Half Year Results 2018

13 March 2018

Close Brothers
Modern Merchant Banking

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Agenda

1. **Introduction – Preben Prebensen, Group Chief Executive**
2. Financial review – Jonathan Howell, Group Finance Director
3. Business update – Preben Prebensen, Group Chief Executive
4. Q&A

Introduction

Good performance across all business segments

Good profit growth in the first half

- **6%** increase in **AOP to £142 million**
- **Strong RoE of 17%**
- **5% interim dividend** growth to **21p**

Continued good performance in all three divisions

- **Profit growth** in Banking with **stable net interest margin** and **low bad debt**
- Continued **strong trading at Winterflood** supported by positive market sentiment
- Significant **increase in profit** and **strong net inflows** in Asset Management

Disciplined application of our business model

- Delivering **service and expertise** to our customers and clients
- Maintaining **prudent and disciplined approach** across our businesses
- **Continued investment** in infrastructure and new business initiatives

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Financial highlights

Good profit growth in the first half

- **Good performance** across all **businesses** with **AOP +6%** to £142.3 million
- **Earnings growth and strong returns**, with **AEPS +7%** to 71.2p and **ROE of 17.3%**
- Capital position remains strong, with **CET1 ratio at 12.7%** and **leverage ratio at 10.7%**
- **Progressive dividend growth** with **DPS +5%** to 21.0p

Segmental performance

Good performance across all business segments

£ million	H1 2018	H1 2017	% change
Banking	128.5	122.7	5%
Retail	42.8	39.9	7%
Commercial	39.7	36.5	9%
Property	46.0	46.3	(1%)
Securities	14.7	14.4	2%
Asset Management	11.4	9.1	25%
Group	(12.3)	(12.0)	3%
Adjusted operating profit	142.3	134.2	**6%**

Good profit growth in Banking with stable net interest margin and low impairments

Flat profit in Property reflects **provision releases** in H1 17

Continued strong performance for Winterflood, benefiting from **high investor trading activity**

Strong profit growth in Asset Management, driven by net inflows and positive market movements

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Income statement

Higher income and continued investment

£ million	H1 2018	H1 2017	% change
Operating income	**405.5**	**378.3**	**7%**
Adjusted operating expenses	(239.4)	(226.8)	6%
Impairment losses	(23.8)	(17.3)	38%
Adjusted operating profit[1]	**142.3**	**134.2**	**6%**
Operating profit before tax	**138.6**	**131.4**	**5%**
Tax rate	25%	26%	
Basic EPS	69.2	65.1	6%
Adjusted EPS	71.2	66.6	7%
RoE	17.3%	18.0%	

Growth in operating income, with **higher income in all three divisions**

Impairments remain low and stable excluding **provision releases** of £5.4 million in H1 17

Effective tax rate reduced by 1% reflecting lower corporation tax rate

Higher AEPS, generating a **strong RoE**

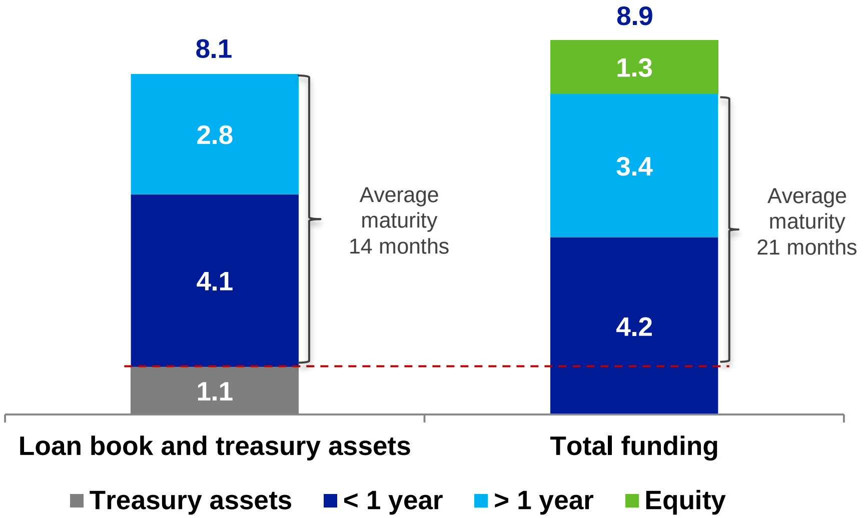
Note:
1 Adjusted operating profit excludes £3.7million (2017: £2.8 million) of amortisation of intangible assets on acquisition.

Simple and transparent balance sheet

Diverse funding and prudent liquidity

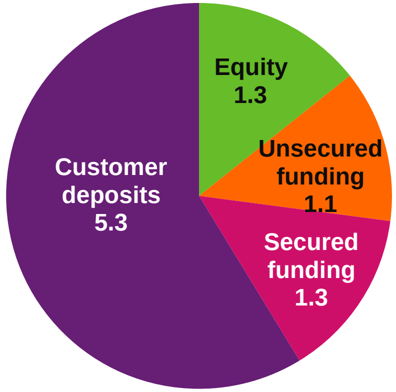
Prudent funding maturity

£ billion



Diverse funding sources

£ billion



Prudent funding and **liquidity**

- Funding at **128% of loan book**
- Average **maturity** of loan book **funding** at **21 months**
- Sound liquidity with **£1.1 billion of treasury assets** predominantly on deposit with BoE

Maintained diverse funding base

- New **Motor securitisation**
- **Limited reliance on TFS/FLS**
- Investing in **new deposit platform** to diversify our retail offering

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Capital

Strong capital position

Capital overview

	31 July 2017	31 January 2018
CET1 capital (£m)	991	1,032
RWAs (£m)	7,859	8,120
CET1 capital ratio	**12.6%**	**12.7%**
Total capital ratio	**15.2%**	**15.2%**
Leverage ratio[1]	10.7%	10.7%

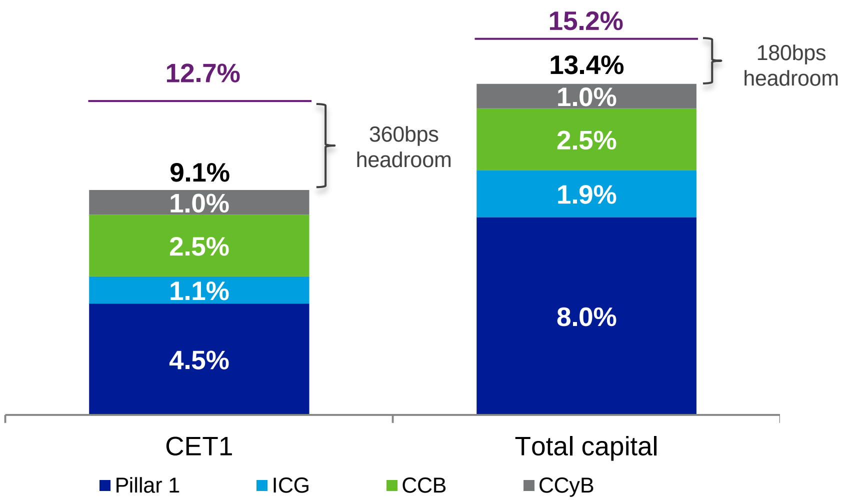
Continued growth in CET1 capital base

3% growth in RWAs reflects loan book growth and mix at period end

CET1 capital ratio provides **significant headroom** to fully loaded requirements

Strong leverage ratio

2019 fully loaded capital requirements



Expect **limited impact from Basel 3** update under standardised approach, but continue to monitor

Note: 1 The leverage ratio is calculated as tier 1 capital as a percentage of total balance sheet assets, adjusting for certain capital deductions, including intangible assets, and off balance sheet exposures.

Banking

Profit growth and strong returns

£ million	H1 2018	H1 2017	% change
Operating income	**293.9**	**274.0**	**7%**
Adjusted operating expenses	(141.6)	(134.0)	6%
Impairment losses	(23.8)	(17.3)	38%
Adjusted operating profit	**128.5**	**122.7**	**5%**
Net interest margin[1]	8.2%	8.2%	
Expense/income ratio	48%	49%	
Bad debt ratio[2]	0.7%	0.5%	
Return on net loan book[3]	3.6%	3.7%	
RoE	20%	23%	

Income growth reflects stable net interest margin

Expenses increased **to £142 million**, reflecting higher staff cost and continued investment

Good profit growth despite the provision releases in H1 17

Stable net interest margin reflecting continued pricing discipline

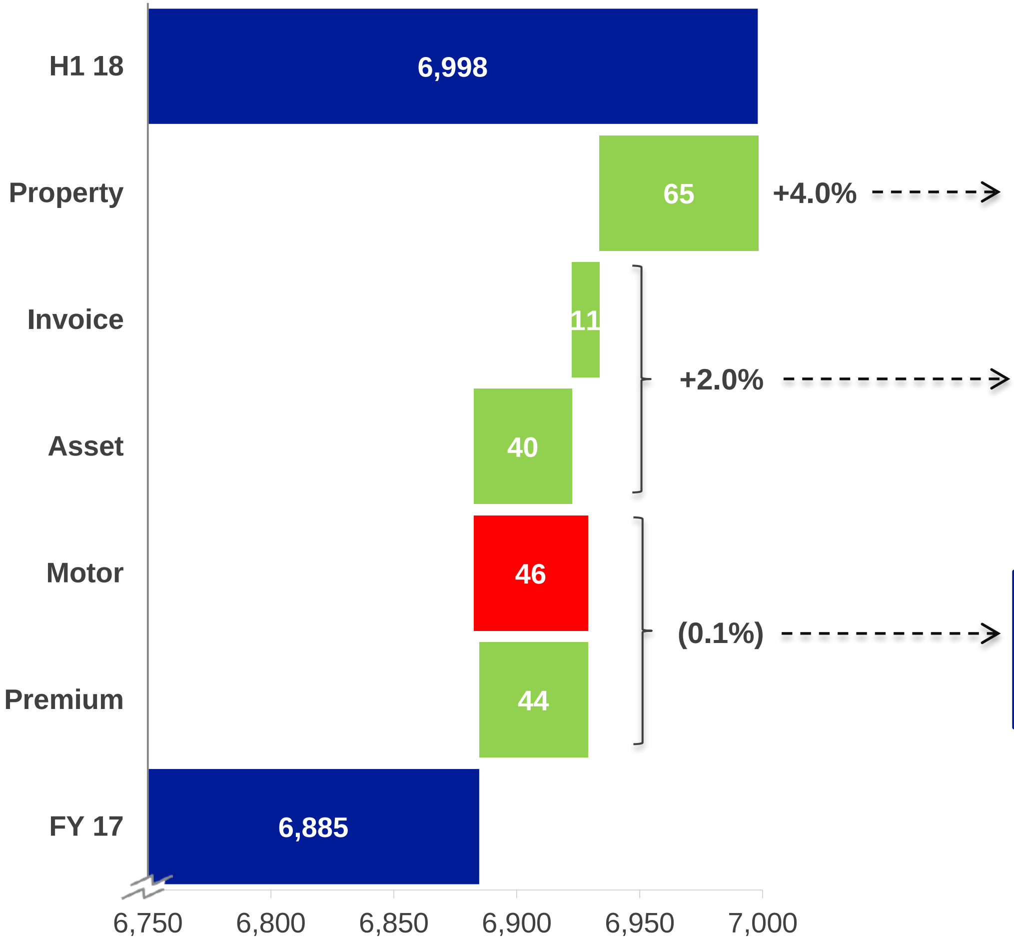
Bad debt ratio reflects **strong and stable underlying credit performance**

Notes:
1 Net interest, fees and operating lease income divided by average net loan book and operating leases.
2 Impairment losses divided by average net loan book and operating leases.
3 Adjusted operating profit divided by average net loan book and operating leases.

Banking

Loan book growth reflects diverse portfolio

Loan book growth by segment (£ million)



1.7% loan book growth maintaining disciplined approach to lending

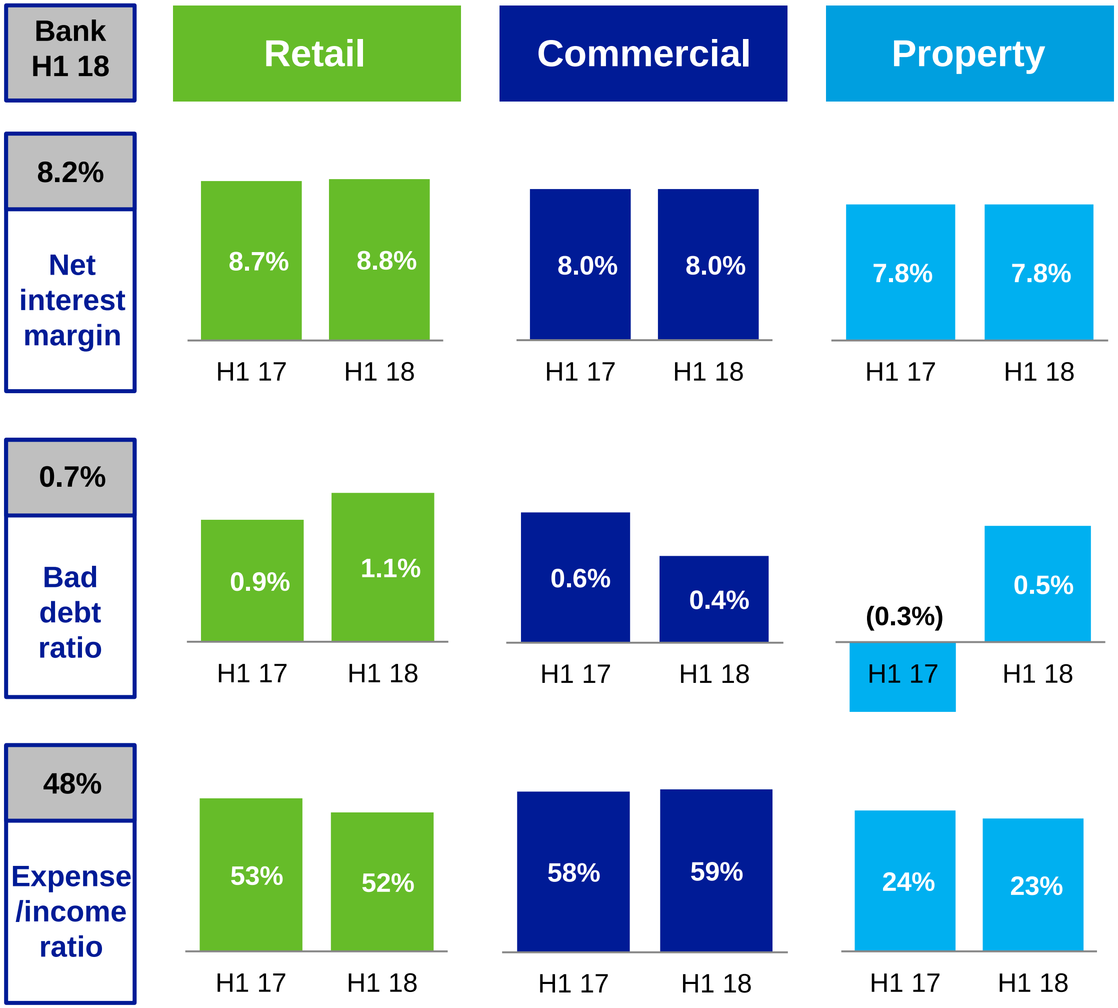
Good growth in Property continued, with solid pipeline

Commercial loan book increased, with 2% growth in both **Invoice** and **Asset Finance**

Retail remained **flat,** with **5% growth in Premium Finance** offset by a **3% contraction** in **Motor Finance**

Banking

Stable and consistent performance across segments



Strong and stable net interest margin ranging from **7.8% - 8.8% in H1 18**

Overall credit performance remains stable

- Bad debt ratio in **Retail stable** on H2 17
- **Commercial** saw low arrears and strong collections
- **Property** ratio reflects **provision releases** in H1 17

Stable expense/income ratios despite ongoing investment

Securities

Continued strong trading performance

£ million	H1 2018	H1 2017	% change
Operating income	**55.6**	**53.9**	**3%**
Operating expenses	(40.9)	(39.5)	4%
Operating profit	**14.7**	**14.4**	**2%**
Operating margin	26%	27%	
RoE	30%	30%	
Loss days	0	0	

Higher trading income, particularly in FTSE 350 and AIM

Expenses up to £41 million reflecting variable cost model

Consistently profitable trading with **no loss days**

Asset Management

Profit growth supported by strong net inflows

£ million	H1 2018	H1 2017	% change
Operating income	**56.0**	**50.1**	**12%**
Investment management	35.8	30.8	16%
Advice and other services	20.0	17.4	15%
Other income	0.2	1.9	
Adjusted operating expenses	(44.6)	(41.0)	9%
Adjusted operating profit	**11.4**	**9.1**	**25%**
RoE	33%	27%	
Operating margin	20%	18%	
Revenue margin[1]	97bps	96bps	
Annualised net inflows as % of opening managed assets	13%	3%	

Higher advice and investment management income reflecting **growth in client assets**

Growth in expenses driven by **new hires** and **systems investment**

Operating margin **improved to 20%[2]**

Strong net inflows, with **managed assets** growing 9% to **£9.7 billion** and **total client assets** increasing 6% to **£11.8 billion**

Notes:
1 Income on client assets divided by average total client assets.
2 H1 2017 underlying operating margin excluding OLIM, which was sold in November 2016, was 15%.

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Overview

Consistently managing the business for the long-term

Good H1 performance

- Continued **benign credit environment** and **supportive financial markets**
- **Loan book growth of 1.7%** reflecting continued lending discipline
- Maintained **strong margin** and **credit quality**
- Continued **strong trading** performance in Winterflood
- **Significant growth** in client assets and profit in **Asset Management**

H1 RoE	**17.3%**
AOP	**+6%**
DPS	**+5%**

Managing for the long-term

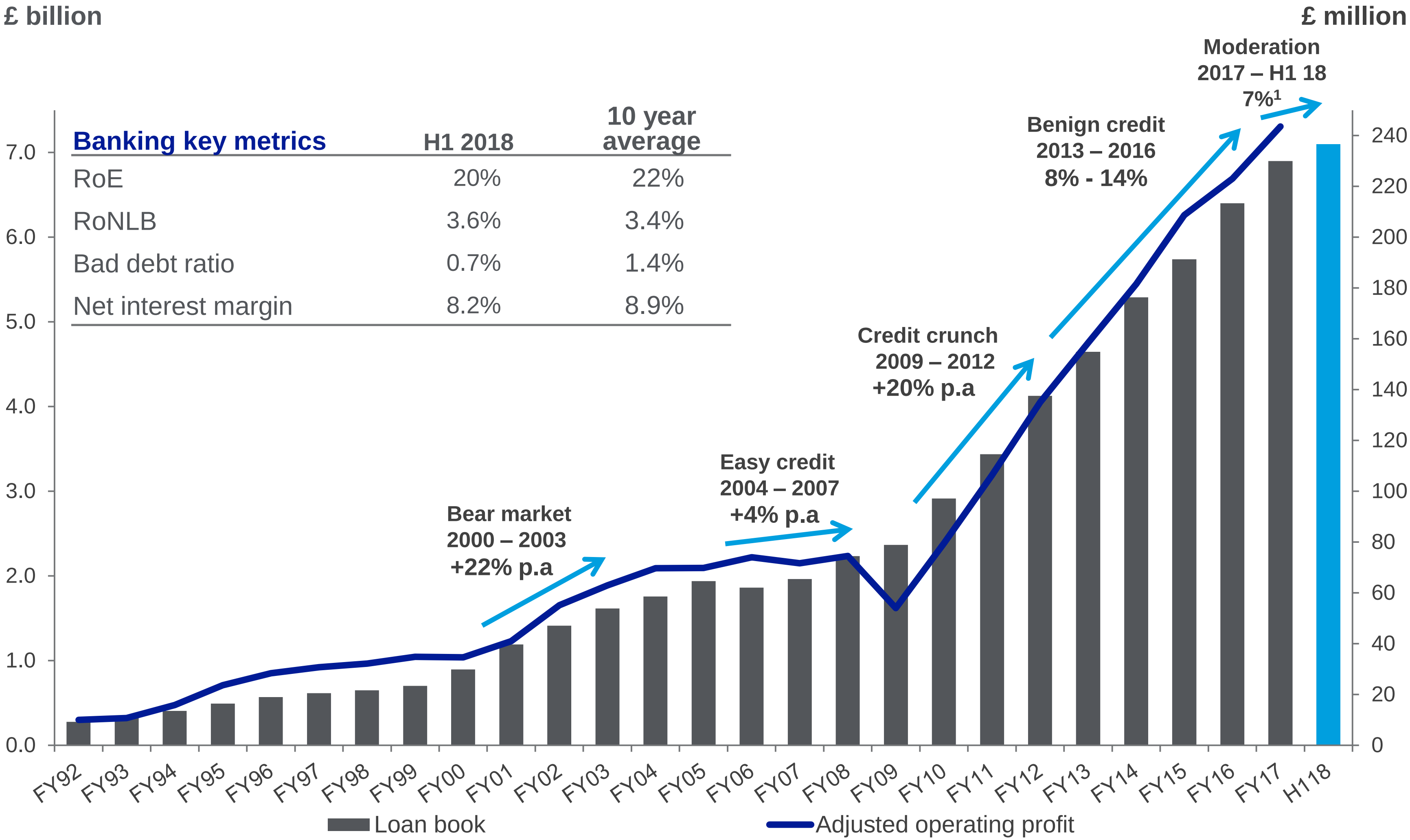
- Continue to **focus on our customers** and **clients**
- Investment in people, infrastructure and new business to **protect, improve and extend** our proven business model
- **Maintain** strong net interest **margin** and **underwriting discipline**
- Conservative approach to **funding, capital** and **liquidity**
- **Maximising growth opportunities** within the boundaries of our model

- **Support for our clients**
- **Strong return on equity**
- **Sustainable progressive dividend**

Banking track record

Long history of profitable growth through the cycle

Banking key metrics	H1 2018	10 year average
RoE	20%	22%
RoNLB	3.6%	3.4%
Bad debt ratio	0.7%	1.4%
Net interest margin	8.2%	8.9%



Note: 1 Loan book growth for 12 months ended 31 January 2018.

Retail

Intermediated lending through Motor and Premium Finance

Current dynamics

- **Growth in Premium Finance** reflecting new broker wins and recent investment
- **Small contraction in UK motor loan book** reflects price and underwriting discipline in competitive market
- **Consistent credit quality** supported by prudent underwriting, focus on used cars and low exposure to PCP

Long-term focus

- Continuing multi-year **investment in Premium Finance**
- **Maintain price** and **underwriting discipline** in Motor Finance with prudent LTVs and GFVs
- Initiated **Motor Finance investment programme** to enhance dealer and customer proposition

Commercial

Specialist, secured lending to SMEs through Asset and Invoice Finance

Current dynamics

- Modest **growth in Asset Finance** despite **ongoing competition**
- **Invoice Finance** seeing **good growth,** supported by extension into new products
- **Strong credit performance** with low arrears and strong collections

Long-term focus

- **Maximising opportunities** in existing business areas
- **Novitas** now fully integrated and **progressing well**
- Expanding into **new niches** to **support medium term growth** e.g. asset finance in Germany and technology leasing

Property

Specialist residential development finance

Current dynamics

- **Good loan book growth** in London, South East and the regions, reflecting **continued demand** for residential property development finance
- Maintaining **strong profitability** and low impairments

Long-term focus

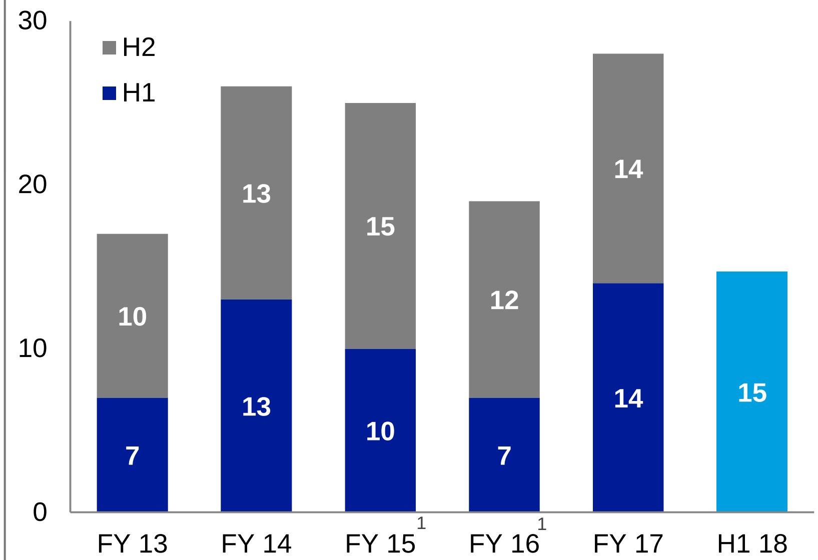
- **Solid pipeline** of new business
- **Strong structural demand** for new build family homes
- **Continued expansion** in high quality regional locations

Winterflood

Maximising trading opportunities in favourable markets

- Another strong performance in H1 with **2% growth in AOP** to £14.7 million
  - **Consistently high trading activity** across FTSE 350 and AIM
- **Maximising daily trading opportunities**
- Consistently profitable trading with **no loss days** in the first half
- Delivering **high quality execution services** to retail intermediaries and institutional investors

Operating profit (£ million)



FY 13	FY 14	FY 15	FY 16	FY 17	H1 18	
8	4	14	17	1	0	**Loss days**

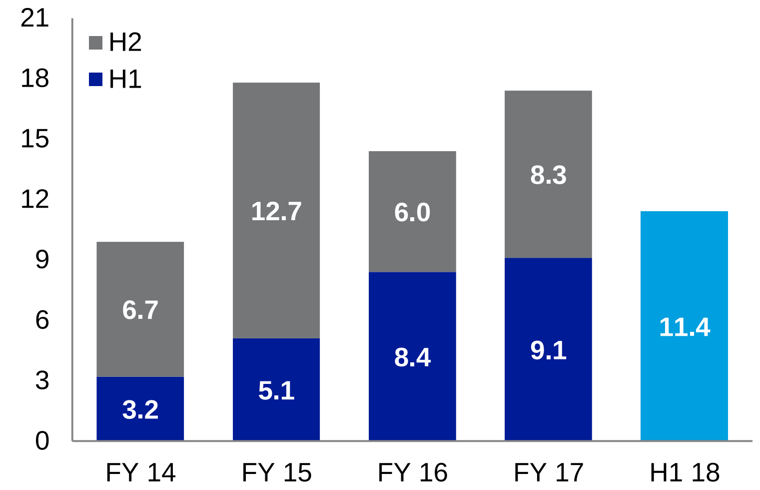
Note:
1 Operating profit includes profit on disposal of Euroclear shares of £3.5 million in 2015 and £1.9 million in 2016.

Asset Management

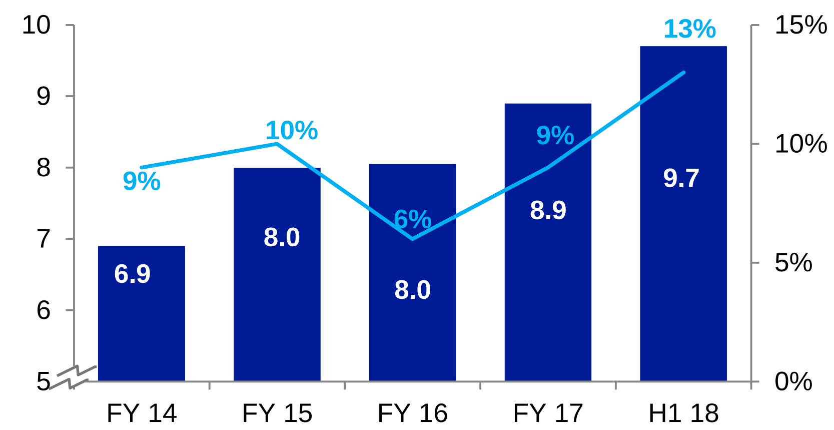
Strong performance in the period

- **Significant improvement** in the period supported by **strong net inflows at 13%**
  - All channels performing well
- **£9.7 billion managed assets** and **£11.8 billion total client assets**
  - £573 million net inflows
  - £240 million of positive market movements
- **Operating margin** increased to **20%**
- **Continued investment** in new hires and systems improvements
- Focus on **growing client asset base** and **improving operating efficiency**

Adjusted operating profit (£ million)



Managed assets and net flows (£ billion)



Conclusion

Remain well positioned for the full year

- **Good performance in the first half,** with contribution from all three divisions
- Established business **model continues to deliver**
- **Long-term commitment to our clients, customers** and proven **business model**
- **Well positioned** to deliver a **good result for the full year**

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Interim Results
H1 2018

Appendix

13 March 2018

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IFRS 9

Implementation in FY 2019

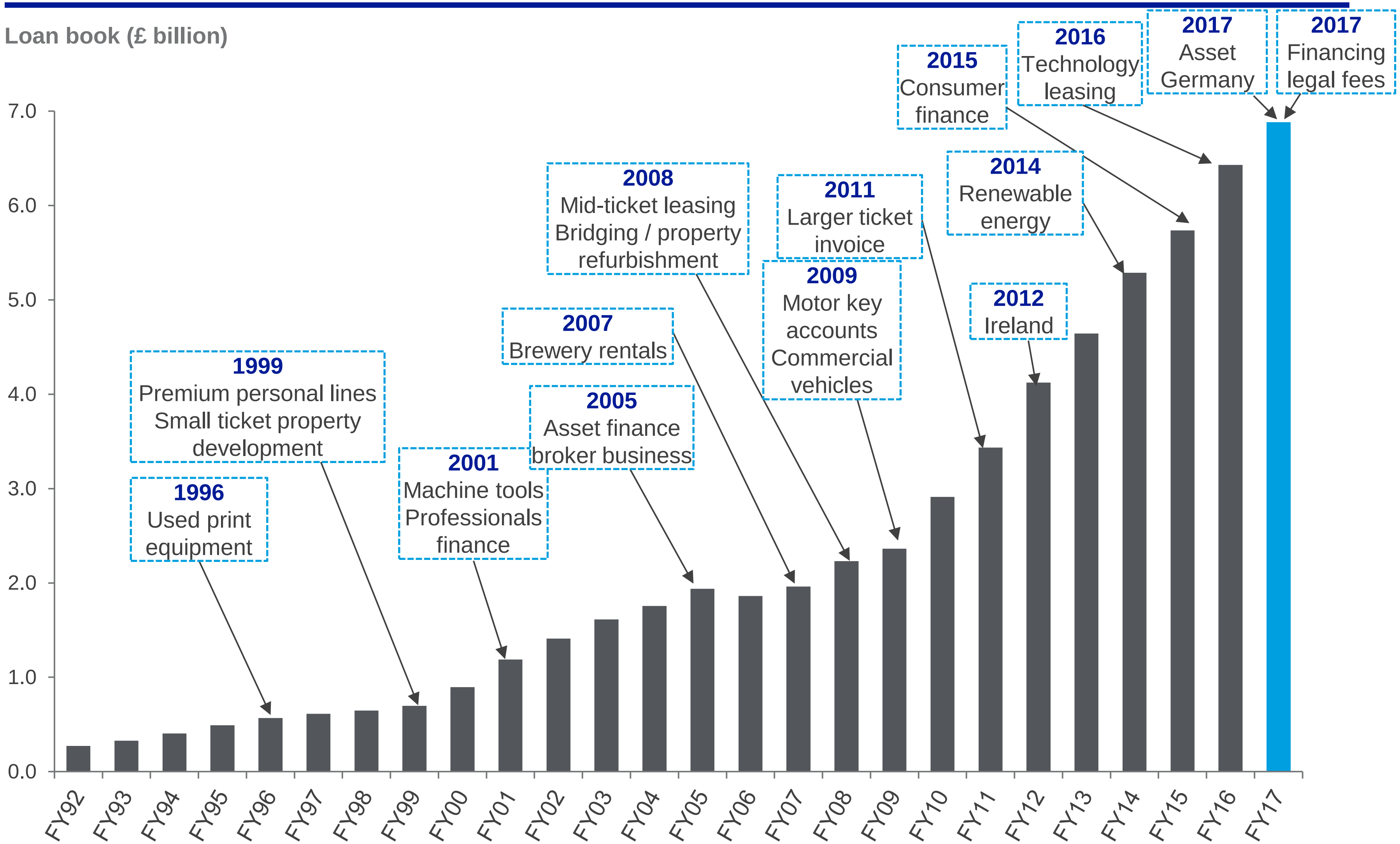
- IFRS9 applies to **Close Brothers** for the **financial year ending 31 July 2019**
- Fundamental change in accounting for credit losses from “incurred” to “expected” basis
  - Use of models to estimate expected credit losses based on **composition of loan book** and **macroeconomic outlook**
- Good progress towards implementation
  - Initial model build complete with 12 month **parallel run through FY 2018**
- Implementation will **increase** impairment provisions on balance sheet and may result in higher **volatility in income statement**

Three stage model

Stage 1	All loans not in stage 2 or 3	12 months expected loss	No requirements under IAS 39
Stage 2	Significant increase in credit risk	Lifetime expected loss	No requirements under IAS 39
Stage 3	Default event	Lifetime expected loss	Broadly similar to IAS 39

New growth initiatives

Long history of developing new products and entering adjacent markets



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Banking

Loan book and lending statistics by business

	Loan book at 31 January 2018 (£m)	H1 18 loan book growth	Typical LTV[1]	Average loan size[2]	Typical loan maturity[3]	Number of customers
Motor Finance	1,716	(2.6%)	75 – 85%	£6.5k	2 – 4 years	264k
Premium Finance	985	4.7%	90 – 95%	£600	10 months	2.3m
Asset Finance	2,057	2.0%	80 – 90%	£40k	41 months	24k
Invoice Finance	547	2.1%	80%	£350k	2 – 3 months	7.7k
Property Finance	1,694	4.0%	50 - 60%	£1.2m	6 – 18 months	700

Notes: Lending statistic figures are for illustrative purposes only.
1 Typical LTV on new business. Motor Finance is based on the retail price of the vehicle financed. Premium Finance LTV based on premium advanced.
2 Approximations at 31 January 2018.
3 Typical loan maturity for new business on a contractual basis, Invoice Finance on a behavioural basis.

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LENDING | DEPOSITS | WEALTH MANAGEMENT | SECURITIES

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