Close Brothers
Modern Merchant Banking

Preliminary Results
Year to 31 July 2019

24 September 2019

Disclaimer

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Agenda

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

Key Messages

Solid FY 2019 results in challenging markets

Solid financial performance with strong returns and profitability

- **Group AOP** of **£270.5 million**, down 3%
- **Strong RoE** at **15.7%** and **CET1 ratio** of **13.0%**
- **5% dividend** growth to **66.0p**

Specialism and diversity continue to protect our business

- **Continued loan book growth** across the **Banking** division with **strong net interest margin** and **low bad debt**
- **Asset Management** maintained **good momentum with net inflows at 9%**
- **Winterflood** delivered **solid profitability** in difficult market conditions

Strategy

- Continued growth in line with our **prudent and disciplined model**
- **Investing** in the long term and **through the cycle** to **protect**, **improve** and **extend** our business with **substantial benefits** to date
- **Resilient model** to **support our customers and clients** in a wide range of market conditions

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Financial Highlights

Solid operating performance supporting strong returns

Adjusted EPS[1]	**136.7p**	• Adjusted EPS reduced 2% reflecting lower profit in the period
Return on opening equity	**15.7%**	• Generated strong return on opening equity
CET1 capital ratio	**13.0%**	• Strong CET1 capital ratio
Leverage ratio	**11.0%**	• Strong leverage ratio
Dividend per share	**66.0p**	• 5% increase in dividend in line with our progressive dividend policy

Loan growth[2]	**5.7%**	• Good loan book growth across the whole book
Net interest margin	**7.9%**	• Broadly stable net interest margin reflecting pricing discipline
Bad debt ratio	**0.6%**	• Continued strong credit performance

Net inflow rate	**9%**	• Good growth momentum in Asset Management

Loss days	**2**	• Solid trading profitability despite difficult market conditions

Notes:
1 Basic EPS (continuing operations) of 133.5 p and Basic EPS (continuing and discontinued operations) of 134.2p.
2 The loan book at 1 August 2018 excludes the unsecured retail point of sale finance loan book of £66.2 million, which was classified as held for sale at the balance sheet date.

Segmental performance

Diverse businesses drive overall solid performance

£ million	2019	2018	change
Banking	253.7	251.8	1%
Commercial	86.5	76.1	14%
Retail	72.5	81.1	(11%)
Property	94.7	94.6	0%
Asset Management	21.8	23.1	(6%)
Securities	20.0	28.1	(29%)
Group	(25.0)	(24.4)	2%
Adjusted operating profit	**270.5**	**278.6**	**(3%)**

- Strong **loan book growth and NIM** across Asset Finance and Invoice and Speciality Finance and continued low bad debt
- **Loan book growth** offset by **ongoing investment** in Premium and Motor Finance
- Maintained **solid performance**, with profits broadly unchanged on the prior year
- Profits impacted by **lower market levels** and continued investment
- **Reduction** in **trading income** reflecting **significantly lower volumes**

Income statement

Higher income and continued investment

Continuing operations[1] £ million	2019	2018	change
Adjusted operating income	**816.4**	**805.8**	**1%**
Adjusted operating expenses	(497.4)	(480.5)	4%
Impairment losses	(48.5)	(46.7)	4%
Adjusted operating profit[2]	**270.5**	**278.6**	**(3%)**
Operating profit before tax	264.7	271.2	(2%)
Effective tax rate	24.3%	24.7%	
Profit/(loss) from discontinued operations	1.1	(2.2)	
Profit attributable to shareholders[3]	**201.6**	**202.3**	

- **Income growth** driven by Banking, partly offset by **lower trading income** in Winterflood
- **Higher investment** in Banking and Asset Management
- **Strong credit performance** across our lending portfolios
- **Increased profits in Banking** and **challenging market conditions** for Asset Management and Winterflood

Notes:
1 Results from continuing operations exclude unsecured retail point of sale finance business, which was sold on 1 January 2019, and has been classified as a discontinued operation in the group's income statement for the 2018 and 2019 financial years.
2 Adjusted operating profit excludes £5.8 million (2018: £7.4 million) of amortisation of intangible assets on acquisition, and profit from discontinued operations of £1.1 million (2018: loss of £2.2 million) net of tax.
3 Profit attributable to shareholders from continuing and discontinued operations

Strong and transparent balance sheet

Diverse funding and prudent liquidity

Total funding
£9.9 billion

- **Average maturity** of loan book funding at **20 months**

Loan book
£7.6 billion

- **Average maturity** of the loan book at **14 months**

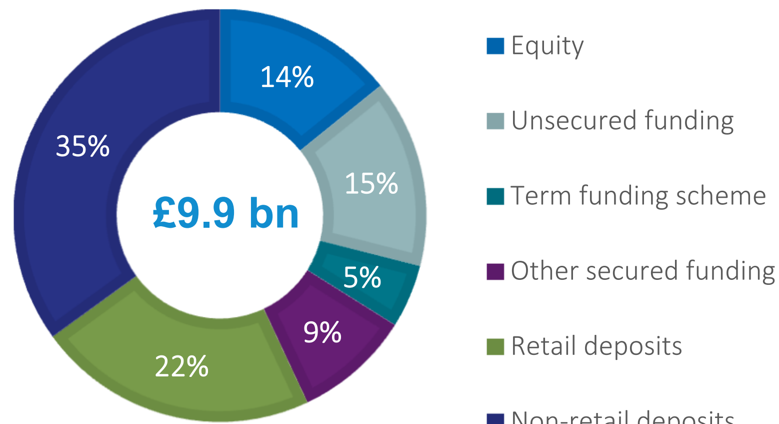
Treasury assets
£1.4 billion

- **£1.1bn** with central banks

- **Prudent level of funding,** covering loan book by **129%**
- Maintained the principle to **"Borrow long, lend short"**
- **Maintain prudent liquidity** position while optimising level and mix of treasury assets

Diverse funding base

£ billion



- Access to **diverse funding** sources supported by **strong and stable credit ratings**[1], with Close Brothers Ltd rated **Aa3** with stable outlook (Moody's)[2]
- Continue to **optimise cost of funds** through disciplined deposit pricing and renewal of facilities
- **New deposit platform** creates opportunity to further expand and diversify our funding base

Notes:
1 Moody's rates Close Brothers Group ("CBG") A3/P2, with stable outlook. Fitch rates both CBG and CBL A/F1, having previously revised the outlook to rating watch negative alongside UK peers in March 2019 to reflect their view of the increased risk of a disruptive 'no deal' Brexit scenario.
2 Long-term deposit rating of Close Brothers Limited.

Capital

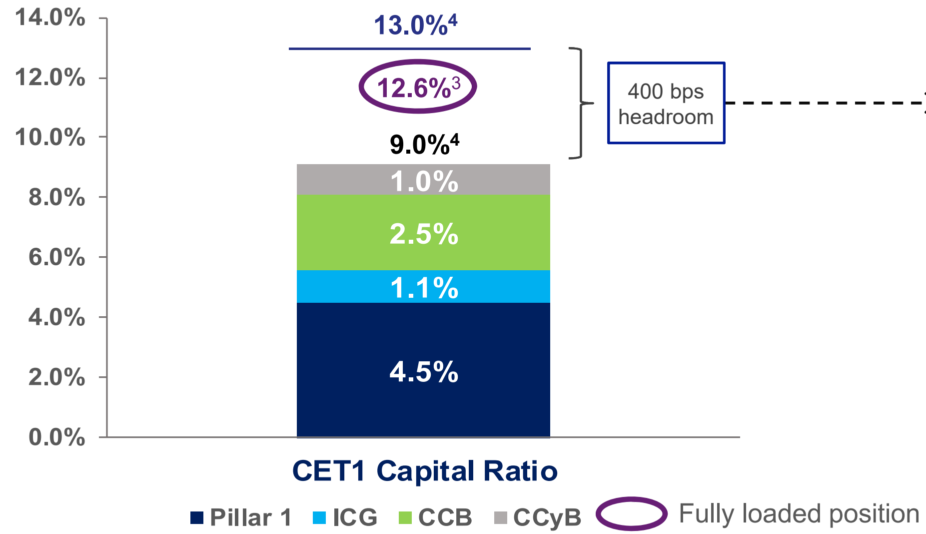
Maintain significant headroom to capital requirements

Capital overview[1]

	1 August 2018	31 July 2019
CET1 capital ratio	12.7%	13.0%
Total capital ratio	15.0%	15.2%
Leverage ratio[2]	10.6%	11.0%
CET1 capital (£m)	1,082.2	1,169.2
RWAs (£m)	8,542.6	8,967.4

- **Increased CET1 capital ratio** reflects continued **profitability and slower loan book growth** at this stage in the cycle
- **Strong leverage ratio**
- **Strong capital generation** to support continued **loan book** growth
- **RWA growth** reflects continued loan book growth

Capital position vs requirements



- **Comfortably ahead** of minimum regulatory requirements
- **Good progress** towards **IRB application**

Notes:
1 Numbers and ratios presented on a transitional basis after applying IFRS 9 arrangements that allow the capital impact of expected credit losses to be phased in over a five year period, and the Capital Requirements Regulation ("CRR") transitional arrangements for grandfathered Tier 2 capital instruments.
2 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.
3 Ratio presented including the fully loaded impact of IFRS 9.
4 Rounding results in a casting variance of 0.1%.

Banking

Profit growth alongside ongoing investment

Continuing operations[1] £ million	2019	2018	change
Adjusted operating income	**602.6**	**581.0**	**4%**
Adjusted operating expenses	(300.5)	(282.5)	6%
Impairment losses	(48.4)	(46.7)	4%
Adjusted operating profit	**253.7**	**251.8**	**1%**
Net interest margin[2]	7.9%	8.0%	
Expense/income ratio	50%	49%	
Bad debt ratio[3]	0.6%	0.6%	
Return on net loan book[4]	3.3%	3.5%	

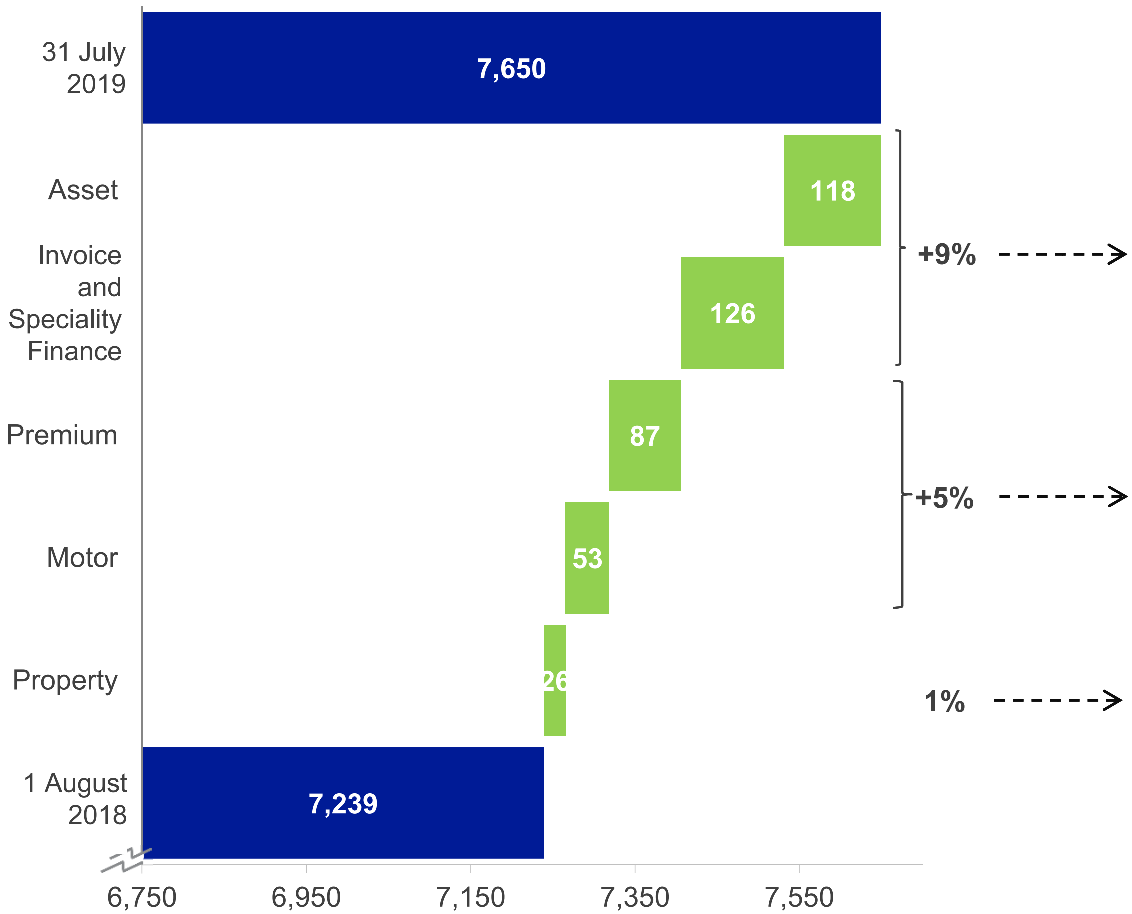
- **Good loan book growth** at **strong margins** across the businesses
- Higher costs reflect **increase in investment**, offset by **ongoing cost discipline**
  - **Stable staff costs** and slightly reduced compensation ratio to 28% (2018: 29%)
  - **Over 2/3 of the increase** relate to spend on **strategic projects**
- **Broadly stable net interest margin** reflects continued **pricing discipline**
- Increase in E/I ratio reflects incremental investment, offset by ongoing cost control

Notes:
1 Results from continuing operations exclude unsecured retail point of sale finance business, which was sold on 1 January 2019, and has been classified as a discontinued operation in the group's income statement for the 2018 and 2019 financial years.
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

Good loan book growth while maintaining pricing and underwriting discipline

Loan book growth by segment (£ million)[1]



5.7% loan book growth while **prioritising margins** and **credit quality**

- **Strong growth** in **Commercial**, with 6% growth in **Asset Finance** and 14% growth in **Invoice and Speciality Finance**
- **Growth in core businesses** and increased contribution from **Novitas**

- 9% **growth** in **Premium Finance** reflects several significant **new broker relationships**
- **Motor Finance returned** to **growth** at 3%, reflecting strengthened sales capability

- **Modest loan book growth** as **significant repayments** offset new business

Notes:
1 Excludes operating lease assets of £198.6 million in 2018 and £220.4 million in 2019 relating mainly to the Invoice and Speciality Finance business.

Banking

Performance reflects diversity of business portfolio

	Net interest margin[1]	Bad debt[1]	Expense / income	% of loan book
Commercial	**8.1%** 2018 7.9%	**0.8%** 2018 0.6%	**56%** 2018 59%	39%
Retail	**8.1%** 2018 8.4%	**0.9%** 2018 0.9%	**56%** 2018 53%	37%
Property	**7.1%** 2018 7.5%	**(0.0%)** 2018 0.2%	**27%** 2018 24%	24%
Banking division	**7.9%** **2018 8.0%**	**0.6%** **2018 0.6%**	**50%** **2018 49%**	

Commercial

- **Commercial NIM increased to 8.1%** due to growth in higher margin products
- Marginal increase in bad debt ratio but **remains close to historical lows**
- E/I reduced due to **strong income growth**

Retail

- NIM reflects **lower fee income** and growth in lower margin business lines
- Consistent credit performance with **stable bad debt ratio**
- E/I ratio reflects **ongoing investment** across both Premium and Motor Finance

Property

- Property **NIM reduced** reflecting higher cost of funds and lower fee income
- Continued **strong credit performance,** with no material provisions in the period
- E/I ratio reflects **lower operational requirements**

Note:
1 Prior year comparatives for key metrics reported under IAS39

Asset Management

Strong net inflows in challenging markets

£ million	2019	2018	change
Operating income	**120.4**	**115.5**	**4%**
Investment management	81.7	75.2	9%
Advice and other services	37.2	39.6	(6%)
Other income[1]	1.5	0.7	114%
Adjusted operating expenses	(98.5)	(92.4)	7%
Impairment losses on financial assets	(0.1)	-	
Adjusted operating profit	**21.8**	**23.1**	**(6%)**
Operating margin	18%	20%	
Revenue margin[2]	93bps	98bps	
Return on opening equity	32.1%	33.7%	

- **Increased income** driven by **higher investment management income** from continued **growth in managed assets**
- Growth in expenses driven by **ongoing investment** in people, technology and research capability
- Revenue margin reflects timing of market movements, with **low average market levels** during the year

Movement in client assets (£ billion)

- 12% **growth in managed assets** reflects £0.9bn net inflows and positive market movements of £0.4bn
- Net inflow rate of 9% reflecting **strong flows** from **own advisers** and **third party IFAs** as well as the **recent hires**

Notes:
1 Includes £1.4 million gain on disposal of a portfolio of self-directed intermediated clients in the second half of 2019.
2 Income from advice, investment management and related services divided by average total client assets. Average total client assets calculated as a two-point average.
3 Rounding results in a casting variance of £0.1bn

Securities

Continued solid trading profitability in difficult market conditions

£ million	2019	2018	change
Operating income	**93.4**	**109.1**	**(14%)**
Operating expenses	(73.4)	(81.0)	(9%)
Operating profit	**20.0**	**28.1**	**(29%)**
Average bargains per day	56k	68k	(18%)
Operating margin	21%	26%	
Return on opening equity	20.7%	29.1%	
Loss days	2	0	

- Reduced income reflecting subdued trading volumes
- Operating expenses **decreased** reflecting **variable costs**
- Reduction in trading volumes reflecting **low market activity** by both retail and institutional investors
- Only two loss days reflecting **traders' expertise** and strong **risk management** of positions

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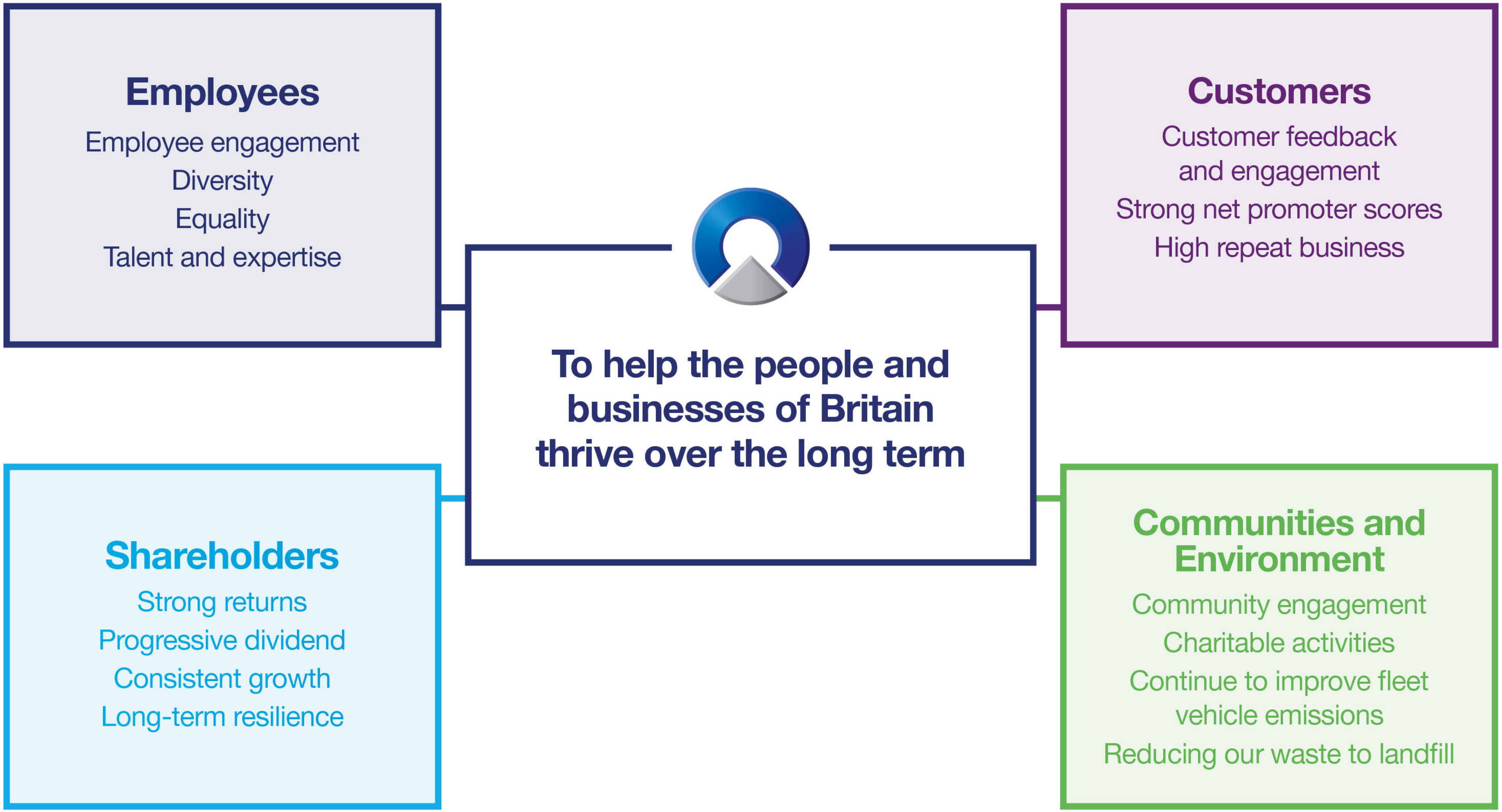
Delivering on our purpose

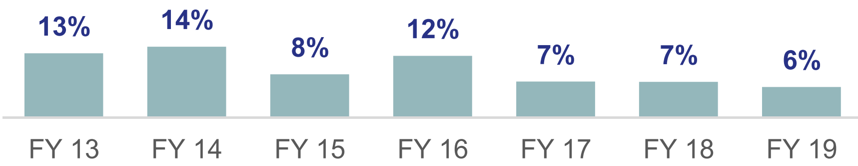
Continuing to add value for all our stakeholders



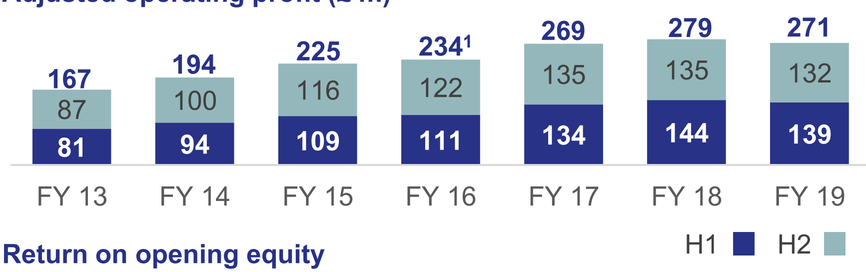
Our approach

Consistent strategy focused on the long term

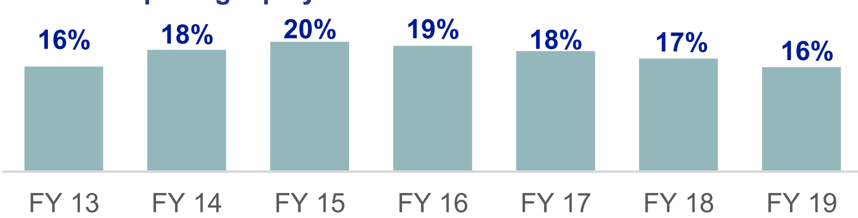
Loan book growth



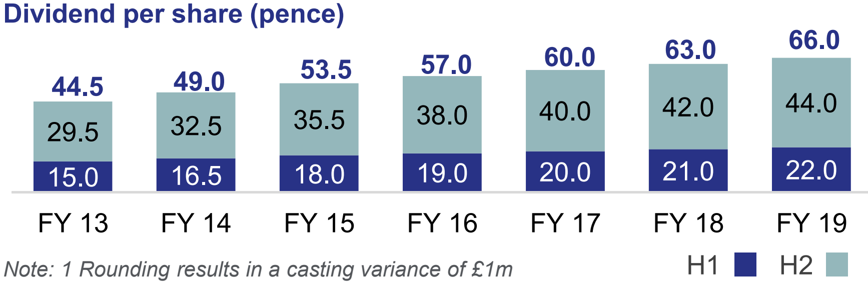
Adjusted operating profit (£'m)



Return on opening equity



Dividend per share (pence)



Note: 1 Rounding results in a casting variance of £1m

1 Specialism and diversity support resilient performance

- Specialist, expert knowledge with focus on strong relationships
- Stable margins and consistent loan book growth
- Strong net inflows in Asset Management and profitable trading in Winterflood

2 Focus on future resilience and readiness

- Maintaining discipline of our model
- Building capital and maintaining funding flexibility
- Contingency planning for a potential downturn
- Ready to lean in when opportunity arises

3 Investments in key strategic initiatives

- Premium transformation, Motor transformation and customer deposit platform
- Strategic investment to grow Asset Management and extend Winterflood's institutional offering
- Good progress towards IRB application

Specialism and diversity support resilience and growth

Three divisions, three specialist lending segments, multiple business lines

BANKING

Commercial

- **Asset Finance** — Loan book: £1.9bn
  - Transport: Wheeled Commercial Assets; Aviation & Marine
  - Industrial Equipment: Manufacturing; Construction; Print; Germany
  - Specialist Asset Finance: Core Leasing; Green Energy; Fleet Finance
- **Invoice & Speciality Finance** — Loan book: £1.0bn
  - Core Invoice: Invoice UK; ABL
  - Other Regions: Invoice Ireland; Invoice Germany; Asset Ireland
  - Speciality Finance: Novitas; Brewery Rentals; Vehicle Hire

Retail

- **Motor Finance** — Loan book: £1.8bn
  - Motor UK
  - Motor Ireland
- **Premium Finance** — Loan book: £1.0bn
  - Commercial
  - Personal
  - Premium Ireland

Property

- **Property Finance** — Loan book: £1.8bn
  - Property Finance
  - Commercial Acceptances

ASSET MANAGEMENT

- Advice
- Integrated Advice & Investment Management
- Investment Management

WINTERFLOOD

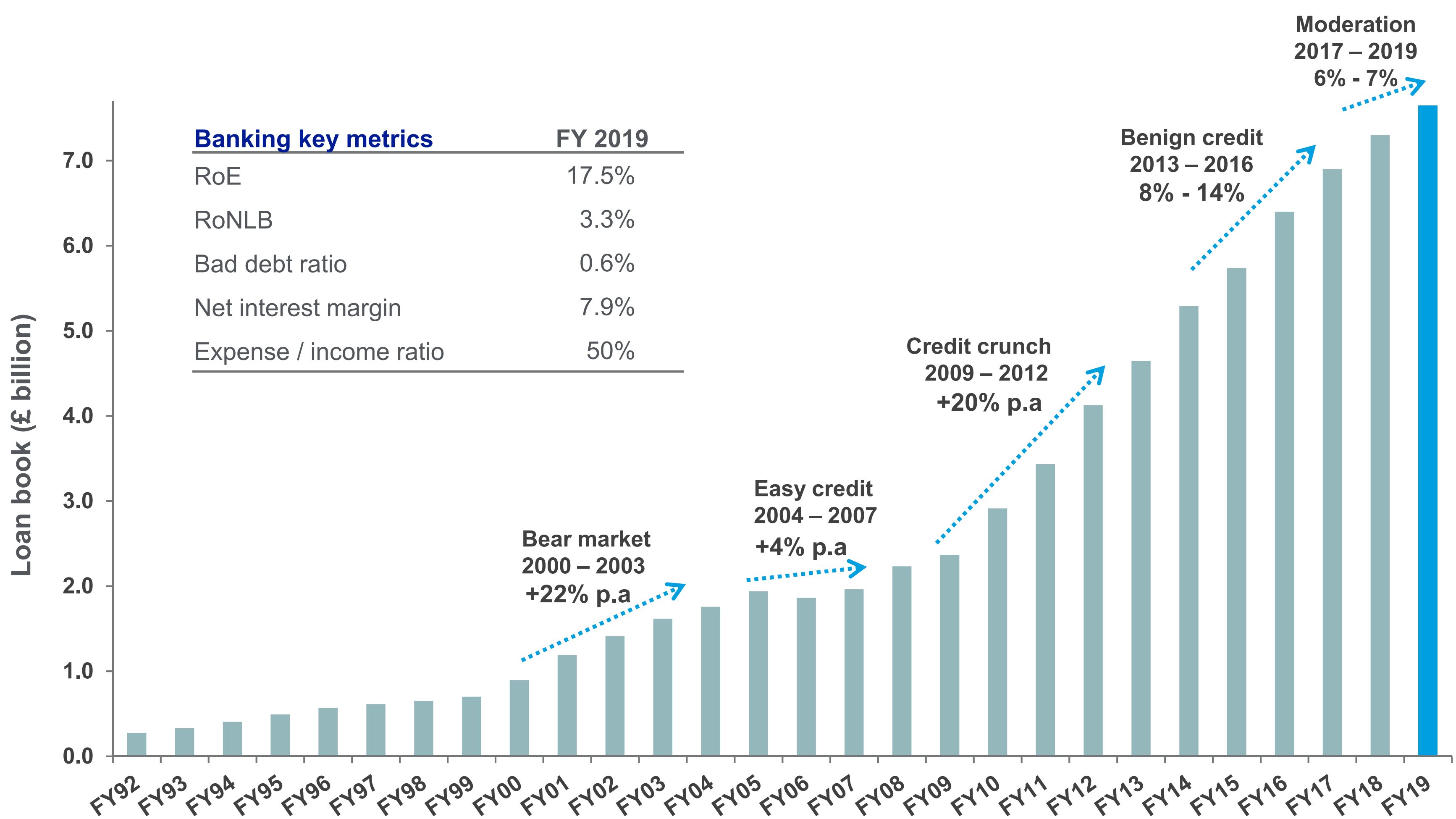
- Market Making
- Winterflood Business Services
- Investment Trusts

Note: Indicative list of example business lines only

Banking: resilience and growth

Long history of lending through the cycle

Banking key metrics	FY 2019
RoE	17.5%
RoNLB	3.3%
Bad debt ratio	0.6%
Net interest margin	7.9%
Expense / income ratio	50%



Banking: strong and stable NIM

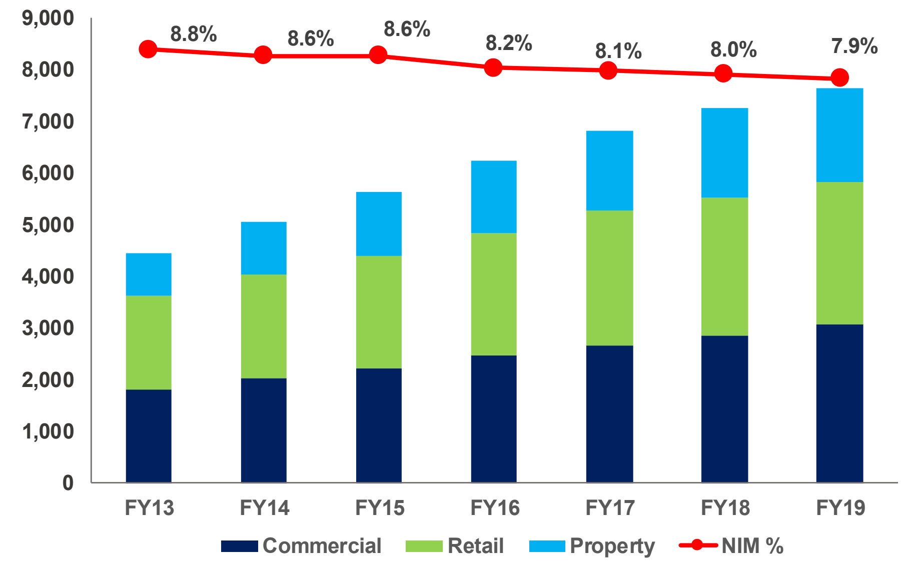
Diversity and stability over the long term

Commercial 8.1% NIM
- Novitas
- Brewery Rentals
- Transport
- Core Invoice Finance
- Green Energy
- Vehicle Hire

Retail 8.1% NIM
- Personal Premium
- Motor UK
- Commercial Premium
- Motor Ireland

Property 7.1% NIM
- Property Finance
- Commercial Acceptances

Loan book (£ billion) and NIM (%)



Banking: credit resilience

Core product security and lending overview by business

A proven and resilient lending model

- **Long track record of disciplined and consistent lending through the cycle**
- **Predominantly secured loan book, with short tenors and low average loan sizes**
- **Experience in underwriting, collections and credit risk management**
- **Scenario planning to leverage internal expertise and experience**
- **Well positioned to protect the business and maximise opportunity in the event of a downturn**

	Core products and security[1]	Average loan size[2]	Typical loan maturity[3]
Asset Finance	• Hire purchase, finance and operating leases • Secured on a wide range of assets with specialist knowledge	c.£40k	3 – 5 years
Invoice Finance	• Invoice discounting, factoring and asset based lending • Rolling facility secured on invoices	c.£400k	2 – 3 months
Motor Finance	• Hire purchase on second hand vehicles • PCP 12% of the loan book	c.£7k	3 – 5 years
Premium Finance	• Personal and commercial insurance policies • Policy refundability and/or broker recourse	c.£0.5k	10 months
Property Finance	• Residential development finance, refurbishment and bridging loans • Maximum LTV 60%	c.£1,400k	9 – 18 months

Notes:
1 Lending statistic figures are for illustrative purposes only and may not be representative of all loan types. Excludes speciality finance businesses. The profile of individual loans may vary significantly.
2 Approximations at 31 July 2019.
3 Typical loan maturity for new business on a contractual basis, except Invoice Finance which is on a behavioural basis. Average maturity of new business in the UK is presented for Motor Finance.

Banking: investing for the future

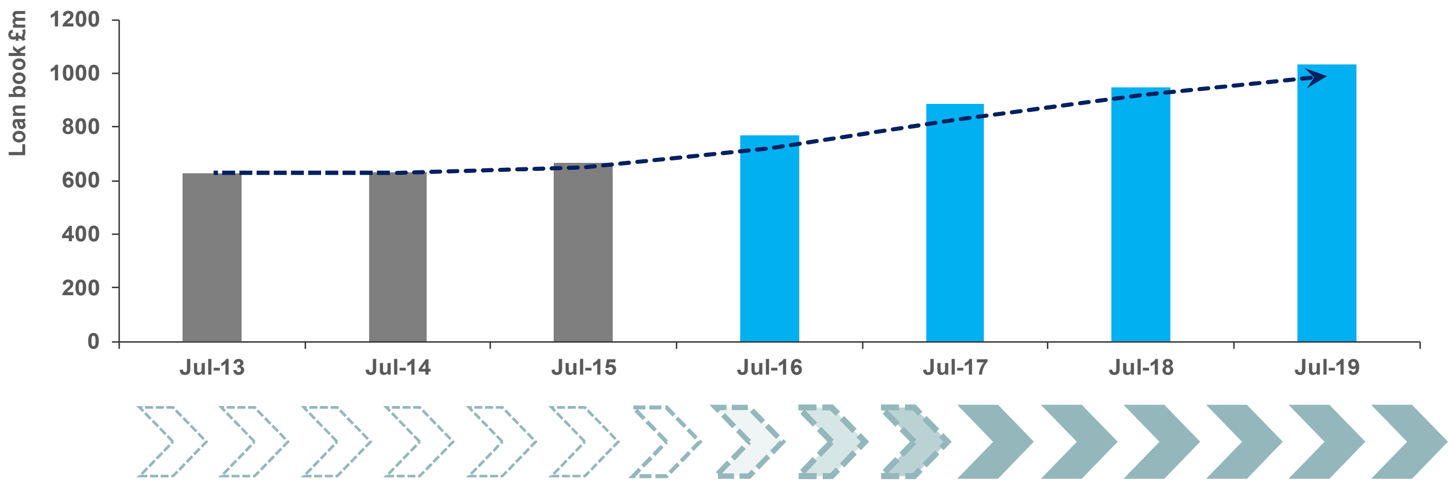
Premium Transformation project

£30m+ Investment Programme

- Investment initiated in **2016** financial year
- New **resilient** and **scalable** customer contact centre
- Enhanced **digital service capabilities**
- Use of **data analytics** for enhanced **business intelligence**
- Enhanced **resiliency** and **risk mitigation** for brokers and customers

Substantial Benefits Delivered

- **34% increase in loan book** since 2016 financial year, now **over £1 billion**
- **20% increase in the number of cases written** since 2016 financial year
- Significant **new broker relationships** won
- Substantial **cost savings** through **operational efficiencies**



+34% loan book growth

+20% cases written

Banking: investing for the future

Strategic investment initiatives

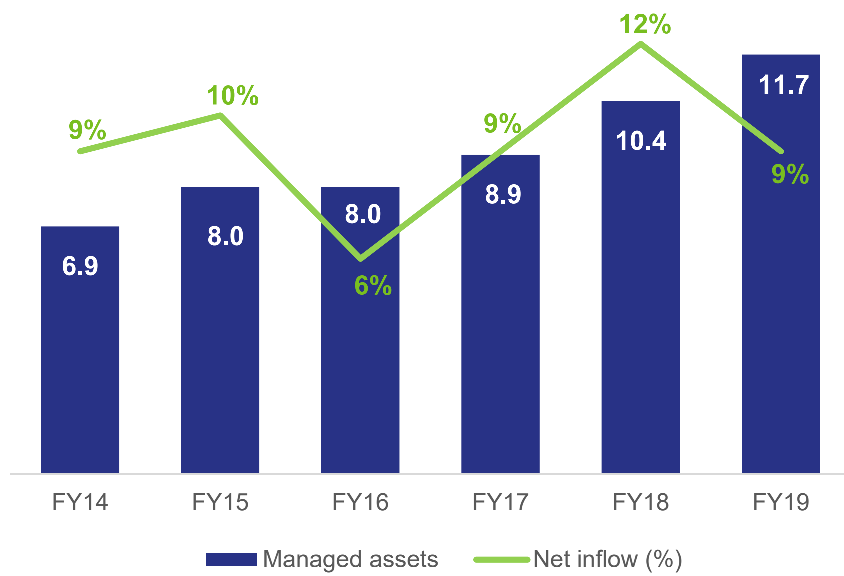
Strategic initiative	Tangible benefits / outcomes
New Deposit Platform	• Increased **funding flexibility** • **Lower cost of funding** • Access to greater distribution, including fast growing online channel • Launching additional retail savings products
Motor Transformation	• **Increased new business volumes** • Better service to dealers and customers with **improved cost efficiency** • Optimise underwriting and customer onboarding • Strengthened sales capability
IRB	• **Optimisation of capital efficiency** and long-term strategic flexibility • **Risk weightings** that better reflect the **risk profile** of our lending • Further **enhancement of our credit risk management** framework • Currently expect to submit formal application **around the 2020 financial year end**

Asset Management

Significant long-term growth potential

- Continued **strong net inflows at 9%**
  - Good business levels from **all channels** and recent hires
  - **Positive market movements** in the second half
- **Ongoing investment** in people, technology and research
  - Enhancing **operating efficiency** and improving **client experience**
- **Strong reputation** in the wealth management market
  - Attracting **new portfolio managers** and advisers
  - Opened new client **office in West End**
- **Significant growth potential for the long term**
  - Attractive vertically integrated offering
  - Continue to improve operational leverage
  - Continued growth in client assets
  - Extending our distribution via multi-channel approach
  - Robust and scalable technology

Total managed assets (£bn) and net inflow rates

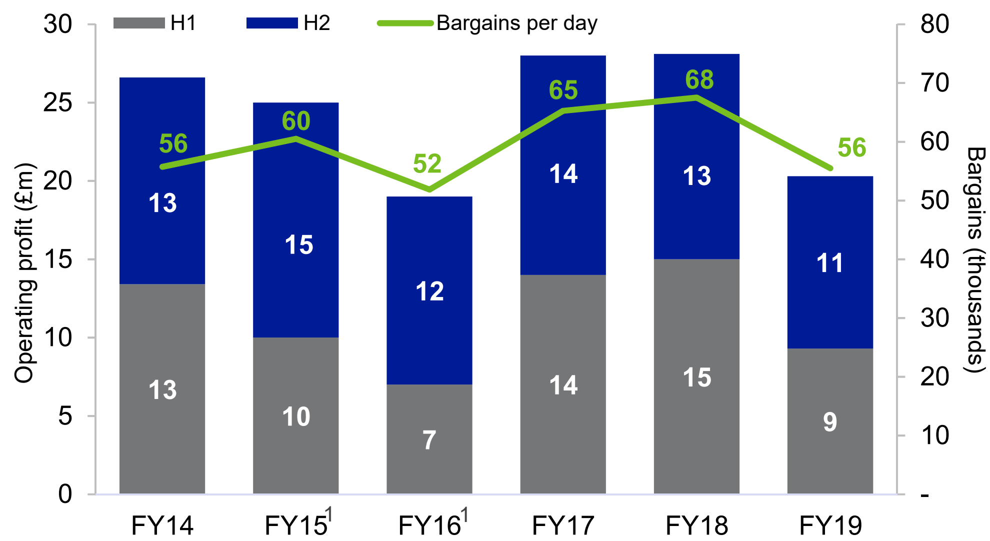


Winterflood

Established leader in market making

- **AOP** at **£20.0 million reflects significant** reduction in investor activity and trading volumes
- Good progress on **expanding relationships** with **institutional clients**
  - **Benefiting** from **unbundling of execution and research** post MiFID 2
  - Affiliate **licensed Broker Dealer** established in the USA
  - **Progress** with Winterflood Business Services
- Established **leader in market making**
  - Focused on **maximising daily trading opportunities**, whilst providing **continuous liquidity** in all market conditions
- **Only two loss days** in volatile equity market conditions
  - Reflects ongoing focus on **risk management** of daily positions and the **expertise** of our traders

Operating profit



Loss days	4	14	17	1	0	2

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

Outlook

Well positioned to support customers and clients

Maintaining the discipline of our business model

- **Banking** is committed to maintaining our model discipline, supporting customers throughout the economic cycle
- **Asset Management** is focused on continued growth in client assets, through new business and selective hiring
- **Winterflood** continues to maintain a strong position in its markets and focus on maximising daily trading opportunities

Specialism and diversity to support resilience and growth

- **Diverse portfolio of businesses** and **strong credit quality** position us well to continue lending consistently and profitably
- Continue to **closely monitor external** and economic developments
- **Contingency planning** for a potential downturn

Investing for the future

- Committed to **investing in key strategic** initiatives while maintaining **cost discipline**

Well positioned to support our customers and clients in a wide range of market conditions

Agenda

1. Introduction – Preben Prebensen, Group Chief Executive
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Appendix

Basis of presentation

Results are presented both on a statutory and an adjusted basis to aid comparability between periods. Adjusted measures are presented on a basis consistent with prior periods and exclude amortisation of intangible assets on acquisition, to present the performance of the group's acquired businesses consistent with its other businesses; any exceptional items, which are non-recurring and do not reflect trading performance; and discontinued operations.

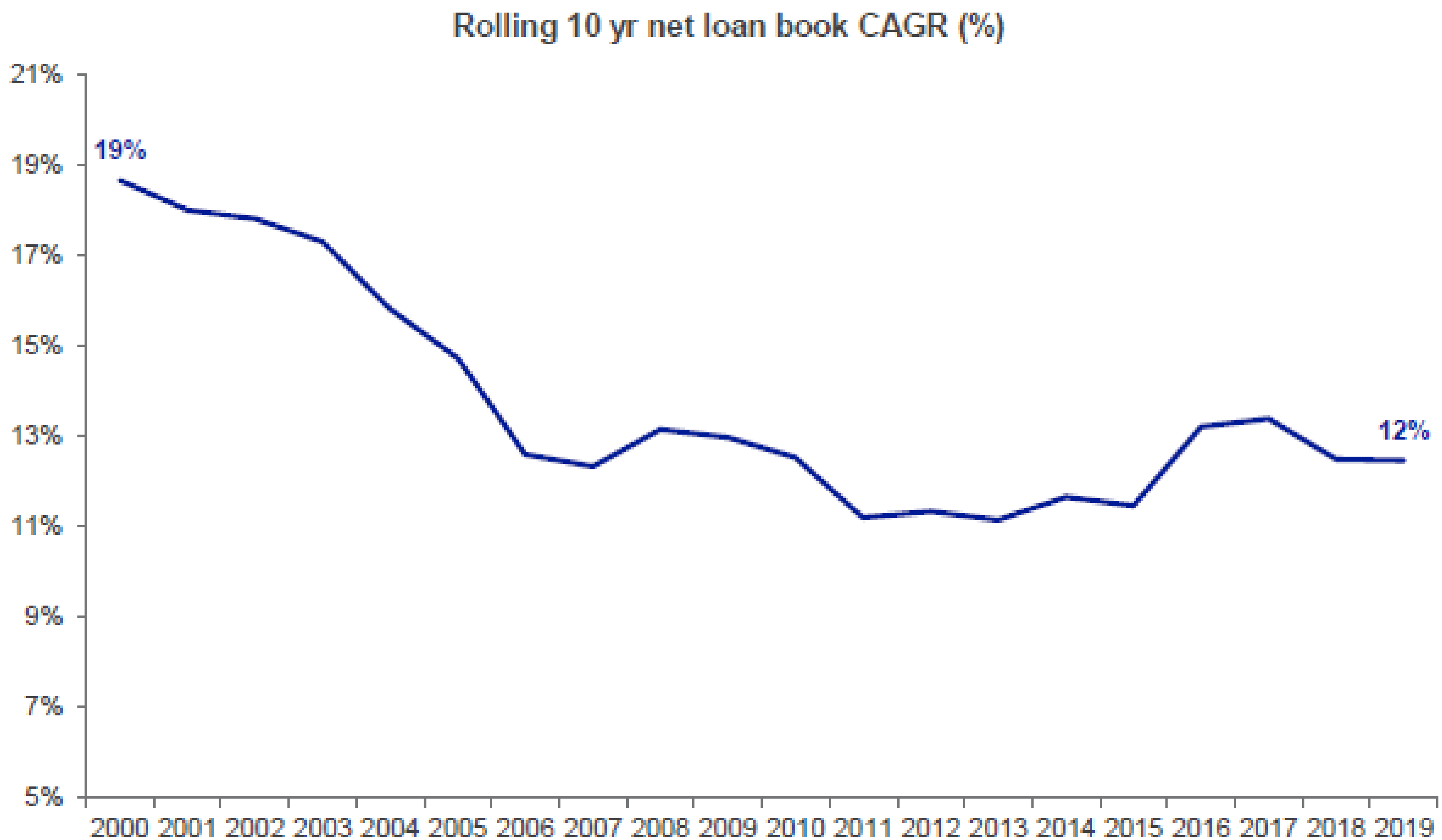
Discontinued operations relate to the unsecured retail point of sale finance business, which was sold on 1 January 2019, and has been classified as a discontinued operation in the group's income statement for the 2018 and 2019 financial years. The related assets and liabilities are classified as held for sale on the group's balance sheet at 31 July 2018 and 1 August 2018.

To maintain consistency with the income statement and reflect the group's continuing operations, the calculation of the bad debt ratio, net interest margin and return on net loan book for the Banking division in the 2018 financial year comparative period excludes the unsecured retail point of sale finance loan book from both the opening and closing loan book.

As previously communicated, the group has adopted IFRS 9 Financial Instruments with effect from 1 August 2018, and is presenting its results for the 2019 financial year under IFRS 9. As permitted by IFRS 9, comparative information has not been restated and transitional adjustments have been accounted for through retained earnings at 1 August 2018.

The comparative income statement for the 2018 financial year continues to be reported under IAS 39 Financial Instruments – Recognition and Measurement. The group has presented its opening balance sheet at 1 August 2018 and reported under IFRS 9 to aid comparability and consistency with the 2019 financial year closing balances (see also note 16 to the consolidated financial statements).

Appendix
10 year average loan book growth



Close Brothers
Modern Merchant Banking

LENDING | DEPOSITS | WEALTH MANAGEMENT | SECURITIES

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