22nd September 2020

Presentation

Adrian Sainsbury, Chief Executive

Good morning, and welcome to the presentation of Close Brothers' 2020 annual results. I'm delighted to be introducing this set of results on my first full day as Chief Executive.

It's an honour to have been chosen to lead the Group, as I truly believe this is an extraordinary company that plays an important role in the lives of the people and businesses it serves.

I'll start by giving you an overview of the Group's position and strategy and how we'll emerge from this crisis in the strongest possible shape. Mike Morgan, our Group Finance Director, will be taking you through our financial performance and I'll then come back to give you an update on each of our businesses and outlook.

Current circumstances have dictated that this is a pre-recorded presentation, but as usual, we'll be happy to take your questions afterwards, both via the telephone conference line and over the webcast, which you can submit either during or after the presentation.

Our 2020 financial performance is a story of two halves. Strong results in the first half of the year were followed by a period where we felt the impact of Covid-19, an unprecedented turn of events which affected us all.

And while we couldn't have predicted the emergence of Covid-19, the planning we have undertaken in previous years leaves us well placed to successfully navigate the crisis. And the disciplined application of our model has allowed us to deliver a resilient performance despite the impact of Covid-19.

We remain very confident in the high quality of our loan book, which is predominantly secured and prudently underwritten.

Winterflood has delivered a very strong performance and we have seen continued good momentum in Asset Management. We also have a strong capital, funding and liquidity position and are well placed, both operationally and financially, to navigate this challenging environment.

It's still early days, and the path to recovery remains uncertain, but we've seen encouraging green shoots of recovery since June, with some positive early signs from those customers in forbearance.

Following our resilient financial and operational performance in the second half, the Board is recommending a full year dividend of 40p per share. This decision to resume our dividend

reflects our confidence in the Group's business model and strong financial position, notwithstanding the current uncertain environment.

Having been at Close Brothers for seven years I was heavily involved in the definition of our group purpose, to help the people and businesses of Britain thrive over the long term, which resonates deeply with me. To achieve this, our long-term strategic approach 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.

We've an important role to play in supporting small businesses and individuals throughout the current crisis, and as a specialist lender we're well placed to make a real difference to them. Our culture brings out the very best of our people, their skills, and the strong reputation we've built over many years.

I've been in banking for 30 years, and doing the right thing has been important to me throughout my career. To reflect this, I am immediately adding Our Responsibility as a core component of our purpose. As well as helping the people and businesses of Britain thrive we also have a responsibility to help address the social, economic and environmental challenges facing our businesses, employees and clients, now and into the future.

A key point of difference at Close Brothers is our long-term approach and the rigorous discipline behind our proven and resilient business model, which supports our long-term track record of growth, profitability and dividends over the years.

Our success is supported by three pillars: Firstly, our consistent pricing and underwriting criteria are a strategic imperative for us. Our lending is predominantly secured, with conservative loan-to-value ratios, small loan sizes and short maturities, which allows us to maintain both a strong net interest margin and high-quality credit portfolio throughout the cycle.

Secondly, the prudent management of our financial resources, where a strong capital, liquidity and funding position allows us to grow and invest, while comfortably meeting regulatory requirements.

And thirdly, the diversity of our businesses, with specialist expertise in each of the sectors we operate in.

These are the fundamental strengths of our model, and my role is to ensure we continue to protect these pillars whilst taking the business forward.

We entered the current crisis in a strong position and the Group's agility and operational resilience have allowed us to respond effectively, and to remain open for business throughout the pandemic. Our immediate priority is to continue to successfully navigate the Covid-19 crisis and to support our people, customers and clients as the economy recovers.

We've a long history of supporting individuals and SMEs across the UK through a range of market conditions, and have introduced new ways of working to protect our colleagues and maximise our assistance for customers and clients during these times.

In 2019 we spent considerable time developing playbooks and simulations in preparation for an economic downturn which were implemented in response to Covid-19, allowing us to navigate this crisis and be ready to lean in to any green shoots of recovery.

The economic downturn from Covid-19 has been felt across our businesses, but the fundamental strengths of Close Brothers remain unchanged. As a through-the-cycle provider

of funding, wealth management and trading services to individuals and small businesses, our role remains as important as ever.

The deep experience and expertise we have within the Group, across all economic conditions, ensures we're well positioned to continue delivering on our purpose: To help the people and businesses of Britain thrive over the long term.

I'll now hand over to Mike who'll take you through the Group's performance in more detail.

Mike Morgan, Finance Director

Thank you, Adrian, and good morning everyone. As Adrian said, we delivered a resilient performance in 2020 reflecting the disciplined application of our business model in a challenging environment. However, the impact of Covid-19 can be seen across all aspects of our business, with Group AOP down 47% to £144m. Profit in Banking was impacted by lower activity levels, forbearance and higher impairment charges, but this has been partially offset by higher profits in Winterflood.

Overall, we delivered an adjusted earnings per share of 74.5p and a solid return on opening equity of 8%. We maintained a strong capital, liquidity and funding position, with significant headroom above regulatory requirements as our CET1 capital ratio increased to 14.1%. Our leverage ratio remained very strong at 11.2%. And as Adrian mentioned, following a resilient financial and operational performance in the second half, the Board is now proposing a 40p dividend in respect of the full financial year.

Looking first at the income statement. Income was up 6% to £866m with growth in Asset Management and Winterflood partially offset by the Banking division. Expenses increased 8% to £538m, reflecting higher variable costs in Winterflood and continued investment across the businesses. Impairment charges rose to £184m, reflecting the forward-looking recognition of impairment charges under IFRS 9 to incorporate the impact of Covid-19. And we delivered £110m of profit attributable to shareholders, a 46% decrease on the prior year.

Moving on to the divisional performance. Overall, adjusted operating profit reduced 47% to £144m, with the lower profit in Banking and Asset Management partly offset by a very strong performance from Winterflood.

In the Banking division, profit reduced 61% to £99m, as Retail, Commercial and Property were all impacted by higher impairments and lower activity levels, which affected both loan book growth and net interest margin.

We have seen good momentum in Asset Management in challenging market conditions, although profit decreased by 6% to £20m, reflecting investment in new hires and technology. Profit in Winterflood increased by 140% with a very strong trading performance, reflecting increased volumes and the expertise of our traders.

Now onto our balance sheet. Our balance sheet remains strong and transparent with a diverse funding base. We entered this period with strong levels of funding and liquidity, which we have increased further since Covid-19. We have maintained a prudent level of funding well in excess of the loan book, with total funding increased to £10.2bn. We continue to 'borrow long and lend short' with the average maturity of funding at 18 months, ahead of the loan book at 15 months. We increased our levels of liquidity which remain well ahead of regulatory requirements.

We had £1.7bn of treasury assets at 31st July 2020, with the majority held with the Bank of England. Our funding base is well diversified and includes access to retail and non-retail deposits as well as secured and unsecured wholesale funding. We continued to optimise and

diversify our funding base, and our customer deposit platform helped us increase our retail deposits by 22% in the year. Our credit ratings remain strong with the banking subsidiary rated AA3 by Moody's.

Turning to our capital position. Prudent management of our capital has always been core to our model and has been particularly important in light of Covid-19 to ensure we can continue to support our customers, clients and colleagues. Our CET1 capital ratio increased 110 basis points to 14.1%, with over 600 basis points of headroom against minimum regulatory requirements, with our CET1 capital increasing 7% to £1.3bn.

This is driven by retained profit, with the impact of higher impairment charges, largely offset by the capital add-back under transitional IFRS 9 arrangements. Risk weighted assets remained broadly flat at £8.9bn, and our leverage ratio remained strong at 11.2%.

We have made good progress towards our IRB application, with the initial IRB model suite now complete, and are currently on track to submit our formal application to the PRA by the end of 2020, which will further strengthen and optimise our capital position. Overall, we have a strong capital base, with significant headroom to minimum regulatory requirements. This gives us confidence that we have the flexibility to support our customers and clients through the current crisis and grow the loan book.

Moving on to the Banking division. We saw a 3% reduction in income to £586m, driven by lower customer activity and forbearance measures. The impact of these lower activity levels is reflected both in the broadly stable loan book and the net interest margin, which declined on the prior year to 7.5%, while we maintained our focus on prudent underwriting and pricing discipline.

Expenses grew just 1% to £303m as the continued investment in the business was largely offset by lower variable compensation. Impairment charges increased across Commercial Retail and Property, resulting in a full year bad debt ratio of 2.3%. As a result, adjusted operating profit reduced by 61% to £99m.

Our approach to provisioning reflects the application of our IFRS 9 models, overlaid with our expert judgment. In the last financial year, provisions increased from £104m to £239m, predominantly reflecting the impact of Covid-19 and related forbearance. The increase reflects the movement of loans between stages, as well as more severe macroeconomic scenarios, and a review of provision coverage at the individual loan and portfolio level. This resulted in an overall increase in coverage to 3%.

We believe this represents a prudent and appropriate level of provision and remain confident in our loan book, which is predominantly secured, prudently underwritten and diverse. We are now seeing customers emerge from their concession period. While it is still too soon to draw any firm conclusions, the early signs are encouraging, with the majority of forborne customers in Commercial and Retail recommencing payments, either on their original terms or a under a bespoke payment plan.

Now onto the loan book, which remained broadly stable at £7.6bn, a resilient performance overall, reflecting the diversity and specialism of our lending portfolio. And although new business volumes fell materially when the UK entered lockdown, we have since seen an increase in customer activity with a fairly sharp pick-up in some of our businesses.

The Commercial loan book increased 2% overall. We saw growth in our Asset Finance business, which experienced record new business volumes in June and July supported by good demand for loans under CBILS. This was partly offset by lower utilisation in our Invoice Finance business.

The Retail loan book increased 1%. The Premium Finance loan book grew 5% as we continued to see solid demand for insurance finance, with limited impact from Covid-19.

In Motor Finance the UK loan book grew, benefiting from a sharp recovery in new business towards the end of the year. However, this was offset by a modest reduction in the Republic of Ireland, and the motor book declined marginally overall.

And the Property loan book declined by 6%. This reflects subdued construction activity during the lockdown period, as well as higher repayments by our customers.

Turning now to our net interest margin. Our business model is built on pricing and underwriting discipline, which has supported a consistently strong NIM compared to our sector. Despite this discipline, in the last year, the net interest margin reduced 40 basis points to 7.5%.

This reflects a period of lower fee income, with the impact of forbearance measures, where we have waived certain fees, as well as lower transaction and utilisation levels during the lockdown period.

The chart on this slide shows the trajectory of NIM during the year, adjusted to exclude certain items, including modification losses and adjusted for day count.

As you can see, it remained broadly stable through the first half of the year and prior to the Covid-19 outbreak. We then experienced a sharp drop in April and May, reaching a low of just over 7%. There has since been a partial recovery as the easing of lockdown restrictions in June and July have increased activity levels and associated fee income.

Moving onto costs, there was a slight increase of 1% in Banking costs, driven by continued investment and offset by lower variable compensation. Investment costs increased by £11m to £57m in the year, which represents 19% of our total cost base of £303m. Our commitment to maintaining this investment is a key differentiator of our model in the long-term, and ensures we are able to lean in when the opportunity arises.

We believe that this is the right time to continue investing to increase our capacity and capabilities. Other operating costs decreased 3% to £246m, as we maintained strict control of costs to create investment capacity and reduced variable compensation by £11m. Going forward, we will continue to exercise strict discipline on our operating costs, but expect investment to continue to increase, as our key strategic investment programmes progress.

This next slide looks at how we are investing for the future. Investing through the cycle is a core part of our business model and we have a number of key strategic projects underway. Some of these are focused on protecting our business, strengthening systems and operational resilience, and adapting to regulatory change. Others help us improve the business, for example, by strengthening our customer proposition or driving operational efficiency. We also look for opportunities to extend our business through growth opportunities in existing and adjacent markets.

Our key multi-year investment programmes in Motor Finance and Asset Finance and our IRB application all remain on track, despite the operational impact of Covid. The investment we have made in recent years has given us some real benefits in responding to the recent challenges of Covid-19.

For example, in Motor Finance, we were able to accelerate the rollout of our remote lending capabilities, which allowed our dealers to continue writing new business during the lockdown. And in Asset Finance, our recent rollout of Salesforce enabled us to quickly set-up a portal for CBILS applications.

Now we turn to our Customer Deposit platform, which is another example of an investment programme that has proven particularly beneficial in the current environment.

We have delivered a resilient and scalable deposit platform that allows us to offer a wider range of products, and provides access to new customer segments. We've also delivered an enhanced customer experience with faster on-boarding and the introduction of online savings accounts and digital communication.

Our broader savings proposition has enabled us to optimise our cost of funding and the platform has delivered scalability and operating efficiencies. Since launch, we have attracted around 4,000 online customers to our online portal and have seen 37% growth in retail deposits.

Our online portal also allowed us continued access to additional depositors throughout the lockdown period, which has been essential in enabling us to continue raising deposits remotely.

Moving on to Asset Management, where we saw good momentum despite the challenging market conditions. We achieved strong net inflows of 9%, reflecting the strength of our client proposition and the hiring of additional portfolio managers. Managed assets increased 8% to £12.6bn, and total client assets increased 3% to £13.7bn, as we saw good demand for our integrated advice and investment management services.

The division saw a 6% increase in operating income, driven by continued growth in managed assets. However, the reduction in income on advice and other services reflects the impact of Covid-19 on new advice business. The revenue margin remained broadly stable at 94 basis points.

Expenses increased 9% to £108m as we continued to invest in people and new hires, as well as technology, to support the long-term growth of the business, and the expense/income ratio increased to 84%. Accordingly, adjusted operating profit reduced 6% to £20m.

And onto Winterflood, which delivered a very strong performance, with a 140% increase in operating profit to £48m. The first half of the year saw continued Brexit and general election outcome uncertainty, contributing to a slowdown in capital markets. However, the second part of the year saw significant volatility driving heightened trading activity across global equity markets.

Overall, income increased 63% to £152m, reflecting a very strong trading performance and a significant increase in volumes since the Covid-19 outbreak.

Expenses increased 41% to £104m, reflecting higher variable compensation and settlement costs following increased trading activity.

The expertise and experience of our traders meant they were able to successfully navigate the challenging market conditions, with only seven loss days. All of this contributed to a very strong performance, delivering the highest level of profit in the last ten years.

So, as you can see, despite the very significant impact of Covid-19, we have achieved a resilient performance overall and we are in a strong financial position, which leaves us well placed to continue navigating this crisis.

I will now hand over to Adrian. Thank you

Adrian Sainsbury

Thanks, Mike. Close Brothers has a tremendous track record, and as Chief Executive my role is to take the Group forward and build the next chapter of our success story.

The Group's resilient performance for the year demonstrates the experience and specialist expertise of our people across lending, wealth management and trading during an unprecedented period.

The impact of Covid-19 on the Banking division from lockdown, forbearance and impairment provisioning was partly offset by a very strong performance in Winterflood, while Asset Management maintained good momentum in challenging markets.

In Asset Management our attractive, vertically integrated model continues to see good demand. While in Winterflood, our resilient trading expertise combines with strong market activity upside potential.

Our diverse business model and specialist expertise support our resilience and performance in challenging markets. This means that the Group is well placed to respond to opportunities as we emerge from the current crisis.

The distinctive lending model at Close Brothers focuses on maintaining our disciplined lending criteria over the long term, which consistently delivers strong returns and support for our customers and clients. And, as demonstrated over a number of cycles, we don't change from our proven approach.

You can see here that we are well placed to lean-in and generate strong growth in the periods following previous crises, such as the dot.com bubble and the global financial crisis. While in more recent years a benign environment has led to moderation of our growth.

Covid-19 has now broken that pattern, and at this stage our model is performing as we'd expect. Our strong net interest margin creates capacity for us to make quality investments through the cycle, which in turn have helped sustain our net interest margin and support our growth.

A number of investments have proven crucial for our response to Covid-19. And we will continue to invest to protect, improve and extend our model, as has proven successful for us over many years. And while we can't know how the next phase of the cycle will play out, we do know that we're in a strong position to make the most of any opportunity it presents.

In our Banking division, we've a great deal of confidence in the credit quality of our loan book. We apply consistent and prudent lending and underwriting criteria across our specialist businesses to mitigate credit risk.

Over 90% of our lending is secured or with some form of structural protection, with short tenors and low average loan sizes. It's also diversified across sectors, asset classes and geographies within the UK. This in turn reflects the discipline we apply in our underwriting at all stages in the cycle, and the many years of underwriting experience of our people.

You can see from this chart the broad spread of industries and sectors that our loan book is composed of, which highlights the diversity of our lending, with no major sector concentrations. And we have minimal exposure to sectors that have been most significantly impacted during the crisis, such as retail, hospitality, leisure, air transport or oil and gas.

Looking now at the various segments of the Bank. Our Commercial businesses saw some of the most significant impact from Covid-19.

Our Asset Finance business experienced its lowest levels of new business in April and May, but this was offset by record volumes in June and July as lockdown restrictions eased. This was supported by strong demand for loans under the UK government's Coronavirus Business Interruption Loan Scheme, where we're accredited to lend up to £750m.

In Invoice Finance, we experienced a marked reduction in utilisation levels of Invoice Finance facilities. And the UK lockdown had a significant impact on new business levels.

Impairment provisions increased significantly, reflecting the increase in forbearance across the portfolio. By the year end we had granted forbearance on around 26% of the Commercial loan book by value, largely in the form of payment deferrals in Asset Finance.

While it is still early days, our experience of customers emerging from the concessions has so far been encouraging, with over 70% of the element of the loan book originally on a payment holiday now having resumed payments.

In Motor, new business was impacted by the temporary closure of motor dealerships during the UK lockdown, with most dealerships shut but some business still written remotely or in support of key workers.

Volumes recovered sharply in June and July as dealerships re-opened. In fact July saw the highest monthly new business on record, up 35% on the prior year, with recent investment in Motor Finance allowing our sales teams to maximise the opportunity.

For Premium Finance, the impact of Covid-19 was more limited, and we have continued to see solid demand, as well as resilient credit performance.

New business in Premium reflected strong demand for insurance finance, leading to an increase in the loan book for the year overall.

Across our Retail businesses, we had granted forbearance on almost 9% of our loan book by value at the year end. This is principally in the form of payment deferrals of varying duration, with fees and charges waived and no impact on our customers' credit records.

It is still early days, and the picture continues to evolve, but the early signs are encouraging, with over three quarters of the forborne loan book currently up to date, settled, or having recommenced payments.

Our Property business was particularly impacted during the lockdown period, where the temporary closure of building sites meant that only around 40% of sites remained active. Since lockdown restrictions began to ease the UK's construction market appears to be returning to a sense of normality, with the re-opening of development sites.

New build sales activity appears to have rebounded, aided by the temporary reduction in stamp duty, and reflected in recently reported increases in house prices.

Our new business has since started to recover, but remains below pre- Covid levels.

We're confident in the credit quality of our Property lending with a high quality development finance loan book and originated at prudent loan-to-value ratios at a maximum of 60%.

We work with experienced developers and focus on residential developments of family housing where there's strong structural demand. The forbearance we've granted in Property amounts to approximately 18% of the loan book by value and is principally in the form of fee-free extensions for development loans where we remain confident in the quality of the borrower and the underlying security.

The development book has had no significant credit issues to date and our new business pipeline and undrawn commitments remain strong.

The Asset Management division has maintained excellent client service during challenging market conditions, reflected in continued good demand for our integrated advice and investment management services. We've an attractive, vertically integrated and multi-channel distribution model which underpins our success. This leaves us well positioned to benefit from the proven, ongoing demand for our services and the structural long-term growth opportunity in the wealth management industry.

The division has achieved good net inflow rates over several years and has again delivered strong net inflows at 9% despite a slowdown in flows in the second half due to the impact of Covid-19 on client interactions.

We've seen net inflows from our advisers, third party IFAs and our own portfolio managers with strong contributions from our investment in new hires over recent years. Ongoing investment in systems and technology continues to enhance our operating efficiency and increase the scalability of our back and middle office functions. We also continue to hire additional advisers and fund managers while remaining open to selective incremental acquisitions to add long-term growth.

Sustainable investment management strategies remain a key area of focus across the investment management industry and our socially responsible proposition continues to be well received with further sustainable fund launches planned in the coming year and ESG criteria now embedded within our in-house research capabilities.

And finally, Winterflood which delivered a very strong trading performance for the year. Despite the unprecedented environment Winterflood's operational responsiveness allowed it to maintain uninterrupted trading throughout the crisis, while the experience and expertise of our traders enabled them to deliver a very strong performance in extremely challenging market conditions.

The extraordinary market conditions in the second half saw Winterflood record its highest ever volumes in March. Its highest annual income since 2000 and its highest profit since 2010. And it navigated these extraordinary markets with great expertise recording only seven loss days in the year.

Winterflood remains a long-established leader in market making and is well positioned to maximise daily trading opportunities and provide continuous liquidity in all market conditions. The business continues to make good progress in expanding its relationships with institutional clients and continues to grow its presence in the US market.

And Winterflood Business Services, which provides outsourced dealing and custody services for asset managers in the UK, has continued to grow its client base with assets under administration now exceeding £4bn driven by continued net inflows despite the impact of negative market movements in the second half.

Overall, the Group has adapted well to this unprecedented environment drawing upon our financial and operational resilience and the deep experience of our people. Following the easing of lockdown restrictions since June, we've seen encouraging signs of increasing economic activity in the UK. However, the near-term path to recovery still remains highly uncertain.

In the Banking division, we remain focused on maintaining our prudent and disciplined approach while continuing to support our customers through this challenging environment.

Asset Management continues to have long-term growth potential and we remain committed to growing our client base organically and through selective hiring and in-fill acquisitions.

Winterflood has shown continued good momentum through August and September but remains sensitive to changes in the market environment we have a strong balance sheet, high quality loan book and proven, resilient business model and I'm confident we'll emerge from this crisis in a strong position to support our customers and clients through their recovery. And I'm really looking forward to taking this great business forward in the years ahead.

Thank you, and we'll now be happy to take any questions you may have.

Q&A session

Gary Greenwood, Shore Capital

Hello, good morning. I've got four questions. So the first is just on the loan book provisioning, I was just wondering if you were to move 100% to your severe downside scenario how much additional provision that would add?

The second one was on the dividend whether we should think of the 40p as a sort of new base level as a full-year dividend or whether that's just sort of a final dividend and therefore you'd expect dividends going forward to be looking more like they were previously?

The third one on Winterflood was whether you think any of the better trading performance in the second half of the year is structural rather than just being a cyclical factor related to the increased volatility?

And the final question just on strategic outlook and I guess if it ain't broke don't fix it, but I'm guessing Adrian you're probably going to want to bring your own style and approach and views to the Group and so maybe if you could give some insights as to what those might be? Thank you.

Adrian Sainsbury

Thanks, Gary. On the four questions I'll take the latter three and then I'll hand over to Mike to talk about the loan book provisioning.

Firstly, on the dividend, the 40p we don't see as a new base, absolutely not, we see it as the right level for the business performance this year that, as we described, is highly resilient.

We cancelled the interim, we were focused at that stage in the remarkably uncertain environment on our people and our customers. The delivery we've seen, the green shoots we've seen in recent months, that have continued into August and September as well that we can talk about, aligned with our 14.1% CET1, have led us to conclude that is the right level for us at the moment.

That is broadly the dividend cover on that 40p in the mid-range of what we've had historically, around the 1.5 to the 2.3 level. It's broadly in the level for that. And importantly it is not a rebase either, it's the right dividend for this point in where the business is and we'll look at it again with the Board when we come to the interim next year and the full year next year. It's clearly an uncertain environment but we're very confident that this is a good level of dividend as we stand.

I see Close Brothers' investment thesis as very important and relevant here. We look for the three ticks on very solid capital liquidity and funding, three very clear ticks, we've got the

discipline model we've talked about throughout the presentation and that's enabled us to provide the sustainable dividend that we've had in the past, pretty much since the company became public in the 80s, and only broken by the Covid cycle. So I'm very keen that we have a step in future when the time is right and we move back to that dividend story that we've had before.

Looking at Winterflood, the second half was significantly better than the first half, not surprisingly. Winterflood's profits were helped by volatile trading and good volume, and as the slide showed the bargains that we saw in half two will dramatically higher than the prior year and half one.

I don't necessarily see it as a structural change but importantly we are seeing good volumes continue in August and into September so far.

Phil would you like to add anything to that|? I'm joined by Phil Yarrow, the CEO of Winterflood, would you like to add anything to that, Phil?

Philip Yarrow, CEO Winterflood

Yes I agree with you Adrian I see it as cyclical. We've lived through many market cycles over the last couple of decades and clearly this second half performance demonstrates the ability of Winterflood to lean into much greater investor appetite when it presents itself at the upper end of a market cycle.

Adrian Sainsbury

Thank you. Shall we have a look at the strategic outlook? Obviously I've been at the company for seven years, I think this is a great company, as I said in the RNS statement and also in the presentation there. We've got a good model here, it's a strong model and it's led to that investment thesis that I mentioned. I'm keen that we progress that model into the future. There's a very good slide on the loan book and how we've added businesses to that in the past. We'll look to generate future opportunities that fit with that model as well.

An important thing for me is maintaining the premium valuation that we have achieved for a number of years and the strategies that we bring will fit with the model and we'll look to sustain that valuation into the future.

Mike, would you like to answer the loan book provisioning question?

Mike Morgan

Yeah thanks for the question Gary, you'll have seen that we have taken a charge in the year of £183m and you'll see that our base scenarios are 40% baseline, 60% downside. So to answer your question specifically if we move to a downside scenario where we would have a protracted slump you would take a further £23m of provisioning. Equally if you moved 100% to the upside you would reduce the provision by around about £18m.

Adrian Sainsbury

Gary, is there anything you'd like to come back on there or shall we move onto the next question?

Gary Greenwood

No that was it. Just on the downside scenario is that the most severe scenario or is that just your…

Mike Morgan

Yes that is Gary.

Gary Greenwood

That's great thanks very much for answering those questions.

Nicholas Herman, Citigroup

Good morning gentlemen, thank you for taking my question.

Three questions please: two on banking and one on asset management. On banking it looks like your fourth quarter banking net interest margin was 7.4% / 7.5%, thank you for that chart that was helpful. But for the net interest income in particular rather than including the non-interest income I'm just curious as to what your exit margin is there please? And then just the outlook for the pure net interest income and how quick, I mean is there still repricing that needs to go through, what's determining the NII outlook there?

The second question on banking is just what are you seeing on the ground that has encouraged you to increase you provisions yet again in July, just is there any sectoral indicators that you're looking at in particular and obviously I'm conscious that you're talking about… you were referencing a more constructive, a potential green shoots recovery. I'm not cognisant because your provision is quite a bit higher than some of your closest peers.

Third question on Asset Management, despite there's an 8% increase in managed assets, an even bigger increase in average managed assets over the years, we've still seen another year of negative jaws, so I'm just curious, I guess there's two parts here, first of all any comments you can make around pricing because the margins in the investment management and the advisory seem to be coming down. And then as part of that how long before we can start to see positive draws, obviously you do seem to invest in that business? Thank you.

Adrian Sainsbury

Thanks, Nicholas. If I start with the NIM question first and I think this is slide 17 in the deck probably, I don't know if that helps people, it is slide 17. As you rightly say if you look back at that slide throughout the year the NIM was pretty flattish below Covid, it was around 7.6% and then there was quite a significant drop off, largely due to forbearance, not charging fees to customers and reduced activity levels in a number of the businesses that we alluded to. And importantly we've seen the NIM bounce back into the range that you said in the 7.4 sort of level, towards the end of the year. And that's because we've seen activity levels pick up again and we've been able to see more fee activity as well.

The first point I'd make around that is our NIM is particularly strong compared to the market and that's from the expertise of our businesses and the different positions that we have in each market.

We don't actually disclose the margins within the NIM by business. But it would be fair to say that there is competitive pressure still in the markets. We are seeing some specialist sectors where people are pulling out, which will be helpful to us. We also talked in the presentation about the Coronavirus Business Interruption Loan Scheme, the government's scheme. That is at a modestly lower margin as well. We pass on the benefit of the government guarantee that 80% covers that lending. So that has a small impact as well.

The trends you will have seen if you look back further, there has been small erosion over the years.

But where we are at the start of the year, and some recovery, I think is the position as we stand today as well. So, I think that is sensible to go on that basis.

If I talk about the provisioning we've seen. In half one of the year it averaged £6m a month, the bad debt charge. In quarter three it was £87m. And in the last quarter we were charging at £20m a month. So that's the charge. I'm not quite sure on the point you were making in the final month of July, but we charge broadly £20m a month on average in the last quarter.

The comments we've made on the encouraging signs emerging from forbearance in Asset, Premium and Motor in particular, lead us to conclude that the provision level we've had, the 2.3% for the year, is a prudent level and a right level for the business. We're expecting the provisioning level to be below that £20m going throughout the half one.

And lastly, on Asset Management on the costs. It would be fair to say that we've been investing significantly in recent years, and successfully. That's both in our systems, and we're coming towards the end of that investment profile, that will be towards the end of 2021, and we've been investing in some high net worth portfolio managers, acquisitions that are bringing in funds for us very successfully. And those are sort of mini J curves, each of them when they come in. So you bring the new portfolio manager in, there's a cost, there's a success that comes over a period. We will be working on the operating margins as we go through, and I see the position as we have it at the moment as probably a sensible level of operating margin to look at. Is there anything you'd like to come back on there, Nicholas?

Nicholas Herman

Just coming back on the net interest margin please, the pure NII margin. I guess there's a bit of a lag as well of repricing liabilities versus assets, you've got quite long duration funding. Is that going to mean there's going to be quite a slow grind upwards as you reprice those liabilities? So it's going to be a pretty slow grind for you to offset the lower pressures after lower base rates?

Adrian Sainsbury

On the repricing of liabilities, that's part of when Mike was talking about the deposit investment we've made. We have a changing profile within that as well. The term of the book has not changed dramatically on the loan book at all actually. We obviously have some forbearance we've talked about, but it hasn't dramatically moved the term out. Mike, would you add to that in any way?

Mike Morgan

In terms of the pricing that the deposit programme's given us, we've been able to raise deposits and introduce a new range of products there which allow us to get a benefit to come through. So that will help as that comes through. We have seen a small uptick in wholesale funding pricing, but not significant. That's had an impact as well. Those would be the only other two points I'd make on the funding cost side.

Benjamin Toms, RBC

Morning both and thank you for taking my questions. There's two please. The first is, that there's a headline on Reuters which has come out whilst this presentation's been ongoing, from Sam Woods, saying that the Bank of England next month will propose simpler rules for small banks in the UK. I appreciate that you haven't seen this, but have you had any

discussions with the regulator on this topic? Do you expect that the main thrust will be the relaxation in the MREL threshold?

And secondly, in your CET1 ratio of 14.1%, is there any benefit in there from the changes in the rules on software intangibles, or is that still to come? Thank you.

Adrian Sainsbury

I'll leave Mike for the CET1 question. I haven't read the Reuters' announcement on the simpler rules. We interface closely with UK Finance where we do have a good dialogue on proposed changes and proposals from the PRA. On MREL specifically, our deposit base is well below the current threshold anyway, so I can't see that that would necessarily be a beneficial impact on Close Brothers. Obviously, I welcome any simplification that the PRA may have, and will read the announcement when it's published. Mike?

Mike Morgan

The straight answer on software is no, that isn't in there yet. That will still take some time to come through, if in fact if the UK authorities agree to apply that. We do have obviously IFRS 9 transitional relief in there though.

Adrian Sainsbury

Benjamin, is there anything you'd like to come back on there?

Benjamin Toms

Is there any way of quantifying what you expect the software intangibles' benefit could be, or is it still too early in terms of the rules?

Mike Morgan

It's still too early in terms of the rules. It depends over what period they defer that. I've seen two examples so far, one on two years and one on three years. But as I say, it's not certain yet whether that's actually going to be implemented in the UK.

<u>Question 4</u>

Freddie Sleiffer, KBW

Just a point of clarification please on the liability side of the NIM. I'm just wondering how much did your deposit costs go down during the year, to sort of have a sense of the magnitude, and should we expect more of a decline in 2021? That was my first question.

Then just secondly, since you're the first this year to announce a dividend, I'm just wondering what sort of discussions you've had with the regulator on this?

Adrian Sainsbury

I'll take the second one and then I'll hand over to Mike on the liabilities point. As you'd expect, we have a good relationship with the PRA and we've consulted with them in the normal regard in terms of the proposal of the 40 pence. The decision is the decision of our Board, and I ran through some of the reasons on why it's the right dividend for us, the right level for the year, and how we'll look at that in the future. Mike, would you like to talk about the liabilities point?

Mike Morgan

If we look at what happened in the year, during the first half of the year the monthly cost of funding initially rose by a relatively small amount, from 1.67% to 1.74%. Then in the second half we saw a fall of 14 basis points, from 1.74 to 1.6%. So it did come through and help us there. I suppose the point is, is that what we saw was that the rate of retail deposits didn't fall as much as the base rate, so although it did come down it didn't move in the same way that we saw base rate moves. So a relatively more small effect, which overall has left cost of funds at broadly flat on the year.

Robert Sage, Peel Hunt

I was intrigued by your comment that there's positive news in terms of customers emerging from forbearance, the majority I think of which you said have restarted repayments. I was wondering if you could give at least a qualitative feel in terms of how many of those who have restarted repayments are on their original terms, and how many of those might be on a sort of bespoke amended repayment schedule?

I guess related to that, I'd be interested to know whether you think that these sort of loan modification losses could have a significant impact on the net interest margin in 2021?

And finally just on CBILS. I think you said that you're authorised to lend up to £750m, and I was wondering how much of that you might have lent to-date?

Adrian Sainsbury

I'll start by answering the CBILS question. Mike, I'll hand over to you for the positive news by customer, if that's okay. Correct, we have a £750m approval with the British Business Bank for CBILS and as I mentioned we have credit approved, around £350m at the moment, and that's 1,420 customers. I don't see that having a material impact on the NIM, it will be modest as I said before. Depending on what the Chancellor may announce, because there is some speculation the scheme may be extended, that lending would increase from the £350m position that I mentioned before, and we would actively use that scheme because it has helped our customers dramatically in recent times. Mike, would you like to handle the positive news we've got and the number?

Mike Morgan

In terms of the forbearance numbers, you'll have seen in the announcement we disclosed the levels of people that are either repaying or back on a payment programme. That's 75% in Retail, and 70% in Commercial. In the Commercial business we will have worked with those individuals to make sure that the payment profile fits with the company's ability to be able to continue to repay that. So those will be personalised. They may well have dropped back onto the original rate, but those will be personalised. From a Retail perspective, the vast majority will be back onto the original terms, albeit over a longer period of time in most cases.

Mike Morgan

There was a point on the loan modification losses as well, which if I'm hearing you correctly you're talking about those that we took through the net interest margin. Those will actually unwind as we move into the next year. Obviously if there is further forbearance and the cash flow comes in over an extended period of time, we will need to make adjustments for that. But the levels going into forbearance now have dropped quite markedly, so in terms of those modifications that are there, those will unwind as we move through the life of that loan.

Jason Napier, UBS

Three questions please. The first one on the government guarantee scheme related to lending, and the volume data is really helpful. I'm just trying to get a sense as to the degree of pull forward that we're basically seeing in credit demand. Some of the borrowing that is evident and very strong SME companies is obviously firms trying to trade their way through tough circumstances. With your loans coming in a couple percent higher than we had expected, I'm just wondering whether this is a pull forward of leverage which you might have extended next year, or might expect more subdued growth, or whether overall you still have a picture of sort of pent up demand if you like, or investment as loan growth?

Secondly, on the outlook for costs. One of the things that I have got wrong in the past, one of many things, is to underestimate the bounce back in expense growth that you get after periods of crisis and austerity. You flagged £11m in low or variable comp, and an intention to continue to invest in the business. I'm just wondering what you think the expense inflation for the year ahead in a normal operating environment may look like given having cut back variable costs in 2020 and the further investment in the platform?

Then lastly, you've obviously posted a really resilient NIM in the year just gone. Given that it is highly topical I wonder if you can give us a sense to what your gearing of the P&L was to, for example, taking the base rate in the UK to 9 or 10 basis points negative though.

Adrian Sainsbury

Your third question. I've got the last two. Could you just go again from when you said it's been a resilient year. Can you just clarify the last bit of the third question, please?

Jason Napier

Yeah, absolutely. The headlines late last week that the Bank of England is looking at the mechanics of applying negative rates in the UK. Could you give us a sense as to what gearing of the P&L would be to a move to negative rates, and if you've got a number that's 8 to 20 or 50 basis point cuts, that would be helpful. Thank you.

Adrian Sainsbury

I'll answer all three questions, and Mike if you could provide some more detail on cost as well. On the government schemes, I think it's difficult to say how much of the uptick in volume we've seen in asset in June and July that we talked about, because continuing to August and September how much of that is pent up demand that was unsatisfied in the months just after Covid-19, and how much is a trend? It would be fair to say that there is uncertainty, we've got the government's announcement this afternoon, and we have Brexit as well. So, I think it's difficult to give visibility of where that trend is going necessarily.

Another important point I would say on the government schemes, we’ve done very strong lending on the CBILS scheme and less on the Bounce Back scheme, and the Bounce Back scheme is the one for facilities under £50,000 without personal guarantee and a yield of 2.5%. The CBILS scheme is more akin to our standard lending in terms of security and pricing, whilst I mention we pass on the benefit of the government guarantee. So I would say we’re in the more advantageous part of the government scheme, and that’s more suitable for our customers and the market as well.

If we look at the outlook on cost, you correctly pointed out that we have had an £11m variable comp benefit in the Bank. And Mike highlighted that we have a very disciplined focus on BAU cost remaining flat-ish. There will be some pressure on the variable comp because we’ll obviously look to deliver a stronger year in the coming year than we did in 2019. There’ll still

be some pressure on the variable comp, whereas I'd expect other parts of the BAU costs to be flat-ish. And Mike also highlighted the investment story we've got. The investment cost did go up around 24% or £11m last year, and we will be continuing that investment. I don't apologise for that, it is an important part of our model that generates the 7.4%, 7.5% NIM that we achieve, and the service proposition that we have.

Mike, would you like to provide some more detail on that?

Mike Morgan

I think you've hit the nail on the head there. You know, we have a high degree of rigour around the BAU costs, and actually if you put all the BAU costs together, the other operating expenses, those reduced 3% last year, but we will continue to invest. I mean, we've given examples in the slides here, and certainly through the Covid-19 process those investments have really proved hugely beneficial.

In the Motor business, for instance, we were able to deal with dealers all the way through lockdown, and the investment gave us that capability. On the Asset Finance side we were able to get CBILS up very quickly, and of course on the deposit platform as well we were able to continue to raise deposits remotely. So that investment is very important.

The other aspect as well is IRB, that's a big area of investment for us. We're on track to submit that application before the end of this calendar year. So we will continue to invest, but we will make sure that we're on top of the business as usual costs. So I think that's the message that I would take from here.

Adrian Sainsbury

And lastly, Jason, on the potential for the Bank of England to use negative rates as a policy to increase conversation in the media on that, for us it's a modest positive potentially if there were negative rates. We don't have current accounts, so we don't have the potential negative impact of the loss of the net interest bearing current account benefit that the main banks have. We have a small benefit.

It will also determine, I guess, on what happens with funding in the market that would go along with the negative rates as well. Is there anything you'd like to come back on on those three answers, Jason?

Jason Napier

No, that's perfect. Thank you very much.

John Cronin, Goodbody Stockbrokers

Good morning, and thanks for taking my questions. The first one is on the, if I can come back to provisioning in relation to the loans that are still on payment holidays. So under a quarter, if I take the Retail book by way of case in point are still on payment breaks, and would you have any particular concerns around the fact that the payments foregone can accumulate quite quickly there and become quite material versus the overall size of the loan with consequences for LGDs, given the relatively short duration? So anything you could impart by way of LGDs.

And as a second follow on question in relation to that, much more broadly, could you just give us a sense in terms of how fluid the PD and LGD inputs are from a modelling perspective? I've spoken to a number of banks on this point in recent months and…

Adrian Sainsbury

John, can we just stop you a second? We just lost you when you started talking on the second question on PDs and LGDs. Could you just start again from when you asked the question on PD and LGD please?

John Cronin

Sure. Can you hear me now?

Adrian Sainsbury

It's miles better, thank you.

John Cronin

Okay, great. It's a broad question in relation to PDs to LGDs, a topic as picked up by a number of bank CFOs in recent months, and certainly what comes across very strongly is that the assumptions are heavily driven by past experience, which clearly can be different in any crisis. And I just want to get a sense of how fluid your own assumptions are and how often they are revisited in response to new information that's tailored to reflect your expectations or particular implications of the Covid crisis, for example.

And then on IRB, I picked up your commentary around the expected or intended submission in the next calendar year. I'm not sure what you can say on timing, but I'm very conscious that a number of other banks in a broadly similar spot in terms of the application as well as the fact that the PRA will soon be facing a lot of hybrid bank model approvals. Do you think the wave of what's facing the PRA, together with dealing with the crisis could push out the typical expected time frame towards approval of 18 months? Could we be looking at a longer period as a result?

And then finally, Adrian, if I could ask you maybe a question further in relation to your strategy for the business? You know, I take your comments from earlier in response to a previous question on this point, but one clearly (not audible) non-interest income businesses are performing very strongly, could we see a greater push towards a reliance on those businesses in time? Would there be a deliberate potential strategy to orientate the business in that vein? And I do appreciate clearly that the challenge of the mainstream banks are much greater than for your own bank.

Adrian Sainsbury

John, we're just losing you again, sorry. I've got the strategy of the business, I couldn't quite get the other point you were saying. I think you were saying take some businesses faster than others, but I really lost it from there. If you could just start again from there that would be helpful?

John Cronin

Okay. Yes, the question is really do you feel yourself potentially migrating the business to greater reliance on managed income activities, despite the fact that your banking business is not under the same pressure as the mainstream banks?

Mike Morgan

I'm afraid I just can't hear that last part, John.

Adrian Sainsbury

We didn't get the last question, John, at all, I'm sorry. I've got the strategy of the business. I'm not sure what you're asking, we just can't hear it. So can you try one last time?

John Cronin

Okay, I'll try one last time. Can you hear me now?

Adrian Sainsbury

We can hear, yes.

John Cronin

Sorry, my coverage is patchy. I'm just curious as to whether you may orientate the business for its greater reliance on non-interest income generating activities over time. Would that be a deliberate strategy?

Adrian Sainsbury

Non income generating. Is that what you're asking?

John Cronin

Yes, to less reliance on interest income generating activities.

Adrian Sainsbury

Okay, fine. Good. Let me start off with the provisioning in Retail and the payment holiday question. It's notable, we've got two books obviously there, we've got our Premium finance book and our Motor finance book. On Premium it's a very short term book because it's typically the ten-instalment insurance payments, and importantly it's a mandatory product effectively. It's a consumer typically paying the finance on their household or motor policy over ten instalments. So it's seen as a priority payment, and the amount of customers that we're seeing that are struggling there is almost de minimally low. So that's very positive.

In Motor it's important to look at what the business we are funding there is. It's used cars, typically at a starting value of around £8,000, and we're doing very little PCP relative to the market which I contend is higher risk. That's around 11% of our book with 89% being on HP. So we have strong security as well.

The forbearance period is typically longer that we've granted in Motor and with the FCA guidelines there can be a second period as well for the Motor consumer. So we're working closely with our customers in Motor, but overall the statement we've made where 75% of the book in Retail by value has moved into the better categories holds for the whole of that portfolio.

If I look at the PDs and LGDs, we have the past experiment, as you rightly say, and we've applied expert overlay to judge the prudent level of provision that we have. To do that we used the expert judgment in three ways, that's looking at the staging between stage one, two and three in each of the portfolios. We look at the economic scenarios that Mike described.

And also we then look lastly at individual provisions and portfolios to judge the number. So, that's where we've got our confidence for that we have the right level of provision. And again,

the emergence we're seeing from forbearance gives us confidence that those numbers are correct.

On the PRA timing, we're in dialogue with the PRA. We've had a very positive and ongoing dialogue about the application, and our full intention is to submit it before the end of the calendar year.

Mike, would you like to build on that?

Mike Morgan

Yes, they know it's coming then, so we have a landing place with them. So, really then it's up to them as to what they have to deal with. But they have been engaged with us since the outset here, are comfortable with where we are, and are happy to take that application before the end of the year.

Adrian Sainsbury

And on the last one, the strategy of the business, I did make a point that we've had a very successful history of launching new initiatives along the way, whether it's our beer keg business, whether it's our energies renewable business, our move into Ireland; we've had good success at that.

Largely those businesses have been income based on interest and fees. The beer keg business will have a higher predominance of fee income. I would say I'd be very happy with more fee income business, that would be fine, but we will look at in the round when we think of the best things to add to our model for the future.

Do you have any other questions to come back on those, John, or are you happy with those answers?

John Cronin

No, that's very clear. Thank you.

Rahul Sinha, JP Morgan

Hi, good morning, gents. A couple please from me.

The first one is just on loan book growth an inflection point. Obviously, the growth in the book was much stronger than at the 11-month phase than you had indicated. Historically Close Brothers has grown its loan book quite materially in recessionary periods. So, I guess my question is do you think that we are likely at that point of inflection again, where we're likely to see very strong loan growth relative to the rest of the sector, driven by your own appetite to increase market share?

And I guess linked to that, the Motor Finance book has had a very strong increase, I think, in July in terms of loan book growth, so I'm wondering if you can comment on whether that was driven by the market or whether that was driven by your investment and your appetite for growth. That's the first question.

The second one is on the deposit platform and the investments you've made. I was wondering where you think the sort of medium-term contribution from that deposit platform might be to your funding base. And if you could comment on the cost of your deposits – apologies if I've

missed that – the £600m, how does that compare to your blended funding cost overall? Thank you.

Adrian Sainsbury

I'll take the loan book growth and, Mike, I'll hand the deposits question over.

So, there's a very interesting slide, slide 25 in the pack, which looks at the history of our loan book growth and highlights the two crises previously, the dot.com bubble and the financial crisis. And you'll notice that we've drawn a similar circle for Covid-19. We do see this as an inflection point in the market. There are some changes to those previous crises: we've got the government support scheme; the other banks are better capitalised this time. But we see that this will be an opportunity that fits well with our resilience. We've had our play books, that we've talked about before, where we've prepared for this event when it's happened.

So, I see that there will be an inflection in the market. I do not see, in all likelihood, that we'll see the growth of the previous times that we've come out of crises. That's for a few reasons:

One, our loan book is broadly double from when we went into the GFC. We're at £7.6bn now, it was broadly half of that last time, so it's a bigger wheel to turn and generate new business into. So, that's one impact.

The government schemes also, depending on whether they're renewed, will have an impact as well. But we are seeing, even before the crisis, there were some competitors standing back in some of our specialist markets. You talked about Motor, and indeed in Motor there were some players who had slightly pulled back there. And we've seen some players who are lending on more restricted terms.

You mentioned, Rahul, market share, that isn't a driver for us. We are a through the cycle lender, and we keep our terms the same. So, we will continue lending on our terms, and the growth that will come onto the next phase on that chart will depend on how that plays out in the market at our credit quality and our price point.

Mike, would you like to talk about the deposits?

Mike Morgan

Yes. The deposit platform allowed us to launch a new range of products. For example, the notice accounts we've launched for Retail business, Pension and SME. And this is interesting for us because from a sort of retail deposit perspective we've always issued fixed term deposits, which are more expensive than notice accounts. And of course, as we get the behaviouralised experience we will be able to get the same tenor of funding but at a lower cost. Notice accounts are markedly cheaper than fixed term deposits. So, that's been very beneficial for us as well.

We've also built out our capability with specialist lending, specialist products with some of the larger organisations such as Hargreaves Lansdown, we've built up a capability there as well. So, that has allowed the cost of retail deposits or the funding from deposits to be reduced as we move into these other areas.

One final point I would say is we'll be looking to launch a cash ISA going forward, and again that will allow us to reduce the cost of funding on the deposits. So, those rates are lower than the fixed term rates that we have used in the past.

Adrian Sainsbury

Rahul, would you like any built on those two answers?

Rahul Sinha

Thank you yes, if I could just follow up on the deposit question on the platform. What proportion of your medium-term funding base do you think the deposit platform originated deposits will be? Perhaps, I don't know, if you have a sense of maybe a three-year view?

And then I don't know if you've given the number on what is the blended cost of funding coming through the deposits originated on the platform versus your own lower cost of funding?

Adrian Sainsbury

The question, Rahul, just so I can check, because it cut out slightly, the question is: how much is the deposit platform likely to generate of the deposit base in the medium term? And also what effectively is the funding benefit from the deposits that we're launching now? Is that correct?

Rahul Sinha

Exactly, yes.

Mike Morgan

In terms of the second point we wouldn't disclose the costs there.

In terms of the ratios of how much we will raise through different platforms, at the moment we've got funding of around about £10bn, of which £5.5bn to £6bn is coming through from the deposit platform.

One of the areas that we look there is to make sure that we get the balance right between the Commercial Institutional type deposits and Retail deposits. And so we generally would want to get a pretty reasonable balance between those, not relying overly on one or another. So, we don't have any specific targets that we aim for, but we are conscious of balancing the costs of each of those deposit flows, and the relative tenor of those as well. So, it's a judgemental decision. But overall we're comfortable with the funding level from a deposit perspective at the level it is out of the total funding balance.

Concluding comments: Adrian Sainsbury

We have time for one most at most if anyone has a final question? No?

Can I just say thanks very much for your time this morning and for bearing with us on the remotes? Thanks for the questions.

If you have any follow-up please do phone the IR team. And I very much look forward to the next session being face-to-face. Thank you very much.