

LLOYDS BANKING GROUP PLC – ACQUISITION OF MBNA LTD

Tuesday 20 December 2016

António Horta-Osório, Group Chief Executive

Good morning everybody and thank you for joining the call today at short notice. As you will have seen from our release this morning, Lloyds have agreed to acquire the MBNA UK credit card business from Bank of America, our first significant acquisition since the financial crisis.

I will provide a very brief overview of the transaction and George will cover the financial aspects in more detail. We will then have some time for questions at the end.

Turning to slide 1 for those of you following the website presentation. We have agreed to acquire MBNA's prime credit card book for a consideration of £1.9 billion with the transaction being fully funded through our strong organic CET1 capital generation.

The MBNA portfolio is a low risk book with strong asset quality consistent with our own credit card book and our existing risk appetite.

As I have always indicated, we would only consider transactions that are in the best interests of shareholders. This acquisition is in-line with our strategic growth ambitions in consumer finance, is expected to provide strong financial returns and create significant shareholder value, while not exposing the Group to any future potential MBNA PPI claims.

We expect this transaction to complete in the first half of 2017, but it remains subject to the usual competition and regulatory approvals.

Turning now to look at the rationale in a little more detail. MBNA is one of the UK's leading prime credit card providers with £7 billion of assets and around 2.8 million customers. It is strong and profitable, with a prudent risk appetite and customer focused culture.

This transaction will allow the Group to create a best-in-class UK credit card business with a combined balance sheet of approximately £16 billion. MBNA's diversified distribution model, along with its data analytics capability, digital strength and well-recognised brand, will be complementary to the Group's existing multi-brand and multi-channel business model and provides further opportunities for growth and for delivering excellent customer service.

The financial rationale for this acquisition is strong, with underlying return on investment and statutory earnings per share accretion increasing to 17 per cent and 5 per cent respectively in the second full year after acquisition.

As you know, our simple low cost business model provides significant competitive advantage. Leveraging our existing cost management capabilities with our track record of delivering integration programmes gives us the confidence that we can deliver cost synergies of around £100 million per annum, equivalent to around 30 per cent of MBNA's 2015 cost base.

This acquisition underscores our confidence in the long-term economic prospects for the UK. It will enable us to operate more effectively in the expanding UK prime credit card market and advances our strategic aim to deliver sustainable growth as a UK focused retail and commercial bank.

I will now hand over to George who will cover the details of the transaction.

George Culmer, Chief Financial Officer

Thank you António and good morning everyone. As António has mentioned, the MBNA portfolio is a low risk, customer focused business with strong digital capabilities, and when combined with our existing cards proposition, creates a best in class credit card business.

MBNA has a high quality, prime customer base and has no sub-prime nor credit repair cards within their books. The new business quality is in line with our own and the back book's strong asset quality is consistent with our risk appetite.

And even under a severe stress, such as, for example, the 2016 PRA stress scenario with unemployment peaking at 9.5 per cent, the MBNA book remains profitable over the plan period.

In terms of conduct liabilities, our exposure to future potential MBNA PPI is explicitly capped, with the purchase price already assuming provision for such claims.

Consistent with our multi-brand strategy, MBNA will be maintained as a challenger brand, complementing our existing high street brands, and our current customer led multi-channel proposition will be enhanced through the digital strength and analytical capabilities of MBNA.

As you know, growing our Consumer Finance business is a strategic ambition that we shared with the market back in our 2014 strategic update, and since then we have been organically increasing our net lending to this key customer segment.

In credit cards, balances were up by 5 per cent year-on-year as at September 2016 and we currently have a 15 per cent share of the market.

The acquisition of MBNA enhances our customer offering and creates a combined business with a market share of approximately 26 per cent.

This positions the Group well in a profitable and growing sector and provides a further diversification of earnings. As António has also indicated, this transaction is expected to provide strong financial returns and create significant shareholder value.

Group revenues will increase by approximately £650 million per annum, and the net interest margin will improve by around 10 basis points on an annual basis. There will also be the potential for revenue synergies, although these are not included in our current financials.

From a cost perspective, the synergy opportunities are significant, particularly given the Group's existing cost advantages and our proven cost management capability.

We are confident in delivering run-rate savings of around £100 million per annum within 2 years, equivalent to around 30 per cent of MBNA's 2015 cost base. These synergies will be achieved through the consolidation of IT infrastructure, marketing, property consolidation and operational efficiencies.

The cost to achieve these synergies is expected to be around £200 million and will be taken below the line over 2 years, with around two thirds being taken during 2017.

As previously mentioned, the deal delivers strong financials and we expect this acquisition to deliver Group statutory earnings per share accretion of 3 per cent in the first full calendar year and 5 per cent in the second.

And the underlying return on investment is expected to exceed the Group's cost of equity in the first full calendar year, again following acquisition and increase to 17 per cent in the second.

Given the strength of these returns, the acquisition multiples are also attractive, with the consideration equating to around a 6 times price to earnings ratio and 2.3 times book value.

Finally, as mentioned, this transaction is being funded through the utilisation of the Group's strong organic CET1 capital generation.

The acquisition is expected to utilise approximately 80 basis points of CET1 on completion in 2017, and this transaction will further enhance the Group's future earnings and capital generation.

As a Group, we continue to deliver strong underlying and statutory performance, and continue to expect to deliver around 160 basis points of CET1 capital generation in 2016, pre dividend.

And the Group's dividend policy remains unchanged and we are confident in delivering a progressive and sustainable ordinary dividend in 2016 and continue to target a payout ratio of at least 50 per cent of sustainable earnings over the medium term.

In line with our policy, the Group's approach to surplus capital distribution at the end of the year will give due consideration to the Board's view of the current level of capital required to meet regulatory requirements, cover uncertainties and grow the business, which will include the capital impact of this transaction.

In terms of capital requirements, we still believe that around 13 per cent is the right CET1 capital requirement for the Group in line with our existing guidance of around 12 per cent plus an amount broadly equivalent to a further year's ordinary dividend.

This transaction represents a significant milestone in the Group's progress, with the work done to build a strong balance sheet and a capital generative business model now providing us with the ability to execute this transaction.

That concludes today's presentation and we will now open the call to questions.

Question and Answer Session

Question 1: Chintan Joshi, MEDIOBANCA

I have two questions. First one is dividends, how would you help us think about the dividends now? If I look at slide 6 which suggests a 14.6 per cent CET1 pre-dividends, taking out the 80 basis points for this acquisition that gets you to 13.8 and if I think about last year you paid about 12.8 per cent CET1. That suggests that you can pay out almost 3.1p of dividends this year. But I am not quite sure that is the right way to think about it?

And then I have a few follow-ups on the MBNA performance. I can see revenues are down from £700 million in 2015 to your guidance of £650 million revenues this year, which suggests revenue headwinds. However, on my calculation, adjusting for visa gains and PPI seems to be flat if I annualise the first half 2016. So I am just trying to think about what other headwinds to revenues you have? What is the cost of risk running at in the first half and operational performance in the first half of 2016 for MBNA?

Answer: George Culmer

Okay, well I will do that second one first and then I will come back to dividends. In terms of MBNA's performance, the key thing is, it has been strong and it remains strong. Now comparison with prior years and some of the numbers we have to disclose is tough because you are moving from US GAAP to UK statutory. You have also got different capital structures, and this is part of the issue when you look at trends in terms of earnings. So the capital structure they have got, has got a significant amount of capital that will actually be divided out prior to us acquiring the business. And similarly I think we have disclosed for example in the footnotes on the front page, a post tax profit of about £166 million, which is what we are required to disclose. But within that you have not just the business that we are acquiring which is the continuing, but you have also got a discontinued business which we are not acquiring, which drives that number. The most pertinent number to look at, we actually disclose, £123 million after tax for the six months and that is on a pro-forma equity position and that is the business that we will be acquiring. So that is about a £250 million after tax business but pre any synergies and stuff we will be acquiring for £1.9 billion which we think makes a strong financial case and obviously as António said, even stronger post the synergies that you push through that.

In terms of the headwinds, we are buying a high quality book with a prime offering that has a profile and credit performance that is pretty similar to the book that we have been growing and we will continue to grow this business. So when you look at our current AQR for example, our book is round about 1.5 per cent etc. We have assumed a slight deterioration for that, we've stressed it as we said in the presentation, but this will continue to be a very profitable business and will continue to generate earnings and we will continue to look to grow that business.

So within that, and as I just said, part of that we would expect, we have spent capital, to come back to your first question, we do expect this business will be earnings generative, will be earnings accretive and will be capital generative as we move forward. In terms of the short term and dividend, nothing has changed. As we said in the presentation, nothing has changed from our policy in terms of our confidence in our ordinary dividend and growing that ordinary dividend which we spoke about at the Half Year and Q3 and I would repeat again. In terms of approach to any surplus, again in line with our policy, the Board will discuss that and make consideration of that at the year-end where it will consider all internal and external factors, regulatory uncertainties. So absolutely nothing has changed. As part of that, this MBNA deal which will close in 2017, will be part of that consideration, but absolutely nothing has changed. I'm afraid I can't be more precise about what might or might not happen.

Further question

I appreciate that, and don't want to put words into your mouth. But a quick follow-up. So what is the cost of risk in first half 2016 in that £123 million PAT, if you can give me that number. And secondly just on capital, you keep guiding us to think about 13 per cent benchmark so anything about that dividend, is that at least what I think?

Answer: George Culmer

On the first one, without being overly precise, we're 1.5 per cent, between 2-3, that is the type of percent in terms of cost to risk. And the second question was?

Further question

You keep guiding us to think about dividends surplus of 13 per cent CET1 so we should just keep thinking about it that way?

Answer: George Culmer

Absolutely, yes.

Chintan Joshi

Thank you.

Question 2: Andrew Coombs, CITI

Good morning, three questions from me. The first is could you just give some guidance on what the through the cycle cost of risk is on the portfolio going back over a prolonged period of time, and also where it peaked previously? That would be my first question.

Second question, if I just take some of your numbers. 17 per cent times the £1.9 billion implies £320-330 million in net profits and you are then talking about it being 5 per cent accretive which seems to imply that £6.5 billion is statutory net profit for the Group. So I just wanted to clarify if that was the case and that is what you are benchmarking this on?

And then the third question is just a factual question. What would be the split of the £7 billion portfolio between purchase and balance transfer cards? Thank you.

Answer: George Culmer

The balance transfer element, as they have money market transfers as well, is about 40 per cent. Between 36-40 per cent I think is the proportion which isn't out of line with our book, at about 36 per cent as well. So 36 per cent for MBNA.

In terms of the various returns on investments and accretion. So the return on investment is pre things like amortisation of goodwill etc and that is a big delta between the 17 per cent return on investment and my EPS accretion where you have to take that in account, but it would be inappropriate to do so in terms of the underlying. And the underlying is, if you look at it relatively simply, in terms of going back to my previous answer, that £250 million we are talking about, I am looking to target £100 million or so of synergies so post tax that is about £80 million, that gets you about a £330 million number over my £1.9 billion. It is there or thereabouts. When you come to accretion, I won't sort of comment on the implied earnings of the Group, but I have a smaller number because I have to deduct from that things like the amortisation of goodwill, the amortisation of the purchased credit card relationships. Those become sort of accounting deductions that impact that. So that is the delta between the two.

And then in terms of credit history, as you know we are in a different place. As I said in the presentation, we stressed this to 1 in 20 which was a sort of 5 per cent type in terms of impairment, that still remains profitable over the plan and if we look over the last few years, credit for the whole market and this is including sub-prime, would be round about 2.5 per cent. If you go pre-crisis, you are into about 3 per cent per cent. Again that is whole market and that includes sub-prime and I would stress as we said in the presentation, this is a prime book. So what we have seen in their book, and as you might expect we spent an awfully long time DD-ing this, getting comfortable with the risk profiles, with the balances that are on their book and we were very pleased with the quality of the new business and the back book. And they have very close relationship to the quality of the book that we already have within the Lloyds business.

Further question

That is all very clear thank you. Just one quick follow-up on the balance transfer proportion, how much is pre promo and how much is post promo?

Answer: George Culmer

Now you have got me. We will come back to you.

Andrew Coombs

Thank you.

Question 3: Rohith Chandra-Rajan, BARCLAYS CAPITAL

Hi good morning, it is Rohith Chandra-Rajan at Barclays. A couple of quick ones please. One was if you can give us any indication of the pace of growth in this book historically? Maybe it hasn't been growing that fast recently because there maybe hasn't been a huge amount of focus on it, but maybe what you expect from it going forward? And would you expect it to grow in line with your existing books which you highlighted was 5 per cent?

And the second one was just some clarification around the £240 million relating to PPI. Is that £240 million in excess of existing unutilised provisions that you will be capped against or you will take the first £240 million and the sellers will pay anything above that? And just some clarification on those two would be great, thank you.

Answer: George Culmer

Hi Rohith, yes, so in terms of the £240 million, the best way to look at it, those are the provisions that the business is coming over with. So if you like it has got £240 million of provisions on its balance sheet, so that is already paid for and provided for, to the extent to which that goes to £241 million, that £1 million would then fall back on Bank of America. So I have got a £240 million provision sitting there that is already paid for and we will utilise for prospective claims, the extent of which, if it does go above that, that falls back on the seller.

Further question

So essentially there is no further PPI risk related to this book?

Answer: George Culmer

Absolutely correct. And then there are a number of moving parts, some affinity relationships, there's underlying core balances and you are right, we have been growing our underlying core balances and look to continue to grow those. How that plays out overall in terms of the MBNA book we will wait and see. But you are right, it's been relatively flat over the last couple of years, you are correct there. But you are right, it has been a business that has been in an interesting position as you know over that period.

Answer: António Horta-Osório

And we will keep this Rohith as a challenger brand like we do with Halifax, for the switcher markets, we will keep this brand separately competing with all the other brands as a challenger brand.

Rohith Chandra-Rajan

Thank you.

Question 4: Joe Dickerson, JEFFERIES

Hi good morning gentlemen. I have just a couple of quick ones if I may. Are there any funding synergies here? I believe that MBNA UK pays Bank of America about 100 basis points to fund this portfolio. So I am wondering why that couldn't be substantially reduced or funded out of your free liquidity?

And the second question is, would you agree with the maths that you have got about £3.5 billion of excess capital on your 14.6 per cent, assuming a static RWA base of £222 billion? Thanks so much.

Answer: António Horta-Osório

I'll answer the first one. You are absolutely correct Joe, we have one of the lowest cost of funds in the world as you can see from our credit default swap. In the UK we presently have the lowest credit default swap and we have a very cheap cost of deposits which is going down. And on top of it we have access to the TFS of the Bank of England. So you are absolutely right, our cost of funding is quite low, lower than the one you mentioned and we are absolutely going to use it in funding this business and therefore that will accrete to the value of this transaction, so that is absolutely clear.

Further question

Is that included in the guidance you have given for each accretion?

Answer: António Horta-Osório

It is included in the guidance that we gave you.

Joe Dickerson

Okay, thank you.

Answer: George Culmer

And then capital, as I said, this is all on a pre-dividend basis, pre dividend accrual of 160 basis points which you are right, equates to in pounds, shillings and pence to round about £3.5 billion, £2.2 billion for every percent of that order. That is correct.

Question 5: Tom Rayner, EXANE BNP

Morning gentlemen. A couple please. Just on the cost synergies, 30 per cent of sort of target costs is a bit on the high side I think typically. Is there anything you can add on exactly what, I know you flagged up the IT systems and that, but is there any reason why you are so confident you can take out 30 per cent of that cost base?

Secondly, just on the credit quality, and George you said you have spent some time going through the book, I am just wondering what assumptions you have used when you are stressing the MBNA book? Because obviously a lot of independent forecasts are looking for GDP to slow quite sharply next year, interest rates to go up. I'm wondering about things like sensitivity to those people on zero percent balance transfers once interest rates start going up and they start to switch over. So I wonder if you could add some colour on both of those issues please?

Answer: António Horta-Osório

I will answer on the first one. In terms of confidence on the cost synergies, I mean our confidence is very high. You know about our track record on costs. We have the lowest cost:income of the sector. We have a track record of integration as we did between all systems in Lloyds and HBOS previously and relating specifically to this deal, we have also recently done the integration of the credit cards of Halifax into Lloyds and therefore this will be a very similar process for us which gives us a very good benchmark on how to assess and project the synergies. We are very, very confident about this and as I told you, I think our track record in costs is clear. It is very important because it is the fact that we have a lower cost:income, clear integration track record and this high level of synergies that enables us to do this deal in which we provide the best conditions to the seller and at the same time, given integration benefits we provide as George just explained, significant value for shareholders.

Answer: George Culmer

Yes on the stressing, we have looked and run some various 1 in 20s, so we have looked stressing up to an unemployment rate of 9.5 per cent, so I think these come up to about 5-6 per cent type credit rate and that includes zero balance transfers. I would say we know how to manage these, we have got a good record of managing balances down and people adhering to the terms of the specific balances as they move from on to the roll off amounts. So as I said, we have stressed as I said 10 per cent unemployment and it remains profitable over the plan period.

Further question

And interest rate assumptions or did I miss that bit?

Answer: António Horta-Osório

On the interest rate assumptions, as soon as we get this deal concluded, this will be part of our total balance sheet management and will manage it as you know we manage in a combined way assets minus liabilities on a weekly basis at the top of the organisation. And this portfolio will come into this management which we do in an integrated way. Until we receive the business, this deal is match funded in terms of funding and therefore it will not be affected by short term movements from interest rates. We have that locked in in terms of matched funding.

Further question

Sorry I was speaking more about potential effects on credit quality trends if rates start to push up on that book over the next couple of years?

Answer: António Horta-Osório

I understand and George already told you one of the stresses we put and we already told you what cushion of IRR above cost of equity we have. Of course if interest rates start to go up you have the other side of the balance sheet where our current account balances will be reinvested at successively higher rates and as I told you will include this portfolio in the total which we told you over the last few years how we manage the total in a combined and integrated way.

Tom Rayner

Okay, thank you.

Question 6: Chris Manners, MORGAN STANLEY

Good morning Antonio, good morning George. Just a few questions if I may. The first one was on net interest margins. I guess when we had Q3 you gave quite a firm guidance you would be able to keep the margin round about flat in 2017 versus 2016 which is going to give you call it 10 basis points of improvement, if we're assuming that is complete at the end of the first half, maybe 5 basis points improvement. Should we just tag that onto your existing guidance of around 270 basis points just to clarify that point?

The second was on competition and the CMA. Have you had many conversations with the CMA and Competition Authorities? Because it does look like the credit card market in the UK will get quite concentrated because yourselves plus Barclays will be over 50 per cent of the market which does look like quite an increase in concentration, albeit you will still be slightly smaller than Barclays?

And the third question was, on capital, presumably this deal is only going to close next year, so are you going to take into account an 80 basis points capital impact when you consider the dividend for this year or do you actually have a capacity to pay a special pay down to 13 at the end of the year this year and then next year absorb the 80 basis points capital impact?

Answer: George Culmer

Hi Chris, to answer your questions. First one, yes. So in terms of NIM you can see this as incremental to our guidance we have given in the market absolutely yes. So this should be seen as incremental to that. In terms of competition, yes as you might expect we have done quite a lot of work in terms of competition and you are right, Barclays have some 28 per cent as opposed to 26 per cent. But what we would point to though is that this is a market where very recently the FCA has conducted a market study and found this is a well functioning market with low barriers to new entry, large numbers of products and offerings, good evidence of customer switching and essentially a healthy competitive market. So yes there is obviously process to go through. We will run MBNA as a separate challenger brand within this. And one of the conditions on the deal is the competition approval, but I think we are confident of receiving that approval.

In terms of capital, then as you said, sorry I can't overly enlighten you, but you are actually correct, the deal will close in 2017, therefore it is a capital deduction in 2017. As I said, when in line with our normal policy, the Board meets at the end of the year and we will assess the capital position at that point and the uses of the capital at that point and that discussion always reflects things like the regulatory environment, internal knowledge etc. And this acquisition will form part of that consideration and I am afraid it would be wrong for me to say any more than that. It will just be part of that consideration at the year end.

Further question

But the 80 basis points impact does not actually preclude a special dividend this year if you think you have enough capital accretion next year to fund the acquisition? Is that so?

Answer: George Culmer

The Board will make its consideration at the year end.

Chris Manners

Thanks

Question 7: Chris Cant, AUTONOMOUS

Good morning all, thanks for the call. I had a couple please. Firstly, could you tell us how much intangible asset would be created on close of the transaction? You have talked about amortisation. And if I could just ask a clarification, you mentioned a number George of £330 million ex amortisation, so from a, I guess, capital generation perspective, should we be thinking about this more in terms of 7 per cent accretion, given the amortisation is already in capital?

Answer: George Culmer

That is a fair point, but yeah it is £1.9 billion of which £0.8 billion is equity so I have got about £1 billion, as you know I have got to make the determinations between the different types of goodwill, the customer relationships, the unwinds etc. You are right, from the intangible perspective, I have already said doesn't count. And you are right that is where you will get a stronger capital accretion.

Further question

So in terms of that 7 per cent type level implied by that £330 million, are you comfortable with that as an output from the maths that I have done?

Answer: George Culmer

Your maths is normally okay!

Chris Cant

I will take that as a yes, thank you.

Question 8: Jason Napier, UBS

Good morning and thank you for the call. Two simple ones please. The first is on RWA density, in the acquired business, almost 100 per cent. I just wondered whether there was any scope for incorporating that onto your internal models and if you have any perspective on whether that density might change?

And the second question, this is far simpler maths than has been covered earlier in the call, but if the first half annualised profit is about £330 million and the applicable tax rate is about 20 per cent and the cost base is £333 million, I don't have any implied loan losses for the first half. So I am just wondering whether that £650 million revenue is a net of loan losses number?

Answer: George Culmer

Sorry I missed a bit of that. The £300 million is on a post tax basis, if you think it is earning £250 million post tax and I generate £80 million of synergies post tax you are on a sort of £330 million post tax basis. That would sort of be the number, so you can gross that up, you are right it would be a non banking entity, so a 20 per cent tax rate. I mean RWA, yes there is, it tends to migrate back and you are right, almost 100 per cent and the equivalent on our book is round about a 90-91 per cent in terms of RWA density in terms of utilisation of our models. And as you say should output floors ever become a reality, it would be useful.

Answer : António Horta-Osório

I think on your numbers Jason, what you are missing is that of course we will not realise the synergies until two years, right.

Further question

Yes I get that, so if we did it really simply, annualised post tax profit in the first half is about £246 million and 20 per cent tax gets you to £310 million. You have got a cost base which you have told us is £333 million because of the synergy number and revenues at £650 million. So £650 million less £333 million of costs gives you pre-provision profit of £300 million and we are getting to a first half pre-tax profit number of about £300 million. So I am just wondering what the run rate loan losses were in the first half or if what I am doing is correct?

Answer: George Culmer

We will get back to you on the maths. It is a small number, but we will get back to you on it.

Answer : António Horta-Osório

A small number and then we put this number as we said into the average across-the-cycle and when the two years starts we create the synergies and you have the underlying numbers George was referring to.

Jason Napier

Okay thank you.

Question 9: Peter Toeman, HSBC

Sorry I was just concerned like Jason and I couldn't reconcile your numbers on impairment, you seem to have a very small impairment number. Am I right in thinking the 17 per cent return includes an impairment charge of about 150 basis points?

Answer: George Culmer

Absolutely and it is of that order, that is correct. A bit higher but yes.

Further question

And I gather the book is on a sort of standardised approach at the moment?

Answer: George Culmer

That is correct.

Further question

Is there any uplift on moving to IRB?

Answer : George Culmer

That is what we said, you get a sort of marginal benefit, they're roughly about 100 per cent. We are at sort of 90 per cent type basis, so you don't get a fundamental game change in terms of moving to IRB.

Answer : António Horta-Osório

And we also like strategically this shift where we increase weight in consumer finance which as you know is RWA dense versus our previous overweighting in mortgages which is RWA light. So this is another positive thing whereby we, if you want, we fill our under-presence in the credit card business which is as you know RWA intensive and that is what is so helpful from the total RWA density in the light of the present regulatory trends as well.

Peter Toeman

Thank you.

Question 10: David Lock, DEUTSCHE BANK

Morning everyone. I think most of my questions have been answered, but just a follow-up to Chris' one really which is around competition. I appreciate you think you are going to get the competition approval for this. But I just wondered if we should expect you to continue to look for other potential portfolios or bolt-on acquisitions within the UK space? I mean you have got a 26 per cent credit card market share now. You have got a very strong mortgage market share now. Is this kind of where you see the business in the right position now in the UK? Or do you think there are other areas where you think you could grow? Thank you.

Answer : António Horta-Osório

Yes, look we have always said, not only always, but also when we presented the second strategic review two years ago, that the consumer finance area, and that is why I put it as a separate area in the bank where we wanted to foster growth, was under-represented in two segments of this division, it was under represented in credit cards and in car finance. In credit cards we have around 15 per cent as George mentioned. With this transaction we go to around 26 per cent so we have filled that gap with this transaction, very clear strategic sense, clear value for shareholders and limited and capped risks, so we have the transaction that we envisaged in this way. We were growing organically reasonably well. On the car finance space we are growing very well and also given our joint venture with Jaguar Land Rover as you know which in retail language if you want, provided us with an additional important product through a lot of additional outlets. That is why our car finance activities are growing close to 20 per cent a year for the past few years. Therefore in the car finance space, although we only have a share of 13 per cent we are growing organically very well. If there were portfolios to be considered as we have said before, we would. There is no portfolio in this space that we are looking at at the moment that we know is available and we will continue to grow organically well. Any other areas that we know, you know what our strategy is, we continue to grow organically in SMEs, gaining market share and therefore there is no other transaction of any special significance to which we are looking at this stage.

Further question

Thank you, and just a follow-up question, I wonder if you would be able to share any geographic representations in the portfolio? Is it fair to say it is generally in line with the overall spread across the UK? I know you have a slightly different geographic weighting in your mortgage portfolio perhaps to others, so I wondered if you had any colour on the geographic weighting of the credit card? Thank you.

Answer: George Culmer

No nothing particular to tell in terms of the geographics, it is a book that is overwhelmingly sourced remotely online, but there is nothing particular in terms of geographic concentration I would point to.

David Lock

Thank you.

End