LLOYDS BANKING GROUP PLC –2017 HALF YEAR RESULTS PRESENTATION

THURSDAY 27 JULY 2017

António Horta-Osório, Group Chief Executive

Good morning everyone, and thanks for joining us. I will cover the key highlights for the first half of the year, economic trends and progress against our strategic priorities. George will then cover the financial results in detail, after which I will conclude and we will take your questions.

Starting with the highlights for the first six months. In the first six months of this year our simple, low risk, UK focused multi-brand business model has continued to deliver, with improved underlying and statutory profit, and a very strong underlying post tax return on tangible equity of 16.6 per cent.

The Group also completed the acquisition of MBNA's prime UK credit card portfolio at the start of June and this has contributed to an increase in customer loans and advances in the period.

The Group has delivered strong capital generation, in spite of additional legacy provisions, and this has enabled the Board to approve an increased interim dividend.

In terms of our financial guidance, we are today updating our full year margin and AQR guidance, where we now expect to deliver a margin of close to 2.85 per cent and an improved AQR of less than 20 basis points, both of which include MBNA. All other guidance remains unchanged.

I am also pleased that the hard work undertaken in the last six years to transform and simplify the business has allowed the UK government to fully dispose of their investment in Lloyds and to return more than £21 billion to the British taxpayer, repaying nearly £1 billion more than the original investment.

Turning briefly to the financials. Income was up 4 per cent, with increases in both net interest income and other income, which combined with our continued focus on cost management delivered positive operating jaws of 5 per cent. Our market-leading cost:income ratio therefore improved further to 45.8 per cent.

Credit quality remains strong and similar to recent trends, with an asset quality ratio of 12 basis points in the first six months.

Our statutory profit before tax increased to £2.5 billion. This is after taking further conduct charges, including PPI, which was disappointing.

Strong underlying performance has nevertheless enabled the Group to generate 100 basis points of capital in the first half, at the top end of our guidance range, and increase the interim ordinary dividend by 18 per cent to 1 pence per share.

Turning now to the UK economy. The UK economy remains resilient following the record employment levels, GDP growth, private sector deleveraging and rising house prices in recent years, while aggregate consumer debt levels relative to household incomes remain reasonable by historical standards.

As I have said before, a period of economic uncertainty can be expected as the UK leaves the European Union and indeed consumer confidence appears to have been softening in the first part of this year, although it is important to note that this is down from previously elevated levels.

Inflation is however now rising above disposable income given the recent depreciation in sterling and, while this may affect consumption going forward, the economy should benefit from rising exports and earnings from foreign assets.

Now for a few comments on the UK housing market. UK house prices have continued to rise in real terms over the past twelve months although price growth has slowed, mainly in London and the South East.

More importantly, affordability of mortgage payments remains better than or close to its long-term average in all regions except London. The combination of significant house price increases and low mortgage market growth in recent years, has led to much healthier LTVs on the balance sheets of the banks. For instance, in the case of Lloyds, our customers, on average, now have higher levels of equity in their homes than their outstanding mortgage debts, while 90 per cent of mortgages have an LTV of less than 80 per cent.

Finishing my observations on the economy with a few comments on the UK consumer. While consumer credit has grown in recent years, this growth follows a period of significant contraction between 2008 and 2013 as households de-leveraged and rightly so. At the same time mortgage balance growth has remained very low throughout the whole period.

As a result, overall household indebtedness has improved significantly, with consumer credit as a share of disposable income well below the levels prior to the crisis. In addition, low interest rates mean that households' total debt repayment levels are the most affordable for 15 years.

It is also important to note that the consumer debt-to-income increase since 2010 has been driven by two main factors; firstly, student loans, which are Government funded, and excluding these consumer debt-to-income is significantly lower than 10 years ago.

Secondly, the increase in motor finance debt-to-income since 2010 has been artificially inflated by the growth of PCP products including a guaranteed future value component which is the manufacturers and finance companies responsibility, not the consumers, and accounts for over half of the growth in motor finance debt-to-income since 2010.

On the other hand, inflation has been rising in the first part of this year and has increased faster than disposable income so far in 2017, which is beginning to squeeze household finances and something we will continue to monitor as we move forward.

Also, with the rise in inflation, strong employment growth and historically low unemployment, rate expectations have increased from their very low levels back in September, which is beneficial to the Group.

Overall, while we are not complacent, we remain very comfortable with our low risk appetite and the asset quality in our consumer lending portfolio.

Turning now to the progress we are making on our strategic priorities. We have made good progress on delivering against each of the three strategic priorities set out in our current strategic plan.

Starting with 'creating the best customer experience'. We continue to invest to ensure we meet the evolving preferences of our customers through our multi-channel approach. We operate the UK's largest digital bank, with a 21 per cent market share and an award winning digital proposition. With 13 million active online users and 8.6 million active on mobile, we have met 67 per cent of our customers' product needs digitally in the first half of 2017.

And our progress is reflected in the Group's customer satisfaction metrics. Our net promoter score improved further in 2017 and is up by around 50 per cent since the end of 2011, having improved across all brands and channels.

We are also making good progress in transforming our key customer journeys. For instance, within mortgages there has been a 36 per cent increase in customers receiving their offer in less than 14 days, with some offers being made in only two working days, while an agreement in principle now takes just 10 to 15 minutes.

In account opening and onboarding, we have opened 300,000 branch savings accounts in less than 30 minutes with a new streamlined process that has halved appointment times and we have delivered a 77 per cent increase in the proportion of SME clients onboarded in less than 30 days with 50 per cent using our new digital agreement capability.

In Insurance, a core part of our strategy, we have made significant investment in upgrading our important corporate pensions offering and can now process pension contribution files in just 1 day, down from 22 previously. While in the last 12 months, Scottish Widows has won multiple industry awards for its intermediary propositions and customer service.

Finally, we have put 20 mobile banking branches on the road to support rural communities, covering around 150 locations across the UK, and we will have 34 mobile branches in operation by year-end covering more than 200 locations.

Turning to 'becoming simpler and more efficient'. Our Simplification programme remains on track and has delivered £1.2 billion of run-rate savings to date and all three streams of the programme are expected to deliver their targeted savings. These are already enabling us to further reduce our operating cost base and improve our market leading cost:income ratio.

Finally, we are continuing to deliver sustainable growth in our key targeted segments, which I will now look at in more detail.

Our UK Consumer Finance business has delivered strong organic customer asset growth of 10 per cent within the Group's low risk appetite. In credit cards, year-on-year net lending growth excluding MBNA was 4 per cent, while motor finance grew by 17 per cent.

As mentioned earlier, we successfully closed the acquisition of MBNA on the 1st of June, ahead of target, and work has now commenced to integrate MBNA's £7.9 billion of balances to deliver on our aim of creating a best-in-class UK credit card business.

In mortgages, our open mortgage book is broadly flat versus the 2016 closing position, including the planned re-acquisition of a £1.7 billion portfolio of mortgages from TSB. The book will increase in the second half and be slightly above the December 2016 closing position by the end of this year.

Finally, in SMEs, we have once again outperformed the market, growing net lending by 2 per cent year-on-year, against a market that has grown by 1 per cent. This means that since 2010 we have grown our net lending to SMEs by 31 per cent, or nearly £8 billion, compared to a market that has contracted by 12 per cent, or around £22 billion, in the same period.

I will now handover to George who will run through the financials in more detail.

George Culmer, Chief Financial Officer

Thank you António and good morning everybody. Starting as usual with the underlying financial performance.

As you have just heard, underlying profit was up 8 per cent at £4.5 billion. Total income of £9.3 billion was up 4 per cent and operating costs were 1 per cent lower, delivering positive operating jaws of 5 per cent and an improved cost:income ratio of 45.8 per cent.

Impairment performance remains strong with a slightly improved gross AQR of 23 basis points and a net of 12.

As a result, the underlying return on tangible equity was a very strong 16.6 per cent and 1.5 percentage points up on 2016.

Looking at net interest income. Net interest income increased by 2 per cent to £5.9 billion with an 8 basis point increase in the margin to 2.82 per cent, offsetting a small reduction in average interest earning assets.

This improvement in margin once again reflected lower deposit and funding costs, which more than offset lower asset pricing, as well as a small one month benefit of around 2 basis points from the inclusion of MBNA.

Average interest earning assets were slightly lower at £431 billion due to continued reductions in Global Corporates and lower total mortgage balances.

Moving forward, MBNA will drive both average interest earning asset and margin growth in the second half of the year and we now expect the full year margin to be close to 2.85 per cent.

Turning to other income, OOI was up 8 per cent at £3.3 billion, primarily due to growth in Commercial Banking, Consumer Finance and gilt sales, as well as a one-off gain of £146 million from the disposal of the Group's stake in VocaLink.

Commercial OOI growth of 12 per cent to £1.1 billion was driven by increased client refinancing and hedging activity, as well as successful equity exits in LDC. In Consumer Finance growth of 15 per cent was mainly due to continued fleet growth in Lex Autolease.

Looking briefly at total income by division. Retail delivered another resilient performance with total income of £3.8 billion down slightly on prior year, with a 1 per cent improvement in NII from margin, more than offset by lower other income, due to a number of items including lower fees and lower income from packaged bank accounts and general insurance.

In Commercial, total income increased 10 per cent to £2.5 billion, with a 9 per cent increase in NII from disciplined deposit pricing and funding cost reductions, and the 12 per cent growth in other income.

In Consumer Finance, total income was up 9 per cent to £1.8 billion, with a 5 per cent increase in NII through strong asset growth, and the 15 per cent growth in other income.

Finally, Insurance income of £822 million was down 2 per cent primarily due to the timing of bulk annuity transactions and lower new business income from corporate pensions and planning & retirement.

Turning then to costs. Operating costs of £4.0 billion were down 1 per cent, with efficiency savings from our Simplification programme more than offsetting the increased investment in the business and the impact of increases from pay and inflation.

Operating costs also include a one month impact from MBNA of £21 million, which is included in 'other' in the year-on-year walk.

As you know, 2017 is the final year of our current strategic plan and we remain on track to deliver our £1.4 billion run-rate savings target, with our Simplification project a key enabler of the significant improvement in our cost:income ratio over the past five years.

This continued cost focus and successful delivery means we remain confident in delivering our target of a cost:income ratio of around 45 per cent as we exit 2019, with reductions every year.

On credit, as you have already heard, our asset quality remains strong with performance stable across the portfolio with the charge for the first six months of £268 million and a net AQR of 12 basis points.

Given the continued strong performance we are upgrading our full year guidance and now expect a net AQR of less than 20 basis points, including continued write backs and recoveries given our prudent reserving.

On IFRS 9 we continue to make good progress and will provide an update to the market towards the end of the year.

In terms of the Portfolio, the overall quality is seen in the low level of impaired loans, which at just 1.77 per cent of closing advances is down from 1.84 per cent at the end of 2016, while the coverage ratio remains strong at 42 per cent.

Looking at portfolio composition, nearly 65 per cent of customer assets are secured mortgages, where customer payment affordability remains strong and the loan to value profile has continued to improve.

In Commercial, which accounts for just over 20 per cent, we have a good quality book reflecting the work we have done in recent years to optimise the portfolio with disciplined pricing and risk appetite.

Our UK Consumer Finance business accounts for just 9 per cent of customer assets and is also managed in line with our overall low risk appetite.

Within this, secured motor finance comprises £13 billion of lending and £4 billion of operating lease assets. This book has a total residual value exposure of around £6 billion which matures over a 3 year period and which benefits both from our prudent pricing strategy, that incorporates significant buffers and results in profits on vehicle disposals, as well as general prudent provisioning.

In credit cards, following the MBNA acquisition we now have an £18 billion prime UK book with a low risk appetite and conservative assumptions, including just a small EIR asset on the Group's balance sheet.

Moving then to statutory profit. Statutory profit before tax increased to £2.5 billion, with a return on tangible equity of 8.2 per cent.

Market volatility and other items were £37 million and considerably lower than prior year which included the ECN redemption charge.

Restructuring costs were £321 million and include severance costs relating to the final year of our Simplification programme, non-branch property portfolio rationalisation, initial MBNA integration costs and the implementation of the Group's non-ring-fenced bank, which is making good progress but is now likely to cost around £500 million to complete, with around a further £200 million to go.

On PPI, we have taken an additional £700 million provision in the second quarter reflecting current claims levels, which remain above our previous assumption. The Group's remaining provision of £2.6 billion will now cover reactive claims of around 9,000 per week through to the implementation of the time bar at the end of August 2019.

On other conduct, the Group has taken a further £340 million provision in Q2 to cover a range of conduct matters including packaged bank accounts and arrears handling activities.

Finally, our tax charge was £905 million, representing an effective rate of 36 per cent. This is above our medium term guidance of around 27 per cent largely due to the non-deductibility of certain conduct provisions.

Looking then at the balance sheet. Loans and advances to customers are up by £3 billion on the start of the year to £453 billion and RWAs are up by £2 billion to £218 billion.

This growth mostly comes from higher returning Consumer Finance assets, including the impact of the MBNA, primarily offset by reductions in lower returning Global Corporates, and the shift in mix clearly demonstrates our strategy of optimising the balance sheet, driving improved capital returns and efficiency, and is a key part of hitting our key target of a 13.5 to 15 per cent return on tangible equity.

Finally, on capital. As you've heard, the Group delivered strong capital generation in the first six months of around 100 basis points and our CET1 ratio, prior to the dividend accrual, increased to 14.0 per cent, while our total capital and leverage ratios remain strong at nearly 21 per cent and 4.9 per cent respectively.

In terms of CET1, the 100 basis points of capital generation was driven by strong underlying profit of 140, with conduct charges of 80 basis points partly offset by further RWA reductions and other movements.

Given this strong performance we continue to expect the full year capital generation to be at the top end of our 170 to 200 guidance and we continue to target a long term capital requirement of around 13 per cent.

As António mentioned, the Board has approved an interim dividend of 1 pence per share, which is an18 per cent increase on 2016 and reflects our confidence in the Group's future prospects.

Finally, TNAV was 52.4 pence per share with underlying growth more than offset by the impact of the 2016 final dividend and the MBNA acquisition.

With that I will now hand back to António for his closing remarks.

António Horta-Osório, Group Chief Executive

To conclude, we have continued to successfully execute against our strategic priorities and have delivered strong financial performance and capital generation in the first half.

Our simple, low risk business model continues to provide competitive advantage, while our multi-brand and multi-channel operating model ensures our customers have complete flexibility in terms of how they choose to interact with us. The successful delivery of this strategy can be seen in the significant improvement in profit and returns over the past five years.

Our strong financial targets reflect our confidence in the Group's future prospects, and we have today updated our 2017 margin and AQR guidance, while all of our other guidance remains unchanged and on track to be delivered.

Looking forward. The remainder of 2017 will see us focused on delivering the final elements of our current three year strategic plan, as well as preparing our next strategic update for the period 2018 to 2020, which will be announced with our full year results early next year.

While the Group is delivering in today's environment, it is clear that technology, competition and regulation are driving an unprecedented pace of change across financial services and the Group's next strategic plan will clearly need to respond to these factors.

In preparation, I have recently announced a series of organisational and senior management changes. These changes are aimed at aligning and strengthening the Group's structure to ensure we meet our customer's evolving needs and deliver the continuous transformation required of the organisation in the most effective way.

Our strong management talent pipeline means we have been able to promote internally for all the new roles created and this will mean the formation of a more diverse Group Executive Committee, with the right capabilities for the next phase of the Group's transformation.

This will enable us to further deliver on our core aims of helping Britain prosper, and being the best bank for our customers and shareholders.

That concludes today's presentation and we will now take your questions.

Question and Answer Session

Question 1: Raul Sinha, JP MORGAN
Good morning everybody, it's Raul Sinha from JP Morgan. António could I ask you to comment a little bit in detail about the mortgage margin outlook. The Group margin obviously remains very stable in line with the guidance that you have given us but clearly the pressure on the mortgage market, driven partly by the TFS, is quite severe in terms of what we can see on the pricing. So if you could comment a little bit on the outlook for mortgage pricing?

And I wonder if I could ask António for an update on the savings and term deposit books in terms of the re-pricing, how much have you re-priced to?

António Horta-Osório
George you mean?

Raul Sinha
Yes, thank you, sorry.

Answer: António Horta-Osório
I will take the first question and maybe you can take the second. Look Raul, I mean I will sound a little bit boring, but I don't really see a change in the competitive environment to what I have been saying in the past few quarters. I think there is a competitive market in mortgages which is being built upon very low AQRs, so adjusted price for risk has been going down in recent years. We have taken a more prudent view because we believe that the only segment which is growing is Buy-to-let. We think the dynamics between margin and volume, capital generation, the uncertainty on the economy and the fact that Buy-to-let is the only growth segment, all point out to the same direction, which is to privilege our margin versus volume, which I have been telling you for some time. We manage the margin as the difference between asset prices and savings prices. So as a difference we manage it holistically and on a weekly basis at the top of the organisation.

And finally, we strongly believe that our multi-brand model is very effective in helping us managing margin effectively according to different customer preferences in different brands. So all of this has enabled us to update and upgrade our margin guidance over the last few years in spite of interest rates going close to zero. And this year, as we said at the beginning of the year, we were very comfortable that we would be able to increase our margin with a reasonably flat mortgage book, which we are now confirming. So for the next few quarters, I anticipate the same trends on the asset side. And I also anticipate in our case, the same response on the liability side.

Answer: George Culmer
And on the liability side, again without boring you with too much repetition, as you know we manage the Group as a single balance sheet, it gives us a great advantage, being able to flex between the various businesses that we have. And some of the themes that you have seen we continue with, so the delta between relationship and tactical brands within Retail, the mix between Retail and Commercial. So Commercial savings I think are up something like £132 billion at the start of the year to £139 billion, so we continue to move money around to where we see the best advantage.

And then to your question, within the core Retail bit, within the savings element of that, the £160–170 billion of that, we came in this year, at about, this is a cost of around 62 basis points. It was, I think round about 57 basis points at Q1, it is down to about 51–52 basis points now, so again we continue to shave that. We also continue to optimise across the Group It is more than just moving money each way, it is taking constructive action in terms of how you term out moneys, how you basically make the most of things like liquidity requirements etc. So we have a massive exercise internally to improve our efficiency at that. And you can see the benefits of that in the Results.

Raul Sinha
Thanks very much.

Question 2: Andrew Coombs, CITI
Three questions. One very quick one and two more broader ones. The quick question is, of the £13 billion Black Horse finance outstanding, how is that split between PCP and HP?

The broader questions. In other income, a very strong result, even if you strip out the VocaLink gain. You talk in particular about some of the transactions in the Commercial Bank and the strength of Lex Autolease as well. But perhaps you could elaborate on what has driven such a strong move Q-on-Q and how sustainable that is?

And my final question which is to do with impairments. Again you have improved your guidance there and you have seen a very good outcome. Your gross charge at 23 basis points compares to a net charge of 12 basis points. So you are still getting quite a lot of write-backs within that. In the text you draw out some of the debt sales you have made both on overdrafts and consumer loans. So again my question would be, how sustainable are those provision releases and write-backs going forward?

António Horta-Osório
So George can take the first two questions and I will make an introduction on the third and then Juan will comment.

Answer: George Culmer
On the £13 billion, for PCP I would say about £4 billion **[Correction £5.5 billion]**, not sure whether that is materially wrong, but that is the sort of number I want to say. I will come back and check with you if there is a delta to that.

On other income, we have delivered a good result in terms of headline percentage. Up to whatever it is, 8 per cent. Within that we have managed to benefit from things like VocaLink which we call out. I said at the presentation, we also called out things like gilt sales where as you know last year we basically moved those gilts from HTM to AFS and we talked about at the time basically and said we did not see ourselves as a natural holder of gilts. That was because of the returns and increasingly because of the capital that I have to put behind them. So a year or so ago we probably had a portfolio of about £40 billion of those, that is down to about £35 billion and we probably had about £70 million of gains in Q1 and £70 million gains in Q2, so you have got that going on there.

Within the divisional performances. You have got a strong performance from Commercial which I talked about, up about 15 per cent. As you know we made a significant investment in Commercial over the last few years and have benefited from equity exits – and this is LDC – by £25 to £30 million. But we have also benefited from core lending, capital markets, financial markets as well. So that is a good growth position. Stays tough in Retail, no doubt about that, so structural change we are seeing. Within Insurance you have got basically down slightly on year. You have got things like the accidental death benefits which have benefited both years. But as you look forward there will always be a natural slight volatility to the Insurance number. But as I look forward, as those fall away, I have got things like longevity improvements which you have read about, which are yet to come through in the results. Insurance is more related to things like what goes on in swap rates than people might imagine you have got that benefit going through and I would expect the bulks to pick up as well, so I see some benefits there.

And then in the Consumer Finance piece, as you say, Lex Autolease in terms of fleet size, I think 12 months ago was about £3.7 billion, it was £4 billion as it came into this year, it is about £4.6 billion now. So a few things going on there. One thing is, we are getting much better at linking up the various parts of the Group and synergies and actually linking our commercial relationships and our Relationship Manager with the representative from Lex Autolease and offering a suite of products now. You know it is the type of thing Groups should always be better at, but I think over the last few years we have made significant improvement in this way in linking up the pieces. What you are also seeing is growth within things like again, comes back to things like PCP type sales, lease based sales through brokers to individuals. That has been a key feature of the market.

So in terms of sustainability, I think I have said previous times, OOI will stay tough, it is a tough market in terms of, there are different things going on in different places. We have previously said for this year, we expect OOI to be in line with last year. I mean I think with the VocaLink exception, I would expect to be ahead. If I stripped out VocaLink, I think I would still now expect to be ahead. We will continue to be a seller of gilts. I will continue to expect to see some good progress with Commercial, I would continue to expect to see some good progress in Consumer Finance. It will stay tough in Retail. And then in Insurance, as I said, some of these sort of accidental death benefits roll off, there are benefits from longevity, let's see what happens on swap rates and let's see where bulks go as we move forward.

Answer: António Horta-Osório
Andrew on the impairments. I mean we continue to see a very, very stable position in terms of impairments and in terms of the underlying factors behind the impairments. In all portfolios we don't see any sign of uptick, and as you say, our gross AQR is the same, actually a little bit lower. And what is interesting is that we have higher write-backs than we thought, which to be very

frank with you only shows what we have been telling you over the years, which is we are a prudent bank with a low risk profile. We provision prudently and that is why you continue to see write-backs, which is the evidence of previously prudent provisioning. And now Juan can give you more colour on the different portfolios.

Answer: Juan Colombás, Chief Risk Officer
I have little more to say because that is exactly what happens. So you should see an element of recurrence on the write-backs because the sooner you take the provision, the more likely the write-back will help them really. So the releases are also included in this difference between the net and the gross. And in debt sales this is the latest part of our recorded process for the end, there will always be a flow of debt sales.

António Horta-Osório
And also on the mortgage impairments you want to mention?

Juan Colombás
On the mortgage impairments, the mortgage portfolio, we continue to see improvements in the new to collections. So we are seeing a steady improvement recently. So no sign of deterioration at all. And on the impaired loans side, you see a stable number, it is influenced by this delay in the recovery process we had to do for legal reasons. But we have resumed the collections activity in the last month. We have started to see reductions in the impaired loan number.

António Horta-Osório
And Andrew I think this is partly obviously the reflection of our strategy, but when I look at the sector as a whole and as I said in my introduction, the economy continues to grow at a resilient pace. Employment has reached record levels. 320,000 people employed in the last 12 months and record levels since statistics started in 1971. And debt levels have been going down in the household sector in the last 10 years. In the last 2 or 3 and now that inflation is going above disposable income, consumers, rightly so, are using that previous deleveraging to smoothen the shock of inflation and adjust through time. I have said here repeatedly, I thought the fact that the UK economy was growing with two important tailwinds, less debt and rising house prices, would elongate the business cycle and that is what is happening now. And you see consumers reacting logically to inflation going up and saving a bit less and consuming a bit more.

Further answer: Juan Colombás
And very sorry, in the Commercial side, just to complete. What we look at carefully is on the watch list which is a good indicator of potential future problems and we are seeing no signs of deterioration of the portfolio either.

António Horta-Osório
So more questions. I will take Jonathan and Chris.

<u>Question 3: Jonathan Pierce, EXANE BNP</u>
Thanks very much, Jonathan Pierce from Exane. I have got two questions. The first one is on the structural hedge. Obviously increased in nominal size quite a lot in the first half of the year. And thanks for giving us the rates. So could you just give us an idea of how that was built over the half year? Was it fairly linear from December to June? I am just trying to think about how much this is going to benefit the second half margin?

And maybe as a supplementary, can you give us an idea of what the incremental, it must have been £35-40 billion gross that was put on, what rate did you manage to get that at?

António Horta-Osório
It is good that you have the Treasurer just ahead of you!

Answer: George Culmer
I think we have put on gross, because obviously there are some roll-offs as well, about £47 billion I think in the 6 month period. I don't recall, I think pretty linear would be my starting place. We have been pretty active throughout that period. As you know we turned off back end of last year when we were down to about £98 billion, I think we were £111 billion when we came in. But I think if you make an assumption. I am not going to give you the new business amount, but you know. But in terms of, it won't be that hard to find out, so we are still at the short end. So it is a sort of 3 year type weighted average life. We were £143 billion which I think is the number we disclosed. Just to let you know, we continue to add, we are not at 100 per cent. We continue to move towards 100 per cent. So since 30 June, we continue to be a buyer in terms of the fixed receive. So we continue to build towards what our maximum will be. And as we look forward, we have kind of limited maturities in the back half, just because of the nature of the book, limited maturities at the back end of this year and actually into next as well when I look at the life of the

or the shape of that hedge. So that should give you enough to sort of at least get a feel for it. But as I say, we continue to be active, we continue to build towards it. Because the natural position is to be 100 per cent hedged, so I am moving to that. Limited maturities back end of this year, next year.

Further question
And this is being done by derivatives presumably, so the 5 year swap rates?

Answer: George Culmer
That is correct.

Answer: António Horta-Osório
Just to compliment what is said. So you know, our strategy as George is saying is, our strategy is naturally be 100 per cent hedged, current accounts give an average maturity of 4-5 years and we match that through derivatives, as you said, on the other side. We took this exceptional decision, following the Referendum, which we shared with you, that we would not be doing that hedge at 35 basis points because for that it would be better to have the money in the Bank of England at 25 basis points. And we have not invested for more than 9 months. We started investing as rates started to rise. But given our perspective about rates which as I said in my introductory remarks, we expect rates to rise slowly over time. We have done lower duration than we would normally do. So we are going towards 100 per cent hedged position, but we are not on the 4-5 year maturity because we thought it was better to concentrate ourselves on the short-end, given that we expect rates to go up and therefore we want to be able to renew these hedges as they mature sooner than the normal average life.

Further question
Thank you. The second question is on TNAV as opposed to focusing on capital. I just want to think about TNAV because the TNAV fell quite a lot in the second quarter. I just want to come at this from the perspective of there being now quite a lot of income and profit going through the income statement which isn't benefiting TNAV and you have mentioned the AFS gains and the fact those are likely to repeat. They are clearly just recycling out of equity through the P&L. On top of that though my focus really is on the cash flow hedge because presumably this largely relates to the structural hedge. Quite a lot of the structural hedge revenue also looks like, as you would expect, it's recycling out of equity. And through the P&L accounts you are not getting any benefit from a lot of the structural hedge revenue to TNAV either. Really all I want to try and confirm is, is that the case and can you give us an idea of what the value of your structural hedge is within TNAV? I know the cash flow hedge reserve is £1.7 billion. But I think there is a big negative within there for the mark to market to AFS assets that you were reclassifying last year. Is the value of the hedge about £3 billion?

Answer: António Horta-Osório
Okay, many questions. One thing is capital and the other thing is TNAV so we have to split the two equations.

Answer: George Culmer
Look I am not giving a precise number, but it is of that order type thing. But what that represents. I mean it is interesting, the aspects you latch onto. That is a locked in value of future earnings that the Group has secured. You know, so this is a fantastic asset of the Company that we have. To your point around the TNAV, it is reflected in TNAV and there will be an unwind over the duration. I would much rather be in this position than not have this thing to just make that simple point.

Secondly, on things like the AFS and those gains, and this is a few hundred millions, you know, yes they will continue, I will continue to sell and recycle so you will continue to see that as a feature as well. What you will also continue to see is the strong sustainable profit. And TNAV this time has been impacted, well there are always things like the phasing of dividend payments but also I have got things like the MBNA acquisition that has gone through and impacted it. But the sustainable profits will continue. Between us, there is no great surprise. One thing to point to in terms of benefits to TNAV would be the long awaited day when my conduct, my customer redress charge isn't £1.6 billion for the first 6 months of the period. Now within that and without moving the question on to something else, there will be an element of other conduct because that is the nature of the world we are in. I don't expect it to be at the current level. There will come a day when it is the last PPI provision. But that is the biggest swing factor. AFS and that type of stuff is not a biggy, I would much rather have the cash flow than not have it. But it is coming back to the old question of, the underlying to statutory.

Answer: António Horta-Osório
And also if you consider everything that you said and you just take away the MBNA goodwill which decreases TNAV and the dividend, TNAV would have gone up. So we have goodwill on TNAV because of MBNA but on the other hand, our underlying post tax return on tangible equity goes up because MBNA is a higher return business and it has an initial impact on goodwill. So even with everything you said, just removing MBNA's impact and the dividends paid, TNAV would have gone up.

Jonathan Pierce
Thank you.

Question 4: Chris Manners, MORGAN STANLEY
Thanks, good morning, it is Chris Manners from Morgan Stanley. So I had a question on underlying returns and capital. So you have generated if we ex-out the conduct provision which may be generous but if you ex-out the conduct provision, it looks about 180 basis points of capital generation in the first half. You are saying you are going to only manage 70-100 basis points in the second half. I am just trying to work out, is there something that I suppose, impairments might go up a little bit, you may have the bank levy, you won't have some of the one offs in the revenue line. But it looks like there is a missing piece in terms of why your capital generation in the second half won't be stronger?

And then following on from that, even if you hit the bottom end of your guidance range and you hit 170 basis points of capital generation on £220 billion of RWAs, that gives you a pretty chunky surplus capital versus your 13 per cent target, how should we think about special dividends, buybacks and how that makes its way back to the shareholders? Thanks.

Answer: George Culmer
We have been here before! Same question! Look we talk about 170 to 200 basis points, you are right, simplistically is the 6 months I am at 100 basis points, I am online, you know. But as you say if you deconstruct that you have got some big elements in there. Look to be crystal clear, the missing piece in your sort of, the maths which is absolutely fine is absolutely not that I sit here expecting a repeat of 80 basis points of conduct in the second half of the year. So let me be clear about that. So it is not as if I sit here expecting that. Look the answer is there are things that move that capital number. Underlying will stay strong, in any period I will get other things like AFS, pension movements, stuff like that, RWA movements. So you do get a bit of noise. That noise will persist. But there is no big thing that I sit here that I think is going to happen in the second 6 months. You are right, things like pension levy impact. So there is a slight skew, H1/H2 profitability and also like most of the Insurance dividend. We paid a small interim dividend by the way for Insurance in the first 6 months and that was really just to get the principle up and running so there is an H2 Insurance dividend that goes against that. But there is no missing piece, we just think it is appropriate and prudent to stick with what we have previously said in terms of capital generation. But your maths is obviously absolutely correct.

Then, you know the position and nothing has changed, around 13 per cent is the guidance, you know the Board will make a decision at the end of the year and seriously it is at the end of the year when the pieces come onto the table in terms of plans, in terms of stress tests, in terms of outlook, prospects for business, external environments etc, as to what we do with capital above that required for the ordinary dividend.

Answer: António Horta-Osório
We will consider both extraordinaries and buybacks for a decision to be taken at the time as George says. The two alternatives open.

Question 5: Claire Kane, CREDIT SUISSE
Thank you, it is Claire Kane from Credit Suisse. Two questions. The first one is quite quick. I think on MBNA you have given us the cost number and the pre-tax number, so I was wondering if you could give us the income and impairments as well for the quarter?

And secondly, it is a follow-up to Chris' question on the capital. So clearly since you last reported we had the counter-cyclical capital buffer come in which would imply at 1 per cent that you have very little management buffer to 13 per cent. I wondered if you could comment whether you still think that is appropriate given potential IFRS 9 volatility going forward?

And second to that, on IFRS 9 I see you have chosen not to give us an estimated impact unlike some peers. I just wondered is there still a lot of uncertainty in your view as to the ultimate outcome that we can expect? And how do you expect that to impact your consideration for year-end dividend? Would you expect to run with 13 per cent post the full impact of IFRS 9 at year-end before you consider the capacity to pay dividend? Thank you.

Answer: George Culmer
Okay so that's a longer second question than the first as they say. On MBNA yes, the contribution is, income line I think it is about £63 million and impairments I think about £14 million. I think they are the missing pieces.

Then on capital, yes you asked me at Q1 I seem to remember about foresight in terms of imposition of the counter-cyclical buffer. So a few things to say. I mean from a starting position, obviously we have our around 13 per cent which used to be sort

of around 12 per cent plus the management buffer. And as we said, at the full year I think there has been reduction in our requirement, but we weren't allowed to tell people what it was. So all I can say is my around 13 per cent is less than 12 per cent plus more than 1 per cent. So that is a current good place to start from in terms of capital requirement and headroom.

In terms of looking out over the longer-term, the longer-term requirement we still believe should be around about the 13 per cent, and when we look at that, that would include the full imposition of the counter-cyclical. Yes it is going to come in slightly earlier than we thought it was going to come in. But within that around 13 per cent, you would also expect there to be offsets in things like the Pillar 2B and the Pillar 2A. So that was our sort of go in assumption and for the long-term that remains our view of the capital requirements. We will see what happens in the intervening.

The IFRS 9 stuff, no there is no great mystery around not telling you the numbers now, we will continue working through these, refining these. You have got to look at the small matters of things like multiple economic scenarios which the more relevant you will get, the closer you get to the actual dates in terms. So it is just working that through.

In terms of impacts, as you know from a capital perspective there are things like the proposals around the transitionals which I think from a sort of capital perspective does not make it an issue in terms of immediacy. I actually think even on a, and this is giving you some clue, on an unsmoothed basis, you know you are looking at a manageable number within that. As you sort of allude to in your question, the bit that is out there to be resolved is the interaction between the IFRS 9 and the stress test. And in terms of obviously the key features of IFRS 9 in terms of accelerating impact. So on a current stress test your trough is I don't know about other companies, but this won't be too far out, people will be year 2, year 3, something of that order, which under accounting brings it forward. Now does that make any difference because nothing has changed economically it is just accounting. And people getting their minds round that and determining it is still out there to be decided and so I can't give you the answer because I don't know what the answer is at the moment in terms of how that actually plays out.

Question 6: Edward Firth, KBW

Thanks very much it's Ed Firth here from KBW. I just have two quick questions, the first one was on motor finance. I see that book was up about 11 per cent in the first half, which I guess sort of contrasts a little bit with some of the comments the Bank of England is making in terms of nervousness in that market. So should we expect that to slow markedly going forward or do you have a fundamental disagreement with them in terms of the attractiveness of that market and whether that is something you should continue to grow going forward?

Answer : António Horta-Osório

No we don't have any disagreement with the Bank of England. I think the Bank of England has looked at the market as a whole and not only motor finance but the rest of the market and has concluded that there is no systemic issue whatsoever. Of course we have to ensure that growth continues to be sustainable. And what the Bank of England is now doing through the PRA is looking at underwriting standards firm by firm because as you know, some firms, especially out of the banking sector, have been growing a lot in sub-prime or near-prime segments which we absolutely don't do.

The reason why our motor finance business is growing significantly as we have been saying over the last few years are basically two. First we are under-represented. Secondly within our low risk appetite we have won the Jaguar Land Rover representation which is new business and a very important brand as you know. And as we said 4 years ago for the first 4 years, all gross business that we do is new business because there are no redemptions. This year redemptions start to kick in so you have new business and redemptions. And therefore the growth of our business will slow down significantly because it will become BAU and more comparable. We still only have a 14 per cent market share in car finance so we are still significantly under represented, but given the Jaguar Land Rover tailing off it will slow down significantly.

Further question

The other question was, we have got PSD2 coming in the beginning of next year which I guess feels to me like it could be quite a major change in terms of the industry. And I just wondered if you could just give us some comments in terms of how your preparation is and how, whether you feel it is a major change and what opportunities and perhaps risks there are?

Answer : António Horta-Osório

We think it is a major change, that is what I meant when I said in my introductory remarks, the regulatory significance for regulatory changes, I was not speaking about the PRA side but from the FCA other spaces we see it as a major change. As you correctly said, we see that there are big opportunities there as well as threats. And it is one of our major points of analysis as I said on our preparation ahead of time of our third strategic plan. So you will hear more about that in February of next year.

Further question
You can't give us some idea of what those opportunities and threats might be?

Answer : António Horta-Osório
No, this is still no at this stage, for two reasons. First because we just started doing the review and I don't want to anticipate the end of the review. And secondly because those opportunities we want to retain for ourselves for the time being.

Ed Firth
Okay. Thanks very much.

<u>Question 7: Michael Helsby, BAML</u>
Thank you. It is Michael Helsby from Bank of America, Merrill Lynch. I have got 3 actually. Just to follow-up on Jonathan's question on the hedge. You mention you are not fully hedged yet so I was wondering if you could share with us when you think you are in terms of notional size?

And also I am conscious of the fact that you anticipate rates to go up so you are going shorter. So I am just wondering, but I can't find what your interest rate sensitivity is any more so I wondered if you could update us on what your rate sensitivity is for a rate rise, whether you would give any of that away? That is question one.

Question two would be just an update George, you give us really helpful data on the SVR both in terms of brand mix and rate that would be really helpful?

And finally, the third one! Finally on loan growth, I know it is only small, but Europe grew 14 per cent half on half. It is actually quite a lot relative to the growth,

Answer : António Horta-Osório
Only FX, it is just FX of the Euro as you probably could guess.

Further comment
It looked like it could be more than that so.

Answer : António Horta-Osório
No it is basically FX. The Euro is at one one (1.1), it was at one forty (1.40) 12 months ago.

Further comment
So it hasn't really changed much.

Answer : António Horta-Osório
I will take the hedge and George will take the SVR which we have information you want. Look on the hedge, when we will be fully hedged I will let you know. Right, we are around £150 billion now because as George said we have continued to invest because rates have gone up post 30th June and we do this hedging dynamically as we told you, we think this is our obligation to our shareholders not to do this mechanically and so with hindsight it has significantly paid off and we are now back to close to 100 per cent hedged position, although not yet there. So next quarter I will tell you how we are.

In terms of the impact on rates, you know that many things change and that one of the things which we find very useful in the UK context versus a European context is that the balance sheet matches both on the asset side and the liability side that they have quick maturities in terms of re-pricing. And we as managers can in a holistic way; we have many more levers than for example you have in Europe where spreads are locked in for life in the case of mortgages. So this is just to tell you that there are many impacting factors here, but on a very simple basis and if you want to think on a long-term basis, we have a hedge of £100-150 billion at the moment. If rates were to rise 1 per cent, after a series of effects, this would increase our earnings by £1.5 billion. Just to give you a very basic idea. We always report to you if there are 25 basis points. What happens what we report to you is not on a steady state basis, it is based on next 12 months, when it happens etc. But I think your question is more let us know what is your strong sensitivity to rising rates? So we expect as you know, rates to rise only slowly. We said we would expect them to be less than 1 per cent by 2019. They're now at 25 basis points. So if rates suddenly rise to that impact, that is basically reflected over time assuming everything else is constant which it is not as I just told you in the hedge being accreting revenues by that amount.

Further question
So that is a parallel shift?

Answer : António Horta-Osório
Yes exactly so that is why I am trying to simplify, but if you want to know with everything together what the basic impact is, you should look at it that way.

Answer: George Culmer
And then on the SVR book, we talked about attrition at Q1 was about 10.5 per cent on the total book this is on the sort of £129–130 billion, it is 11 per cent at Q2 half on half. It is slightly higher, we would expect it to be slightly higher simply because there is a lower level of maturities into the book, but it is still in sort of roughly the same area, so 10.5 per cent, it is now 11 per cent. And again there is not a huge variation between the books despite the differential in rates. So the Halifax 3.74 per cent was about 10.8 per cent in terms of attrition half on half and that book is now about £45 billion, £45.2 billion. And you know the other levels, the Lloyds book which his £32 million, that is slightly higher 12 per cent, that was sort of 11 per cent at Q1. And the others are still in the same ballpark, so it remains pretty constant in terms of the level of attrition as I said. The period movements are actually simply about differential levels and maturities into, rather than people out of.

Question 8: Rohith Chandra-Rajan, BARCLAYS CAPITAL
Thank you, good morning, it is Rohith Chandra-Rajan from Barclays. A couple if I could please. The first one and sort of coming back to capital, but also I guess consumer credit. The comment you made earlier about where the regulator is now focused seem to imply that you are relatively comfortable with the quality of your book and potential impacts going forward. So I was just wondering what your expectations are in terms of any remedial action that the Regulator might take and to what degree that might form part of your thinking in terms of capital at the full year? That was the first one please.

Answer: António Horta-Osório
So what I think will happen is that the PRA going firm by firm, I think they will find out, and this is actually if you look at the Bank of England numbers in terms of consumer debt, and you compare them to the BBA numbers which have the major banks, you see that the growth in Consumer Finance according to the Bank of England is much stronger than the BBA numbers. And this is the reason why I am telling you that I think most of the growth in Consumer Finance is being done in sub-prime or near-prime segments which we don't participate in and that is, we see this very clearly when we get granular data from the BBA versus the Bank of England. So some firms outside of the banking space are growing into riskier customers. They are also giving higher amounts per customer on those segments and I think the PRA going firm by firm, will have their own conclusions about what each firm should do. In our case as I told you, and taking a longer view if you want to, if you look at our total Consumer Finance book, it has credit cards plus UPLs, plus motor finance, it has been growing at 4 per cent, less than 4 per cent over the last 6 years which is sub-nominal GDP. And when you look at credit cards and UPLs which are reasonable substitutes of each other, our portfolio today of credit cards, ex MBNA plus UPLs is 10 per cent lower than it was 6 years ago. And we have significant growth as we discussed before on car finance for the reasons that I told you. So we feel very comfortable about our Consumer Finance portfolio because it has been growing in a prudent way and in a low risk profile. The car finance has been accelerated because we got this fantastic deal with Jaguar Land Rover, prime business, and as I said before, all new business for the first 4 years is net business because there are no redemptions. And therefore we don't anticipate in terms of personal finance, any significant change from the Regulator.

Our car finance business going forward as I told you will tail off as redemptions start this year. And then we bought the MBNA portfolio which is not new business, so it is a seasoned book which we bought within prudent risk criteria and no additional, as you know, PPI liability and we will now manage together with the rest of our credit card brands and we will manage it also within our Retail division which will now encompass all retail products. So now that we have bought MBNA we have a 26 per cent market share in credit cards. It does not make sense any more to have Consumer Finance separated from Retail which we previously had because we wanted to give it special attention, special investment and foster growth. Now that we bought MBNA we have 26 per cent in credit cards, we are merging the Consumer Finance division with the products and marketing as we announced 3 weeks ago and the new Retail division which is headed by Vim Maru will manage all retail products combined and within the same strategy which we have been following for a few years on the remaining retail products.

Further question:
Thank you very much for that. The second one was just a little bit more detail. I was just looking at the credit card non performing NPL ratio has fallen from 3.1 to 2.3 per cent, I was just wondering if you could break that down between sales, MBNA acquisition impact and the underlying trend?

Answer: Juan Colombás
I cannot give you the detail of these numbers.

Answer: George Culmer
I think the answer is yes, but not now, we can tell you later.

Further question
Or if I can ask you differently is the underlying trend, up, down or stable.

Answer: Juan Colombás
I think it is improving actually so the trends that we see in the Consumer Finance business and you can see the total impaired loans trends is positive.

Question 9: James Invine, SOC GEN
Good morning. It's James Invine here from Soc.Gen. I wanted to come back to the mortgage pricing please and particularly ask about your, if your appetite for direct business versus intermediaries changed? I mean this year I see that you have cut your prices that you show on your website by more than your competitors, whereas for the intermediary offering you stay quite high and in fact I think you put your prices up there a few weeks ago. So I was just wondering how much can you shift the mix away from intermediary towards the direct customer?

And when you look at the customer as a whole what is the difference in profitability between the two channels? Thanks.

Answer: António Horta-Osório
James the fact that we have a multi-channel, multi brand approach to the market gives us as I said as well, in deposits, many more levers. And on the intermediary brand, different brand side, the same thing. So the fact that we have more levers enables us to adapt quicker in our opinion to changing customer preferences and also between channels. It has happened in the UK in the past that you had intermediary prices pre-crisis below branch prices and following the crisis they went above branch prices. And now they have come in recent months as well below branch prices. But this is not necessarily a trend. So we are constantly adapting our pricing to what we see in the market and that is not necessarily a pattern so I really can't tell you much more than that. What I want to say is that it is a big advantage for us to have a multi-brand strategy. Also in terms of the asset spread.

Further question
Is there a difference in the churn rates between customers that came through an intermediary and customers that came through the web site and branches on the SVR?

Answer: António Horta-Osório
In terms of the quality of the mortgages that we have, no, the quality is very similar. Of course the customers that come through the branch network are our customers in other products as well and usually buy more products, which is also a reason why we focus ourselves on first time buyers so we have a market share higher in first time buyers than in other products. And although it has a higher LTV and therefore it consumes more capital, we think it is the right strategy because first time buyers buy also more insurance and they will be with us for a longer period of time and we want to get them loyal to the bank from an early start. So the branches tend to be more first time buyer business. And mortgage intermediaries tend to be more remortgage business as broad trends.

Question 10: David Lock, DEUTSCHE
It is David Lock from Deutsche Bank. I have just got 2 please. The first one is on deposit costs. I think the most recent Bank of England data has shown that deposits appear to have stopped falling for new deposits in the UK. I wonder if you could give any colour on what you are seeing and whether you or how long you think you can keep reducing your deposit costs for your Retail business?

And I have a second one which is on car finance. I just wondered if you could give any sensitivity on the residual value provision for if car sales on the second hand market fall. I appreciate you are probably selling several thousand cars every quarter for Lex Autolease, you must have a very clear picture of the market. But if you could give us any colour that would be great?

Answer: George Culmer
So on the first question as I said earlier, we look at the spread across the savings products, the costs of the savings products, dropped from 62 basis points down at the start of the year down to about 51 basis points here. And at the moment that is

predominantly around some of the fixed pricing when we are taking that down. You know obviously we are lower than we were. But there is still some headroom and going back, without repeating everything again, the multi-brand, multi-channel strategy gives us enormous advantages in terms of being able to manage the book. So we still definitely see that there is value there.

And then in terms of the residual value. As you saw from the Presentation etc we talked about being prudently reserved. As you rightly say, we have great info in terms of the profits we make upon car sales and we continue to make, the pricing that we do, whether it is on PCP contracts, explicitly allows for discounts to projected value. So I can build in headrooms that allow for you know percentage point reductions in terms of car markets so I have got that headroom. My additional provision that then sits above that is exceedingly prudent. And what I do is I don't do it on a net basis, I provide for losses and don't offset that against those sitting in credit. I will just provide for the losses and I will provide at a considerable factor to what the model loss is at the moment. So the pricing that we do you know, and when I look forward I assume a discount to projected price and then I provision for a further discount over and above that in terms of what I hold on the balance sheet.

Question 11: Martin Leitgeb, GOLDMAN SACHS

Yes good morning, Martin Leitgeb from Goldman. Two questions please and the first one is a bit more generic on the impact of the term funding scheme and what impact the closing of the drawing window next February 2018 will have on the mortgage market. And the background of the question from what we can observe it seems like there has been a little bit of disconnect between the swap rate and mortgage pricing since the introduction of the TFS back in August last year which I think was a desired outcome. With the TFS expiring with a maturity and drawing window closing next February would you expect some of that to bounce back or is the situation such that banks have loaded up substantially with liquidity and that liquidity overhang will drag on pricing a little bit longer?

And the second question is just I was just curious if you could share what your share in gross mortgage lending was in the first half 2017, thank you.

António Horta-Osório

George will take the second, I will take the first. I would tend to agree with you, although as I said, we are not assuming any change in competitive behaviour over the following few quarters. I tend to agree with you and I think what you saw in recent challenger banks results show that as well. I think that the TFS closing and the fact that the challenger banks took a very significant chunk of it versus their own balance sheets will make them rethink their strategy. Also as you know their growth is not being matched by the growth of retained earnings which is a problem I had flagged last time. And that together with the facts on the bigger banks that the leverage ratio for the ring-fenced bank will be known soon. I am saying this for a few quarters now, will be known soon and as you know, that will be the restriction going forward because the mortgages obviously have much lower CET1 requirements than leverage requirements. I think all of that points to a rethink about those margins in a 12 month view. But I normally don't speak very much as you know beyond one or two quarters because many things might change. And so we are not assuming any change in competitor behaviour. But thinking longer term, I would agree with you that there are several factors which should point in the direction you are mentioning, but we are not counting on that.

Answer: George Culmer

And in terms of mortgage share, as we said in terms of overall directions, I think we said previously we were looking to basically be flat year on year and in terms of the underlying book, this is the open book, we were down £1.5 billion in Q1. I think that we were down £1.5 billion in Q2. We have now obviously got the benefits of the reacquisition of the book from TSB and as a consequence we would now expect to be slightly ahead when we come to the year-end. And within that in terms of the direction we have across the first half of this year I think our gross was about £18.5 billion which compares with £18 billion I think last year and that is about a 16 per cent or so market share. But again in terms of trajectory, it is interesting, I think in June we were up to about 20 per cent. I am not saying 20 per cent will persist, but just in terms of the shape and you see that coming through. So 16 per cent across the whole half.

Answer: António Horta-Osório

And Martin a very important thing you have to combine with that to have the whole picture as we have discussed before several times is obviously the rate of retention and internal products transfer when things get to maturity. And that we have very good insight on our customers behaviour and in terms of retention capabilities.

Question 12: Chris Cant, AUTONOMOUS

Hi it's Chris Cant from Autonomous. If I could just have 2 on NIM points really. I might have misheard you George, I think you said it was a 2 basis points benefit to the NIM from MBNA for one month inclusion. I think we have all been working on the basis it was 10 basis points on an annualised basis. I was just wondering if you could confirm what the full annual benefit of MBNA to the NIM will be?

And secondly, on mortgage spreads, I know you don't tend to like to talk about your front book completion spreads, but if I just throw the Virgin completion spread at you for the half of 176 basis points, could you let us know whether you are above or below that please?

Answer: George Culmer
So for the first year we expect it to be around about 10 basis points. I did say 2 basis points for the sort of 1 month of the first 6 months. So when you look at for example when you look at NIM. These are rounded.

Further question
And on the second one?

Answer: António Horta-Osório
The front book, I am sorry but I don't think we can share that information.

António Horta-Osório
Any more questions? No. Thank you very much, thanks for coming and we will keep in touch.

End of Q&A