TSB Banking Group plc

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2014 Q3 Interim Management Statement

Paul Pester - Chief Executive Officer

Thanks everyone for joining the call. I'm Paul Pester, the CEO of TSB, and I'm joined by Darren Pope, our CFO, and I'm also joined by Martin Adams, our Head of Investor Relations.

So I'll start off by giving you a bit of an overview of the progress we've made delivering the growth strategy in the quarter. I'll then hand over to Darren, who will give an update on the financials, and we will then be very happy to answer any questions you may have on the results after that.

So turning to the first slide

During Q3 2014 we have, I believe we've continued to establish TSB's credentials as 'Britain's Challenger Bank.' And why do I say this? Well, firstly, TSB has delivered Q3 results in line with expectations, and has consistently performed in line with the messages we delivered through the IPO process in June, and of course at our Half Year results that we announced in July this year.

Secondly, our strategy is on track, with encouraging early progress continuing into the third quarter.

And thirdly, the build of our mortgage intermediary capability, which will enable customers to access TSB mortgages through their local mortgage broker, remains on schedule to go live in January 2015.

So turning to slide 2 Our strategic delivery is on track. As you will know, our growth strategy has three components; these are to grow our market share of current accounts into our distribution capability, to enable more customers, right across Britain, to borrow from TSB, and Thirdly, to continue to enhance and differentiate the TSB proposition.

So firstly, looking at growing current accounts; from the end of March this year we've started actively promoting TSB as a destination for current accounts. This included the launch of our Classic Plus" current account and was of course supported by an effective media and advertising campaign.

As we discussed at our Half Year results, we saw a strong positive customer reaction to this campaign. And as we stated then, we took 9.2% of the flow of current accounts opened and switched across the market from February to April, bearing in mind the campaign was only running for the last of those three months.

Now the campaign ran until the end of June, and I'm pleased to say that the strong positive customer response has continued, and in the most recently reported quarter, from May to

July for our market shares, has enabled TSB to take a 9.7% share of flow. This has also helped us to drive up customer deposits by about £0.5bn in the third quarter to £24.2bn.

Now, as you know, this 9.7% share of flow is well ahead of our long-term target of 6%, but with the initial launch campaign having now ended, we would expect that over time we will normalise back to our long-term target level, which remains at 6% share of flow.

Secondly, taking a look at growing our customer lending; in Q3 we launched our 'Borrow Well' marketing campaign. This promoted and reinforced TSB as a responsible lender and a destination for mortgages and personal loans.

We also launched our new mortgage campaign, which offers to pay council tax for a year for both home movers and first time buyers.

So far, both campaigns have been well received, with our mortgage consideration score for TSB improving to 9%, from what I have to say was a very low starting point of 4% at the end of 2013.

Meanwhile, TSB remains on track to enter the mortgage intermediary channel in early 2015. We expect to begin testing our new platform in December this year, ready to receive our first mortgage applications in January.

Thirdly, looking at enhancing and differentiating the TSB proposition, in Q3 we have further developed our market-leading online and mobile banking capability and we launched our new "TSB.co.uk" website. This site is designed to be simple to use. For instance, it optimises the customer view, whether it's viewed on a mobile, a tablet or a PC.

Reinforcing our commitment to digital, I was delighted to announce the appointment of Ashley Machin as our Chief Digital Officer. Ashley is, I believe, the first CDO, or Chief Digital Officer, of a UK retail bank to sit on the Bank Executive Committee and report directly to the CEO. This reflects the importance that we assign to TSB's digital proposition.

Ashley was previously at Lloyds Banking Group and he was the Managing Director of Digital there, and actually for the past two years has also been advising the UK government as part of its Digital Advisory Board.

So obviously at the same time as we develop our digital position, we also continue to enhance our branch distribution channel. So we have refreshed 135 branches so far in 2014, and by the end of the year we expect to have refreshed about 260.

We also continue to focus on differentiating our customer service and the TSB experience, and it is very encouraging to see that this differentiation is starting to be recognised externally. For example, in a recent survey by *Which?* magazine on the customer service provided by UK brands, TSB was the only high street bank to be ranked in the top quartile. In addition to this, our Bank NPS, or net promoter score, improved a further 6 points this quarter, entering positive territory.

Now, let's move on to slide 3 and I'll hand over to Darren for an update on our financial performance. Darren, over to you.

Darren Pope - Chief Finance Officer

Thanks very much Paul and good morning to everyone.

As you can see from page 3, in the third quarter of 2014 we grew deposits by 1.9%. As Paul's highlighted, this reflects the strength of the TSB brand and particularly our very successful 'Classic Plus' current account proposition.

In addition to the balance sheet growth, the resulting growth in our underlying customer base is also expected to support future lending growth, particularly if TSB unsecured lending to these new customers over time.

For now though, customer lending balances continue, as we expected, and as we guided through the IPO, to reduce and are down 2.1% quarter-on-quarter.

Now we've seen a backdrop of increased competition in the market, but this decrease primarily reflects the reduction in the Franchise mortgages given our current, and well trailed, inability to write new business in the mortgage intermediary market.

Personal unsecured lending remained stable after a sustained period of decline.

Meanwhile, as a closed book, the Mortgage Enhancement portfolio also continued to reduce, falling 5.1% in the period.

This reduction in customer lending and the growth in deposits has clearly resulted in the Franchise loan to deposit ratio reducing 2.9 percentage points to 78.9%, and the Group loan to deposit reducing 3.8 percentage points to 91.1%.

If we look now towards the bottom of the slide, you can see that the Group's capital position further strengthened, mainly reflecting the retained profits generated over the quarter and the reducing lending balances.

Our common equity tier one net ratio increased 1.2 percentage points to 29.3%, while our leverage ratio remained stable at 5.9%.

On a proforma basis our common equity tier one ratio, which just to remind you all, calculates Franchise lending portfolios on an IRB basis, now stands at 18.8%, an increase of 0.6 percentage points.

This clearly leaves the business well placed, both in terms of capital and funding, to support balance sheet growth as the intermediary channel comes on-stream, and, indeed, to manage any likely leverage ratio recommendations to emerge from the FPC.

So let's move now on to slide 4 and the earnings performance in the quarter.

As you can see half way down the slide, TSB generated Franchise management profit of £20.7m in the third quarter, which is line with our expectations. It is significantly higher than the previous quarter, as in Q2 we incurred the annual charge relating to the Financial Services Compensation Scheme, which was £17.3m.

If we move down to the table from the top, you can see Franchise net interest income was marginally lower, given the lower Franchise mortgage lending volumes.

Further, if you go to the bottom of the slide, you can see that the Franchise net interest margin remained in line with guidance at 3.61%. Other income in the Franchise remained flat.

Operating expenses were 7.1% lower. However, if I exclude that Q2 FSCS charge, our underlying costs are actually up 2.8% as we continued to develop our standalone operations through the quarter and increased our investment spend as we discussed at the Half Year.

Now, we still expect full year costs to be approaching £700m, reflecting the fact that our investment spend – that's in marketing, digital, branches, products and services – is disproportionately skewed to H2, and particularly the fourth quarter. And in addition to that, we're going to complete the ramp up in FTE with two third of our intermediary headcount currently in role.

Franchise impairment was 3% lower, reflecting the continued improving economy, and that's been partly offset by some minor adjustments to our provision calculations in Q3, where we marginally extended our loss emergence period on our personal unsecured portfolios.

Now, the management profit from the Mortgage Enhancement portfolio reduced, down 10.3%, given the continued attrition on that portfolio and the ongoing refinancing of some customers in that portfolio onto lower "New Business" rates.

Now, this portfolio, alongside the TSA cost discount in the first three years, continues to make a really critical contribution to mid-term profit. The Mortgage Enhancement Portfolio remains on track to deliver the planned £230m of cumulative profit.

At a Statutory level, the Group statutory profits before tax were up 28.8%, again primarily as a result of the FSCS charge taken in Q2. This has offset lower management profit from the Mortgage Enhancement portfolio and a £2.9m accounting loss on hedges and derivatives, which of course, you'll realise, naturally unwinds over the life of the underlying instruments.

So if I pull all that together, overall, we have a very similar message to that in H1. We've got a balance sheet that's primed for growth, our NII is stable, and the costs and impairment are well controlled.

I will now pass you back over to Paul to summarise on slide 5.

Paul Pester

Great, thanks Darren. So just to recap, the third quarter of 2014 has been a period of good progress and it's been continuing to establish TSB's credentials as Britain's Challenger Bank. Our performance was in line with expectations and our strategic delivery is on track.

And with that I'm very happy to open up for questions...

<u>Question and Answer session</u>

<u>Question 1</u>

David Lock – Deutsche Bank

Morning everyone, thanks very much for the presentation. Just a couple of quick ones from me.

Previously, you've disclosed a proportion of current account openings that were in branch versus online, and I just wondered if you could update on how you've seen that trend progress during the third quarter?

And the second question is on deposit costs. I note that they've ticked up very slightly in the third quarter from about 93 to 95bps. Obviously the wider backdrop in the UK would be that deposit costs are going down, so I just wondered, is that driven just by your current account proposition, is there change in the mix of deposits during the third quarter that we should be thinking about? Thanks very much.

Paul Pester

Thanks, David, thanks for your question. So I'll take the first one on current account market share and where it's coming from and then secondly I'll hand over to Darren.

I think the simple answer is we're not seeing any material shift in the way in which customers are opening current accounts. We're still seeing 75%/80% being opened in-branch and we haven't seen a material shift in that proportion. I think as with all banks, we're certainly seeing a lot of servicing being done online, and one of the key metrics we track is the proportion of new current accounts that register for internet banking on the day that they open their accounts. But in summary, we're not seeing any material shift in the channel mix for customers opening current accounts.

Darren, deposit costs?

Darren Pope

So again, really nothing material happening. There's slight subtle changes in the mix and the deposit book. We are very comfortable with the kind of margin position that we've got on our liability side, so I think those very small single basis point changes that you identify will be small mix changes, but nothing material going on. We fully expect to see the kind of margin guidance that we've given is completely consistent with the deposit margin currently being earned.

<u>Question 2</u>

Fiona Simpson – Morgan Stanley

Thanks very much, good morning. Just two questions please.

Firstly, more broadly on the mortgage market, the BBA yesterday indicated that we were seeing slower approvals persisting into September. I'm just interested to see if you have any updates on what you're seeing as we have gone through October, whether there's been any pickup, whether you're seeing the MMR effects starting to fade.

And secondly, on the intermediary channel, it sounds like you've made very good progress so far and are very much on track for delivery. I'd just be interested in any update on how you're progressing with getting the mortgage panels on board, and more broadly, how you're thinking about how much volume you'd expect to do via the intermediary channel next year as you ramp up.

Paul Pester

Thanks Fiona. I'll have an attempt at answering those and then hand over Darren where I fail!

So, on the mortgage market, as I say, we're starting to really try and reinforce TSB as a destination for mortgages. We started off the year with a very low brand consideration for mortgages, as I said in the introduction, it's something like 4%, and it's key that we drive that up, we make people think about TSB when they're thinking about mortgages, it's important for our direct channels, so our own branches, our own telephony, our own internet, but actually, it's important for the broker channel as well, so that when the retail customer is sitting in front of the broker, they consider TSB as their destination.

We have actually seen an increase in our applications over the recent months, probably more driven by our own marketing activity rather than any shifts in the market, so we do attempt to track our market share in the direct channel or in the branch channels, and we think our market share has been increasing slightly in that channel.

Back to the intermediary mortgage channel itself, yes we're on track as we've said to test that in December and then launch it in January. In terms of volumes, overall for 2015 we expect the balance sheet on average to be pretty much flat [compared to 2014]. We expect it to continue to decline in the early part of the year, whilst we're building the presence in the intermediary channel, and then start growing in the back end of the year, so that on average it's pretty much flat across the year [compared to 2014].

<u>Question 3</u>

Ian Gordon - Investec

Firstly, a quick one on the net interest margin. Am I right in assuming that the slight tick up is driven just by mix effect, i.e. flattish unsecured lending with the expected runoff in mortgages?

Then secondly, near-term profitability, you've given pretty clear guidance. Clearly you've got some levers you could pull, you could phase the investment spends, but from what you've said I'm assuming you've got no intentions of doing that.

Secondly, you're sitting on a huge pile of surplus liquidity and surplus capital. Your guidance on the pace of growth in the intermediary mortgage channel appears conservative; you've just reiterated that conservative guidance just now. Given the attractive market economics and the very small proportion of the market you're targeting, what might make you be a bit more aggressive to put your capital and liquidity to work quicker?

Darren Pope

With respect to NIM you're right, largely mix effect that we're seeing very marginal changes to the NIM profile, but it's very stable underlying. In terms of near-term profitability, we think it's critically important that we continue to invest in the business both in respect of marketing and products and services. We acknowledge that that trend has been naturally lumpy during this year and hence the phasing on expenses, but at the moment we think that supports growth and is the critical thing to do.

Finally, with regards to liquidity and capital, we acknowledge that we have been capitalised and indeed hold liquidity to fund our growth aspirations in the medium and long-term, not just our immediate growth aspirations. With respect to the intermediary channel it is so critical that you provide quality service into that channel but we are focusing on making sure that that service is first class before we aggressively pursue volume, and that remains our strategy. So while we have the capital and liquidity available, making sure there's a quality service available is our primary concern at this point in time.

Question 4

Andrew Lowe - Berenberg

Could you possibly expand a little bit on the outlook for your other income please?

Darren Pope

Short on OOI at the moment, it's a complicated position. It's a kind of mix of headwinds and tailwinds that I think are broadly balanced both in the short-term and indeed the medium-term. The tailwinds are we started a bank insurance offering in our branches, we are tendering for an extension of our GI offering, and indeed our customer base is growing. The headwinds are that added-value accounts are only available as an upgrade through the digital channel and are not yet re-available in the branch network, and in the medium-term clearly changes to interchange, I'm mindful of how they will actually manifest themselves finally when they come to being. You'll all be aware they're not approved at either a European or a UK level yet, and it's unclear what mitigation the market will put in place to compensate for any loss of income.

So at the moment I have a kind of flat and balanced view of OOI, but there's a number of moving parts that will take some time to develop.

Question 5

Ivan Jevremovic - UBS

Just a quick question from me. The expectations in the market for UK rates going forward have come down a bit recently, so I'm just wondering if you could comment on the impact of that on your targets and performance going forward, how you see it?

Paul Pester

Calling base rate increases is notoriously difficult, every time there always seems to be someone saying its Q1 next year. As we described very clearly at the time of the IPO, this business is sensitive to base rates, and long-term low base rates would affect our ability to deliver that double digit ROE that we have always talked about delivering in five years' time. So we're following very closely discussions around base rates. Clearly if we had a preference we would like to see them increase, but if it continues for lower for longer, then that will affect our performance.

Darren Pope

I'd only add to that that of course growth still remains an important priority for the business irrespective of the base rate environment.

Question 6

Chris Cant - Autonomous

If I could just follow on from the last question actually. On the base rate what kind of level of base rate do you think needs to be rate in the market for you to reach your double digit RoE target, assuming that your broader growth plan runs in line with your current expectation?

Darren Pope

I think we guided during the IPO that a rate somewhere between 2% and 3%, probably nearer the top end of that range, was required in the five year period to reach the double digit RoE, and that remains the case.

Question 7

Michael Helsby - Bank of America and Merrill Lynch

A request first if I can in the IPO process you gave a lot of really useful information on the mix of your loan book in terms of yields and also within your mortgage book obviously the mix of SVR and fixed and tracker, and on the liability side you gave the yields. So to calculate what's going on in the margin it's so critical for us to follow your business and to marry it to what's going on in the market, so if I can ask that you give us more disclosure around that I think that would be really, really helpful on a quarterly basis or at least on biannual basis. So that's the request.

Then just building on that, I was wondering if you could maybe infill, because on the mortgage you mentioned that you had quite a lot of success in terms of the origination, but you have been pretty punchy, you've finally moved away from the Lloyds' pricing, so you've got a lot more punchy of price, you've got these new Council Tax initiatives. So can you give us what the average yield on your new business is on your mortgage book that you're originating at the moment? And could you marry that with what the yield on your mortgage book is currently as well on the stock? So new business, what you're originating at, and the stock yield?

And similarly, if you could give us what the yield on your overall savings book is at the moment that would be very kind? Thank you.

Darren Pope

I recognise the request for further disclosures; we'll of course consider that. I think during the quarterly period there's much more updates on progress more than detailed, but with respect of the half year and full year we'll give that some thought. What I can't do on the call because it's not broadly disclosed elsewhere, is cut through all your questions, but what I would give is at a generic level and say that the mortgage margins and mortgage products we have are consistent with our net interest margin guidance, which remains flat in the short-term and small increases of base rates come back on-stream.

Other than that breaking it down into any further detail we'd essentially be doing verbally what you've asked for in terms of the data disclosure, but we do recognise the request and we will take it away and consider it seriously.

But we are very comfortable with where we are on margins. I think we called out previously that new business of unsecured loans is definitely tightening, certainly was tightening in the first half of the year, and that will impact yields over time as our back book refinances.

On mortgages we've seen mortgages come in pretty much as we expected and planned for them to come in. I think the issue at the moment is, is that a trend or will there be a natural caution on mortgage margins pending the capital rules coming out next year?

So the trends are pretty much as we expected. We are seeing an aggressive asset side. That said, we're seeing a liability side that has seen customer rates drift down slowly over the last 12 to 18 months.

Michael Helsby

Do you sense that you've got more opportunity to reduce the savings yield, or is that pretty much done now?

Darren Pope

We continually review the yields that we've got, we've got a very stable liability side book, and you'll see from time to time tactical re-pricing going on. For example, the enhanced current account proposition which is if you like our second current account, which was the lead account before we brought in the new one, we re-priced that recently and I think the re-pricing takes effect this month.

So we're always adjusting and tinkering with the liability and the asset side to optimise returns, and so the answer to your question is yes, but it's clearly market sensitive, we look at what the market's doing.

Michael Helsby

If I just look at where you're pricing your mortgages and look at the yield on your back book that you gave us in the prospectus, it does feel like you're pricing some way below your back book, and it does feel like without a base rate rise in Q1, which you probably envisaged, that that near to medium-term margin guidance does feel like the risks are to the downside of that. If rates don't start going up in Q1 of next year, when do you start to see pressure on the margin? Can you join the dots for us a little bit?

Darren Pope

The dots I'll join for you is, next year as we open up the intermediary channel it's worth remembering that that gives us access to a much wider range of products. So buy-to-let, for example, is predominantly an intermediary offering and that has a higher margin naturally than non-buy-to-let mainstream, so there's some mix issues going on next year as well. I wouldn't want to give specific guidance of timing of interest rates and how that relates to net interest margin at this point.

<u>Question 8</u>

Sandy Chen - Cenkos

Actually, just to carry on with Michael's questioning. It is interesting looking at that net interest margin, because I think where Michael was going was IFOs are notorious for recommending the lowest cost mortgage to their customers, as I think they'd probably be required to, so does that build in, in the absence of rate hikes, quite a degree of margin compression?

Also combined with that, could you give a bit more detail on the interest expense or deposit rates, because one of the things that I'm trying to put together are is that 5% current account. The last time I looked at the website it's a 1.8% two-year fixed rate mortgage. I'm trying to see if there's a risk that a significant portion of your matched book begins to be negative rate moving forward?

Darren Pope

A number of questions there. Let me deal with the intermediary one first. I think that clearly intermediaries have to offer, in the round, best advice to their customers, that's entirely appropriate and that's the regulatory regime. However, I wouldn't underestimate service as a factor. They need to have confidence that the mortgage is going to be processed in the appropriate timescale, and my experience of being the FD of Lloyds' mortgage business, which had a very big intermediary section, which was serviced at that time by both C&G that had a poor service quality and Halifax who had a high service quality, is that there was a price premium required for a poor servicer, with a poor service expectation over a good one. So I don't think it's entirely price driven, I think service has an important value role to play in intermediary channel.

With respect to savings balances you're right in observing that the successful growth in the PCA is a contributing factor to the slightly higher deposit costs, but it's a relatively small component of my overall funding and I'm not particularly concerned about compression that it causes, particularly as it's not yet matured off and typically the payable rate on that will reduce over time.

Sandy Chen

Yes, I guess that's my concern that really the full costs of that campaign haven't been fully reflected yet in the increased interest expense.

Darren Pope

I think my argument is they're more than fully reflected because typically customers start by meeting the requirements of the account by putting in £2,000 and over time they either build up bigger balances in which case I get an interest-free component or indeed they stop meeting the requirements of the account in which case I don't pay them interest.

So typically it's at its most expensive when it's first opened and becomes less expensive over time.

Question 9

Robin Down – HSBC

I've got a couple of questions really, I'm sorry to go back on this, but I think Michael's raised the important point here that you're a bit of a binary bet on how the mortgage market goes. I mean maybe you could tell us what the average life expectancy is on the new mortgage businesses, what your assumption is on that front so that we can try and calculate what the yields are on the new business?

And then the second question's really just more of a broader strategic question. I'm slightly at a loss to understand the strategy you have with the branch networks where you're offering current accounts with a 5% price, and I appreciate that that's only on limited balances, but given the low interest rate environment and given that you don't really have any products to cross-sell into that customer base it just doesn't really make a great deal of sense to me. So what am I missing? I mean how are you going to make that current account product profitable?

Darren Pope

Well, I'll pick up the first one and I'll ask Paul to do the second one. On average life when we price our products we don't assume the current observed average life of a mortgage because as you'll appreciate in the low interest rate environment customers spend a long period of time on the reversionary HVR rate which would flatter the profitability of the product. So we tend to use a much more normal cycle mid interest rate assumption, but I won't be sharing our profit pricing criteria as you'd understand on the call, but rest assured that we don't rely on a very long HVR tail to justify the product pricing that we have.

Robin Down

So we're probably talking what, six or seven years then?

Darren Pope

It depends on the product, if it's a two year fixed product if you see a fixed rate product we would definitely not assume that the product life, they may take another product from us, that's the customer life, but the product life would be two years, plus a relatively short tail where they're on the HVR rate before they're either refinancing with someone else or refinancing with us.

Paul Pester

I'll try and answer the question around the sort of strategy around the branch network and actually this current account at a 5% PCA. So just to be clear, the 5% current account offer is not a loss leader for us, the NPV of the product and the profit signature of the product compared to the previous product that we were using and in fact Lloyds was using as a customer acquisition product was called 'Enhance', it had a tiered interest rate that was quite high balances, it's the one that Darren referred to as re-pricing earlier.

The NPV of our new product and profits is very similar, within a few pounds in fact. So how come that product's profitable for us? Well as Darren says there's a group of customers who put balances in them materially above the £2,000, there's a group of customers who don't qualify to earn the 5% limit based on the fact that either they don't pay in the £500 a month or they don't take internet statements or internet correspondence, and there's a group of customers who use overdrafts. So collectively this product makes sense for us and bearing in mind that the balances that we see through our current account business add to our rate-intensive balances which we swap out over five years so the business absolutely makes sense for us.

Now, added to that in the very early days, and we talked about this in our H1 results, in the very early days when we first launched the product in April in the first few weeks we obviously saw some gaming of the product where amazingly customers would be opening two, three, four accounts, putting £2,000 in each and then putting a standing order to move £500 around the different accounts. And when I say we saw some, we're talking about a couple of percent of the totals that we opened at that time.

That behaviour's pretty much disappearing now and in fact very recently we've just been writing to customers reinforcing the terms and conditions for the current account product saying they can only have one and that they have to take the online statements and online correspondence in order to qualify for the 5% interest rate.

So in summary, we're happy with the way the product's performing, it's working exactly the way we want it to work with our customers, which is reinforcing TSB as a destination for current accounts and helping us build our share of flow, and we will then provide other products to those customers.

As Darren says our business model has always been to build that current account base and provide unsecured lending to those customers, that 50% of those customers bring a savings account with them as well, so it does enable us to build a deeper, broader relationship with them.

Robin Down

And just a point of clarification there, when you're doing your NPV calculation, is that assuming current interest rates or are you making some assumption about future rates?

Darren Pope

It would typically be based on current interest rate environments so that we wouldn't be taking advantage of benefits and future rates.

Question 10

Mike Trippitt – Numis

Good morning, a couple of just quick requests for some detail and one follow up. Could you say what the TSA costs were in Q3 and is there a comparable figure on FSCS for last year or would this be the first year of actually paying it?

And, unless I've missed it, I can't actually see the split of the franchise book between mortgages and unsecured but I think you said unsecured is stable, so about £16.7bn of mortgages for Q3 I think, working backwards. And if I look at the gross lending figures you've given at the beginning it looks to me like redemptions have picked up quite a bit in Q3, so I don't know if you could help with that as well please? Thanks.

Darren Pope

A shower of questions. Let me try. The quarterly charge for the TSAs I haven't got to hand but we'll look at that and get back to you on that, but the charge for the year is around £100m, it's slightly odd phrasing in that we benefit from the discount in Q3 that we didn't in the first half of the year, so we'll get back to you with that number.

FSCS was definitely a little higher, I think it was about £21m last year, but I think we amortised it monthly last year rather than accounted for it in a single month because of the change in the accounting rules. But again, we'll confirm that.

The third part of your question about amortisation rates is we're actually seeing very stable attrition rates on all of our portfolios so that's reflected in that number that you see so we're not seeing anything particularly surprising going on in terms of attrition, that's because of the very low interest rate. We've always guided, we'll see much faster attrition on those portfolios and churning on those portfolios once rates are up.

Mike Trippitt

But just the actual franchise mortgage balance, Darren, well if you say the personal unsecured is sort of stable and it looks like it's about £16.7bn for the mortgage book?

Darren Pope

Well I think we continued to go, another way of looking at it which reaches the same number, is we're continuing to lose, on the franchise side, about £100m a month is the runoff profile, largely driven by the intermediary runoff.

Question 11

Joseph Dickerson – Jefferies

Hi, good morning gentlemen. You've mentioned in the past potential acquisitions of portfolios, for example off of UKAR and I'm just wondering if you have any updates in terms of your thinking around such acquisitions and if that would be more of a 2014 or a 2015 type of event.

Paul Pester

Thanks Joseph, it sounds like you're about to evacuate your building. I don't think we've actually mentioned acquisitions from UKAR, I think the press has mentioned them, but just to be clear our strategy is one of growth, we have an infrastructure that as we said at the time of the IPO that's materially larger in scale than our balance sheet and we're trying to grow into that infrastructure.

Our strategy to do that is organic, but if the right assets at the right price come along then of course we'd look at them. So nothing really on the horizon at this stage but if the right assets at the right price come along and we would look at them, we're well capitalised and we're well positioned to absorb those sorts of assets.

Concluding Comments – Paul Pester

Great I think we're done on questions so thanks then for the call, and thanks to everyone for dialling in and thanks for your questions. If there are any further questions that obviously come into our investor relations team Martin Adams will be very happy to try and answer them for you. So thanks a lot and thanks for dialling in.

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