Preliminary Results
FY 2016

27 September 2016

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 in a more challenging year

- **Good performance** demonstrates **strength of business model** despite **competition** and **financial market headwinds**
  - Achieved **£234 million AOP** and **19% RoE**
  - **7%** increase in **dividend per share to 57.0p**

- **Strong loan book growth** while maintaining **disciplined lending model**
  - **Low bad debts** and continued **strong returns**

- Confident in **established business model** and **strategy**
  - **Sustainable positions** in **specialist market segments**

- Building on our **long track record** of profitability **throughout the cycle**
  - Allowing us to **support clients**, **invest** in our business and **generate strong returns**

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Financial highlights

Continued strong returns and dividend growth

£ million	2016	2015	% change
Banking	223.0	208.7	7%
Securities	19.0	24.6	(23%)
Asset Management	14.4	17.8	(19%)
Group	(22.8)	(26.2)	(13%)
Adjusted operating profit	**233.6**	**224.9**	**4%**
Adjusted basic EPS	**128.4p**	**120.5p**	**7%**
RoE	**18.9%**	**19.5%**	
Dividend per share	**57.0p**	**53.5p**	**7%**

- **AOP up 4%** to **£234 million**
  - Continued **profit growth in Banking**
  - **Securities** and **Asset Management resilient** in difficult market conditions
- **Adjusted EPS +7%** to **128.4p**
  - Benefitted from deferred tax asset write-up
- **Maintained strong RoE** at 18.9%
- **DPS +7%** to 57.0p

Income statement

Earnings growth and ongoing investment

£ million	2016	2015	% change
Operating income	**687.4**	**672.8**	**2%**
Adjusted operating expenses	(415.9)	(406.0)	2%
Impairment losses	(37.9)	(41.9)	(10%)
Adjusted operating profit	**233.6**	**224.9**	**4%**
Tax	(42.2)	(45.4)	(7%)
Profit attributable to shareholders (continuing operations)	**186.5**	**174.5**	**7%**
Profit from discontinued operations[1]	-	11.2	
Basic EPS (continuing operations)	125.7p	117.8p	7%
Basic EPS (inc discontinued operations)	125.7p	125.4p	-

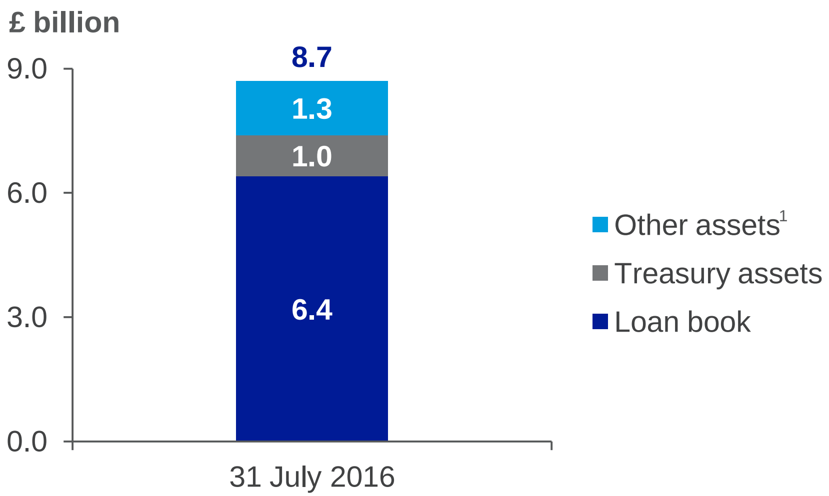
Note:
1 Profit from discontinued operations includes profit on disposal of £10.3 million and profit after tax of £0.9 million from Seydler up to the date of disposal (5 January 2015).

- **Income +2%** to £687 million
  - Increased income from lending businesses
- **2% increase in expenses** balancing investment with cost control
- **Low impairments** benefiting from benign credit environment
- **18.5% effective tax rate**
  - Partial year impact of **banking tax surcharge** offset by one-off increase in **deferred tax assets**
  - Expect 26% effective tax rate in FY 2017

Simple and transparent balance sheet

Continued good access to funding markets

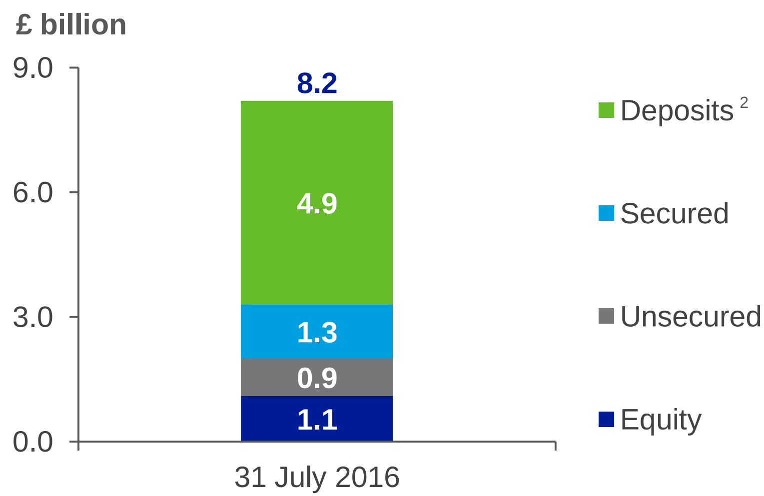
High quality asset base



- **High quality loan book**
  - 14 months average maturity
  - Predominantly secured with conservative LTVs

- **£1.0 billion treasury assets** maintain **strong liquidity position**
  - Majority held on deposit with BoE

Diverse funding sources



- **Funding 127% of loan book**
  - **Further diversified** with deposit growth, private placement and **first public securitisation**

- **Borrow long, lend short**
  - Term funding 67% of loan book

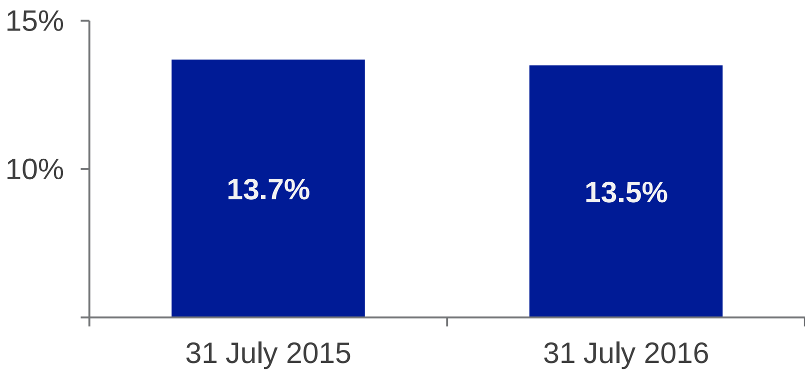
- Good **credit ratings reaffirmed**

Notes:
1 Other assets include securities assets and other assets.
2 Includes both retail and corporate deposits.

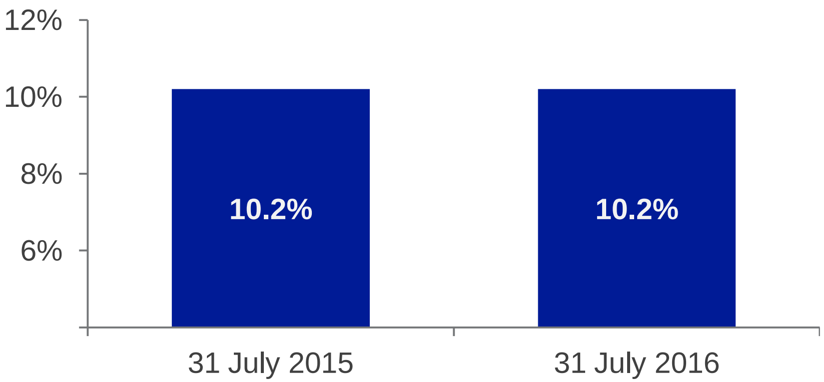
Prudent capital position

Strong CET1 maintains flexibility

Group CET1 ratio



Group leverage ratio[1]



£ million	31 July 2016	31 July 2015	% change
Common equity tier 1 capital	901	813	11%
Total regulatory capital	925	848	9%
Risk weighted assets	6,683	5,932	13%
Total capital ratio	13.8%	14.3%	

- **Capital position remains strong**
  - **13.5% CET1** ratio **comfortably ahead of regulatory requirements**
- **Profit generation offsets increased RWAs**
  - **RWAs +13%** reflecting loan book growth
- **Maintained flexibility** for growth

Notes:
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

Delivering strong returns

£ million	2016	2015	% change
Operating income	**511.2**	**481.9**	**6%**
Adjusted operating expenses	(250.3)	(231.3)	8%
Impairment losses	(37.9)	(41.9)	(10%)
Adjusted operating profit	**223.0**	**208.7**	**7%**
Net interest margin[1]	8.2%	8.6%	
Expense/income ratio	49%	48%	
Bad debt ratio[2]	0.6%	0.7%	
Return on net loan book[3]	3.6%	3.7%	
RoE	26%	27%	

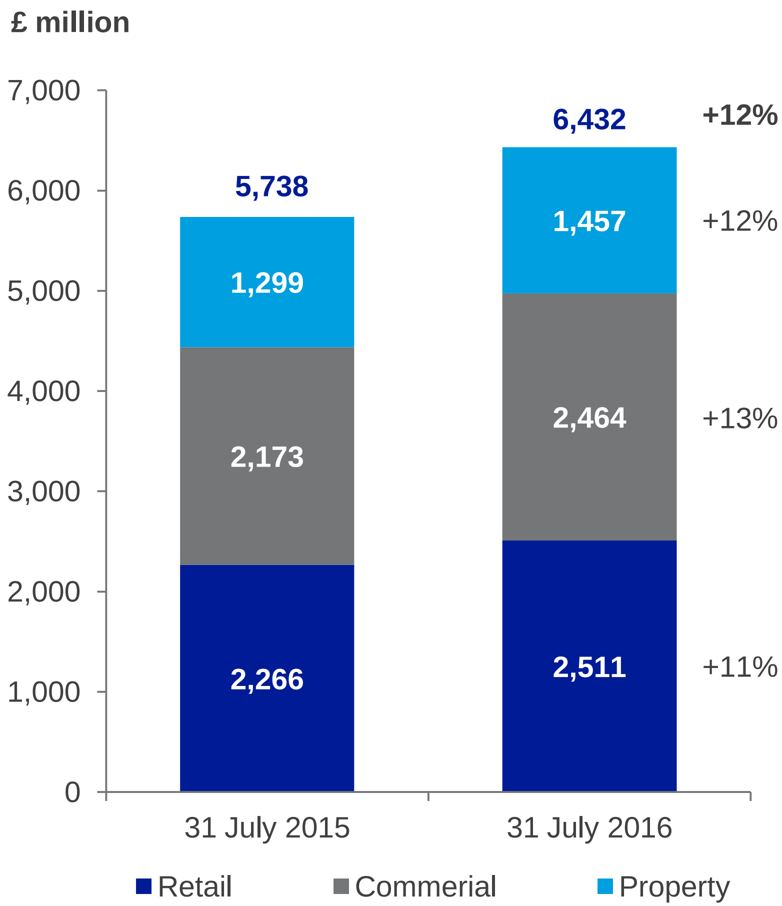
- **Income** up **6%** to **£511 million**
  - Growth across all lending areas
- £250 million **expenses up 8%**
  - Increased cost control in H2 while maintaining investment
- **8.2% NIM** still strong despite ongoing competition
  - Consistent lending criteria
- **Bad debt** remains at historical low
  - Benefits from **benign environment** and **consistent underwriting**
- **Returns remain strong** with 3.6% RoNLB
  - Ahead of 3.4% long-term average

Notes:
1 Net interest and fees on average net loan book and operating leases.
2 Impairment losses on average net loan book and operating leases.
3 Adjusted operating profit on average net loan book and operating leases.

Banking

Strong growth whilst maintaining discipline

Loan book size by business unit



- **12% loan book growth** to **£6.4 billion**
  - **Solid demand** across our businesses and good growth in **new initiatives**
- **Retail increased 11%**
  - **Increasing demand** in **motor finance** offset increased competition
  - Good motor finance **growth in Ireland**
  - **Premium growth** driven by strong broker relationships and new business wins
- **Commercial increased 13%**
  - Good growth in **specialist direct lending,** particularly green energy
  - Strong **competition in broker**
- **Property increased 12%**
  - **Continued demand** for residential development finance in London and the regions
  - Conservative LTVs and short duration

Securities

Traded successfully in challenging market conditions

£ million	2016	2015	% change
Operating income[1]	**82.3**	**94.6**	**(13%)**
Operating expenses	(63.3)	(70.0)	(10%)
Operating profit[1]	**19.0**	**24.6**	**(23%)**
Average bargains per day	52k	60k	(14%)
Operating margin	23%	26%	
RoE	21%	26%	
Loss days	17	14	

- **Demonstrates strength** of the business model in a range of conditions
  - Maintained **leading market position**
- **£19 million AOP**
  - Includes £1.9 million benefit from remaining Euroclear disposal
- **£82 million income,** down 13%
  - First half impacted by **volatile markets** and low activity
  - **Significant pick up** in second half across all trading sectors
- **Expenses down 10%** to £63 million
  - Reflects **flexible cost base**

Notes:
1 Income and operating profit include proceeds from the disposal of shares in Euroclear of £3.8 million (2015: £6.8 million) and £1.9 million (2015: £3.5 million) respectively

Asset Management

Performance impacted by lower markets

£ million	2016	2015	% change
Operating income	**92.3**	**95.6**	**(3%)**
Investment management	57.4	54.1	6%
Advice and other services	32.1	36.1	(11%)
Other income	2.8	5.4	(48%)
Adjusted operating expenses	(77.9)	(77.8)	-
Adjusted operating profit[1]	**14.4**	**17.8**	**(19%)**
RoE	25%	39%	
Operating margin	16%	19%	
Revenue margin[2]	86bps	88bps	
Total client assets (£ billion)	9.9	10.8	(8%)
Managed assets (£ billion)	8.0	8.0	-

- Performance impacted by **lower market levels**
  - AOP of £12.3 million (2015: £12.7 million) excluding corporate and private equity[1]
- **Expenses stable** at £78 million
  - Increased staff costs offset sale of corporate
- **Total client assets reduced** to £9.9 billion
  - **Disposal** £1.3 billion corporate assets
- **£8.0 billion managed assets stable**
  - **6% net inflows** and 2% **positive market movements** offset by disposal

Notes:
1 Adjusted operating profit includes £1.7 million profit on disposal and £0.4 million trading profit in the period (2015: £0.7 million) relating to the corporate business. The prior year also benefits from a £4.4 million one-off gain from our former private equity business.
2 Income on client assets over average total client assets.

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Overview

Established business model for the long term

1

Build leading positions in our specialist markets

2

Generate strong and sustainable returns

Expertise

Our people are experts in their fields

Relationships

Building long-term relationships with clients and intermediaries

Service

Allowing us to provide excellent service

3

Maintain a sound financial position and support our clients through the cycle

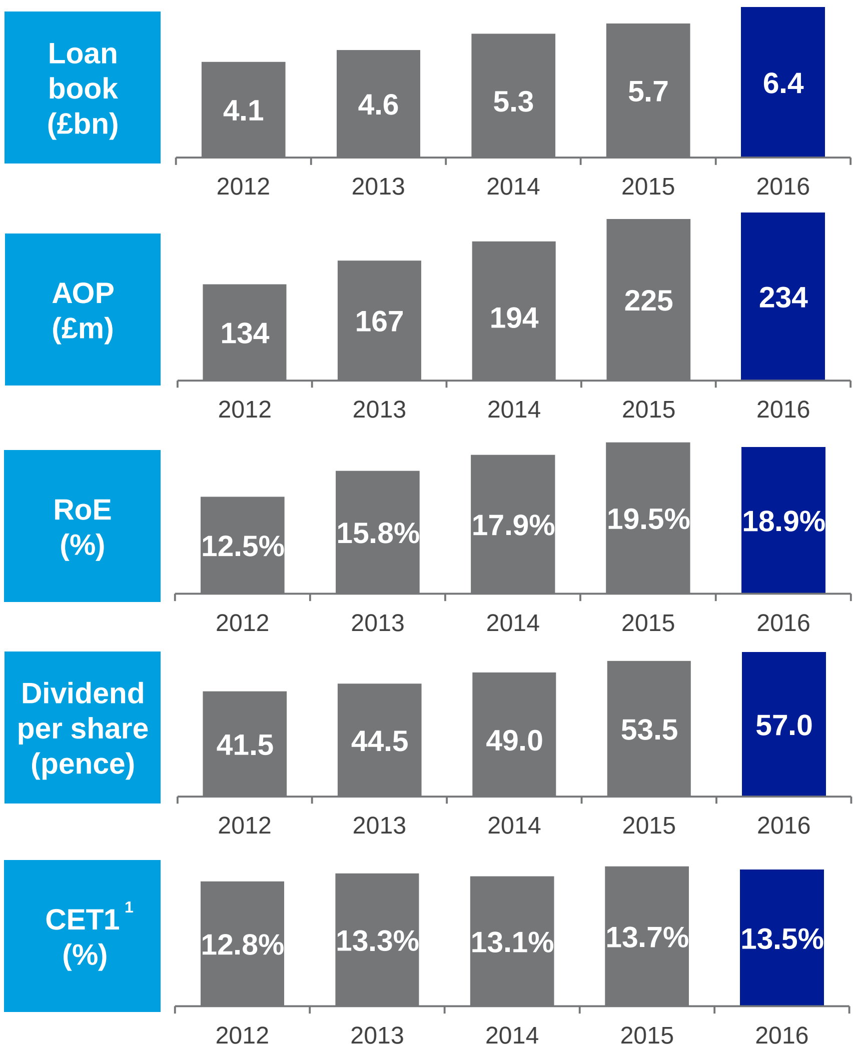
4

Reinvest in the business to enhance our customer proposition

Overview

Consistent strategy continues to deliver

- **All businesses responded well** to their particular conditions
  - **Banking** continued to grow with disciplined returns
  - **Winterflood** traded successfully
  - **Asset Management** delivered positive flows
- **Profitability increased** with AOP +4%
  - Maintaining **strong returns** and **dividends** through the cycle
  - Supported by a **strong capital position**
- Confident in **continued good performance** through the cycle



Note:
[1] The highest quality capital is defined as "common equity tier 1" ("CET1"). The comparatives are based on the legislative definition of core tier 1 capital at that time.

Banking

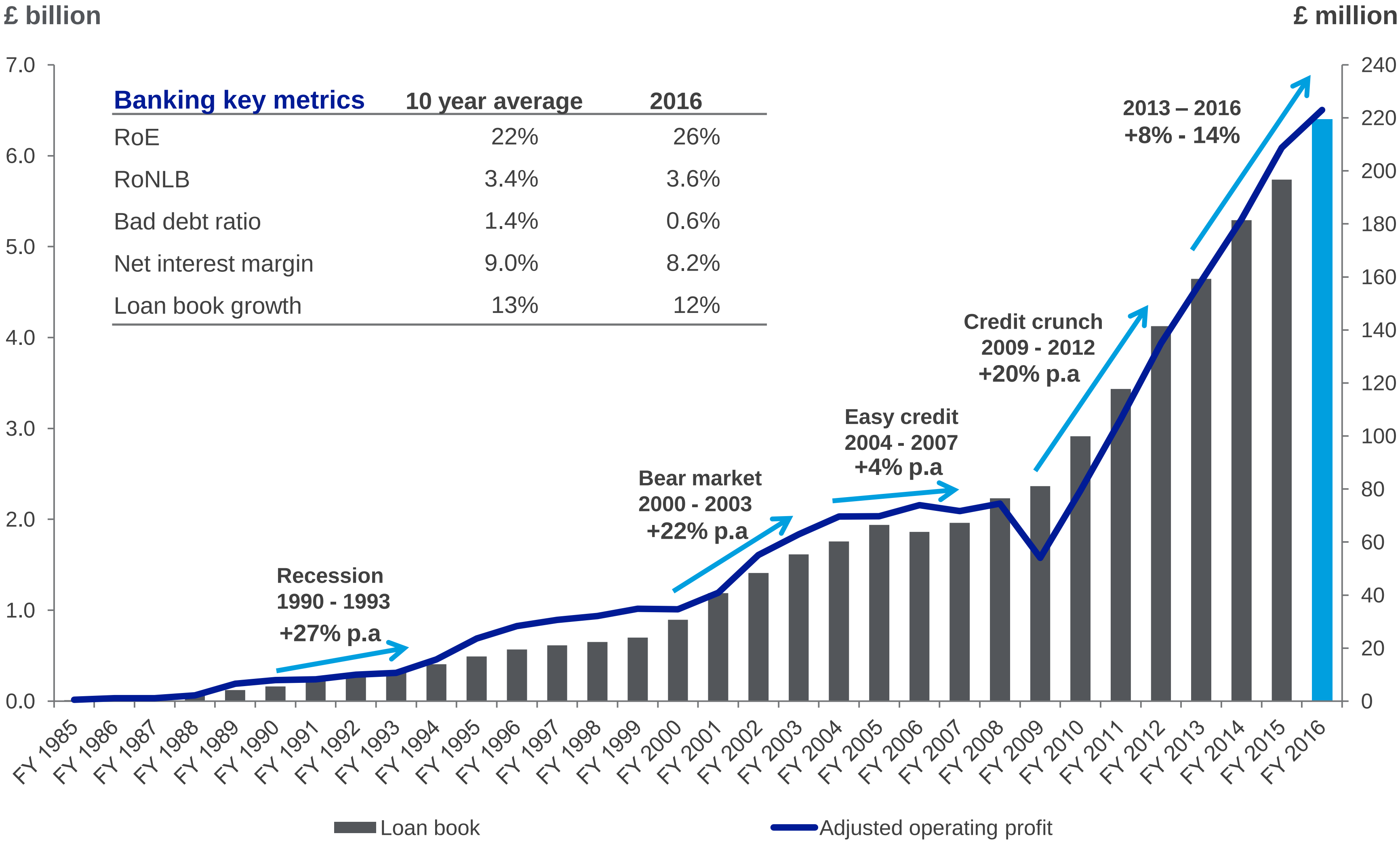
Distinctive business model built for resilience

Relationship driven	Prudent and consistent	Strong financial returns through the cycle
Local presence in niche markets Flexible, tailored approach Expertise leading to fast decisions High repeat business	Small ticket, short-term, predominantly secured Consistent underwriting with low LTVs Prudent funding, liquidity and capital	Strong NIM, low bad debt, strong returns Lending in all market conditions since 1985

Proven track record

Long history of profitable growth through the cycle

Banking key metrics	10 year average	2016
RoE	22%	26%
RoNLB	3.4%	3.6%
Bad debt ratio	1.4%	0.6%
Net interest margin	9.0%	8.2%
Loan book growth	13%	12%



Banking

Retail Finance loan book +11% to £2.5 billion

DIFFERENTIATED PROPOSITION

- **Intermediated lending** to small businesses and individuals
- **Strong relationships** with 7,000 motor dealers and 1,700 insurance brokers
- **Personal, service led offering**
- **Flexible and fast** underwriting

CONTINUED DEVELOPMENT

- **Active competition** in motor finance
- Growth in **second hand car market**
- Expansion in **Ireland**
- **Progress** in premium finance
- Point of sale **initiative**

Banking

Commercial Finance loan book +13% to £2.5 billion

DIFFERENTIATED PROPOSITION

- **Direct relationship** with 20,000 small businesses
- **Nationwide presence** with 300 direct sales people
- **Local underwriting** authority
- **Strong repeat business**

CONTINUED DEVELOPMENT

- **Competition** in broker channel
- **Solid new business** in specialist direct lending
- Growth in **green energy**
- Launch of **technology leasing**
- **Training Academy**

Banking

Property Finance loan book +12% to £1.5 billion

DIFFERENTIATED PROPOSITION

- **Specialist residential property development**
- **No BTL, commercial or residential mortgages**
- **Long track record**
- Focus on **experienced, professional developers**
- **Low LTVs**
- **Speed of credit approval**

CONTINUED DEVELOPMENT

- Continued **growth opportunities** with **consistent underwriting**
- **Strong profitability** with **low impairments**
- **Regional expansion**

Winterflood

Performing successfully in turbulent markets

Tough trading conditions

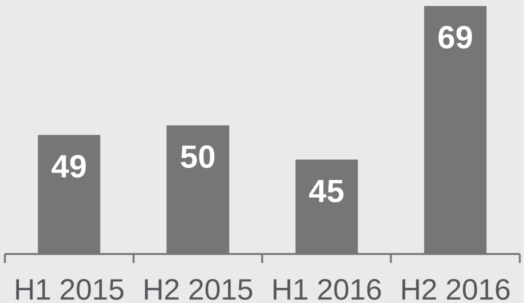
Difficult first half

China and commodity prices

Improved second half

Political and economic uncertainty

UK retail trading volumes[1]
'000



Trading expertise

Resilient, proprietary technology

Traded successfully

Continuously profitable

Maintained leading market position

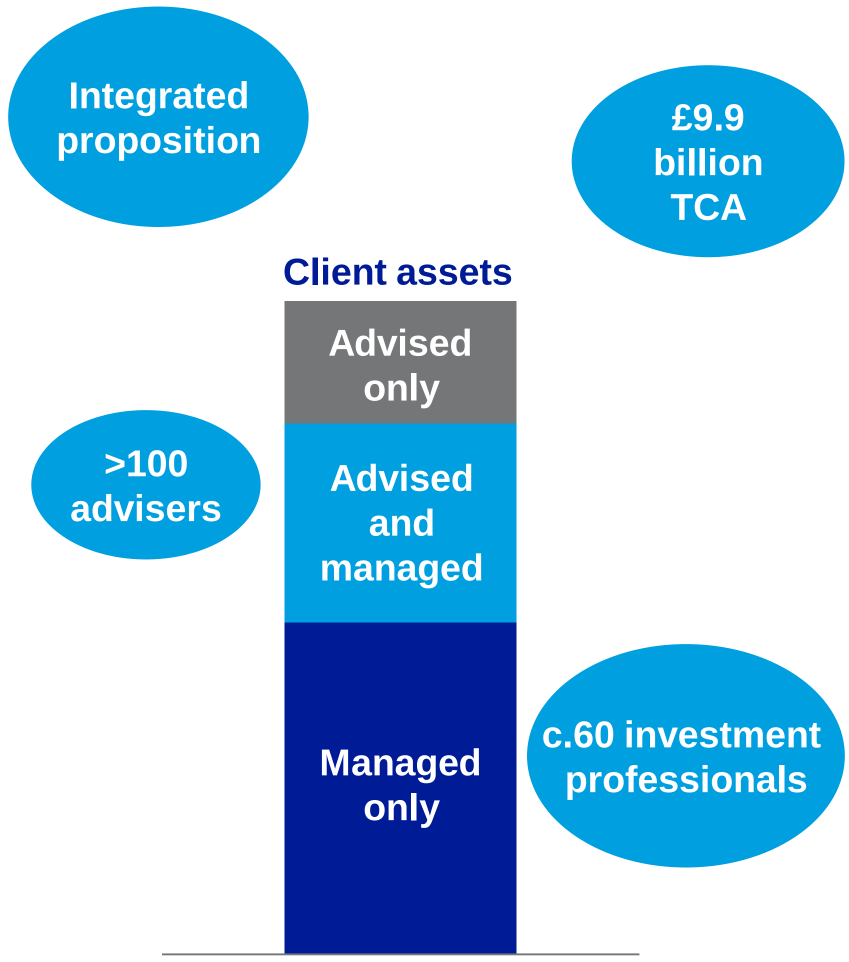
Note:
[1] Average daily volumes in respect of UK equity trading on a 'principal to agent' basis across the LSE and ISDX.

Asset Management

Commitment to business model

Strategic priorities unchanged

- **Drive growth** both **organically** and through **small acquisitions**
  - 6% organic net inflows
- **Business and product development**
  - Intelligent Retirement
- **Strengthen adviser force**
  - Recruitment and training
- **Optimise technology** and **support infrastructure**



Conclusion

Well positioned longer term

- Well placed to **deliver in a range of market conditions**
  - Supported by our established **business model**, long **track record** and **strong balance sheet**
- Continued **focus on discipline of the lending model**
  - Confident in **continued growth at strong returns**
  - **Ongoing investment** while focusing on **cost control**
- Winterflood benefits from **increased retail trading activity**
- Focused on **continued growth** in Asset Management
- **Good start to the year** and businesses are **well positioned longer term**

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Appendix

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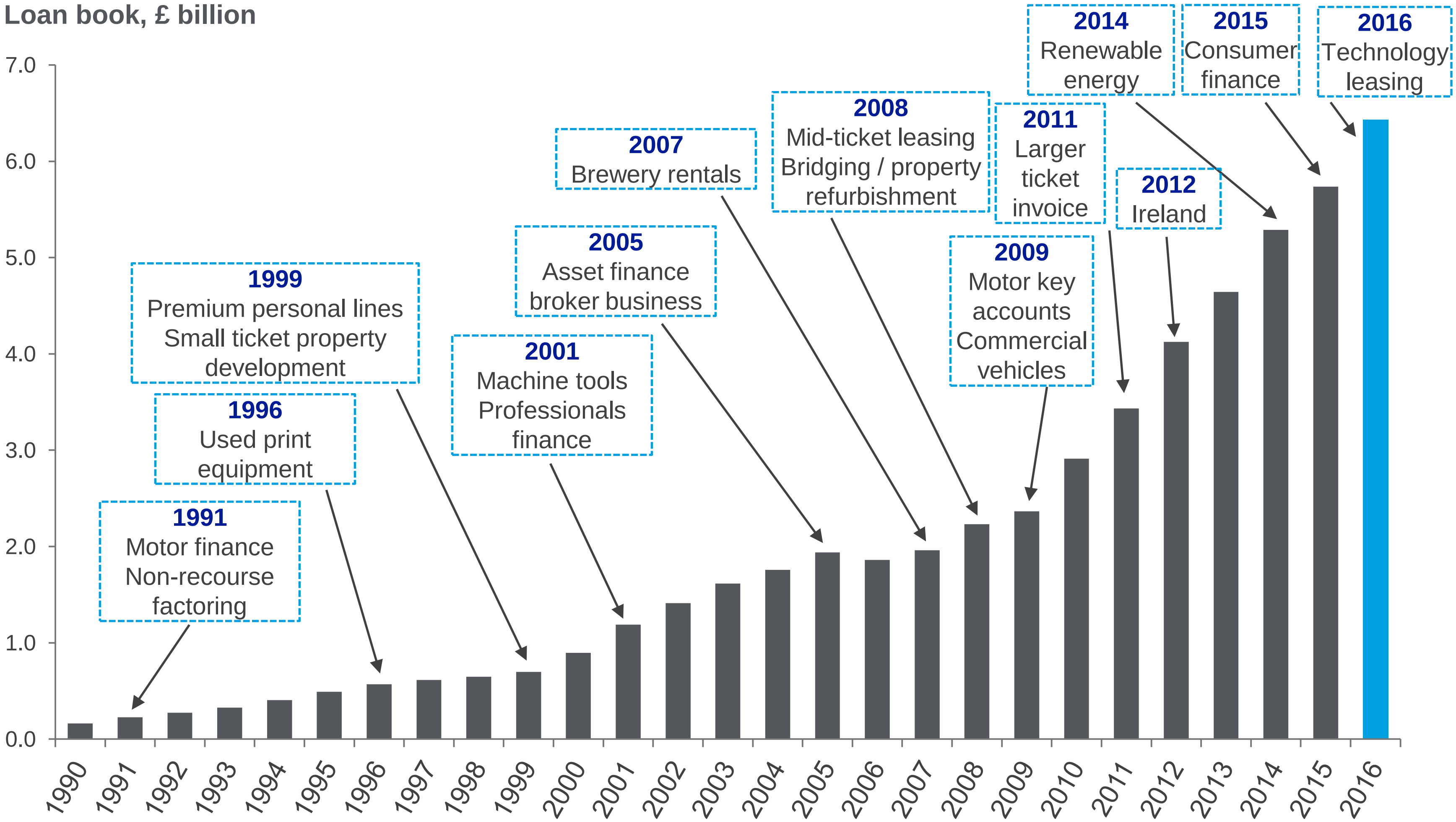
Modern Merchant Banking

New growth initiatives

Long history of developing new products and entering adjacent markets



Banking

Loan book and lending statistics by business

	Loan book at 31 July 2016 (£m)	2016 loan book growth	Typical LTV[1]	Average loan size[2]	Typical loan maturity[3]	Number of customers
Motor finance	1,740.5	8.8%	75 – 85%	£6k	2 – 4 years	300k
Premium finance	770.5	15.7%	90%	£500	10 months	2.0m
Asset finance	2,035.1	13.3%	85 – 90%	£40k	40 months	26k
Invoice finance	428.3	13.7%	80%	£300k	2 – 3 months	1.3k
Property finance	1,457.2	12.2%	50 - 60%	£1.2m	6 – 18 months	800

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 July 2016.
[3] Typical loan maturity for new business on a behavioural basis.

Re-presentation of key ratios

As announced 13 September 2016

Close Brothers Group

2015, £ million	As reported		Re – presented
Operating income	689.5	(1)	672.8
Adjusted operating expenses	(422.7)	(1)	(406.0)
Impairment losses	(41.9)		(41.9)
Adjusted operating profit	**224.9**		**224.9**
Operating margin	33%		33%
Expense/income ratio	61%	(1)	60%

Banking Division

2015, £ million	As reported		Re – presented
Operating income	498.6	(1)	481.9
Adjusted operating expenses	(248.0)	(1)	(231.3)
Impairment losses	(41.9)		(41.9)
Adjusted operating profit	**208.7**		**208.7**
Net interest margin	8.8%	(1,2,3)	8.6%
Expense/income ratio	50%	(1)	48%
Bad debt ratio	0.8%	(2)	0.7%
Return on net loan book	3.8%	(2)	3.7%
Average loan book and operating lease assets		(2)	5,629.2

The definition of our net interest margin has been adjusted to take into account operating lease depreciation and operating lease assets on the balance sheet.

In addition, all Treasury income will be included in the net interest margin, to reflect Treasury's role solely as a cost centre to provide funding for our lending businesses.

Notes:

(1) Depreciation of operating lease assets, previously included in operating expenses, now included in operating income (2015: £16.7 million)

(2) Average operating lease assets (2015: £115.4 million) now included in denominator for calculation of key ratios

(3) Treasury income (2015: £13.4 million) now fully allocated to lending businesses and included in the net interest margin calculation

Close Brothers
Modern Merchant Banking

LENDING | DEPOSITS | WEALTH MANAGEMENT | SECURITIES

Close Brothers Group plc
10 Crown Place
London EC2A 4FT

020 7655 3100

enquiries@closebrothers.com
www.closebrothers.com