Secure Trust Bank

Full Year Results 2020

25 March 2021

Transcript

David McCreadie: Good morning everyone and thank you for taking the time to join us this morning. For those I have not yet met, I am David McCreadie and I took up the role of CEO of Secure Trust Bank on 5 January, having served on the Board as a Non-Executive Director for just over a year. So, this is me now into week 12 in role. With me today is Rachel Lawrence, our Chief Financial Officer. Rachel will introduce herself before going through the numbers. She joined the business in September. So, we are a new team, delighted to be sharing our 2020 Results with you today and excited about our future outlook. To provide you with some personal background, I am a career banker and prior to joining Secure Trust, spent large periods of time with both RBS and Tesco Bank. Most of my time at RBS was in leadership roles in consumer finance businesses - including managing deposits, Mortgages, Credit Cards and Personal Loans. My last four years at RBS I was the CEO of a start-up joint venture that RBS established with the Kroger Co., the largest traditional grocery chain in the US, to distribute financial services products and launch a loyalty programme for Kroger's customers in over 30 States. On returning to the UK in 2008, I joined the Executive Team of Tesco Bank. Tesco acquired full ownership of what was previously a joint venture with RBS. I was part of the team that set-up the new bank from scratch, built systems capability, migrated several million customer accounts to the new bank and recruited teams to run the bank. Latterly, I was Managing Director with responsibility for growing the business and developing the product range across Banking, Insurance and Digital Wallet propositions. I was an Executive Director of Tesco Bank from 2015 to 2019.

David McCreadie: I was attracted to Secure Trust for a number of reasons as a Non-Executive and those remain very relevant today. I will touch on them later in this presentation, but they included the focus on attractive lending segments, serving both businesses and consumers and the exciting potential for the future. I was therefore delighted when the Board asked me to take up my new role, in line with the succession plan, and to have the opportunity to lead the Group through its next phase, as we look forward to coming out of the pandemic, and perhaps more importantly, on developing and delivering an ambitious growth plan.

David McCreadie: So, with that introduction, let me turn to some of the key headlines from our 2020 Results before Rachel covers off the Financial Performance in more detail. I will then share my initial assessment of the STB's strengths and how we will be building on this strong foundation to capture the opportunities ahead.

David McCreadie: Despite all the challenges that 2020 threw at us, the Group delivered a strong and resilient performance – both operationally and financially. We are delighted to report a Statutory Profit before tax of £20.1m, which is materially ahead of market consensus. Of course, the profit number is lower than last year. However, given all the uncertainty that had to be managed, to continue to trade profitably and strongly through such a challenging period is testament to the inherent strengths of the Group and the swift management action that was taken as the pandemic developed. The performance has strengthened our confidence in the future. The Board has proposed a final dividend of 44p per share for 2020. This payment recognises the profitable trading in 2020 but also the performance in 2019 when, of course, only a 20p per share interim dividend was paid. I would look at our dividend payments in 2019 and 2020 as a combined pay out ratio of 25% for the 2 years.

David McCreadie: As we had highlighted in previous trading updates, our focus throughout the pandemic was to minimise our risk, conserve capital, ensure the safety of our colleagues and provide support to our existing customers. We took decisive action in H1 to tighten our credit criteria. Coupled with the short duration of our lending portfolios, we saw the balance sheet contract sharply before recovering in H2. Total lending ended the year 3.7% lower than in 2019. As a result, our CET1 Ratio increased to 14.2%, well ahead of minimum requirements. Other key metrics to call out are shown on the right side of the slide. Our Net Interest Margin (NIM) of 6.3% reduced from 6.5%, reflecting a mix change as Motor Finance lending reduced, but also the continued shift to focus on better quality lending in Retail Finance. Our Cost of Funding improved to 1.8% from 2.0%. With lower new business volumes and a focus on costs, our Cost Income ratio improved to 55.1%, from last year's 56.9%. Our Adjusted Return on Average Equity reduced to 6.1%, from 12.8%. We are confident that with the national lockdown starting to ease in the weeks ahead, and the outlook continuing to improve, that we will experience growth in demand across all of our lending portfolios. The diversification of those lending portfolios, our strong balance sheet and our strategy mean we are well positioned for a return to growth.

David McCreadie: So, why am I confident about that? This chart shows our new business volumes by quarter for last year. The Green bar is new lending in our Consumer businesses and the Pink bar our Business Finance new lending. We had a strong start to new lending in Q1 when we only had a week or so of lockdown – and by Q4 new lending levels had returned to pre-pandemic levels. You can see the impact of the first national lockdown, combined with our decision to reduce credit appetite in Q2. New lending was over £100m lower in Q2 than in Q1. In Business Finance, following lower volumes in Q2 and Q3 we saw a strong increase in Q4. There was a significant impact in Motor Finance where we were closed for new business in Q2. By Q4 we saw the benefit of shorter lockdowns and Motor dealers open again and adapting to offer their customers click and collect capability. In Retail Finance, we benefited from the shift in consumer shopping habits to online retailers and also saw a jump in volumes as consumers returned to physical stores when lockdowns eased. We are confident that we will experience a continuation of these positive trends when the current lockdown eases and customers return to normal activity.

David McCreadie: This is a slide that you have seen in previous years on the breakdown of our diversified portfolio. We've adjusted the table slightly, to move Asset Finance and Mortgages to a new 'Non-Core' column on the right-hand side as both are closed to new business and in run-off. They represent 3.9% of the loan book now, down from 5.8% in 2019. The rest of the portfolio is split 54.4% in Business and just under 42% in Consumer. Almost 70% of our lending at the end of the year was secured against either Property, Debtors or Vehicles. You can see the Cost of Risk line which increased at the Group level from 1.4% to 2.1% and the individual result in each business unit. Rachel will provide fuller details in a moment. The change in loan book value is shown in the first row of numbers. Real Estate Finance was the only business area with balance growth in 2020 - a little over 9% - with balances exceeding £1 billion for the first time. Commercial Finance, which provides Invoice discounting facilities, saw lending contract as the trading activity of our customers reduced. Customers were raising less invoices and so using less of their agreed facilities. As we saw on the previous slide, activity picked up during H2. The largest decline – 24.7% - was in Motor Finance, the business most impacted by lockdowns. Having been closed for new business in Q2 we tightened our credit criteria when we reopened. Of course, there is a risk reward consideration here, and as the outlook improved through 2020, we did start to underwrite more Motor new business. On Retail Finance, we saw a smaller reduction of 4.4%. We were well positioned to support our retail partners when stores were open, as well as with their online sales. We also finance many football clubs' season ticket sales and so the lack of live sporting events did have an impact.

David McCreadie: Let me turn now to the support we have provided to our customers and colleagues. We prioritised supporting our existing customers. A few examples are worth calling out. We provided Payment Holidays in line with the FCA's guidance. We granted Payment Holidays across our consumer businesses – Motor and Retail Finance mainly and a small number to our Mortgage customers. Rachel will share information on both the peak level and the current levels of Payment Holidays that remain in place. We also gained accreditation for CBILS and CLBILS from the British Business Bank and were able to support our Commercial Finance customers with facilities under both these schemes. We did not seek accreditation for Bounce Back Loans. Our technology platforms remained stable throughout the year, allowing us to deliver the necessary continuity of support for our customers, and other than where there was a business decision to minimise risk, our products and services remained fully available for our customers. We were pleased and reassured that we were able to maintain customer satisfaction levels at 4.7 stars as measured by FEEFO.

David McCreadie: For colleagues, the restrictions meant we had to quickly adapt our working practices to support them. 75% of colleagues were working from home within 7 days of the first lockdown. We rapidly rolled-out new hardware and refined our approach and we currently have 85% of colleagues working remotely. We also created 'Covid Secure' working environments in all operational locations and were able to use our Mental Health First Aiders to provide broader wellbeing support. We did not use any support from the Government's furlough scheme and maintained full pay for any colleagues with Covid related absence. We had our best ever annual employee engagement survey results, with our Trust score increasing by 3% to 82%. 84% of colleagues responded that the Group was a great place to work. I am so proud of how the whole team rose to the challenges of the last year. Our colleagues have shown enormous resilience and commitment and I would like to thank them for their dedication. I will now let Rachel take you through the Financial Review.

Rachel Lawrence: Thank you David and good morning everyone. As David mentioned this is my first annual results presentation for the Bank also and it is great to meet you all, albeit virtually. My Banking background has been spent mostly in small high growth start up Banks, starting with Metro Bank over 10 years ago where I was part of the small team that started that Bank. I moved on to Shawbrook which is similar in terms of asset classes to STB and was part of the successful IPO and for the last 3 years I was the CFO and Executive Director of AIB UK, a Retail and Corporate Bank. David has given you the highlights of our 2020 performance and I am now going to give some further details on these results. Starting with the income statement.

Rachel Lawrence: Despite the challenges of 2020 we delivered a strong statutory PBT of £20.1m, well ahead of consensus. Our profitability was impacted by a 57.4% increase in impairment charges, driven predominantly by forward looking macroeconomic indicators. On a pre-provision basis operating profit of £74.5m was up 4.5% on 2019, driven by a 3.8% increase in Net Interest Income as we benefited from lower funding costs as a result of reductions in base rate and shift away from higher cost term deposits coupled with an overall higher average lending balance. Net fee and commission income was impacted with a reduction of 24.4% in the year, reflecting lower new business volumes and activity. Operating expenses reduced 2.8% in the year reflecting lower business volumes and recruitment, however we continued to invest in the IT infrastructure and the Motor Transformation Programme which will form part of our cost base going forward. I'll move on now to Net Interest Income on slide 9.

Rachel Lawrence: As you can see on the waterfall on this slide cost of funds reduced by £2.4m in the year as a result of base rate reductions and a 10% reduction in more expensive term deposit funding. Despite the pandemic strong Q1 20 performance resulted in average lending balances ending 6.8% up on 2019 driving an increase of £13.5m in interest income. Mix shifts away from higher yielding Motor due to pandemic closures and de-risking of Retail away from Interest bearing products drove a reduction in interest income of £7.1m. Non-core businesses reduced interest income by £2.1m as the lending balances amortise down. Consequently NIM reduced from 6.5% down to 6.3%, the gross yield impacted by the shift away from high yielding consumer finance. Now on to the next slide Fee, Commission and other income.

Rachel Lawrence: Fee and Commission income of £15.2m was £4.8m lower with lower new business activity impacting Commercial Finance, reducing the opportunity for earning arrangement fees. A change in accounting treatment reallocated £1m of fee income in REF to interest income also. Retail Finance was impacted with lower fees as we transitioned to lower risk, interest free products. I'll move on now to operating expenses. Operating expenses reduced by 2.8% to £91.6m and you can see on slide 11 there are a number of moving parts. Employee costs remained largely flat, volume related costs such as credit search fees etc. were £2.6m lower and general operational costs were £3m lower, impacted by remote working and lower activity. These reductions will reverse as we exit the pandemic and start growing the balance sheet again. We continued to invest in our IT infrastructure and the Motor Transformation Programme increasing costs by £3.6m. There were a number of one off items one relating to a historic VAT reclaim on Hire Purchase overheads incurred in Motor and Asset Finance (VW Financial Services case) and revaluation of our property portfolios given the current economic climate. Now moving on to ECL and macroeconomic indicators and weightings on slide 12.

Rachel Lawrence: In terms of scenario weightings there is no change from the Half Year with 45% being weighted to our Base case "Medium" on the slide, 35% to the two downside scenarios and 10% to the upside scenario "Low" on the slide. Our average unemployment rate has reduced reflecting a more positive outlook but the shape of the recovery has changed to reflect a flatter and longer recovery. On HPI our assumptions remain unchanged except for an increase in peak HPI in the severe scenario to 25% from 20% to ensure we have fully tested and accounted for the potential downside risk in the REF portfolio. We have also included £4.6m of post model adjustments for economic uncertainty in our impairment charge until actual credit performance data is available post the unwind of furlough and other government support schemes and some small adjustments relating to model deficiencies . You will see the sensitivities on this slide a 100% weighting to the severe scenario increases the impairment charge by £7.3m and if weighted 100% to the upside scenario a reduction in the impairment charge of £6.8m. Staging has been affected by the pandemic and forward macro-economic factors, with a move of 8% out of Stage 1 predominately into Stage 2. The significant contributors to that S2 increase were REF where a number of cases requiring extensions or forbearance due to the pandemic and the movement of all Consumer customers with a payment holiday into S2. So the impacts of these inputs are shown on the next slide which details the impairment charge.

Rachel Lawrence: Overall impairment charge for the year of £51.3m is an increase of £18.7m. Looking at H1 vs H2 the impairment charge reduced significantly in H2 in all divisions excluding DMS & REF reflecting the upfront nature of IFRS9. The higher charge in REF for H2 was partly as a result of the increase in peak HPI in the Severe Scenario to 25% and partly reflecting the move of a number of cases into Stage 2 as I just mentioned. The £8.9m impairment charge in DMS reflects the revaluation of future cash flows, reflecting our current expectations on cash collections in the light of the pandemic. Growth in purchased debt portfolios in late Q4 19 and Q1 20 where the main driver of revised cash flows with early engagement and re-connection impeded by the pandemic lockdowns. The impact on Cost of risk including the loan modification loss is an increase of 0.9% to 2.3%. The main components of this increase being forward looking macroeconomic factors at 0.5%, DMS revaluation at 0.3% and loan modification loss at 0.2% offset by a realignment of the V12 model for actual performance of 0.1%. The loan modification loss will unwind over the coming years and will be materially unwound by the end of 2023. The next slide provides an update on Payment Holidays.

Rachel Lawrence: Payment holidays were a significant feature of 2020 with over 27,000 Consumer payment holidays in force at the peak in May 2020, representing 3% of total consumer customers. Although a number of extensions where taken, particularly in Retail Finance, most customers let their payment holidays expire with the majority of these returning to full payment. As at the end of the year 4,327 were still in force representing 0.5% of total consumer customers a significant drop from the peak in May. Now moving to the Balance Sheet on slide 15. At a summary level the balance sheet remained steady with Total assets reducing by 0.8%. Loans and advances contracted by 3.7% and deposits contracted by 1.4%. I will move on to the next slides to provide some further details.

Rachel Lawrence: Firstly, loans and advances reduced by £91.2m in the year materially as a result of the pandemic lockdowns impacting new business and credit tightening actions we took. At a divisional level Consumer Finance was the most significantly impacted and Motor in particular with a £79.8m reduction in lending balances as a result of shut downs in Q2 2020. Our non-core divisions of Asset Finance and Consumer Mortgages which have been shut to new business contributed a further £49m of the contraction as those books amortise off. On a more positive note we saw growth of £89.7m in the REF portfolio as the pipeline of deals completed throughout 2020. From a new business perspective, as David mentioned earlier, the positive end to 2020 with the highest quarter of new business seen throughout the year provides us with confidence that growth will return when the current lockdowns are released. Now on to Funding and Capital in the next couple of slides. Our diversified funding provides us with an excellent platform to compete in the market. Throughout 2020 we have actively managed our funding position taking the opportunity to move away from the more expensive term deposits as the lending balance sheet contracted.

Resulting in a reduction of 10% in term deposit funding at the year end. Our focus on attracting ISA and notice accounts has reduced the cost of funding to 1.8% from 2.0% in 2019. Our TFS drawings remained static in the year but we reduced our ILTR (indexed long term repo) to reflect the lower lending balances. We are a member of the new TFSME and plan to drawdown on this scheme in 2021 as the TFS balances begin to mature. On to capital on slide 18.

Rachel Lawrence: Our capital position is strong and has improved during the year as a result of our core objective to conserve capital at the onset of the pandemic. RWA's decreased £117.2m to £2,000.9m as a result of the contraction in the lending balance sheet. CET1 ratio improved by 1.5% to 14.2% driven by 2020 net profits and net positive impacts due to IFRS 9 transitional relief and other deductions. Eligible Tier 2 reduced as a result of reduction in RWA's and 1% reduction in P2A. Total Capital ratio at 16.4% provides a strong position for growth. So to conclude we have delivered a strong and resilient financial performance in a challenging environment. The diversification in our lending portfolios coupled with capability to generate higher returns and strong funding and capital, position us well for growth when the economy opens up later this year. Thank you and I will pass back to David so he can talk through the Strategy and Outlook.

David McCreadie: Thank you for that, Rachel. So, having heard the detail behind the 2020 performance of the Group, let me turn now to sharing some of my early observations as CEO and to comment on our Strategy and Outlook. As I said at the start, I was very excited to initially join the Board as a Non-Executive. I saw a bank with a very attractive market position and with great potential. Having been in the CEO role for a number of weeks and had time to learn even more about the company and its great team, the strengths of the Group are now even clearer to me. Many of these strengths are why the Group was able to do what it did in responding so well to the pandemic and in delivering such a robust performance in such trying circumstances. And they will undoubtedly be the reason for our future growth. Our <u>colleagues</u> stepped up and showed their own resilience last year. There is a real <u>customer centricity</u> that is common across our entire business – everyone is rowing in the same direction, striving to do the right thing for customers. Lots of companies talk about this, but I have rarely seen such a strong culture as I can see at STB.

David McCreadie: This is reflected in our long-held reputation for providing excellent customer service and we continue to receive validation of consistently staying true to that ethos. Although you will not all have had the opportunity to meet them previously, there are very capable and experienced management teams running our business units. I've been so impressed with the understanding of their markets, where they can differentiate, how they adapted through last year and how they articulate the growth opportunities ahead. In our Consumer businesses, we have strong technology led propositions. We are known for our ease of integration into both retailer and dealer systems to maximise their customer journeys. For example, in V12 Retail Finance we have integrations to store till systems, online checkouts and ticketing systems - which allow for low friction customer journeys and retailer efficiencies. Combined with us making automated decisioning on 85% of our applications, and our e-signature capability, we support our retailers and dealers with 24 by 7 support for the evolving purchasing habits of their customers. And in V12 Vehicle Finance, we have also extended this further to support dealers with their buying and funding of stock. Through our API's, our dealers can now buy stock from 6 vehicle auctions and we have also integrated with Click Dealer - one of the leading providers of Dealer Management Systems to the independent used car sector. We are a specialist lender in attractive segments supported by strong fundamentals and capable of generating higher returns. There has been an evolving story that gets us to where we are now. We have been disciplined and flexible enough to exit markets where we can't see an opportunity to build scale and generate target returns. This has created a diversified Group, capable of generating strong returns in markets where there is significant further growth to go after.

David McCreadie: Given the strengths of the Group, we are clearly building on strong foundations. We are a business that is positioned to return to growth, building on the robust performance of last year – a year that interrupted our short-term trajectory but not our longer-term goals and aspirations. We see further scope to extend product offerings and leverage our product platforms. For example, following live testing last year, we launched our V12 Vehicle Finance Prime HP proposition last week - part of the new capability delivered by our Motor Transformation Programme. Our plan is to leverage our investment in systems and scale the Motor business. To support that plan. I am appointing a new Managing Director to drive the business forward. We have a more effective and expanded Sales team now in place. Our Prime PCP proposition is ready to take to market in the near future. And we have plans to leverage the relationships built with our Dealer Stock Funding product - where we now have over 100 dealers online. In V12 Retail Finance, we have seen the proportion of our business written by online retailers grow and 80% of our new Loans are now on an Interest Free product reflecting our focus on lower risk segments.

David McCreadie: Across the Group, we have some examples of automating processes. There is more to go after to digitise customer journeys that will improve the experience of our customers, and in using additional data sources to enhance our underwriting decisions. For example, we already have some good early examples of using Open Banking data in our credit processes. From a digital point of view. We have seen the proportion of customers using our online servicing to self-serve double in 2020. With customers calling us less and automated processes we are ready to further scale V12 Retail Finance and leverage our operational cost base. There is also an opportunity to tidy-up our sub-scale, non-core product categories so that we can be even more focused on driving organic growth as we scale-up our core business units. I am sure it will not be a surprise to you from what I have already outlined, that there is not going to be any dramatic change in the Group's strategy. I am confident that we have the building blocks in place to grow and thrive.

David McCreadie: We will continue to. Serve businesses and consumers. Operate in segments offering attractive returns. Utilise our risk management skills. Optimise our capital and liquid and ceate shareholder value. However, I do believe it is the appropriate time now to take a fresh look at how we evolve and rearticulate our strategy. We do not have a Core Purpose statement that I can share today that allows you to easily understand who we serve, what we do for them and what our longer-term ambition is. I have already started a process to address that. This is an important piece of work to complete and to consistently communicate both internally to our colleagues and externally to other stakeholders. It will also help us make key business decisions on our priorities going forward. I also intend to review how we simplify the Group and how our businesses and functions collaborate to move us toward the ambition that we define. Some of this will be about internal processes, less visible to the outside world - for example, more automation, simplifying governance, improving ways of working. It will all be with consistent themes in mind of becoming simpler and more efficient.

David McCreadie: Our primary focus will remain on <u>scaling our businesses organically and we have clear plans to do so</u>. There has of course been previous M&A activity that the Group has been involved in, but it is somewhat historic now. I expect the Purpose we define to provide clarity on <u>opportunities for value-accretive M&A activity that supports and enhances our Strategy</u>. With a rearticulated Strategy, we will look to communicate and report progress against our ambitions more consistently. The Group has plenty of growth opportunities ahead of us and we look forward to sharing our progress with you on an ongoing basis. With that in mind, we are planning to hold a Capital Markets Day during the second half of the year to share our Purpose and rearticulated Strategy, introduce you to the leaders of our Business Units, provide more insight on our businesses and markets, and to update you on our growth ambitions. We will be more proactive in communicating our objectives. As a first step, this slide sets out our 2020 Actual result and our Medium Term targets for four key measures, net interest margin, cost income ratio, return on average equity and CET1 Ratio. I hope that it is helpful to have early sight of these. We will use these when we update on progress from now on and will share more details at our Capital Markets Day.

David McCreadie: Finally, let me make some short comments on the Outlook for the Group. I can tell you that the robust performance of 2020 has continued into the early months of 2021, despite the obvious impacts that the Pandemic and lockdowns have continued to have on business demand. We are focused on managing risk and protecting our strong capital and liquidity positions. There clearly remains some ongoing uncertainty, in particular, over the impact of the pandemic on consumers and businesses once Government support comes to an end. However, we have proven that the Group is well placed to navigate that uncertainty. The Group’s diversified business model has proven to be a key strength. With our strong capital and liquidity positions, and the potential I see to simplify and strengthen the Group, we are looking forward to returning to growth with confidence. That now brings the presentation part to a close and we will be happy to take any questions you may have.

Operator: We'll take the first question from Gary Greenwood from Shore Capital.

Gary Greenwood: I've got two questions if I can, please. So the first one was regarding V12. And I just wanted to sort of understand your thoughts on how the competitive landscape for V12 might be impacted by the review into the unregulated Buy Now, Pay Later segment, whether that is potentially an opportunity for V12 to grow.

Gary Greenwood: And then the second one is on the real estate investment business, which obviously had a good year in 2020, which you mentioned was on the back of a strong pipeline coming into the year. So just wondering what the pipeline looks like now and whether that momentum can continue through the current financial year? Thank you.

David McCreadie: Thank you, Gary. I'll take that V12 retail finance question first. The thing to point out, and obviously we've been through this whole mix review over the last few years and a shift to quality, and obviously I mentioned earlier, the mix of business now on interest free, at the same time, there's obviously been a lot of change happening in the market, in the buy now, pay later space in particular. All our lending is regulated already. So actually, it's late to have an impact for others who are currently unregulated rather than ourselves. And we no longer offer buy now, pay later, but it's a low single digit percentage of our extending lending.

David McCreadie: So we would expect that whenever you have new regulation applying across a broader number of competitors, there will be some change. We think we're well positioned. We're not directly impacted. We're already doing the things that the rollout review has called out. That should be applied more consistently by others operating in that space. So we believe we're well positioned as a result to benefit from that change when it comes in.

David McCreadie: In terms of real estate finance, you're right. Clearly these are more complex, larger transactions. And so they do take months in the making, very different to the consumer side of the business. And obviously as you'd expect, given the new business trends that we showed you earlier in the slide that the pipeline is at a lower level going into 2021 than it was in 2020. But similarly, we did see that pipeline start to grow in quarter four from where it had been middle of 2020. So we're confident that we will get back to growing that business again, like we did last year, but building the pipeline for that new business lending to mature and come through.

Gary Greenwood: That's great. And just coming back on V12, the revenue model on the interest-free lending that you do, is that largely sort of tend to be funded by the retailer? How exactly does that work?

David McCreadie: Yeah. I guess we have our model with a distribution partner, a retailer, for example. And then we obviously take the lending onto the balance sheet. So mainly interest income. And that change that we've been going through over the last few years, it does mean you've got a slightly lower margin in that product, but better quality. And that has been a strategic shift the group has been working towards over the last few years.

Gary Greenwood: That's great. Thanks for taking my questions.

David McCreadie: Thanks, Gary.

Operator: As a reminder, to ask a question, please press star one. We'll now take the next question from Robert Sage from Peel Hunt.

Robert Sage: Yes. Good morning. I've also got two questions. The first one was, you mentioned that you'd been doing some CBILS and CLBILS lending, and I was wondering whether you could help us in terms of trying to quantify how much of those particular lending under those particular schemes you did and to what extent the very strong business volumes in Q4 were attributable to lending under those schemes?

Robert Sage: And the second question relates to the cost outlook. And I think sort of listening to you speak, there is a sense that having done very well in 2020, it appears as if there's going to be some upward drivers. And I was just wondering whether you could give any more precision around the outlooks for costs in particular, whether you think you'll be able to contain cost growth to a lower level than revenue growth in the coming year.

David McCreadie: Yeah. Thanks, Robert. On the first one, so it's our commercial finance business, so invoice discounting that got accreditation for CBILS and CLBILS from British Business Bank. Last year, given our focus on existing customers, the only facilities were granted actually were to customers we knew a lot about and already had facilities that need for. And some of those were also looking for support in refinancing those facilities. So it's small by number in terms of their connections and it's just under the 20% level of commercial finances lending. So it was part of the growth last year, but not obviously given that percentage a significant driver. We weren't over-aligned for it in terms of growing lending.

David McCreadie: In terms of cost outlook... I should actually say also, we did not get accreditation. We didn't seek accreditation on any banks back loans. So just for clarity, because I know a lot of others are commenting on all fee schemes. On the cost outlook, it's more a reflection that we are going to return to growth. And there are obviously some volume-linked costs such as credit searches and some operational costs clearly with almost a full year of not having people traveling around as well. So there's some discretionary costs that there'll be some benefit in this course clearly, but you'd expect to have some additional cost come through on that line.

David McCreadie: And on the volume related, every single business unit we've got has a plan for growth in 2021 and lending growth returning. So you're going to see some of those volume-linked costs pick up. And the chart that Rachel showed and the bridge on costs, you'll also see last year, there was a one-off benefit of the VAT rebate, which clearly we would not benefit from this year.

Rachel Lawrence: Just to add to that, if I may, Robert-

Robert Sage: Thanks very much.

Rachel Lawrence: I think your question was probably also trying to answer whether or not we'll see cost growth outweigh income growth in 2021. I think it will be a difficult year for us in terms of trying to get the growth engine started again and therefore the income line. And with the backdrop of the pandemic, you're also going to see impairment charges where the IFRS 9 models and the PDs they're attached to that, versus the fact that once we start growing those costs of items that have been beneficial in 2020, we'll start to return. So it will be a difficult year to manage that balance, but definitely going into 2022 will be in a different position.

David McCreadie: Thanks, Rachel.

Robert Sage: Very helpful. Thank you.

Operator: Again, as a reminder, to ask a question, please press star one on your telephone keypad. Please ensure the mute function on your phone is switched off to allow your signal to reach our equipment.

Operator: We now take our next question from Portia Patel from Canaccord.

Portia Patel: Thank you. And good morning. I just had a quick question on DMS. Appreciate it's a small part of the loan, though we just wondered over the coming months, whether you expect to see any opportunities to acquire more portfolios or whether the focus there was just going to be on managing the collect out?

David McCreadie: Morning, Portia. Thanks for the question. We actually still continue to actually have some acquisitions of portfolios. So that remains a feature and it is one of the core business units and therefore is captured. But in response to the last question about having a plan for growth this year, we're still active and still being successful in attracting some new business into DMS.

Portia Patel: Thank you.

David McCreadie: Thanks.

Operator: As there are no further questions, I would like to hand the call back over to David for any closing remarks.

David McCreadie: Okay. Thank you. Well, we appreciate everyone taking the time to join us this morning. Hopefully the presentation has given you some insight into the strong performance that we had last year, despite all the challenges that we had to manage and deal with. We are clearly looking to build on the strong foundations that we have in the group, and that were proven to be such a beneficial strength last year.

David McCreadie: We do have a plan, as I say, for all business units to get back to growth next year 2021. And are looking forward now that we've given you some medium term outlook on our performance targets to be more proactive and transparent and communicating our progress with you in the months and years ahead. So we are guiding in terms of the return getting to a 14 to 16% level. We are confident the plans we have in place for organic growth will deliver that return.

David McCreadie: And we would look forward to taking you through in a lot more detail, the business units, the markets that they are operating in, where they have differentiation, and where they've got opportunity for further growth when we have the Capital Markets Day in the second half of the year. That will also be a fantastic opportunity to let you meet the strength of our management team. And they're also looking forward to having the opportunity to share with you the strengths and capabilities of those business units.

David McCreadie: So it's been a unique and challenging year. Delighted that the board has recommended a reinstatement of the dividend and that we will be looking to invest and grow in the group going forward. Look forward to sharing progress again when we get to the half year, if we don't talk before and at the Capital Markets Day. But appreciate you joining us and taking the time to hear about the story of last year. Enjoy the rest of your day. And thank you.