Preliminary Results
Year to 31 July 2018

25 September 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 and significant strategic progress

Good financial performance

- 4% increase in **AOP to £279 million**
- Strong **RoE at 17.0%**
- 5% **dividend** growth to **63p**

All businesses performing well

- Good **loan book growth, maintaining margins** and **underwriting discipline** in Banking
- Another **strong year for Winterflood**
- **Strong growth in client assets** and increased profit in Asset Management

Focus on managing the business for the long term

- Focus on **prudent underwriting, strong margins** and maintaining a **sound financial position**
- **Continue to focus on our customers and clients,** continuously looking for ways to improve our offering
- **Continue to invest** in people, infrastructure and new business to **protect, improve** and **extend** our proven business model

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Financial highlights

Continued profit and dividend growth

- **AOP up 4%** to £279 million, with good performance in all three divisions
- **AEPS growth of 5% to 140.2p**
- **RoE** remains **strong at 17.0%**
- **Dividend growth** of **5% to 63.0p**, in line with progressive dividend policy

Segmental performance

All segments performed well given market conditions

Continuing operations[1] £ million	2018	2017	% change
Banking	251.8	247.4	2%
Retail	81.1	82.8	(2%)
Commercial	76.1	72.6	5%
Property	94.6	92.0	3%
Securities	28.1	28.1	
Asset Management	23.1	17.4	33%
Group	(24.4)	(24.2)	1%
Adjusted operating profit	278.6	268.7	**4%**
RoE	**17.0%**	**18.1%**	

2% growth in Banking profit

- Commercial up 5% and Property up 3%, with strong income and low bad debts
- Partly offset by higher costs in Retail

Winterflood continued its **strong performance**

Asset Management delivered **strong profit growth up 33%**

Note:
1 Results from continuing operations exclude the unsecured retail point of sale finance business, which has been classified as a discontinued operation in the group's income statement for the 2017 and 2018 financial years.

Income statement

Higher income and continued investment

Continuing operations[1] £ million	2018	2017	% change
Operating income	**805.8**	**761.4**	**6%**
Adjusted operating expenses	(480.5)	(453.7)	6%
Impairment losses	(46.7)	(39.0)	20%
Adjusted operating profit[2]	**278.6**	**268.7**	**4%**
Operating profit before tax	**271.2**	**262.5**	**3%**
Effective tax rate	24.7%	26.2%	
Adjusted EPS *(continuing operations)*	**140.2**	**133.6**	**5%**
Basic EPS *(continuing operations)*	136.2	130.2	5%
Loss from discontinued operations	(2.2)	(2.8)	(21%)
Profit attributable to shareholders *(continuing and discontinued operations)*	202.3	191.2	6%
Basic EPS *(continuing and discontinued)*	134.7	128.3	5%

Higher **lending income** in **Banking** and strong performance in **Asset Management**

Cost growth of 6% in line with income

Bad debt ratio stable at 0.6%

- **Credit performance** remains **strong,** provision releases of £7.5 million in the prior year

5% growth in AEPS to **140.2p**

Sale of **unsecured retail point of sale finance business**, classified as discontinued operations

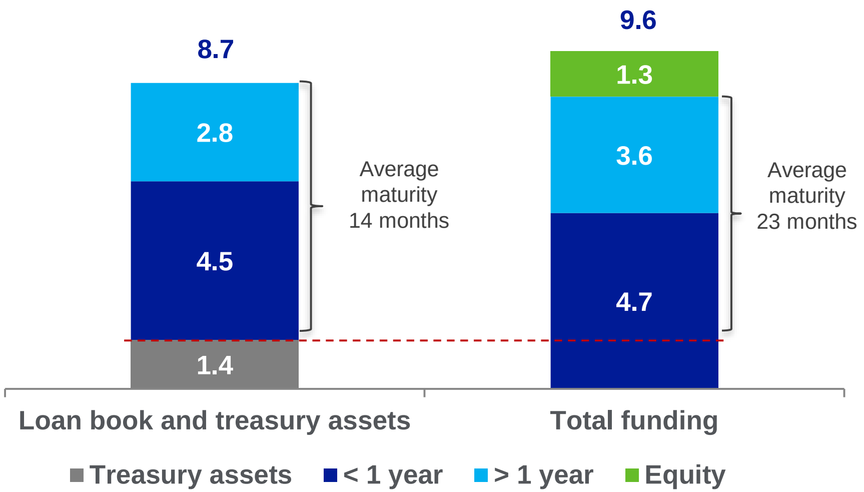
Note:
1 Results from continuing operations exclude the unsecured retail point of sale finance business, which has been classified as a discontinued operation in the group's income statement for the 2017 and 2018 financial years.
2 Adjusted operating profit excludes £7.4 million (2017: £6.2 million) of amortisation of intangible assets on acquisition, and loss from discontinued operations of £2.9 million (2017: £3.9 million).

Simple and transparent balance sheet

Diverse funding and prudent liquidity

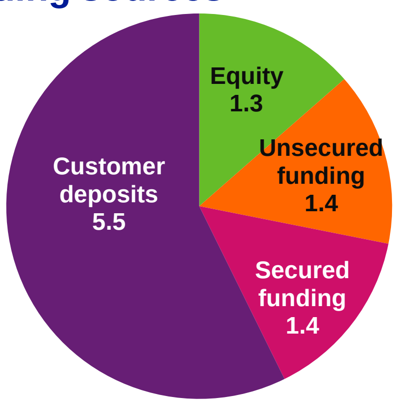
Prudent funding maturity

£ billion



Diverse funding sources

£ billion



Prudent funding and **liquidity**

- Funding at **132% of loan book**
- Average **maturity** of loan book **funding** at **23 months**
- Sound liquidity with **£1.4 billion of treasury assets** predominantly on deposit with BoE

Maintained diverse funding base

- Second public **Motor securitisation** of £200 million
- Senior unsecured bond £250 million
- Investing in **new deposit platform** to diversify our retail offering

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Capital

Maintained strong capital position

Capital overview

	31 July 2017	31 July 2018
CET1 capital (£m)	991	1,084
RWAs (£m)	7,859	8,548
CET1 capital ratio	**12.6%**	**12.7%**
Total capital ratio	**15.2%**	**15.0%**
Leverage ratio[1]	10.7%	10.6%

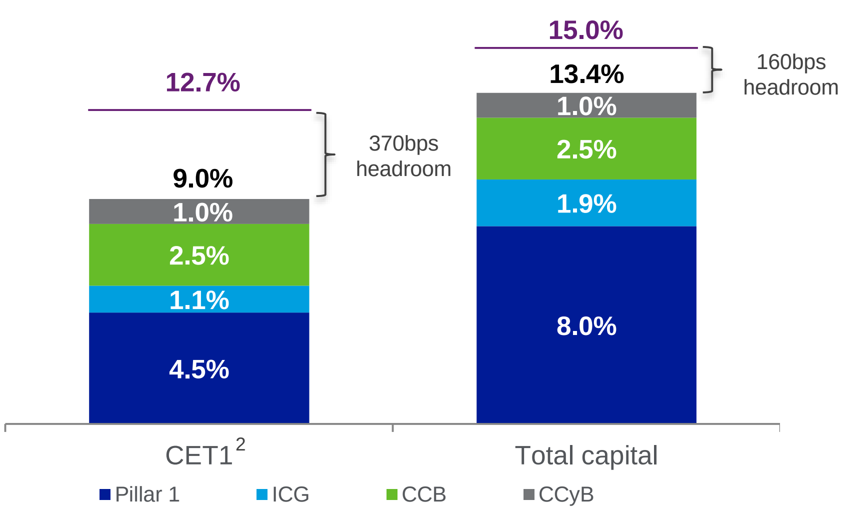
9% growth in CET1 capital base

9% growth in RWAs reflects loan book growth and mix at period end

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

Leverage ratio remains **strong**

2019 fully loaded capital requirements



Capital ratios continue to provide good headroom to minimum **regulatory requirements**

Well positioned to absorb initial **impact of IFRS 9**

- 49 bps fully loaded at 1 August 2018
- FY19 impact 2 bps under transitional arrangements

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.

2 Rounded numbers, resulting in a casting variance of 0.1%.

Banking

Profit growth and strong returns

Continuing operations[1] £ million	2018	2017	% change
Operating income	**581.0**	**551.1**	**5%**
Adjusted operating expenses	(282.5)	(264.7)	7%
Impairment losses	(46.7)	(39.0)	20%
Adjusted operating profit	**251.8**	**247.4**	**2%**
Net interest margin[2]	8.0%	8.1%	
Expense/income ratio	49%	48%	
Bad debt ratio[3]	0.6%	0.6%	
Return on net loan book[4]	3.5%	3.6%	
RoE	**20%**	**23%**	

Higher income in all three segments, reflecting **loan book growth**

Expenses increased **7% to £283 million**, reflecting **investment in strategic projects** and **new business initiatives**

NIM remains strong
- Prioritise margin over growth

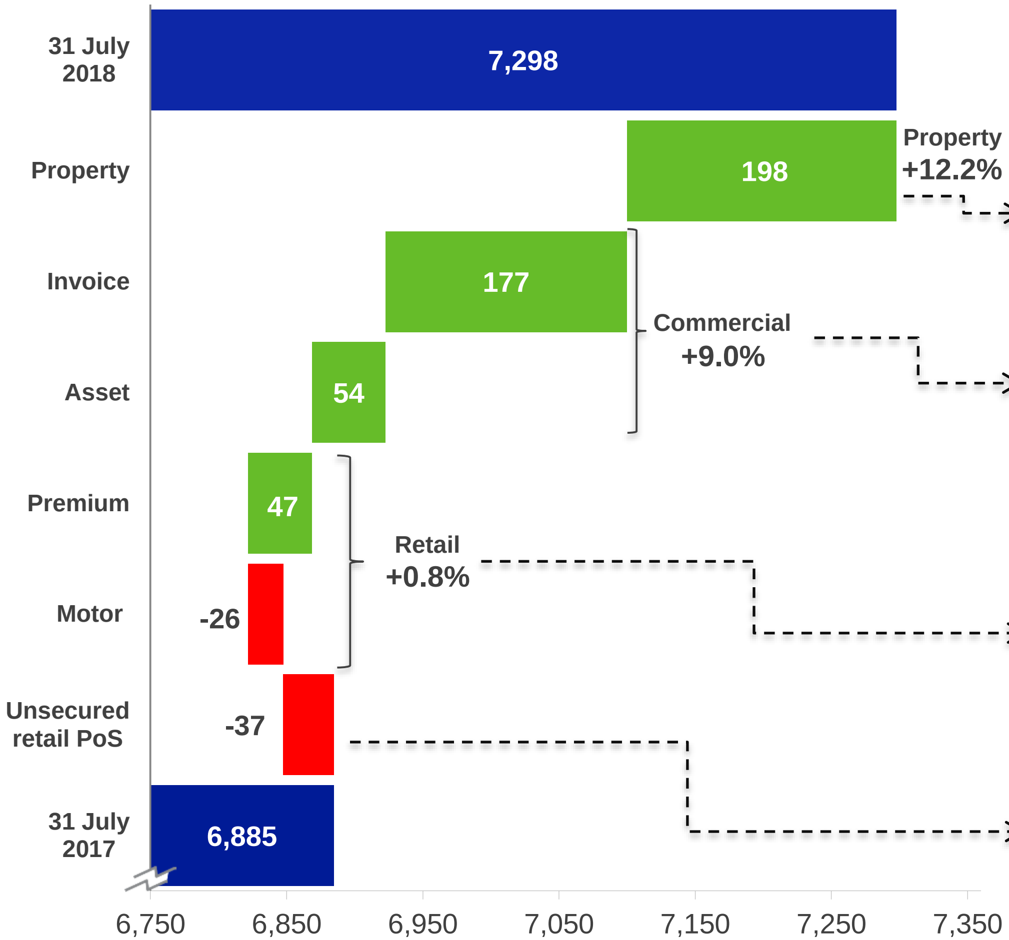
Stable credit performance across all businesses

Notes:
1 The calculation of the bad debt ratio, net interest margin and return on net loan book excludes the unsecured retail point of sale finance loan book from both the opening and closing loan book. This does not result in any change to the ratios previously published for the 2017 financial year.
2 Net interest, fees and operating lease income divided by average net loan book and operating leases.
3 Impairment losses divided by average net loan book and operating leases.
4 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)



6.6% underlying loan book growth reflecting strong customer proposition and diverse loan portfolio

Good growth in Property, with continued demand for residential development finance

Commercial loan book increased, with 3% growth in **Asset Finance and 33% in Invoice Finance**

Good underlying growth in Premium Finance offset by a **contraction** in **Motor Finance**

Unsecured retail point of sale finance loan book, classified as held for sale at balance sheet date

Banking

Good performance across all lending segments

Strong net interest margin ranging from **7.5% - 8.4%** reflecting disciplined approach

– Slight decline reflects mix and price competition

Bad debt ratios remain low across the businesses

– **Credit performance** remains **strong**

– **Property** reflects prior year provision releases

Expense/income ratio

– Stable in **Commercial** and **Property**

– Up in **Retail** reflecting investment

Note: Charts not to scale

Securities

Continued strong performance

£ million	2018	2017	% change
Operating income	**109.1**	**106.7**	**2%**
Operating expenses	(81.0)	(78.6)	3%
Operating profit	**28.1**	**28.1**	-
Average bargains per day	68k	65k	3%
Operating margin	26%	26%	
RoE	**29%**	**29%**	
Loss days	0	1	

Higher trading income benefiting from continued retail investor activity and increased institutional volumes

Expenses up 3% to £81 million broadly in line with income growth

AOP of £28 million in line with the prior year

Consistently profitable trading with **no loss days** for 16 consecutive months

Asset Management

Good progress and growth in client assets

£ million	2018	2017	% change
Operating income	**115.5**	**102.9**	**12%**
Investment management	75.2	63.7	18%
Advice and other services	39.6	37.1	7%
Other income	0.7	2.1	(67%)
Adjusted operating expenses	(92.4)	(85.5)	8%
Adjusted operating profit[1]	**23.1**	**17.4**	**33%**
Managed assets at 31 July (£bn)	10.4	8.9	17%
Total client assets at 31 July (£bn)	12.2	11.2	10%
Net inflows as % of opening managed assets	12%	9%	
Operating margin	20%	17%	
Revenue margin	98bps	96bps	
RoE	**34%**	**26%**	

Higher income reflecting **growth in client assets** with strong inflows

Growth in expenses driven by **higher staff costs**, relating to both **support staff** and **investment managers**

Managed assets increased to **£10.4 billion,** reflecting **strong net inflows**

Strong **net inflows** of over **£1 billion**

Strong **operating margin** reflecting improvement in **operating leverage**

Notes:
1 Excluding the OLIM Investment Managers ("OLIM") business sold in 2017, the adjusted operating profit increased by 49% to £23.1 million (2017: £15.5 million), with an underlying operating margin of 20% (2017: 15%).

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Strong, sustainable performance

Proven business model continues to deliver in current market conditions

Solid business performance

- Continued strong **NIM at 8.0%,** and **consistent LTVs** across our businesses
- Underlying **loan book growth at 6.6%**
- Consistently strong trading performance at **Winterflood** with **no loss days this year**
- Significant move forward in **Asset Management**, reporting **12% net inflows** and an **operating margin of 20%**

Strong growth in profit and dividends

- Continued **strong return on equity** of **17%**
- Another year of **5% dividend growth** to **63.0p**
- A further **5% growth** in adjusted earnings per share to **140.2 pence**
- **Strong profitability** across **all three** of our business divisions

Commitment to proven, successful model

- We maintain our focus on **quality, returns** and **re-investment** for the long-term
- We continue to **prioritise margins and underwriting over growth**
- We maintain **strong funding and capital positions** and a prudent level of dividend cover

Application of the model

Disciplined adherence to model criteria

- **Consistent, conservative underwriting** in sectors we know and understand
- **Prudent LTVs and maturities** across our businesses
- **Local underwriting** with central oversight
- **Maintaining quality** of new business in the face of increased competition
- Through **specialist, expert knowledge** and **strong relationships**
- **Quality of service** supports a **strong NIM** across our businesses

	Typical LTV[1]	Typical loan maturity[2]	FY18 underlying loan book growth	Net interest margin	Bad debt ratio
Motor Finance	80-85%	3 – 4 years	(1.5%)	8.4%	0.9%
Premium Finance	90-95%	10 months	5.1%	8.4%	0.9%
Asset Finance	85-90%	3 – 5 years	2.7%	7.9%	0.6%
Invoice Finance	80%	2 – 3 months	33.0%	7.9%	0.6%
Property Finance	50-60%	9 – 18 months	12.2%	7.5%	0.2%

Note:
Lending statistic figures are for illustrative purposes only and may not be representative of all loan types. The profile of individual loans may vary significantly.
1 Typical LTV on new business. Motor Finance LTV is the average LTV in the UK, based on the retail price of the vehicle financed. Premium Finance LTV is based on the premium advanced.
2 Typical loan maturity for new business on a contractual basis, except Invoice Finance which is on a behavioural basis. Motor Finance is the average maturity of new business in the UK.

High quality, service led proposition

Service, expertise and relationships are at the heart of our business model

Personal Service

- **Service led proposition** focusing on SMEs, intermediaries and end customers
- **Local distribution** with over **900 customer facing staff** across **46 regional offices**
- Profitably **lending at all stages in the cycle** with **consistent underwriting criteria**
- **Specialist asset knowledge** supports fast, flexible underwriting

For a diverse customer base

- Distribution relationships with **c.7,000 motor dealers** and **1,700 insurance brokers**
- **c.20,000 SME customers** within our Commercial segment
- **Winterflood** trades in c.15,000 securities with **over 600** market counterparties
- Asset Management has **over 21,000 direct** client relationships plus a range of intermediary partners and professional introducers

77%

Repeat business in Property

+50

Net promoter score in Premium Finance

+61

Net promoter score in bespoke Asset Management

Engaged employees

Distinctive culture and collective sense of purpose

Distinctive culture & collective sense of purpose

- Formalised corporate purpose – “***to help the people and businesses of Britain thrive over the long-term***”
- **Distinctive culture**, with **prudence, integrity** and **teamwork** added to our attributes of **service, expertise** and **relationships**
- **Strong employee engagement at 89%** helps us continue to recruit, develop and retain high calibre employees

Investing for the long-term

Maintaining our investment through the cycle to support our service and proposition

Funding and capital efficiency

- **New deposit platform** to be launched in 2019, providing a **wider range** of retail deposit products and an **online offering**
- **Good progress** on developing the models, systems and processes required to use the **Internal Ratings Based approach**

Investing in our businesses

- Continuing multi-year **investment in Premium Finance**
- Initiated **Motor Finance investment programme** to enhance dealer and end customer proposition
- Ongoing investment in **technology** to enhance our operating efficiency in **Asset Management**

Disciplined approach to investing

- Focus on **disciplined management of costs**, while continuing to invest
- Ongoing investment in **regulatory initiatives**, including **GDPR, MiFID II,** and **IFRS 9**
- Continuous investment in **cyber security** to ensure we protect our business and clients

Expanding to maximise our potential

We constantly look to maximise existing and new market opportunities for our businesses

Expanding within our existing markets and maximising opportunities

- Expansion of Property into **UK regional markets**, focusing on **strong structural demand** for family housing
- **Strong growth in Novitas Loans,** specialist provider of secured finance to the legal profession
- **Good growth** in core Invoice Finance and Brewery Rentals businesses
- **Significant growth in Asset Management** with net inflows exceeding £1 billion
- Expansion of **Asset Management** growth capacity by optimising our adviser force and recruiting **additional portfolio managers**
- Diversification of **Winterflood** by expanding its presence in the **institutional market**
- Explore **new niches** to **support medium term growth** e.g. asset finance in Germany

Conclusion

Well positioned longer term

- **Good performance in 2018** financial year

- **Strongly committed to our proven business model**
  - Protecting margins and underwriting discipline in Banking
  - Maximising daily profitability in Winterflood
  - Maintain growth traction in Asset Management

- **Well positioned** to continue delivering good performance through the cycle
  - **Supporting our clients** and **delivering value for shareholders** over the long-term

Save the date

Asset Management division investor seminar

We will be holding an investor seminar on the Asset Management division

Time:
Tuesday 4th of December 2018
From 4pm

Location:
Close Brothers Group
10 Crown Place
London
EC2A 4FT

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Preliminary Results FY 2018

Appendix

25 September 2018

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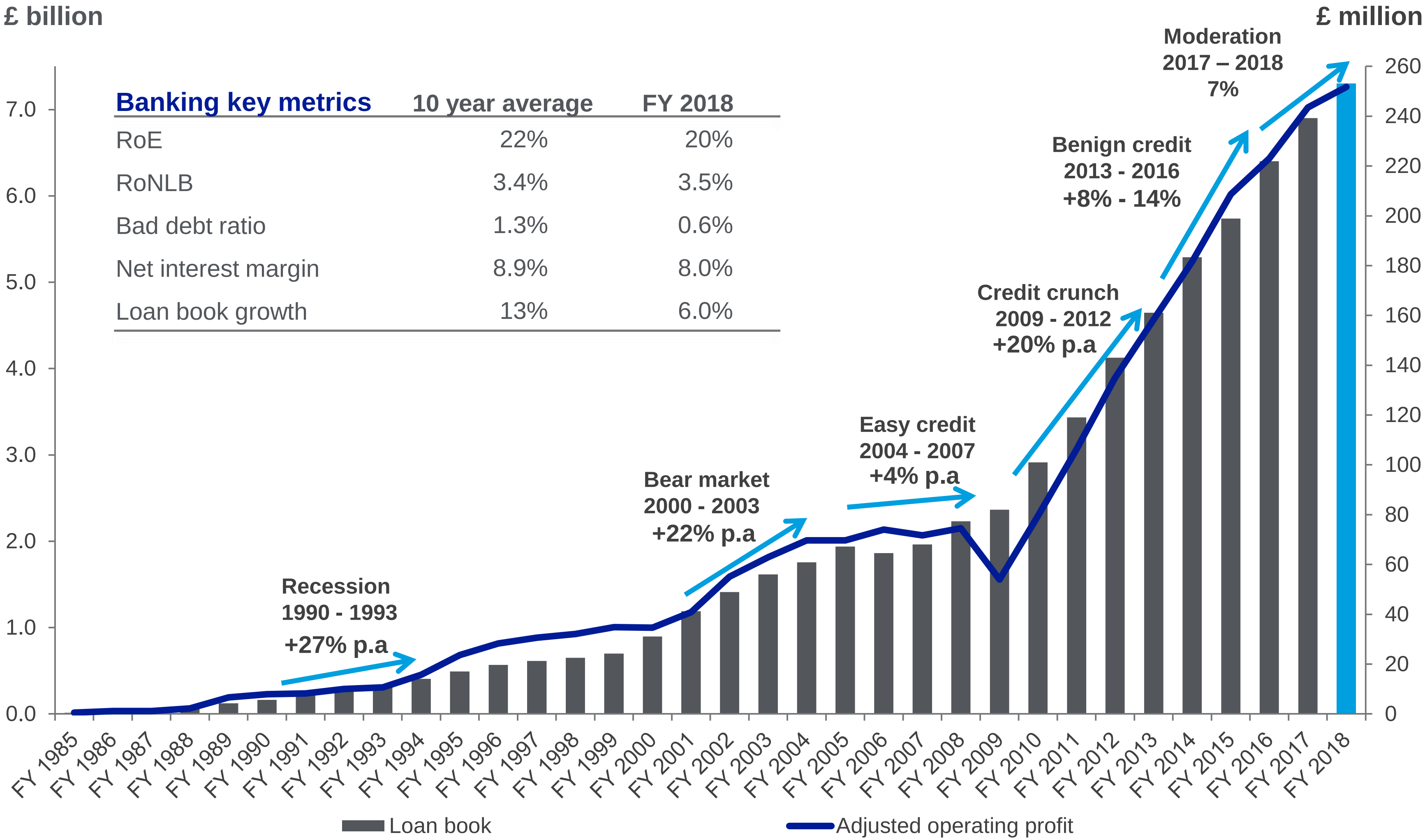
Banking

Long history of profitable growth through the cycle

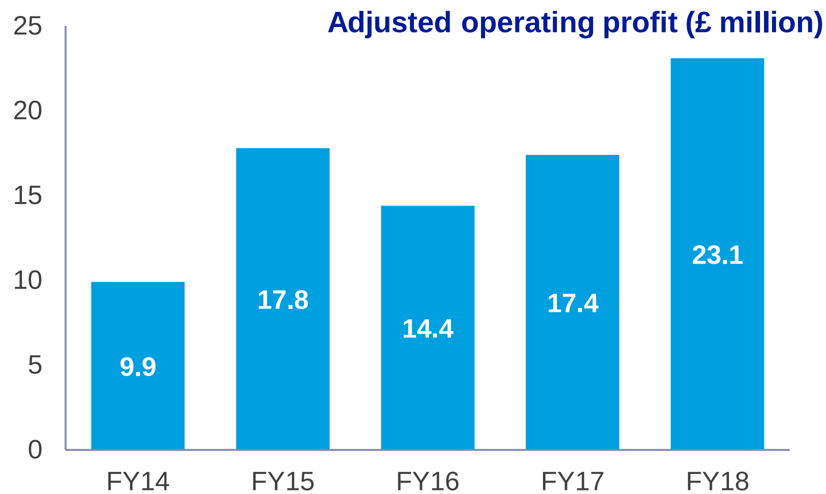
Banking key metrics	10 year average	FY 2018
RoE	22%	20%
RoNLB	3.4%	3.5%
Bad debt ratio	1.3%	0.6%
Net interest margin	8.9%	8.0%
Loan book growth	13%	6.0%

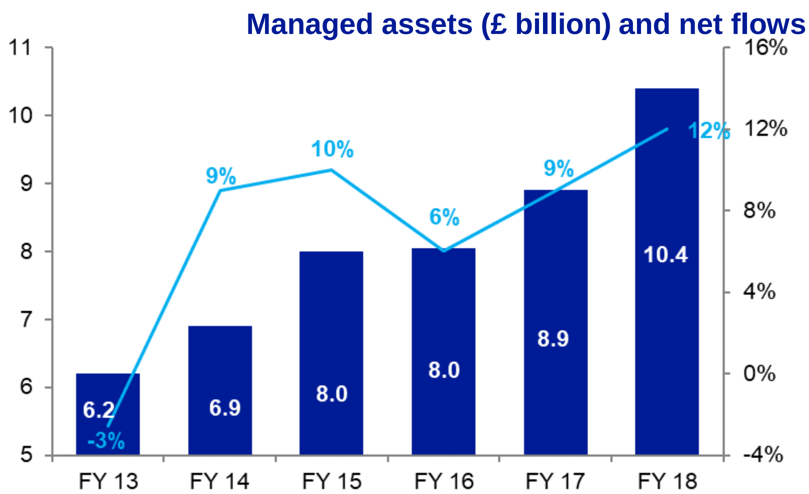


Asset Management and Winterflood

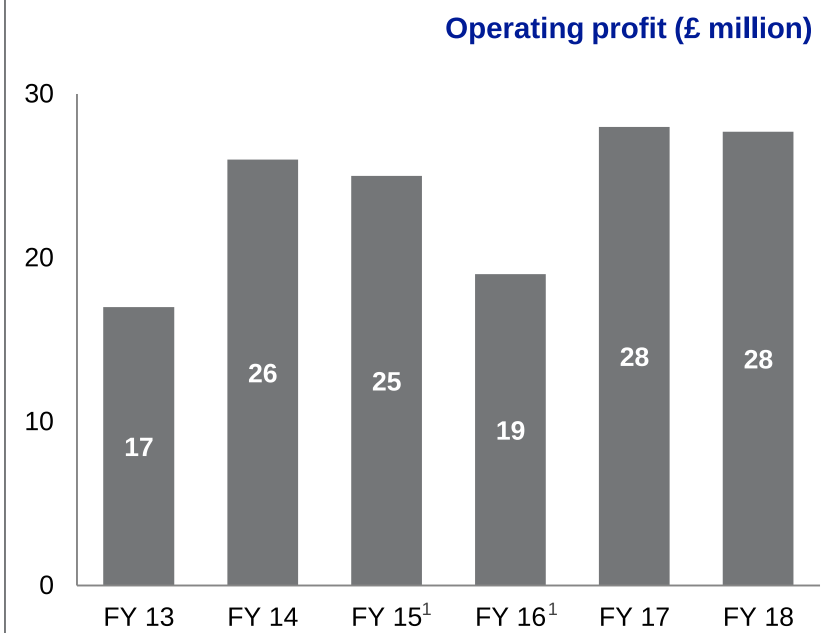
Maximising trading opportunities in favourable markets

Asset Management





Winterflood



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.

Banking

Loan book and lending statistics by business

	Loan book at 31 July 2018 (£m)	FY18 underlying loan book growth	Typical LTV[1]	Average loan size[2]	Typical loan maturity[3]	Number of customers
Motor Finance	1,736	(1.5%)	80 – 85%	£6k	3 – 4 years	260k
Premium Finance	950	5.1%	90 – 95%	£600	10 months	2.4m
Asset Finance	2,071	2.7%	85 – 90%	£40k	3 – 5 years	24k
Invoice Finance	712	33.0%	80%	£400k	2 – 3 months	1.5k
Property Finance	1,828	12.2%	50 - 60%	£1.4m	9 – 18 months	735

Note: Lending statistic figures are for illustrative purposes only and may not be representative of all loan types. The profile of individual loans may vary significantly.

1 Typical LTV on new business. Motor Finance LTV is the average LTV in the UK, based on the retail price of the vehicle financed. Premium Finance LTV is based on the premium advanced.

2 Approximations at 31 July 2018.

3 Typical loan maturity for new business on a contractual basis, except Invoice Finance which is on a behavioural basis. Motor Finance is the average maturity of new business in the UK.

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