Close Brothers
Modern Merchant Banking

# Close Brothers Group plc

## Annual Results 2020

22 September 2020

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# Agenda

01 **Introduction**
Adrian Sainsbury, Chief Executive

02 Financial update
Mike Morgan, Finance Director

03 Business update
Adrian Sainsbury, Chief Executive

04 Q&A

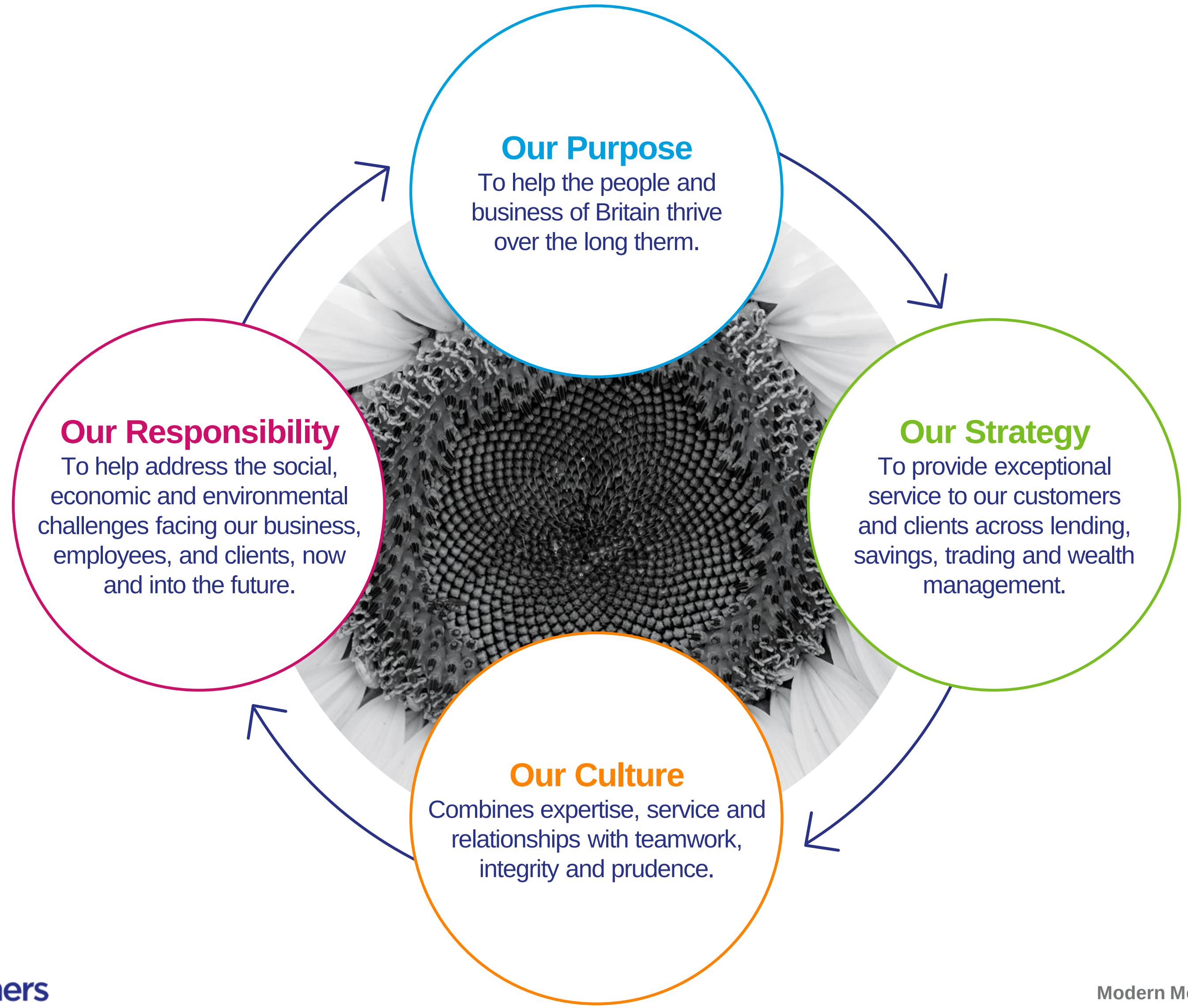
# Overview

Resilient performance in FY20 in a challenging environment

- Resilient financial and operational performance reflecting the disciplined application of our business model in a challenging environment
- High quality loan book is predominantly secured and prudently underwritten
- Very strong performance of Winterflood and continued good momentum in Asset Management
- Strong capital, funding and liquidity position providing resilience and flexibility
- Encouraging signs since the easing of restrictions in June and July, although the economic recovery remains uncertain
- The Board is proposing a 40.0p dividend in respect of the full financial year

# Our Purpose

Supporting our customers, clients and partners is integral to our Purpose



# A proven and resilient model

Supporting long track record of growth and profitability

## Fundamental strengths of the model

### Disciplined underwriting and pricing

- **Predominantly secured loan book** with prudent LTVs
- **Prudent, expertise based** underwriting
- Consistently **strong net interest margin**

### Prudent management of financial resources

- **14.1% CET1 capital ratio**, over 600bps ahead of minimum requirement
- **Prudent funding** based on ‘borrow long, lend short’
- **Strong liquidity** position with LCR of 823%

### Diversity and specialism

- Our **loan book is diverse** by sector, geography and asset classes
- **Asset Management** provides additional long-term growth opportunity
- **Winterflood** provides diversification at different stages of the cycle

## Our track record

Long-term growth

Strong returns through the cycle

Long dividend track record

Supporting customers and clients

# Taking the model forward

We are confident we will emerge in a strong position

## Our responsibility

- The group remained open for business throughout the Covid-19 crisis
- Long history of supporting individuals and SMEs across the UK through a range of market conditions
- Safety and wellbeing of colleagues is of the utmost importance
- Flexible working arrangements and regular feedback sought

## Protecting our business

- Implementing playbooks developed in 2019 in preparation for a downturn
- Financial resilience allows us to continue to deliver on our purpose
- Strong operational capability: successfully adapted and leant in to the situation

## Taking the model forward as we emerge from the crisis

- Through the cycle provider of funding, wealth management and trading services to small businesses and individuals
- Deep experience and expertise of our people from previous downturns
- Investing to protect, improve and extend the model
- Maximising the opportunity in each of our markets and identifying new products, distribution channels and adjacent markets

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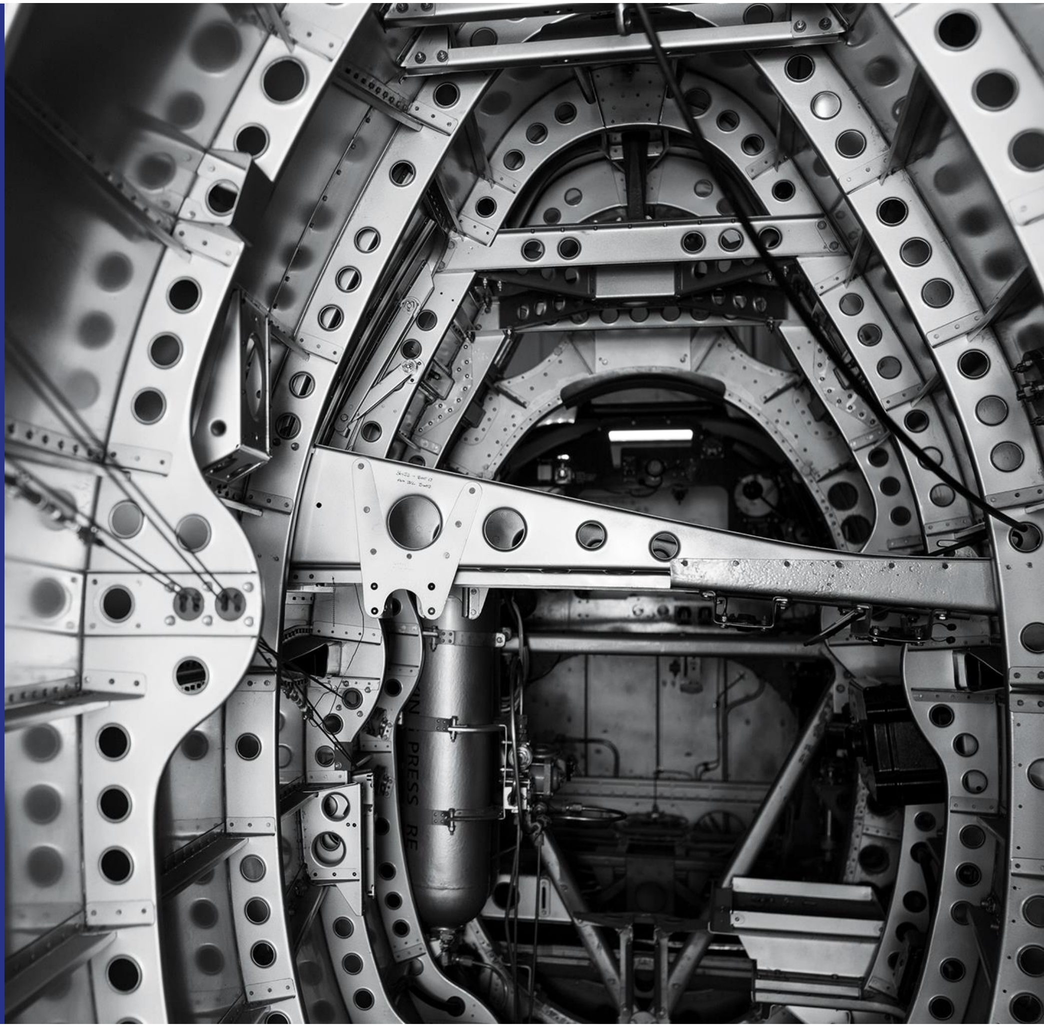


# Financial Overview

## Financial performance impacted by higher impairment charges and lower activity levels

| | |
|---|---|
| **Adjusted EPS** | 74.5p |
| **Return on opening equity[1]** | 8.0% |
| **CET1 capital ratio** | 14.1% |
| **Leverage ratio** | 11.2% |
| **Dividend per share[2]** | 40.0p |
| **Loan book growth** | (0.4%) |
| **Net interest margin** | 7.5% |
| **Bad debt ratio** | 2.3% |
| **Net inflow rate[3]** | 9% |
| **Avg bargains per day** | 82k |

### Resilient performance reflecting disciplined application of our business model in a challenging environment

- The **impact of Covid-19** is evident across all aspects of our business
- Group AOP of £144.0 million, down 47%, with **Banking profit** impacted by lower activity levels, forbearance and higher impairment charges
- Partially offset by **higher profits in Winterflood**
- Our **specialism and discipline** supports returns in an uncertain economic environment, with a solid ROE of 8%
- **Maintained a strong capital, liquidity and funding position**, with a CET1 capital ratio of 14.1%, over 600bps above minimum regulatory requirement
- **Proposed 40.0p dividend** in respect of the full financial year, reflecting the Board's **confidence** in the **business model** and **strong financial position**, notwithstanding the current uncertain environment

Notes:
[1] Return on average tangible equity was 9.4% in 2020. [2] The dividend in respect of the full financial year is subject to approval at the Annual General Meeting, the final dividend will be paid on 24 November to shareholders on the register at 16 October 2020. [3] Annualised net inflows as a percentage of opening managed assets.

# Income statement

## Income growth, continued investment and increase in impairment charges

| Continuing operations[1] £ million | 2020 | 2019 | % change |
|---|---|---|---|
| **Adjusted operating income** | **866.1** | **816.4** | **6** |
| Adjusted operating expenses | (538.4) | (497.4) | 8 |
| Impairment losses | (183.7) | (48.5) | 279 |
| **Adjusted operating profit[2]** | **144.0** | **270.5** | **(47)** |
| Operating profit before tax | 140.9 | 264.7 | (47) |
| Effective tax rate | 22.3% | 24.3% | |
| Profit/(loss) from discontinued operations | - | 1.1 | (100) |
| **Profit attributable to shareholders[3]** | **109.5** | **201.6** | **(46)** |

- **Income growth** reflected strong performance in Asset Management and Winterflood, partially offset by the Banking division
- **Increased costs** mainly driven by **higher variable costs** in Winterflood and **continued investment across the businesses**
- **Impairment charges** reflect the forward-looking recognition of impairment charges under IFRS 9
- **Reduction in profits** in Banking and Asset Management partly offset by **strong performance** in Winterflood

Notes:
[1] Results from continuing operations exclude unsecured retail point of sale finance business, which was sold on 1 January 2019, and was classified as a discontinued operation in the group's income statement for the 2019 financial year.
[2] Adjusted operating profit excludes £3.1 million (2019: £5.8 million) of amortisation of intangible assets on acquisition, and profit from discontinued operations of £nil (2019: £1.1 million) net of tax.
[3] Profit attributable to shareholders from continuing and discontinued operations.

# Divisional performance

Diversity continues to support a resilient performance

| £ million | 2020 | 2019 | % change |
|---|---|---|---|
| Banking | 99.2 | 253.7 | (61) |
| Commercial | 4.8 | 86.5 | (94) |
| Retail | 34.9 | 72.5 | (52) |
| Property | 59.5 | 94.7 | (37) |
| Asset Management | 20.4 | 21.8 | (6) |
| Winterflood | 47.9 | 20.0 | 140 |
| Group | (23.5) | (25.0) | (6) |
| **Adjusted operating profit** | **144.0** | **270.5** | **(47)** |

## Banking

- **Commercial, Retail and Property** impacted by **higher impairments**
- **Lower activity levels**, although seen an **increase** since the easing of lockdown restrictions in June and July

## Asset Management

- **Good momentum** reflected in **higher investment management income** offset by **investment in new hires** and **technology**

## Winterflood

- **Very strong trading** performance reflecting **high investor activity** and **increased trading volumes**

# Strong and transparent balance sheet

Diverse funding with increased deposits potential and prudent liquidity

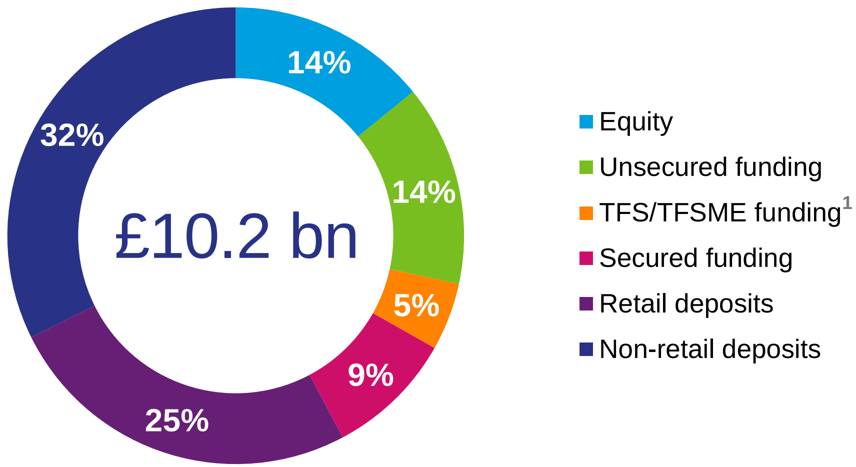
## Prudent approach to funding

- **Prudent level of funding,** covering loan book by **135%**
- Maintained the principle to **"borrow long, lend short"**
- **Maintained prudent liquidity** position while optimising level and mix of treasury assets

| | |
|---|---|
| **Total funding** £10.2 billion | **Average maturity** of loan book funding at **18 months** |
| **Loan book** £7.6 billion | **Average maturity** of the loan book at **15 months** |
| **Treasury assets** £1.7 billion | **£1.4bn** with central banks |

- Our customer deposit platform supports continued growth and diversification of our funding base
  - Online portal attracting additional depositors with improved digital offering proving beneficial in current environment

## Diverse funding base




- Access to **diverse funding** sources supported by **strong credit ratings**[2], with Close Brothers Ltd rated **Aa3** (Moody's)[3]
- Continue to **optimise cost of funds** through disciplined deposit pricing and renewal of facilities

Notes:
[1] Term Funding Scheme / Term Funding Scheme for SMEs.
[2] Moody's rates Close Brothers Group ("CBG") A3/P2 and Close Brothers Limited ("CBL") Aa3/P1, with a 'negative' outlook. Fitch rates both CBG and CBL A-/F2 with a 'negative' outlook.
[3] Long-term deposit rating of Close Brothers Limited.

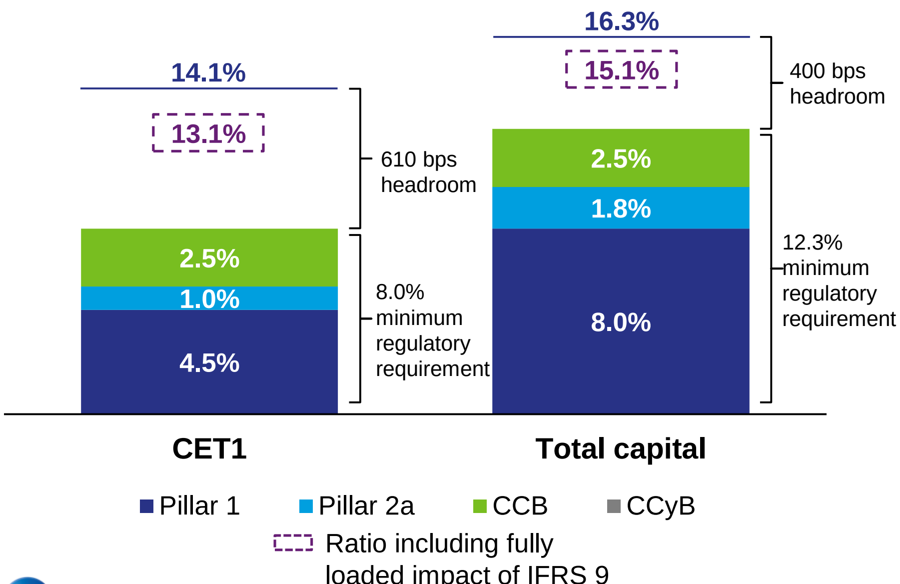
# Capital

Strong capital position provides significant flexibility for growth

## Capital overview[1]

| | 31 July 2020 | 31 July 2019 |
|---|---|---|
| **CET1 capital ratio** | 14.1% | 13.0% |
| **Total capital ratio** | 16.3% | 15.2% |
| **Leverage ratio[2]** | 11.2% | 11.0% |
| **CET1 capital (£m)** | 1,254 | 1,169 |
| **RWAs (£m)** | 8,863 | 8,967 |

## Capital position vs requirements




- **Strong CET1 capital ratio, significantly above** minimum regulatory requirements
- Increased CET1 capital driven by retained profit with impact of **higher impairment charges largely offset** by capital **add-back** under transitional IFRS 9 arrangements
- **RWAs broadly flat**, with a **reduction in credit risk RWAs** including implementation of the revised "SME" supporting factor offset by an **increase in operational risk RWAs**
- **Leverage ratio remains strong**, increasing to 11.2%
- **Good progress** towards our **IRB application**, currently on track to submit our formal application by the **end of calendar year 2020**

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 the transitional 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.

# Banking

## Performance reflected the impact of Covid-19 on impairment charges and income

| Continuing operations[1] £ million | 2020 | 2019 | % change |
|---|---|---|---|
| **Adjusted operating income** | **586.0** | **602.6** | (3) |
| Adjusted operating expenses | (303.4) | (300.5) | 1 |
| Impairment losses | (183.4) | (48.4) | 279 |
| **Adjusted operating profit** | **99.2** | **253.7** | (61) |
| | | | |
| Net interest margin[2] | 7.5% | 7.9% | |
| Expense/income ratio | 52% | 50% | |
| Bad debt ratio[3] | 2.3% | 0.6% | |
| Return on net loan book[4] | 1.3% | 3.3% | |

- **Reduction in income** driven by **lower activity** and **forbearance**
- **Impact of lower activity levels** reflected in loan book and decline in net interest margin, although we maintain our pricing discipline
- **Continued investment** largely offset by lower variable compensation
- **Higher impairment provisions** reflect the impact of Covid-19 on the **forward-looking recognition** of impairment charges under IFRS 9

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 2019 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

Prudent assessment and appropriately provisioned

## Expert judgement applied

- Application of our models overlaid with expert judgement to determine:
  - Appropriate allocation between stages
  - Coverage at the individual portfolio level
  - Updated macroeconomic scenario weightings

## Increase in provision coverage to 3%

- Increase in impairment charges reflects:
  - Migration of loans between stages
  - Incorporation of more severe macroeconomic scenarios
  - Review of provision coverage at the individual loan and portfolio level

## Confidence in the quality of our loan book

- Predominantly secured, prudently underwritten and diverse
- Supported by the expertise of our people

## IFRS 9 Staging allocation

| | Stage 1 | Stage 2 | Stage 3 | Total |
|---|---|---|---|---|
| **Gross loans** | 5,906.6 | 1,574.2 | 374.6 | 7,855.4 |
| **Impairment provisions** | 57.6 | 87.3 | 93.8 | 238.7 |
| **Provision coverage ratio** | 1.0% | 5.5% | 25.0% | 3.0% |

## Typical forbearance offered

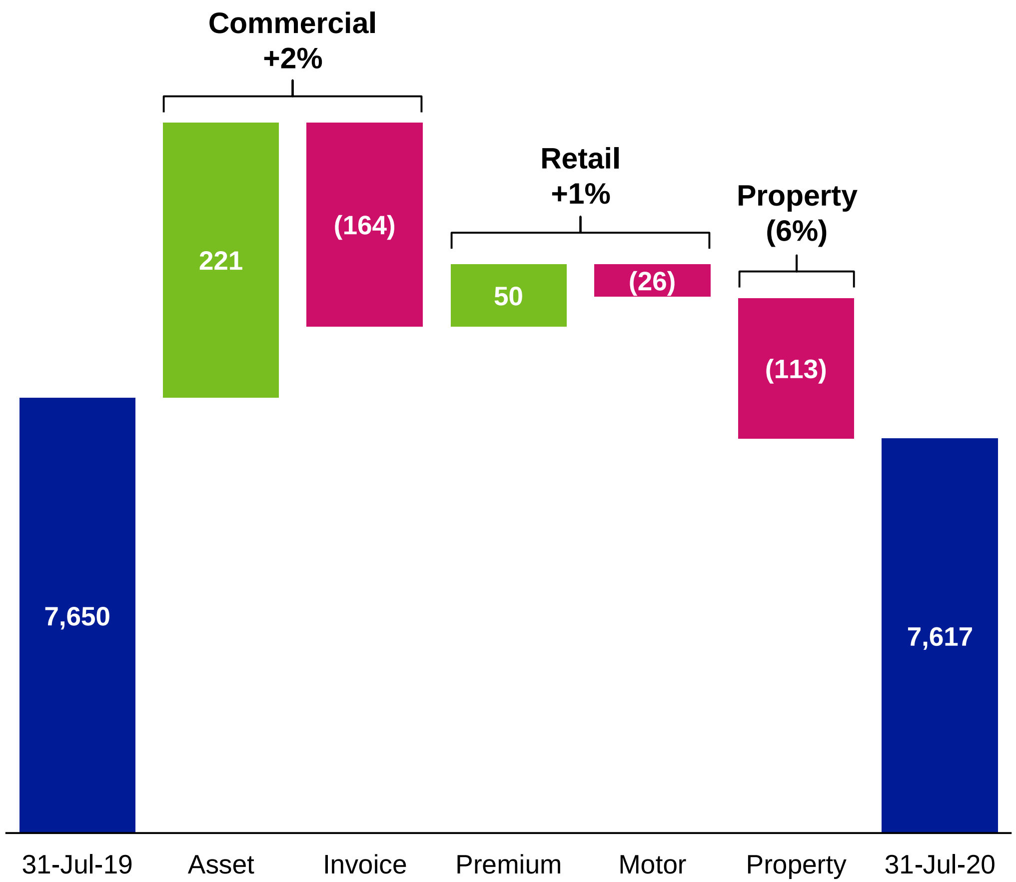
| | | % of loan book on forbearance by value[1] |
|---|---|---|
| **Commercial** | Capital payment holidays<br>Over-payments on invoice discounting and factoring facilities | 26% |
| **Retail** | Payment deferrals | 9% |
| **Property** | Fee free, payment term extensions for development loans<br>Capital repayment holidays for non-development loans | 18% |
| **Banking** | | 18% |

Notes:
[1] Percentage of loan book forborne by value at 31 July 2020.

# Banking

Broadly stable loan book reflecting increase in activity in June and July

## **Loan book movement by segment** (£ million)[1]




## Diversification and specialism provide resilience

- Strong performance in **Asset Finance**, with good new business levels supported by the Coronavirus Business Interruption Loan Scheme (“CBILS”)
- Decline in **Invoice Finance** driven by Covid-19 impact on utilisation levels
- Increase in **Premium** loan book, with continued solid demand for insurance finance
- **Motor** saw strong activity in the UK as lockdown eased, offset by a reduction in the ROI loan book
- Decrease in the **Property** loan book driven by fewer drawdowns on lending facilities and higher repayments

Notes:
[1] Excludes operating lease assets of £221.9 million in 2020 and £220.4 million in 2019 relating mainly to the Invoice and Speciality Finance business.

# Banking

## Net interest margin: focus on pricing and underwriting discipline

### Specialist, relationship driven model supports a strong NIM

- Consistently strong NIM compared to sector average
- Prioritise pricing and underwriting, not volume growth

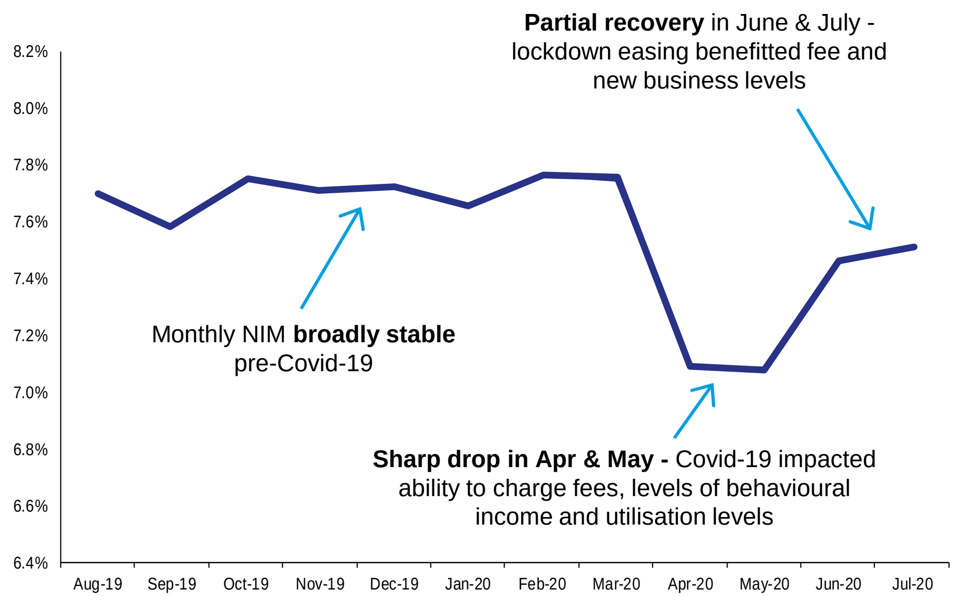
### NIM down by 40bps to 7.5%

- Lower fees due to reduced activity levels
- Impact of forbearance and waiving of certain fees
- Group cost of funds stable at 1.7%

### Partial recovery in June and July

- Encouraging increase in customer activity since easing of lockdown

### FY20 Monthly NIM trend[1]

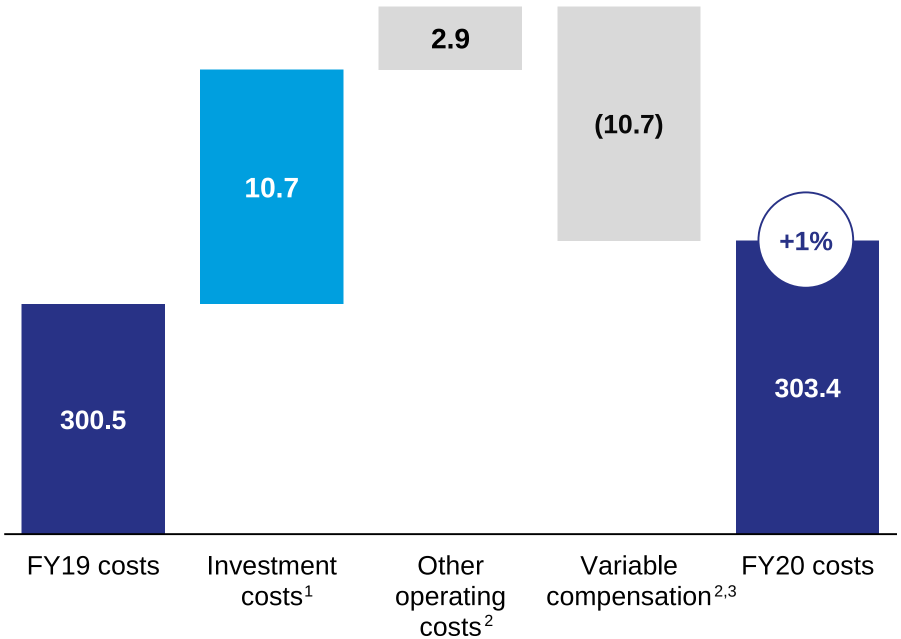



Notes:
[1] Monthly NIM is adjusted for day count and excludes certain items including modification losses arising from the onset of Covid-19.

# Banking

Strict control of costs while investing in the business

## Movement in costs (£ million)




Notes:
[1] Includes depreciation and other costs related to investment in multi-year projects, new business initiatives and pilots and cyber resilience. Excludes IFRS16 depreciation.
[2] Other operating costs include staff costs and other BAU costs.
[3] Reduction in variable compensation includes lower commission-based payments.

## Continued investment offset by lower variable compensation

### Investment costs[1]

- Investing through the cycle remains a key strategic priority, with a number of ongoing investment programmes delivering benefits
- FY20 investment costs increased £10.7 million to £57.2 million (19% of FY20 total cost base)
- Investment costs expected to grow in FY21 as initiatives progress

### Other operating costs[2]

- Strict control of other operating costs to create investment capacity
- Variable compensation[3] reduced in FY20 due to lower profitability
- FY20 other operating costs decreased £7.8 million to £246.2 million

# Investing for the future

Investing to protect, improve and extend our business

## 01 Protecting our business

- Business resilience
- Strengthened funding and liquidity
- Regulatory compliance

## 02 Improving our business

- Improved operational and capital efficiency
- Accretive to existing returns
- Intentionally investing through the cycle to increase the value of our business for the long-term

## 03 Extending our business

- New products and locations
- New markets and changing consumer behaviours
- New technologies and capabilities

## Strategic investment programmes

| | | Protect | Improve | Extend |
|---|---|---|---|---|
| **Motor transformation** | Multi-year investment programme to improve the service proposition, enhance operational efficiency and increase sales effectiveness | ✓ | ✓ | ✓ |
| **IRB** | Transition to IRB approach to better reflect the risk profile of our lending | ✓ | ✓ | |
| **Asset transformation** | Multi-year investment programme to enhance sales effectiveness through enhanced data capabilities and technology | ✓ | ✓ | ✓ |
| **Cyber resilience** | Significant investment to enhance cyber security and operational resilience to ensure we protect our business and clients | ✓ | | |
| **Property Finance regional expansion** | Expansion into UK regional markets, with strong structural demand for family housing, and launch of new Manchester office | | | ✓ |
| **Customer Deposit Platform** | Deposit platform providing wider range of retail deposit products and online offering | ✓ | ✓ | ✓ |
| **Asset Management** | Long-term structural growth opportunity from high demand for advice and investment management services and industry consolidation. Continued hiring of client facing professionals and investment in technology | | ✓ | ✓ |
| **Data centre transformation** | Significant investment in new data centres and the Cloud will allow us to reduce future IT footprint costs and increase efficiency | ✓ | ✓ | |

# Investing for the future

## Customer Deposit Platform case study

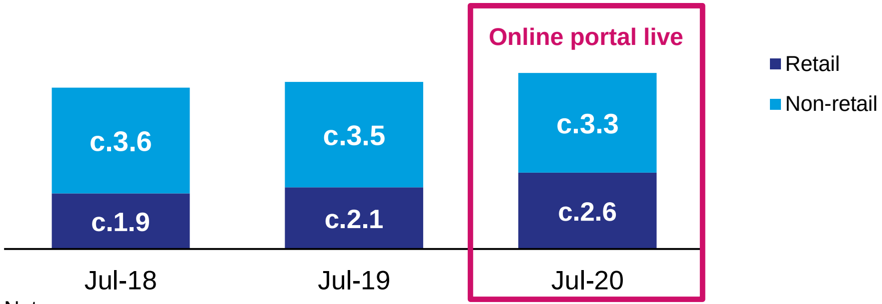
### Significant investment programme

- Investment initiated in 2017 financial year
- Platform launched in December 2018 and online portal launched in December 2019
- **Resilient** and **scalable** deposit platform
- Offering a more **diverse product mix,** access **to new customer segments** via a **choice of distribution channels**
- **Simplified application** process, with **digital communication** and **online savings accounts** offered whilst also maintaining traditional channels

### Benefits

- **New products** introduced include a **range of notice accounts** for **different customer types** - suite of **new savings accounts to be launched during FY21**, including cash ISAs
- **New online portal** attracting additional depositors brings enhanced customer experience with **onboarding timescales reduced**
- **Scalability and operating efficiencies**
- Broader savings proposition helps **optimise cost of funding**

### Customer deposits (£ billion)




Notes:
[1] As at 31 July 2018.
[2] Excludes Specialist.

### Key highlights since launch

- Retail deposits up **37%** since pre-platform launch[1]
- Retail depositors up **8%** since 31 July 2019[2]
- **c.4,000 registered online customers** since launch
- New notice accounts products at **£600m**

# Asset Management

## Good momentum during challenging market conditions

| £ million | 2020 | 2019 | % change |
|---|---|---|---|
| **Operating income** | **128.2** | **120.4** | **6** |
| Investment management | 91.4 | 81.7 | 12 |
| Advice and other services | 35.5 | 37.2 | (4) |
| Other income[1] | 1.3 | 1.5 | (15) |
| Adjusted operating expenses | (107.7) | (98.5) | 9 |
| Impairment losses on financial assets[2] | (0.1) | (0.1) | - |
| **Adjusted operating profit** | **20.4** | **21.8** | **(6)** |
| Operating margin | 16% | 18% | |
| Revenue margin[3] | 94bps | 93bps | |
| Return on opening equity | 28.7% | 32.1% | |
| Annualised net inflows as % of opening managed assets | 9% | 9% | |

| £ billion | 31 July 2020 | 31 July 2019 | % change |
|---|---|---|---|
| Total managed assets | 12.6 | 11.7 | 8 |
| Total client assets | 13.7 | 13.3 | 3 |

- **Increased income** driven by **higher investment management income** from strong **growth in managed assets**
- Increase in expenses reflecting continued **investment** in people and technology
- Broadly stable revenue margin
- **Good net inflow rate of 9%** reflecting strong flows particularly from **recent hires**
- **8% growth in managed assets** reflects strong net inflows, partly offset by 1% decline from negative market movements

Notes:
[1] Includes net interest income and expense, income on principal investments and other income. Other income includes a £1.1 million and £1.4 million gain on disposal of non-core assets in the 2020 and 2019 financial years, respectively.
[2] Impairment losses on financial assets reflects an increase in the expected credit loss provision related to cash balances.
[3] Income from advice, investment management and related services divided by average total client assets. Average total client assets calculated as a two-point average.

# Winterflood

## Very strong trading performance and significant increase in operating profit

| £ million | 2020 | 2019 | % change |
|---|---|---|---|
| **Operating income** | **151.9** | **93.4** | **63** |
| Operating expenses | (103.8) | (73.4) | 41 |
| Impairments | (0.2) | - | na |
| **Operating profit** | **47.9** | **20.0** | **140** |
| Average bargains per day[1] | 82k | 56k | 48 |
| Operating margin | 32% | 21% | |
| Return on opening equity | 50.4% | 20.7% | |
| Loss days | 7 | 2 | |

- Higher income reflecting **very strong trading performance** and **significant increase in volumes** since the Covid-19 outbreak
- **Increased operating expenses** driven by higher **variable staff compensation** and **settlement costs** reflecting increased trading activity
- Only seven loss days reflecting **traders' expertise and experience** in navigating **extraordinary market movements**
- **Operating profit up 140% to £47.9m**, the highest since 2010

Notes:
[1] Percentage change based on unrounded number of average daily bargains.

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# Group Overview

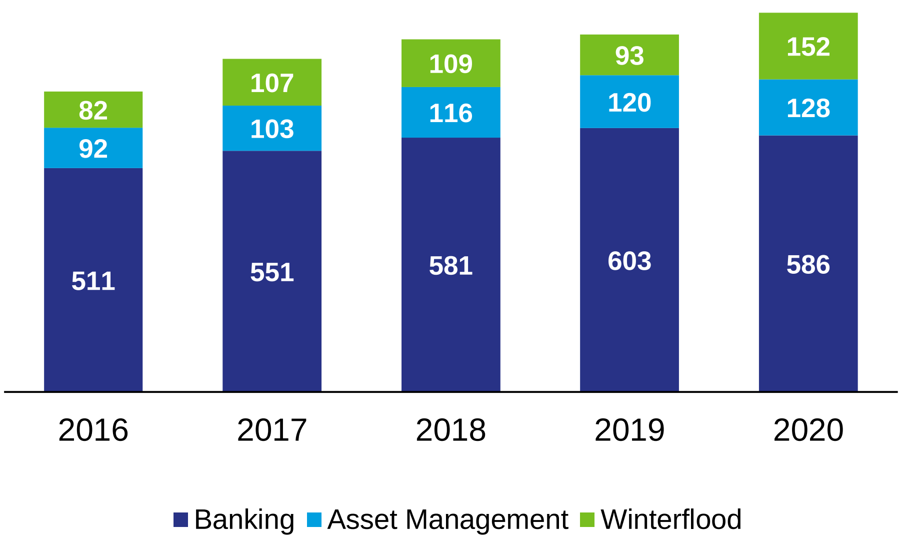
Well placed to respond to opportunities

Impact of Covid-19 on the Banking division from lockdown, forbearance and impairment provisioning

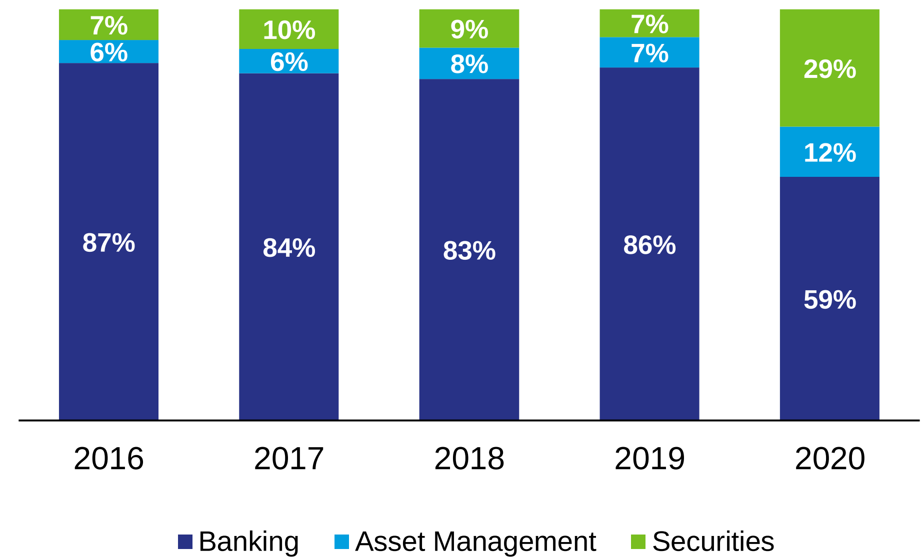
Attractive vertically integrated model in Asset Management and resilient trading with market activity upside in Winterflood

Diversified business model and specialist expertise continues to support our resilience and performance

## Operating income (£ million)



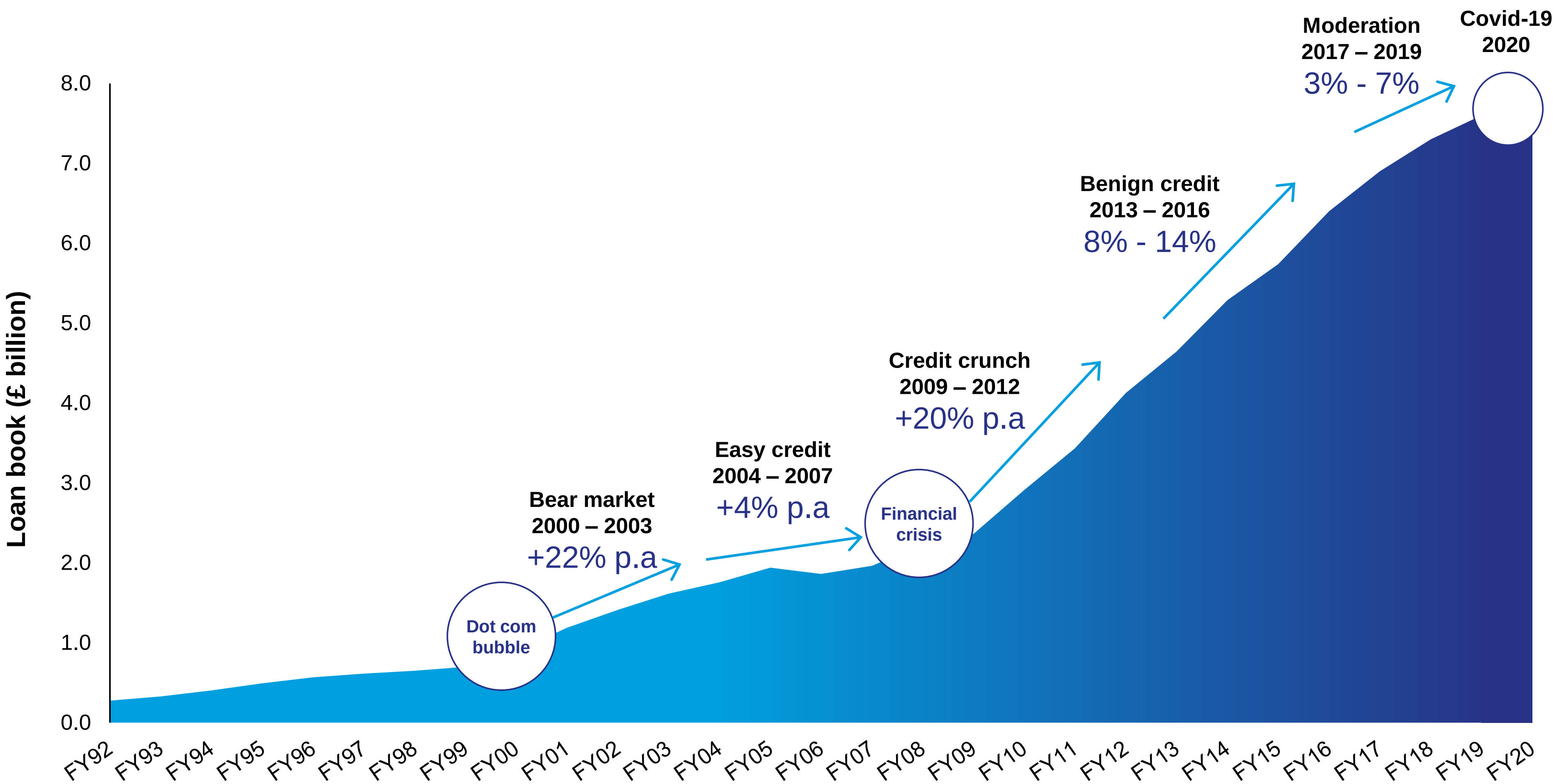

## Adjusted operating profit mix (%)[1]




Notes:
[1] Adjusted operating profit mix is shown prior to group costs.

# Banking

Long history of lending through the cycle



# Banking

Prudent and disciplined approach to lending

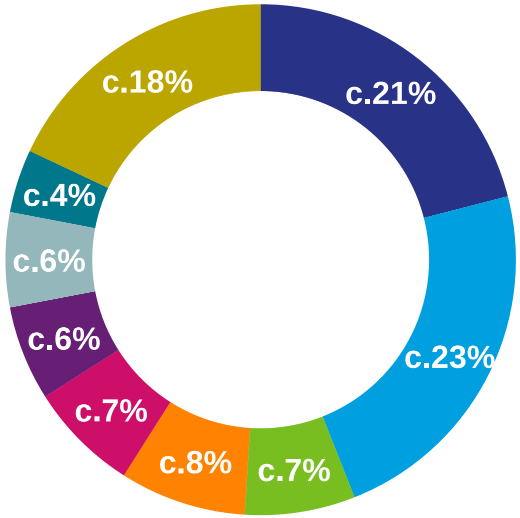
## A proven and resilient lending model

Loan book is prudently underwritten and supported by the expertise of our people

Over 90% of book is secured or has some form of structural protection

Lend to a diverse range of asset classes with no major sector concentrations

## Confident in the credit quality of our loan book




- Residential property development and construction
- Motor Finance (consumer lending)
- Premium Finance (consumer lending)
- Manufacturing
- Real estate activities
- Transportation and storage
- Administrative and support service activities
- Energy and renewables
- Other sectors contributing 3% or less individual exposure

# Banking Overview - Commercial

## Asset Finance

- Covid-19 had a significant impact in Asset Finance, with monthly volumes reaching their lowest levels in April and May
- Offset by strong new business volumes in June and July, including good demand for CBILS product
- Offered a broad range of forbearance measures such as capital repayment holidays with fees and charges waived and remain in regular contact with customers supported

## Invoice & Speciality Finance

- Significant reduction in utilisation due to softer demand reflecting economic uncertainty for most of the year, compounded by Covid-19
- The lockdown had a significant impact on new business, with the sales team unable to visit prospects
- Prudent level of provisioning, but limited loan losses at this stage

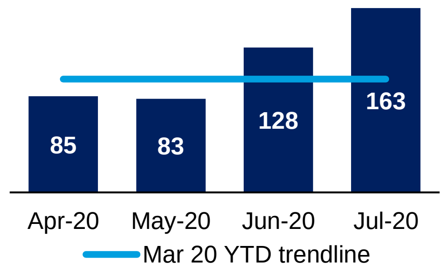
## Approvals under the CBILS, CLBILS and BBLS[1]

| (As at 31 July 2020) | Volume | Value (£m) |
|---|---|---|
| **Total credit approved** [2,3] | 1430 | 353 |
| **Credit drawdown** | 901 | 194 |

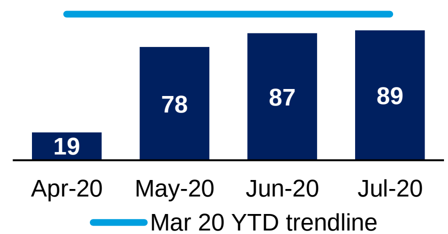
## New business volumes

(as a % of monthly YTD average to March 2020)

**Asset Finance**




**Invoice & Speciality Finance**




## Forbearance overview

- Covid-19 forbearance given on 26% of the Commercial book[4]
- Payment deferrals in Asset Finance and overpayments on invoice discounting and factoring
- Remain in close contact with customers granted forbearance and the majority, accounting for over 70% of the forborne loan book, have now resumed payments

Notes:
[1] Vast majority of lending via CBILS, with BBLS representing less than £2 million.
[2] Includes Property.
[3] Includes live facilities and credit approved but awaiting drawdown.
[4] Percentage of loan book forborne by value at 31 July 2020.

# Banking Overview - Retail

## Motor

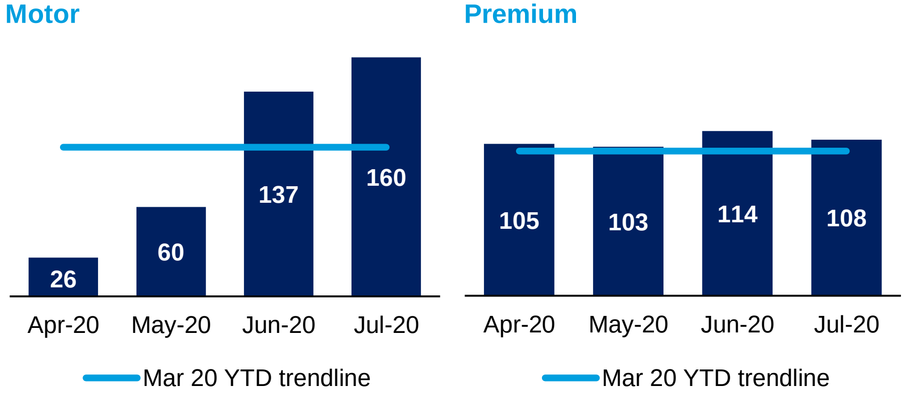
- Prior to Covid-19 the UK business generated good levels of incremental new business
- Covid-19 saw car dealerships closed in April and May
- Strong performance since June, with July delivering the highest monthly volume on record (up 35% vs. July 2019)
- Offered a broad range of forbearance measures such as payment holidays

## Premium

- Impact of Covid-19 on new business and credit performance relatively limited, although had an impact at operational level
- Continued strong demand for insurance finance

## New business volumes

(as a % of monthly YTD average to March 2020)




## Forbearance overview

- Covid-19 forbearance given on 9% of the Retail book[1]
- Concessions offered principally in the form of payment holidays
- Continue to closely monitor the performance of the forborne loan book and associated provision coverage
- Over three quarters of forborne loan balances currently up to date, settled or having recommended payments

Notes:
[1] Percentage of loan book forborne by value at 31 July 2020.

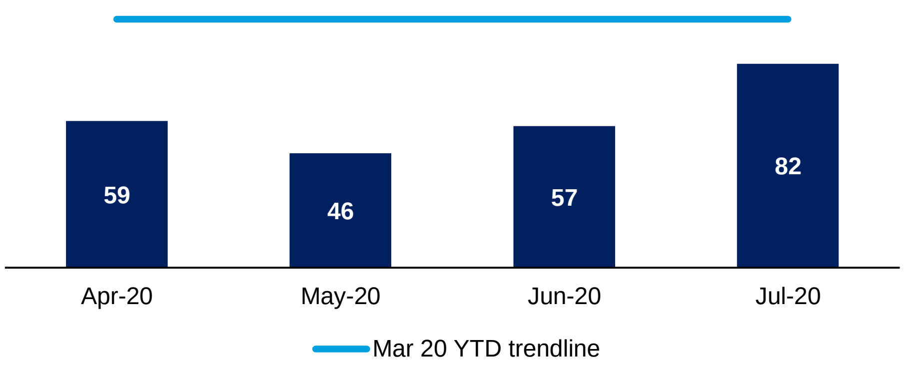
# Banking Overview - Property

## Property

- Covid-19 had a significant impact, with the temporary closure of building sites impacting monthly drawdowns
- Since easing of lockdown restrictions in June and July, UK property construction market is returning to a sense of normality
  - Increase in average house prices[1] and strong rebound in sales activity, supported by a temporary reduction in stamp duty
- Seen an increase in monthly drawdowns as sites are reopening, although activity levels are still lagging behind pre-Covid-19 levels
- High quality development finance loan book focused on residential development finance for family housing, with no significant credit issues to date
- New business pipeline and committed facilities strong
- Accredited to lend under CBILS

## New business volumes

(as a % of monthly YTD average to March 2020)




## Forbearance overview

- Covid-19 forbearance given on 18% of the Property book[2]
- Principally fee free extensions for residential development loans, where we remain confident in quality of borrower and security
- Forborne loans continue to be assessed on a case-by-case basis and we remain in close contact with each of our customers

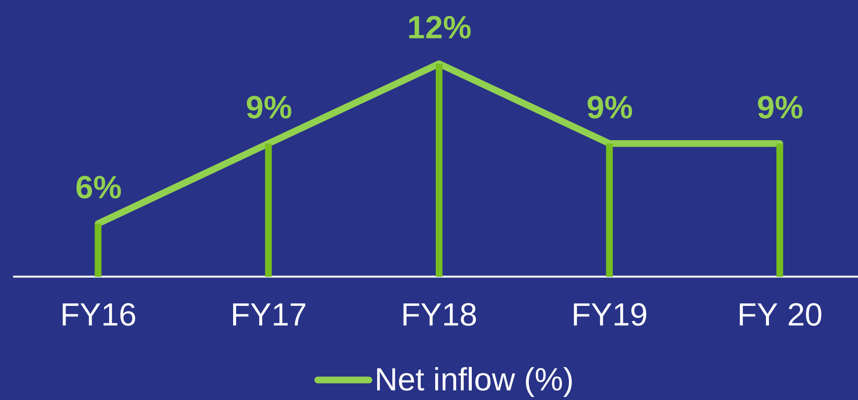
Notes:
1 Zoopla have reported average house prices are up 2.7% year on year to June 2020 (https://www.zoopla.co.uk/discover/property-news/zoopla-house-price-index-june-2020/).
2 Percentage of loan book forborne by value at 31 July 2020.

# Asset Management

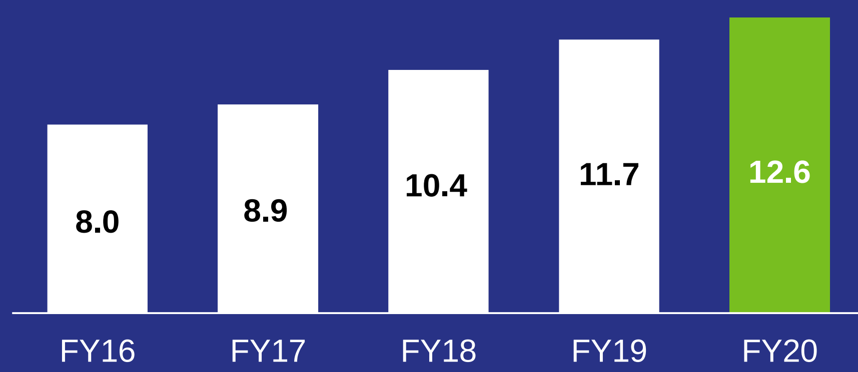
## Income diversity and long term growth opportunity

- Continued **good demand** for integrated advice and investment management services, maintaining **excellent client service** during **challenging market conditions**
- **Vertically integrated, multi-channel model** positions us well to benefit from proven ongoing demand for our services and structural industry growth
- **Strong net inflows at 9%** in challenging market conditions
  - Strong flows from **new hires**, in addition to existing advisers and 3rd party IFAs
  - **Inflows slowed in the second half** due to the impact of Covid-19 on client interaction
- **Ongoing investment** to grow the business
  - Systems and technology enhance **operational capability** and allow for **scalability** of back and middle office functions
  - Continued **hiring of advisers and fund managers** and selective incremental acquisitions add to long-term growth
- Increasing focus on **sustainable investment**
  - Socially responsible investment proposition continues to be well received, with further sustainable fund launches planned
  - ESG factors embedded in research

### Annualised net inflow rates (%)




### Closing managed assets (£ billion)

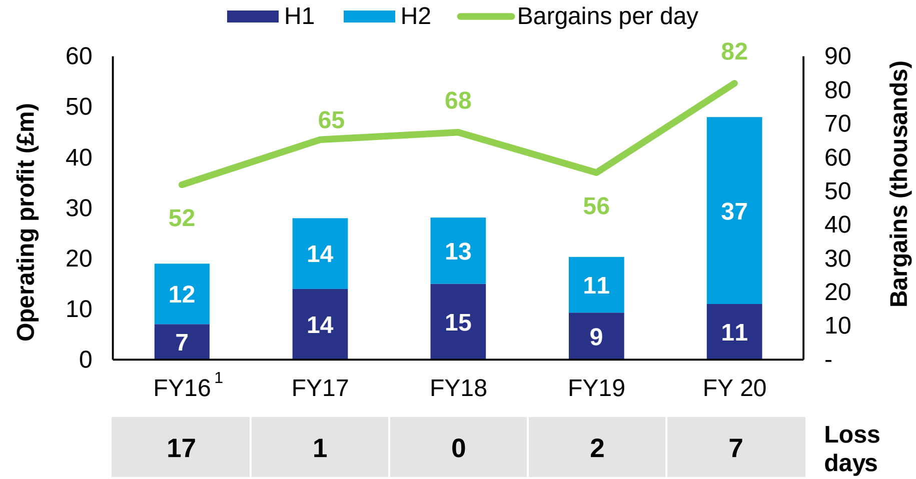


# Winterflood

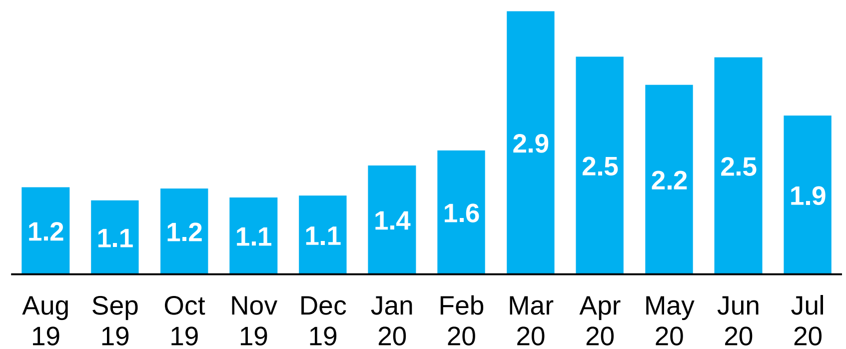
## Very strong trading performance highlights the expertise and experience of traders

- Successful operational response and **very strong trading performance** in **extremely challenging market conditions**
- Significant **increase in trading volumes** and just **seven loss days**
- **Record volumes** in March and **highest annual income** since 2000
- Established **leader in market making**
  - Focused on **maximising daily trading opportunities**, whilst providing **continuous liquidity** in all market conditions
- Good progress on **expanding relationships** with **institutional clients** and in the **US market**
- Continued development of **Winterflood Business Services**, with assets under administration at **£4.1 billion** and good levels of trading income

**Operating profit** (£ million)




**Total bargains** (millions)




Note:
[1] Operating profit includes profit on disposal of Euroclear shares of £1.9 million in 2016.

# Outlook

## Resilient model leaves us well positioned in a challenging market environment

The group has adapted well to this unprecedented environment, drawing upon our **financial and operational resilience** and the **deep experience of our people**

**Encouraging signs** of increasing economic activity in June and July, but near-term path to recovery **highly uncertain**

In the **Banking** division, we remain focused on maintaining our **prudent and disciplined approach** while continuing to **support our customers** through this challenging environment

**Asset Management** continues to have **long-term growth potential** and we remain committed to growing our client base organically, through selective hiring and in-fill acquisitions

**Winterflood** has **shown good momentum** through August and September but remains sensitive to changes in the market environment

We have a strong balance sheet, high quality loan book and **proven, resilient business model**

We are confident that we will emerge from this crisis in a **strong position** to support our customers and clients through their recovery

# Agenda

01 Introduction
Adrian Sainsbury, Chief Executive

02 Financial update
Mike Morgan, Finance Director

03 Business update
Adrian Sainsbury, Chief Executive

04 Q&A

# Appendix

Close Brothers
Modern Merchant Banking

# Sustainability and responsibility

Fundamental to our purpose, strategy and culture

We recognise that to help the people and businesses of Britain thrive over the long term, we also have a responsibility to help address the social, economic and environmental challenges facing our business, employees and customers, now and into the future

- **Promoting diversity and inclusion in everything we do**
- **Contributing to improved social mobility through access programmes and assisting entrepreneurs**
- **Providing jobs and opportunities in local communities and helping SMEs that might be overlooked by larger finance providers**
- **Continuing to make strides towards reducing our environmental impact**

- Strong employee engagement maintained
- A range of inclusion and diversity partners and initiatives
- A focus on health and wellbeing of our colleagues

- Continue to fund apprentices and trustees
- Numerous charities supported, including a £1 million donation to NHS Charities Together
- A number of social mobility programmes and partners

- Strong customer satisfaction and repeat business levels
- Enhanced programme of supplier engagement
- Growing sustainable product range in Asset Management

- Company car fleet continues to convert to electric or hybrid vehicles
- Property re-fit now more energy efficient and renewably powered
- Focus on responding to risks and opportunities of climate change

## Some of our partners

upReach

WILDHEARTS BUSINESS FOR GOOD

30% Club GROWTH THROUGH DIVERSITY

Stonewall Acceptance without exception

Make-A-Wish UNITED KINGDOM

CANCER RESEARCH UK

# ESG targets

## Measuring and reporting our progress

| Focus area | Key performance indicators | Targets to measure our progress | Progress against targets |
|---|---|---|---|
| Ensuring we are a diverse and inclusive employer | **33%** female senior managers as at 31 July 2020 | 30% female senior managers by 2020 | ✓ |
| Serving the needs of our customers | Motor Finance NPS **+77**<br>Savings NPS **+72**<br>Premium Finance NPS **+56** | Maintain or improve strong customer satisfaction scores across our businesses | ✓ |
| Contributing to wider society | Payroll giving **4% above** Gold Award status threshold as at 31 July 2020 | Maintain our payroll giving Quality Mark Gold Award status | ✓ |
| Reducing our environmental impact | **100%** of waste providers that we contract now send zero waste to landfill | Achieve zero waste to landfill by 2021 | ✓ |
| | **46% reduction[3]** in fleet vehicle emissions vs 31 July 2019 benchmark | Achieve a 20% improvement in fleet vehicle emissions by 2021 | ✓ |

### Maintaining momentum

New and more stretching targets, including:

- New target of **36% female senior managers by 2025** published in our 2020 Gender Pay Gap report
- Increasing our **ethnicity data disclosure levels to 60%** of our employees by July 2021
- Continue to **maintain or improve customer satisfaction scores** across our businesses
- Achieve a **10% reduction in group-wide overall emissions** by 31 July 2021[1]
- Achieve a further **10% reduction in average fleet vehicle $CO_2$ emissions** by 31 July 2021[2]

Notes:
[1] Targeted annual emissions reductions benchmarked against the 2019 financial year.
[2] Targeted average fleet vehicle $CO_2$ emissions reductions benchmarked against the 2020 financial year.
[3] Reduction includes impact of UK lockdown on staff travel.

# UK government support for businesses during Covid-19

## Overview of UK government business lending schemes

| Government scheme | Key features | Close Brothers offering |
|---|---|---|
| **Coronavirus Business Interruption Loan Scheme (CBILS)** | • Helps small and medium-sized businesses access loans and other kinds of finance up to £5 million<br>• Aimed at businesses with annual turnover of up to £45 million<br>• The UK Government guarantees 80% of the principal to the lender and pays interest and any fees on behalf of the borrower for the first 12 months<br>• Up to 3 year term for overdrafts and invoice finance facilities; up to 6 year term for loans and asset finance facilities<br>• Lenders must pay a guarantee fee of between 0.25% - 2% p.a. depending on loan tenor | • Asset finance, invoice finance and term loans products (not offer overdraft)<br>• Asset Finance, Invoice Finance and Property businesses offering CBILS<br>• £750m allocation<br>• Follow our normal credit and underwriting processes as we retain 20% of the risk<br>• British Business Bank reimburses us for the interest would have charged in first 12 months |
| **Coronavirus Large Business Interruption Loan Scheme (CLBILS)** | • Helps medium and large sized businesses access loans and other kinds of finance up to £200 million<br>• Aimed at businesses with annual turnover over £45 million<br>• The UK Government guarantees 80% of the principal and interest to the lender<br>• Lenders able to provide up to 25% of annual turnover of business<br>• Finance available from 3 months to 3 years<br>• Covers loans, revolving credit facilities, invoice finance and asset finance<br>• Lenders must pay a guarantee fee of between 0.5% - 2% p.a. depending on loan tenor | • Invoice Finance accredited to offer CLBILS<br>• £25m allocation |
| **Bounce Back Loan (BBLS)** | • Helps small and medium-sized businesses to borrow between £2,000 and up to 25% of their turnover (up to a maximum £50,000 loan)<br>• The UK Government guarantees 100% of the loan principal and interest and pays interest on behalf of the borrower for the first 12 months<br>• No fees or interest for the first 12 months; fixed 2.5% interest rate after<br>• Fixed 6 year term but can repay at any time without penalty | • Asset Finance accredited to offer BBLS<br>• £20m allocation |

Close Brothers
Modern Merchant Banking

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LENDING | DEPOSITS | WEALTH MANAGEMENT | SECURITIES

www.closebrothers.com