

Banking Division

Close Brothers Group

26 November 2015



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Group overview

Modern Merchant Banking

Creating and sustaining value for the group



Clear and consistent strategy

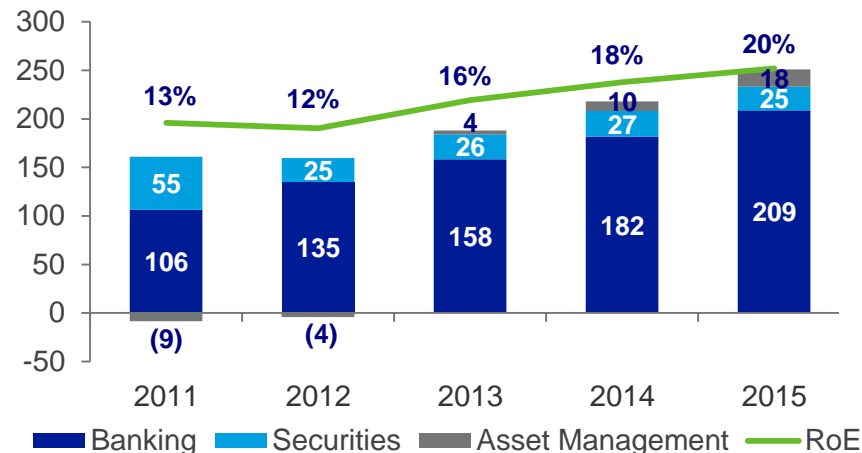
Delivering consistent growth and improving returns

- Focus on specialist markets
- Deliver strong returns
- Ongoing investment
- Conservative capital, funding and liquidity position

Consistent growth

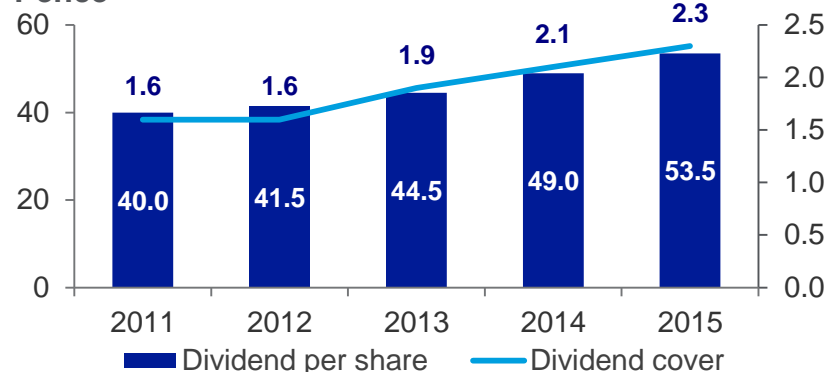
Adjusted operating profit

£ million



Progressive dividend policy

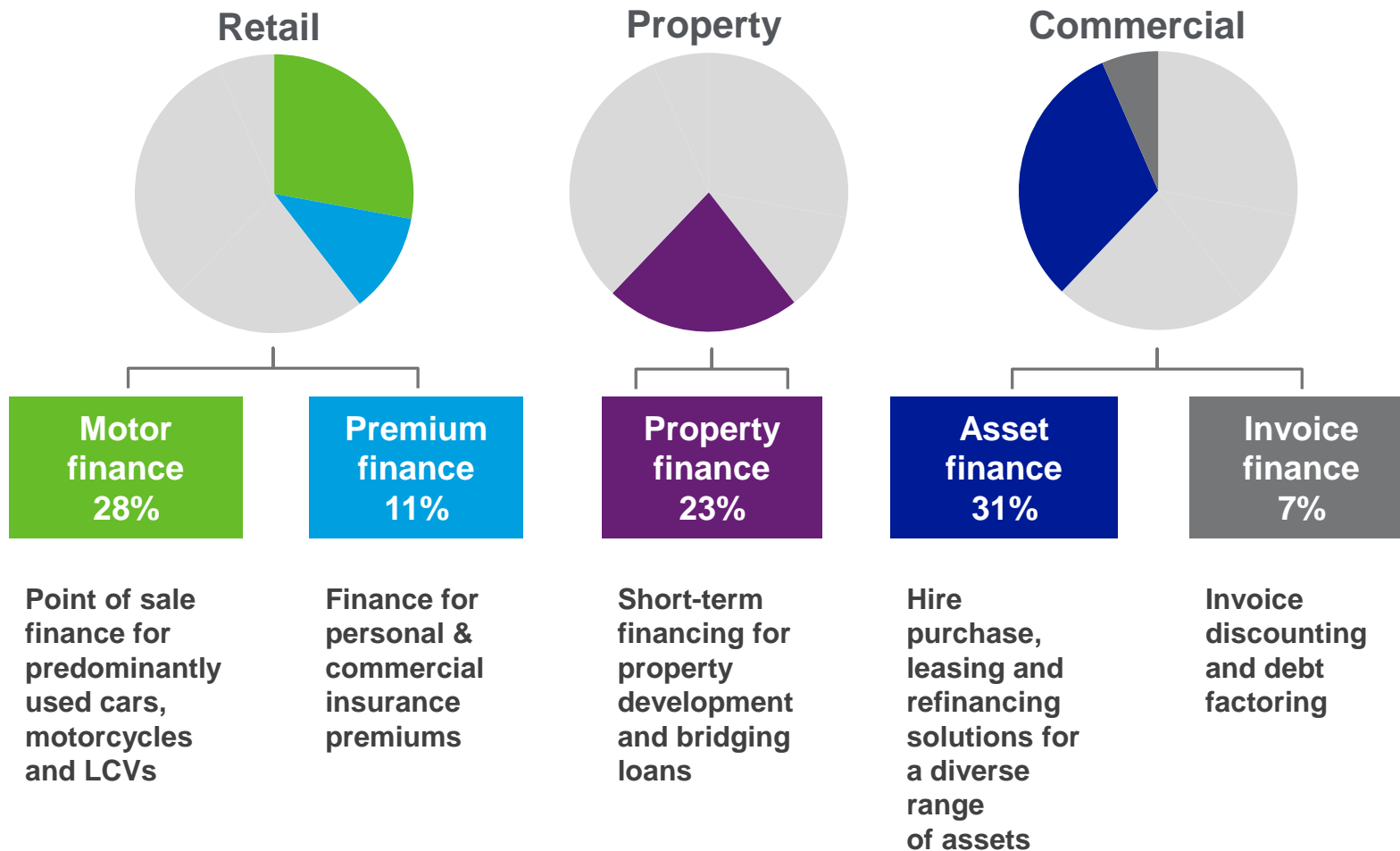
Pence



Banking overview

Banking Division Overview

Five specialist lending businesses

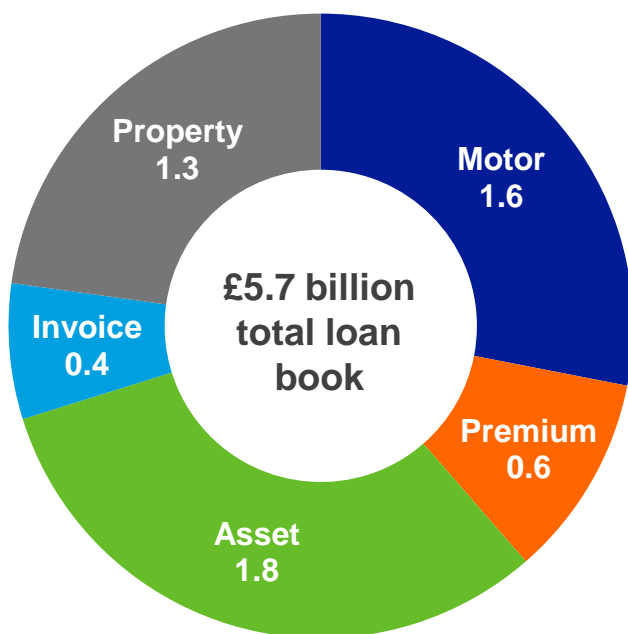


Note: Percentage indicates loan book split at 31 July 2015

What do we do?

Specialist lending in niche markets

£ billion



What we do not do

- Mortgages
- Buy to let
- Current accounts
- Overdrafts

Why?

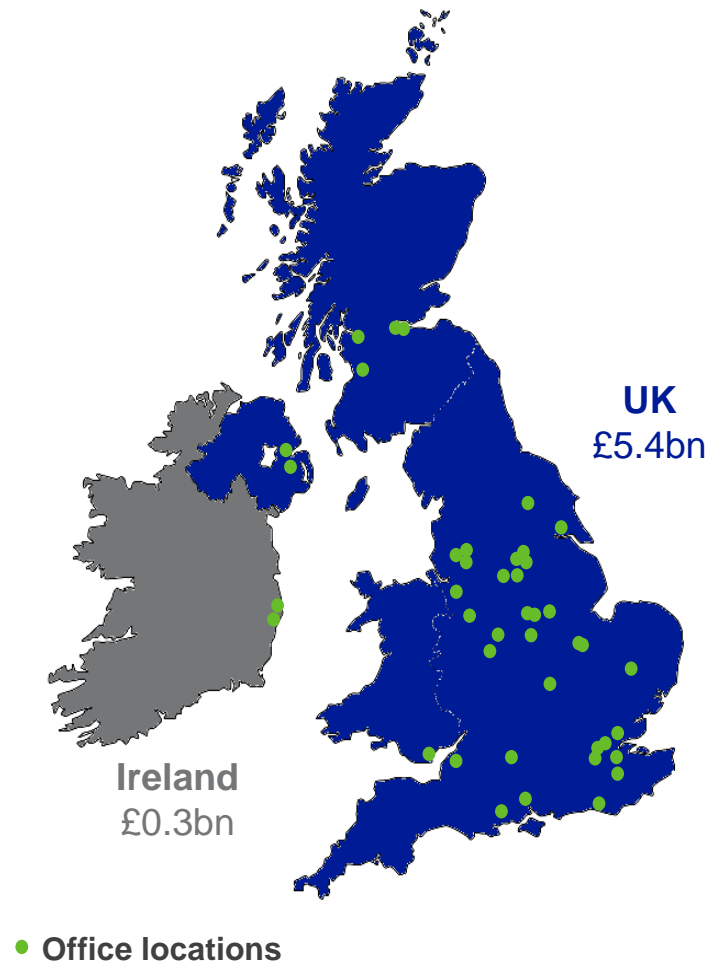
- Prefer **niche markets** with less direct competition from larger banking groups
 - **Specialist knowledge** of asset or industry
 - **Relationship** driven business
- **High touch model** and **local presence** to create strong relationships

Specialist lender

Our scale and reach

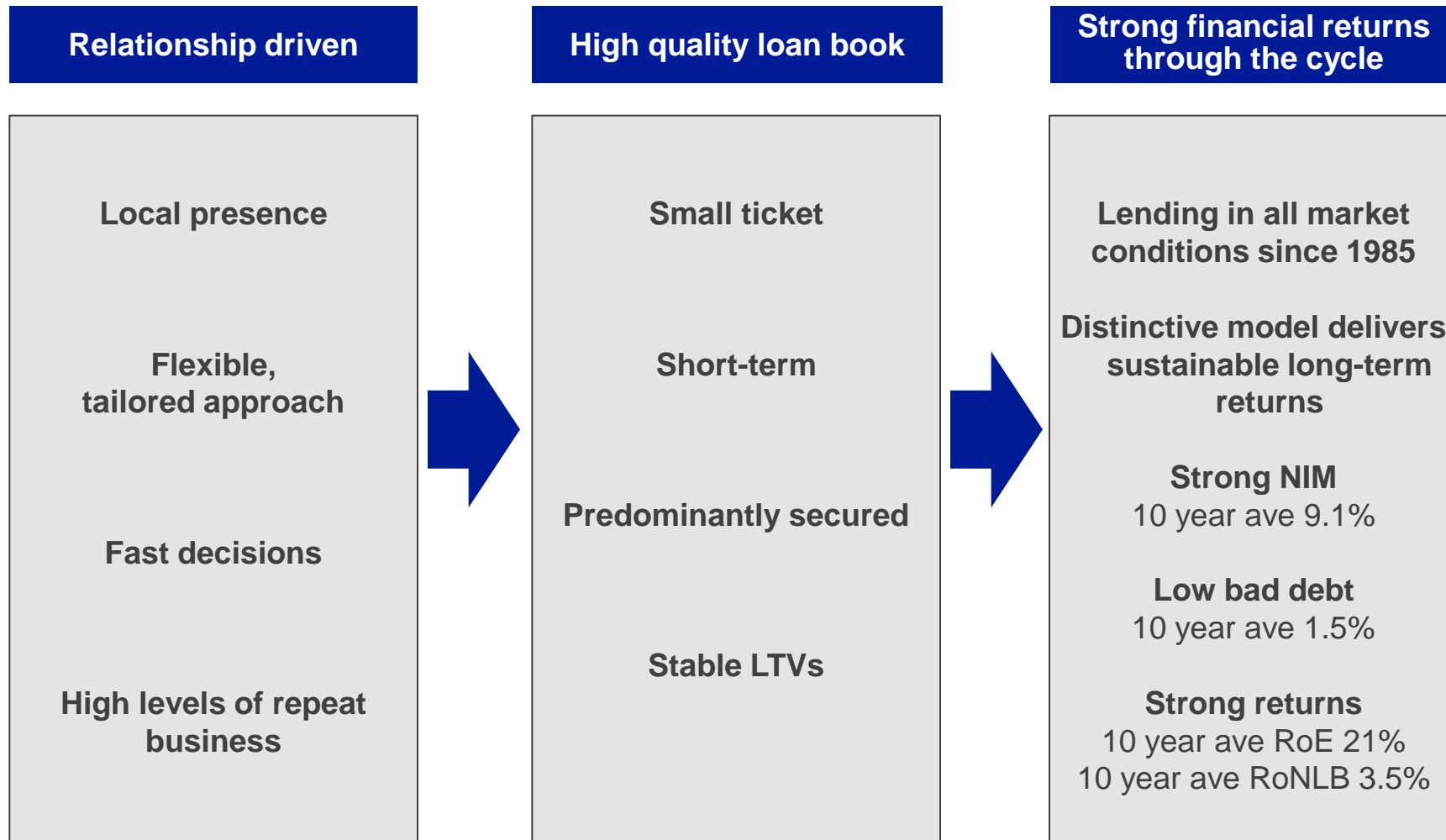
- Over **2 million customers** including 270,000 SMEs
- Around **10,000 intermediaries** including 1,700 insurance brokers and 7,500 motor dealers
- c.**50,000** corporate and retail **deposit customers** – Total customer deposit base of **£4.5 billion**
- c.2,000 staff, includes **500 client facing**
 - With **local underwriting authority**
- **Local presence**
 - **45 locations** in the UK and Ireland

Geographical split of loan book at 31 July 2015



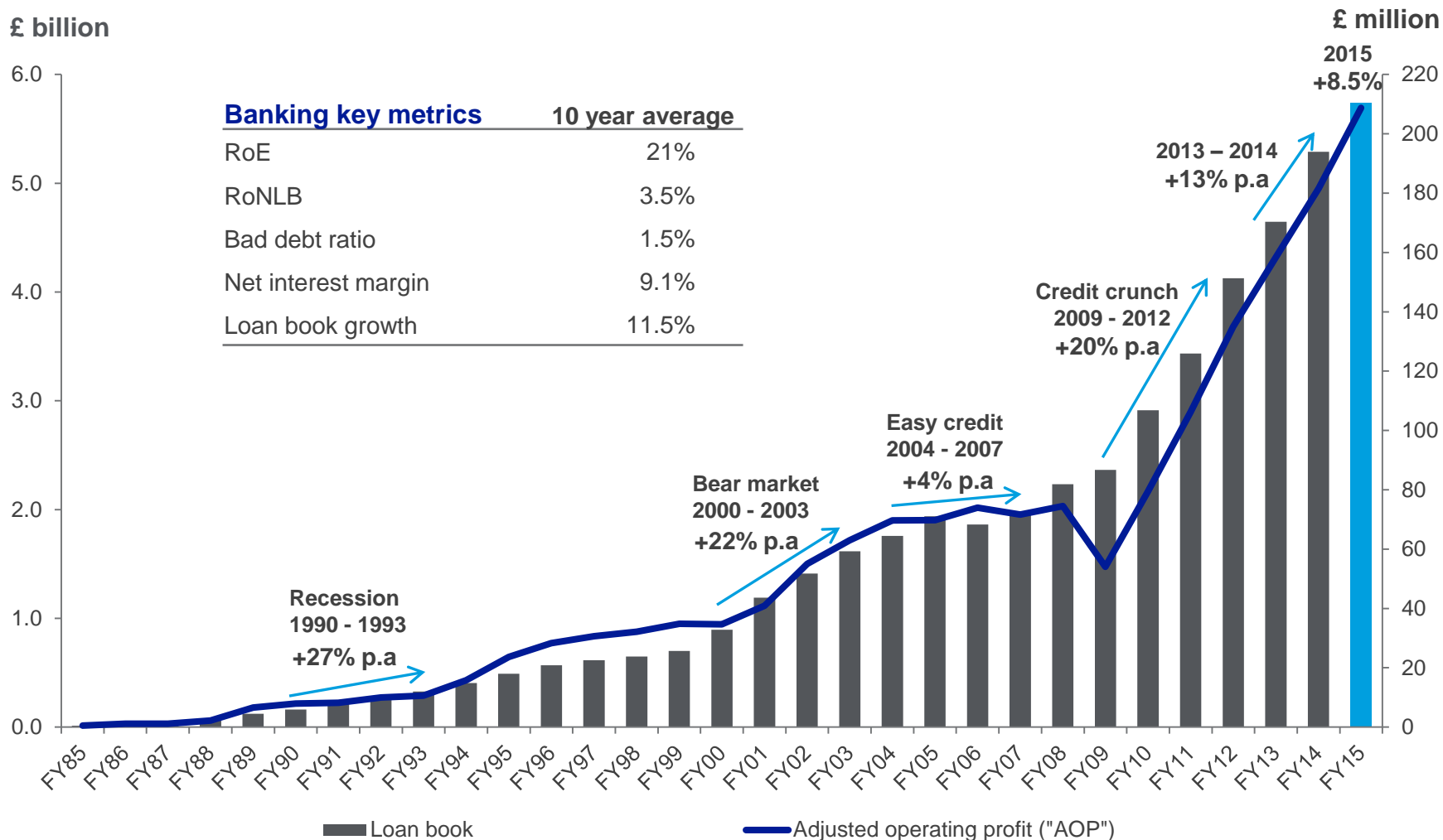
Consistent strategy

Customer focused lending to SMEs and individuals



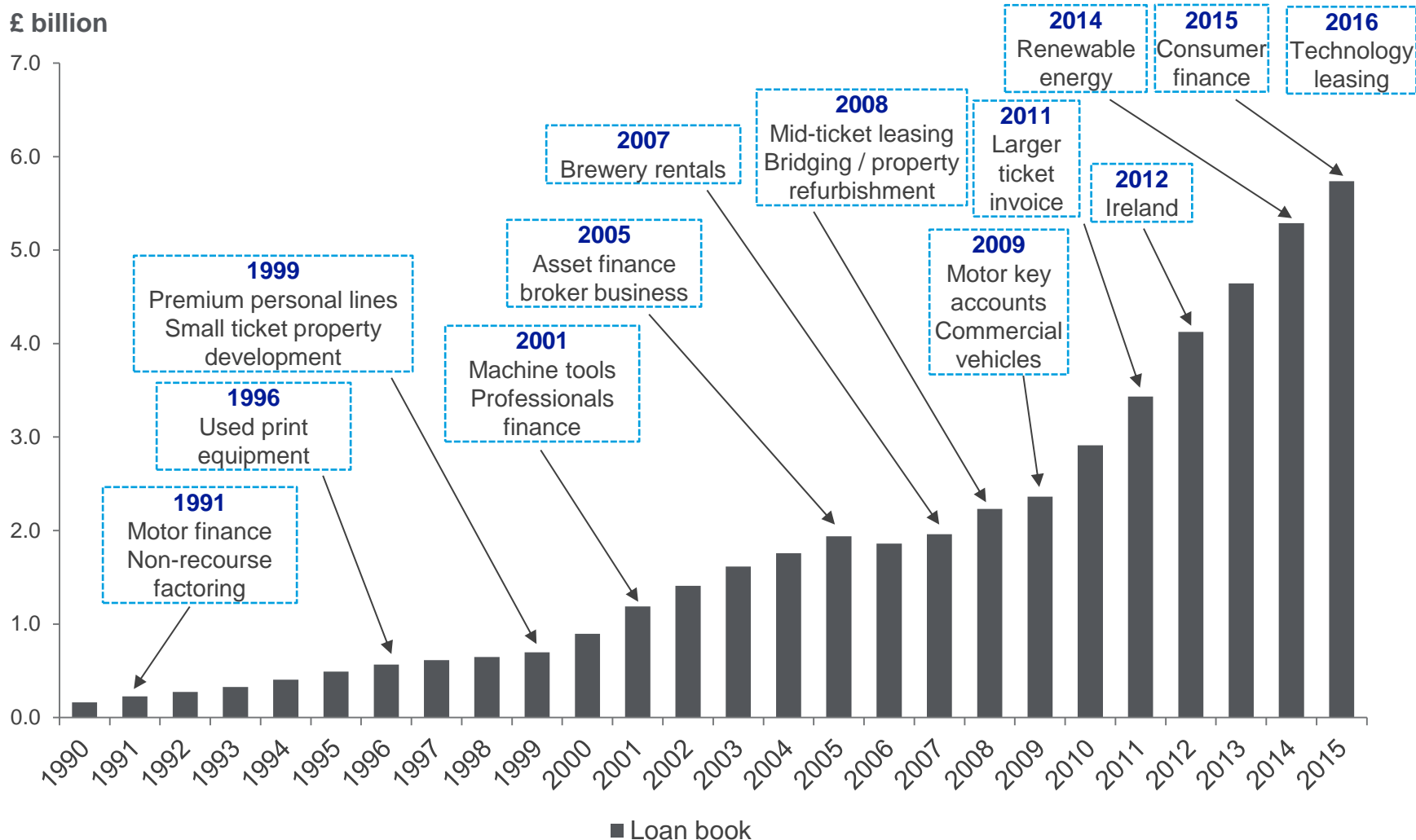
Proven track record

Long history of profitable growth through the cycle



New growth initiatives

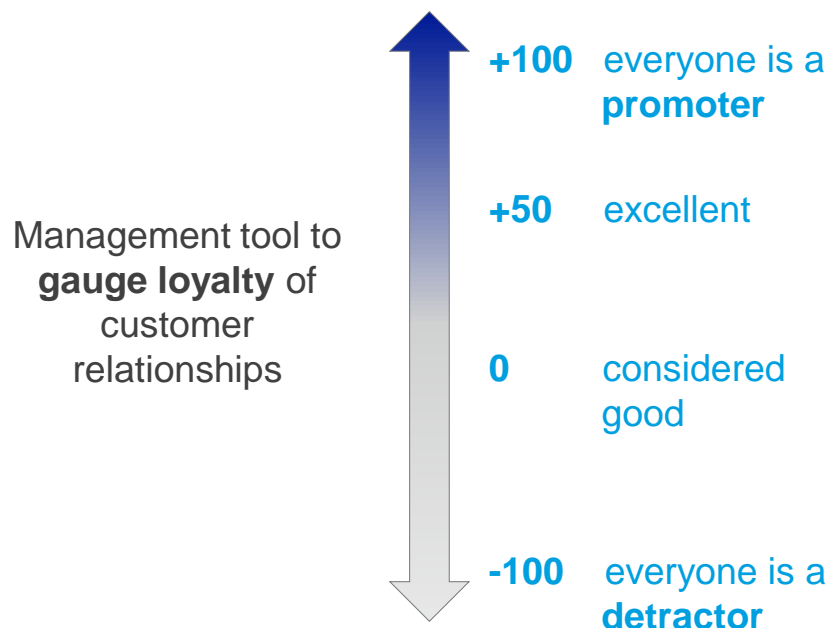
Long history of developing new products and entering adjacent markets



Strong customer proposition

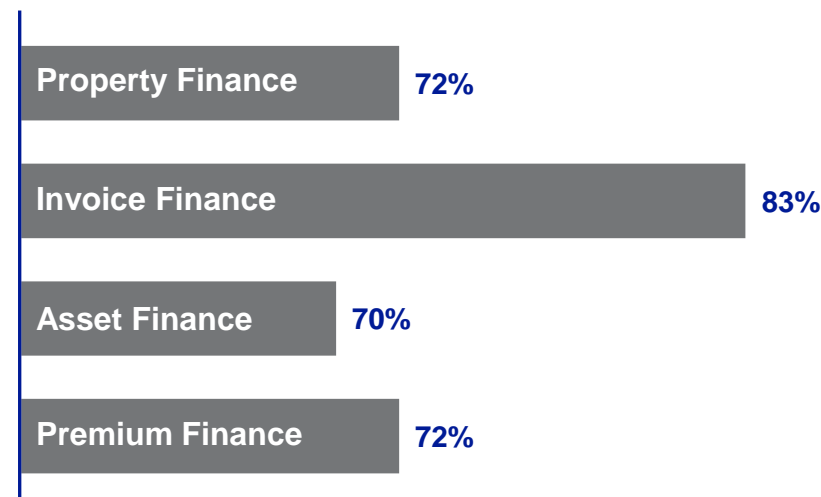
Valued highly by our clients

Net promoter score



- Net Promoter Scores **very encouraging**
 - Treasury, Asset and Motor Finance all >+50

Repeat business



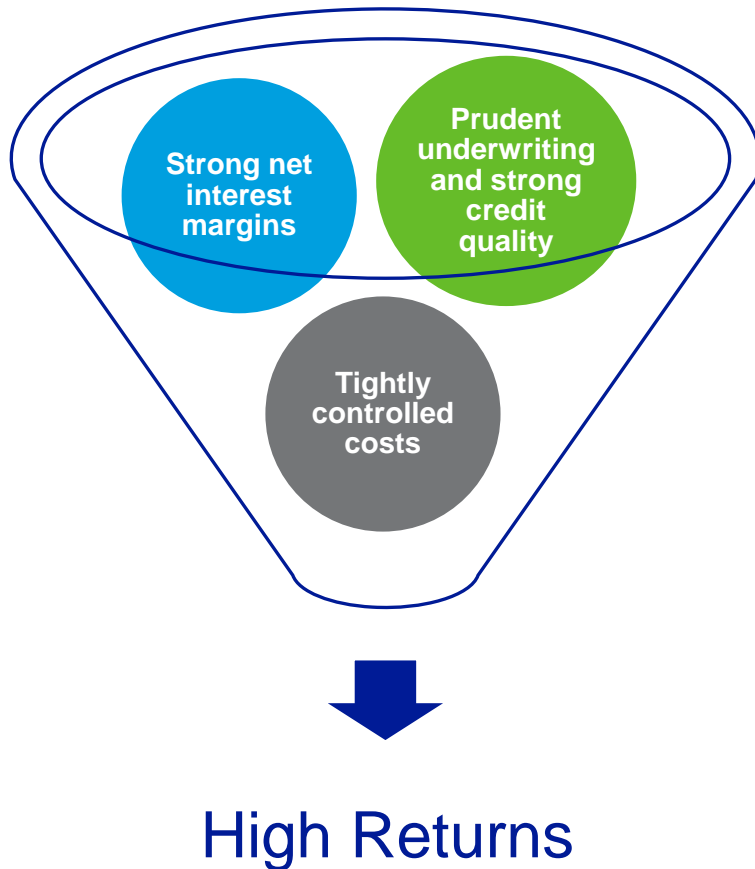
- **High levels of repeat business** across our lending businesses
 - Driven by our embedded commitment to customer service

Notes:
Repeat business percentages for FY 2015
Excludes Motor finance due to nature of market

Sustainable financial model

Sustainable financial model

How do we achieve strong returns?



Strong returns through the cycle



- **Supported by:**

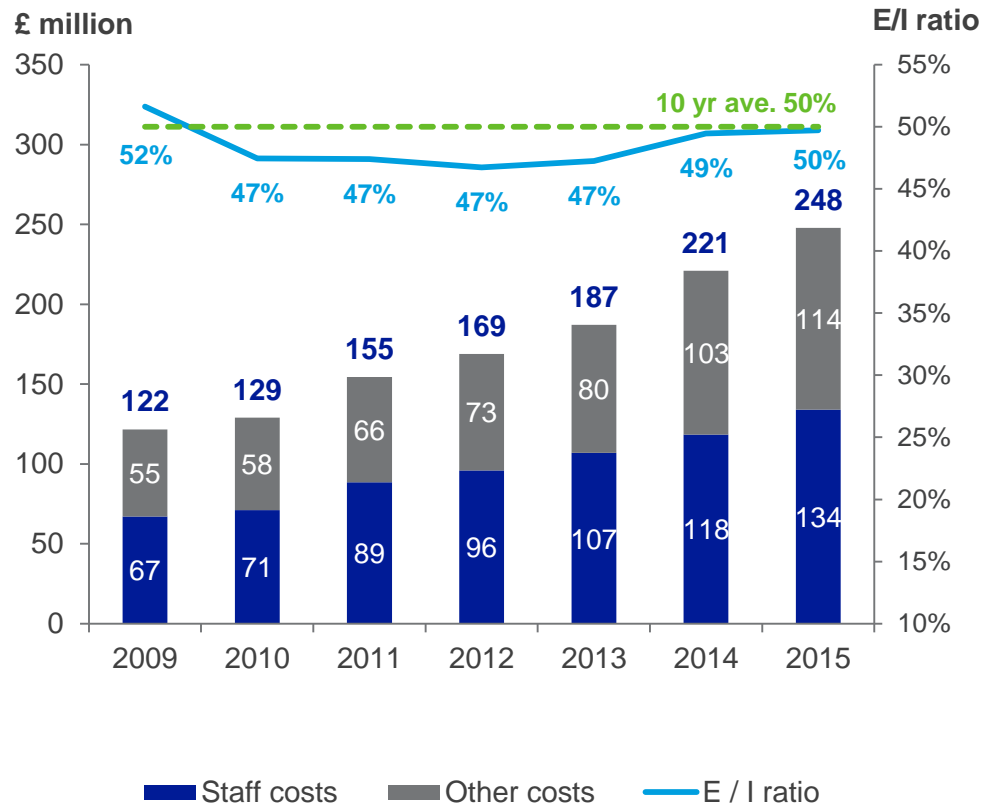
- Ongoing investment in products, systems and people
- Conservative and diversified funding
- Prudent capital position

Continuous investment

Growing cost base to support future loan book growth

- High-touch **people-intensive model**
 - **Staff costs c.55%** of total costs
 - **Compensation ratio stable** at 27%
- **Other costs** primarily depreciation, property and IT
- Expense/income ratio trending up as we continue to **invest for the long term**
 - Long-term average of 50%

Adjusted operating expenses



Investing for the long term

To protect and extend our business model

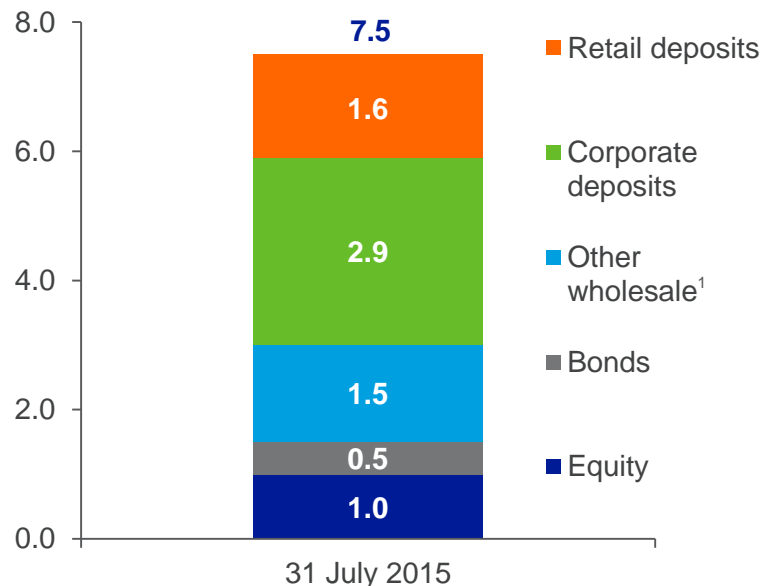
	Successfully implemented	Strategy going forward
People	<ul style="list-style-type: none">• Headcount +50% since 2007• 600+ staff relocated to Wimbledon offices	<ul style="list-style-type: none">• Asset Finance training academy – c.30 new sales staff• SME apprenticeship scheme and school leaver programme
Systems and IT	<ul style="list-style-type: none">• New Property Lending and Treasury Management systems• Credit Risk Management Information system• IT infrastructure migrated to two cutting edge data centres• One finance system consolidated multiple general ledgers	<ul style="list-style-type: none">• Cloud based technology• Investment in digital capabilities, e.g. tablets and customer portals• Further investment in data analytics capabilities to improve customer insight• Investment in Premium Finance technology
New Initiatives	<ul style="list-style-type: none">• Republic of Ireland• Renewable energy team	<ul style="list-style-type: none">• Consumer point of sale finance• Technology services team

Conservative funding model

Focus on diversity and maturity

Diverse funding sources

£ billion

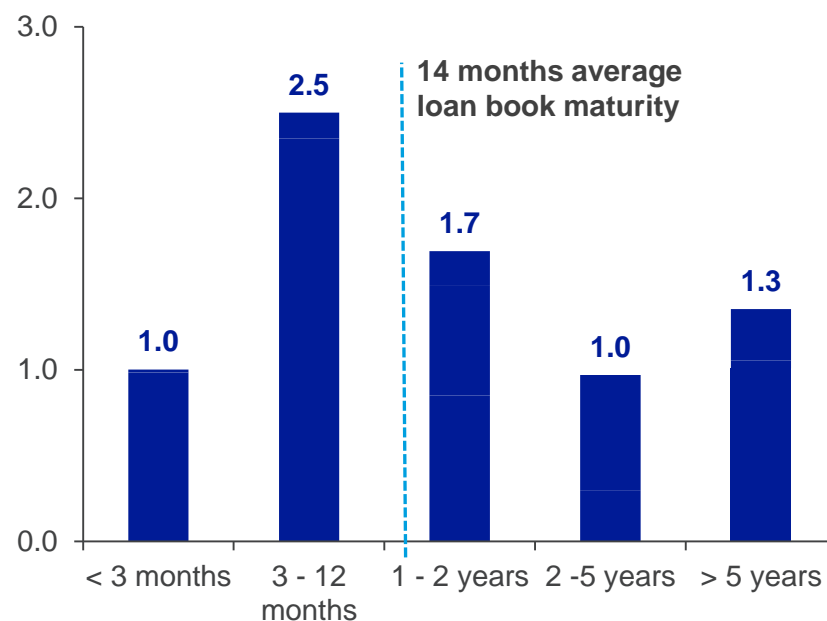


- **Variety of funding sources provide diversity**
 - £7.5 billion total funding, 131% of our loan book
- **Strong liquidity position**
 - £1.1 billion high quality liquid assets

Notes:
¹ Includes securitisations, subordinated debt and Funding for Lending

Funding maturity profile

£ billion



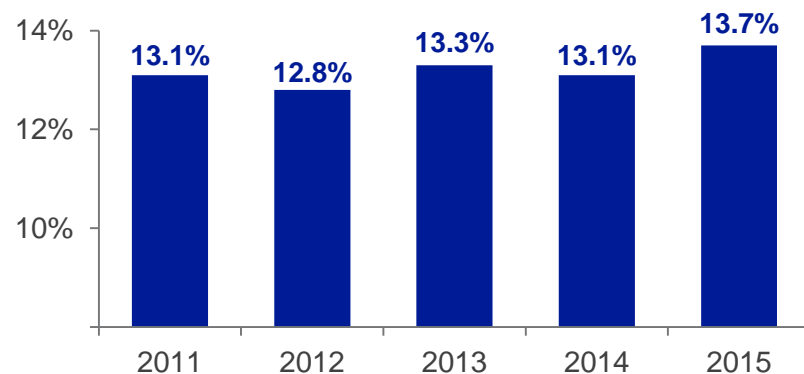
- **Prudent maturity profile**
 - Borrow long, lend short

Prudent capital position

Maintain buffers to allow flexibility

Group CET1 ratio

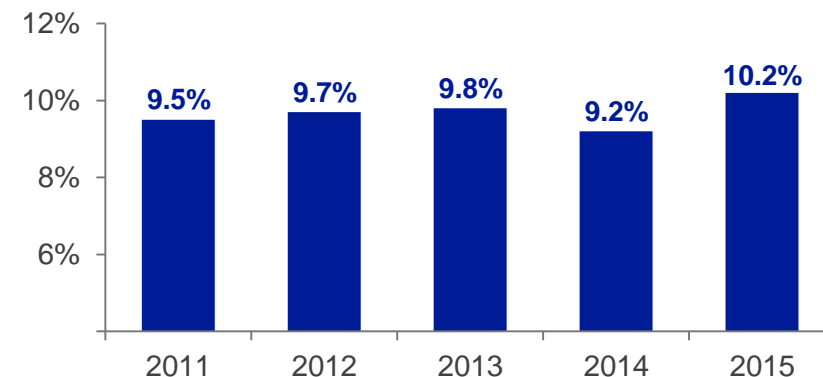
At 31 July



- **13.7% conservative capital level**
 - Buffer allows flexibility for growth and to absorb regulatory changes

Group leverage ratio¹

At 31 July



- **10.2% leverage ratio**
 - More than exceeds 3% minimum requirement

Notes:

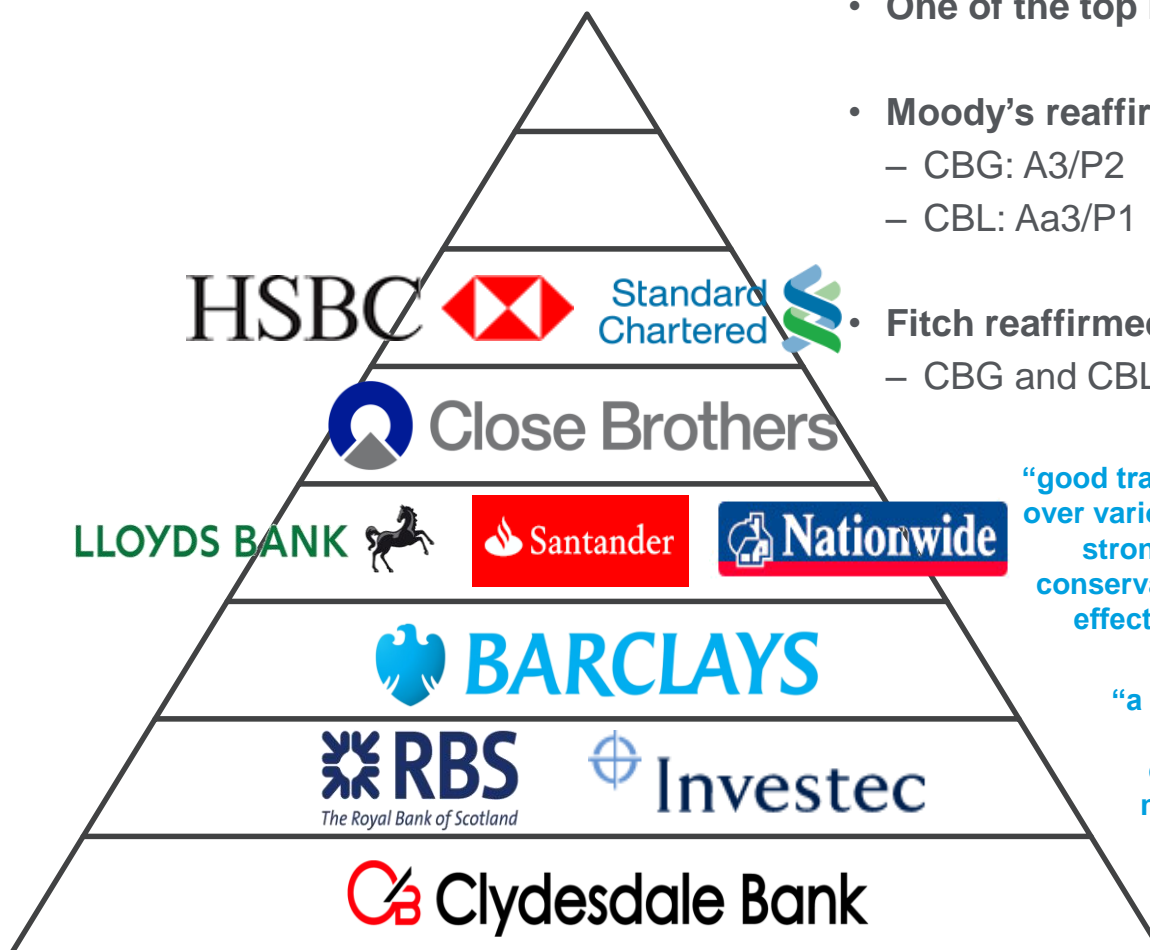
¹ The leverage ratio is calculated as tier 1 capital as a percentage of total balance sheet assets, adjusting for certain capital deductions, including intangible assets, and off balance sheet exposures.

Strong credit ratings

Recent credit rating upgrade

Moody's long-term deposit ratings

Aaa
Aa1
Aa2
Aa3
A1
A2
A3
Baa1



- One of the top rated UK banks
- **Moody's reaffirmed** November 2015
 - CBG: A3/P2
 - CBL: Aa3/P1
- **Fitch reaffirmed** October 2015
 - CBG and CBL: A/F1

“good track record of performance over various cycles, indicative of a strong management team, conservative lending criteria and effective risk management”

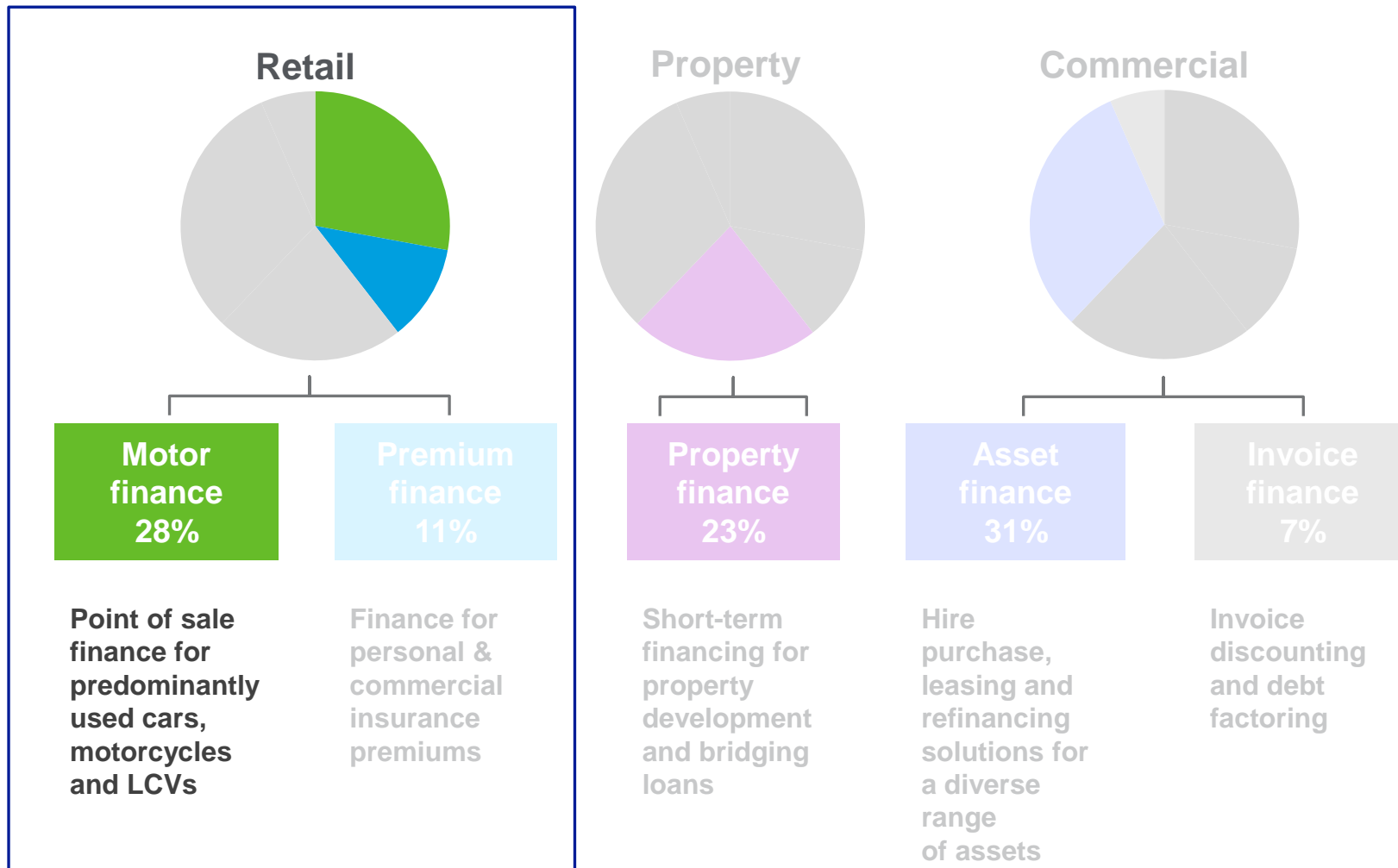
“a good degree of protection against asset-quality deterioration that might materialise in the future”

Note:
The credit ratings above relate to the banking subsidiary. The Close Brothers rating relates to that of Close Brothers Limited, our Banking division.

Motor finance

Retail

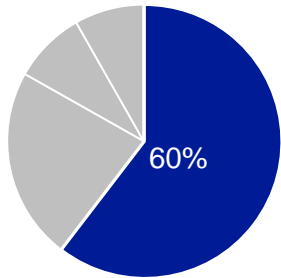
Includes Motor and Premium finance



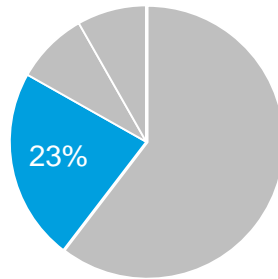
Note: Percentage indicates loan book split at 31 July 2015

What our Motor Finance business does

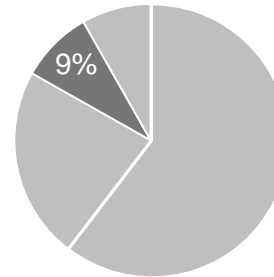
£1.6 billion loan book



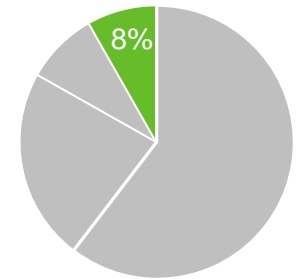
Used cars



Light Commercial Vehicles



New cars



Motorbike and other



Relationship driven model

Focus on smaller independent dealerships

Motor Finance	
Product	92% Hire purchase 8% Personal Contract
Vehicle types	69% car, 23% LCV, 4% motorbike, 4% other
Staff	406
Locations	18 offices across the UK
Distribution	7,500 regional dealerships
Loan book	£1.6 billion
Average loan size	£6,000
Average loan term	2 – 3 years
Typical LTV	75% - 85%
Customers	>250,000
Geography	UK and Republic of Ireland
Credit	Flexible underwriting ability considers asset quality and dealers track record alongside credit scoring

Note: Numbers quoted as at 31 July 2015

Overview of the business

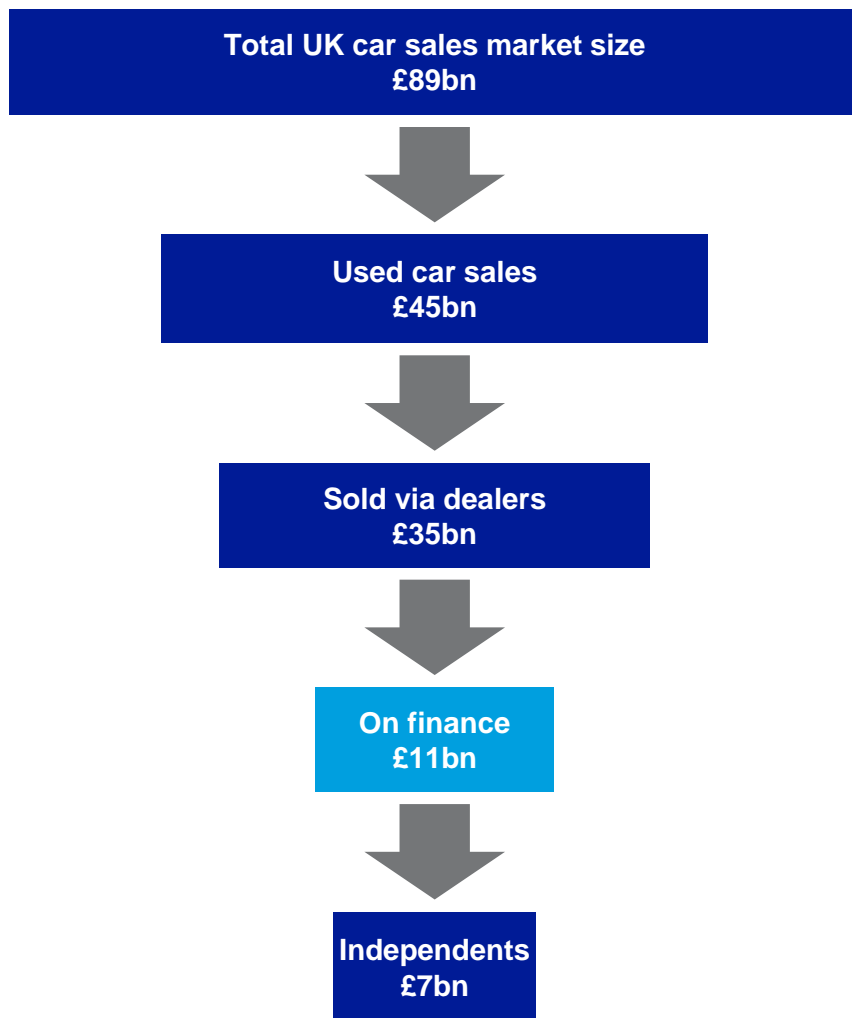
- Point of sale finance distributed via dealerships across the UK and Rol

Key differentiators of our model

- Local presence and strong dealer relationships
- Expert people with underwriting authority
- Consistent approach to lending through the cycle

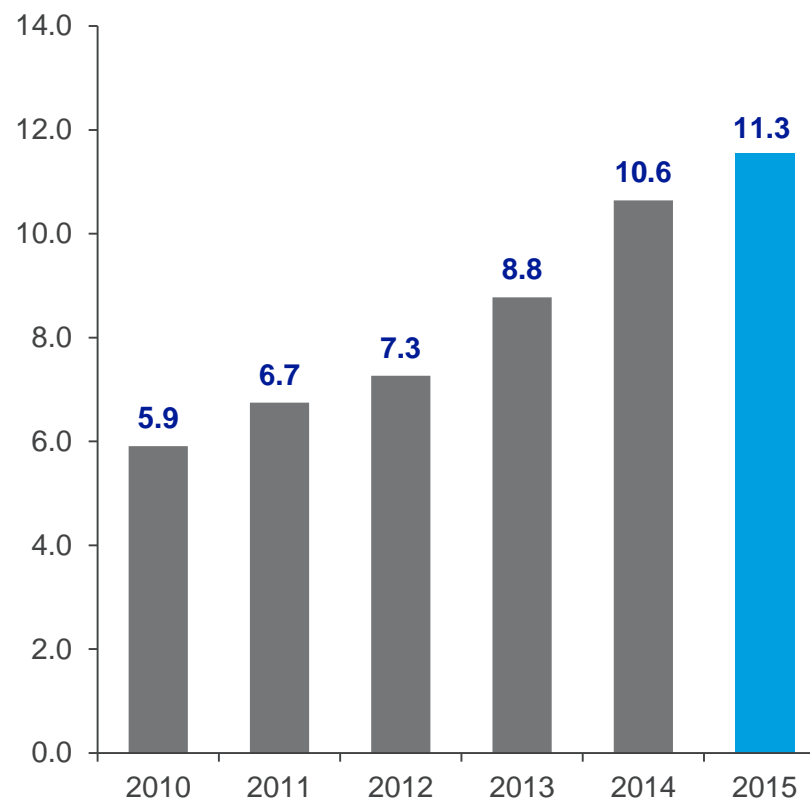
UK Motor Finance market

Record levels of car sales



Used car finance new business volumes

£ billion



Notes:

2015 figure for the 12 months to July 15.

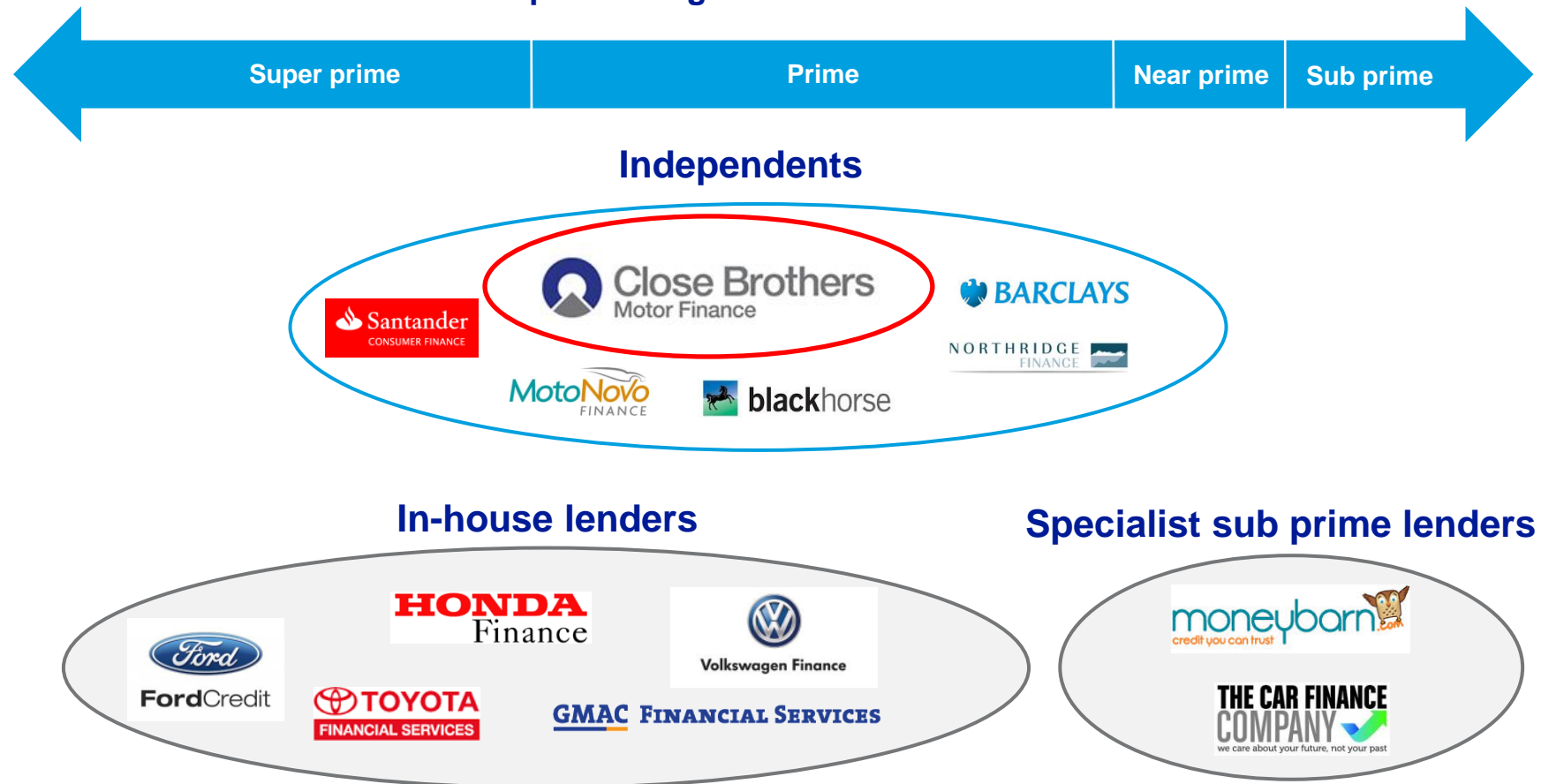
Source: FLA (includes point of sale used car finance only).

Source: FLA, BCA used car market report 2015

Competitive Landscape

We target the prime sector and independent dealers

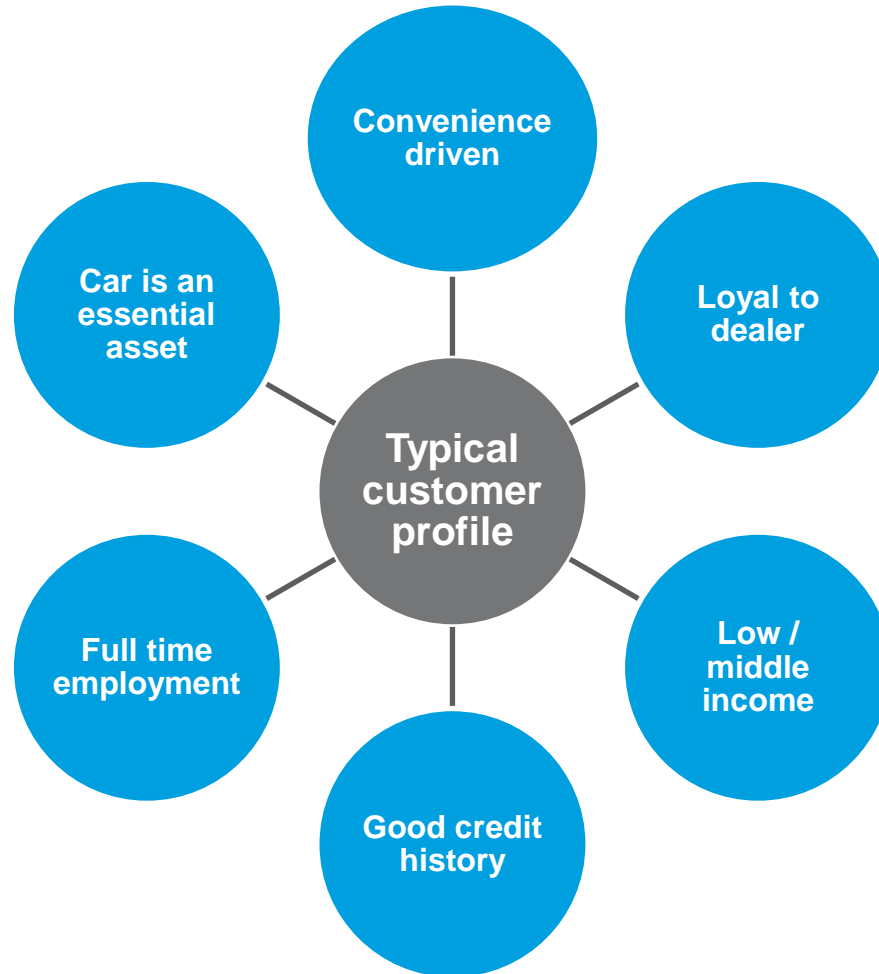
Market positioning of UK motor finance lenders



Market positioning shown for illustrative purposes only, chart not to scale

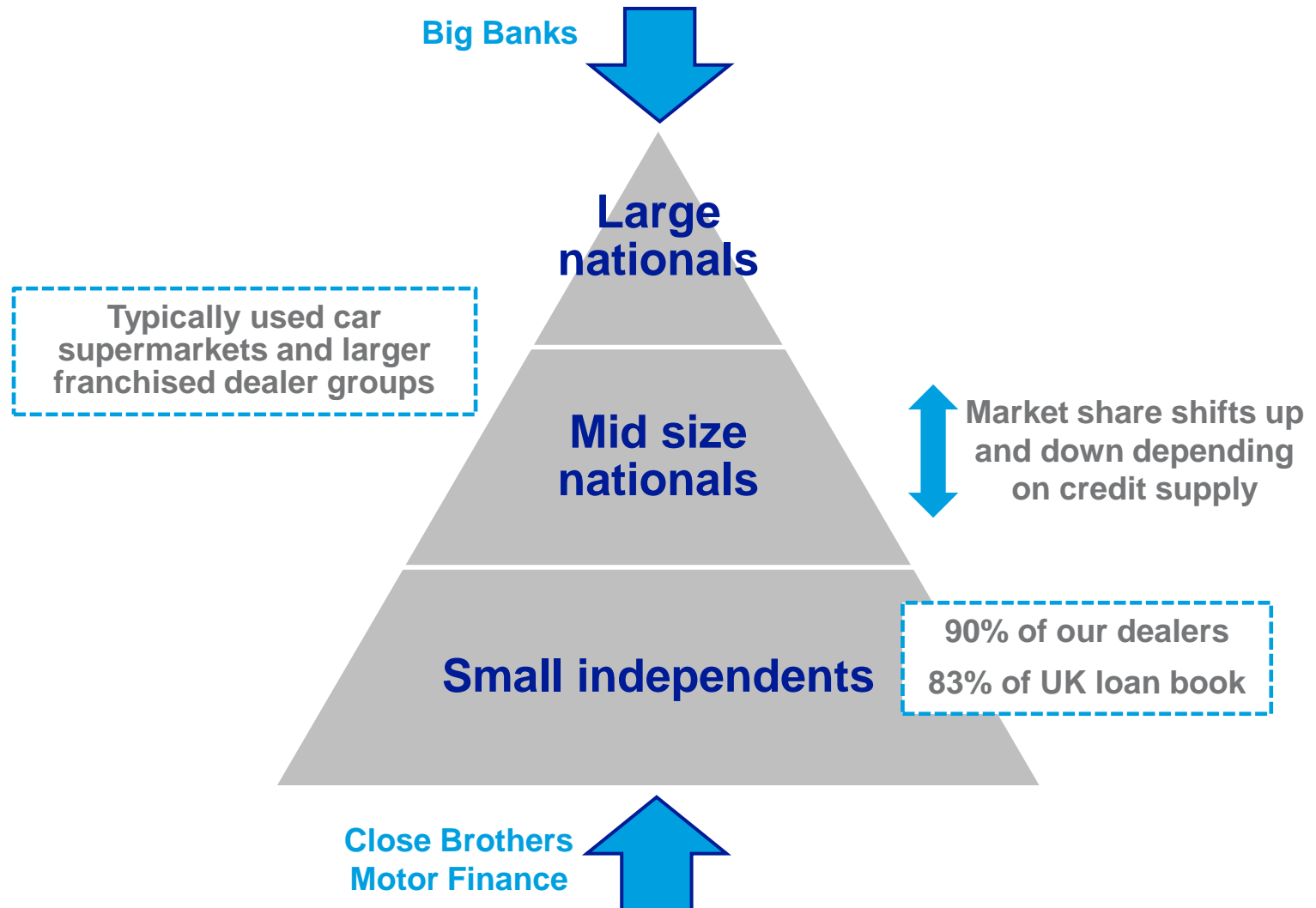
Our customers

85% retail customers



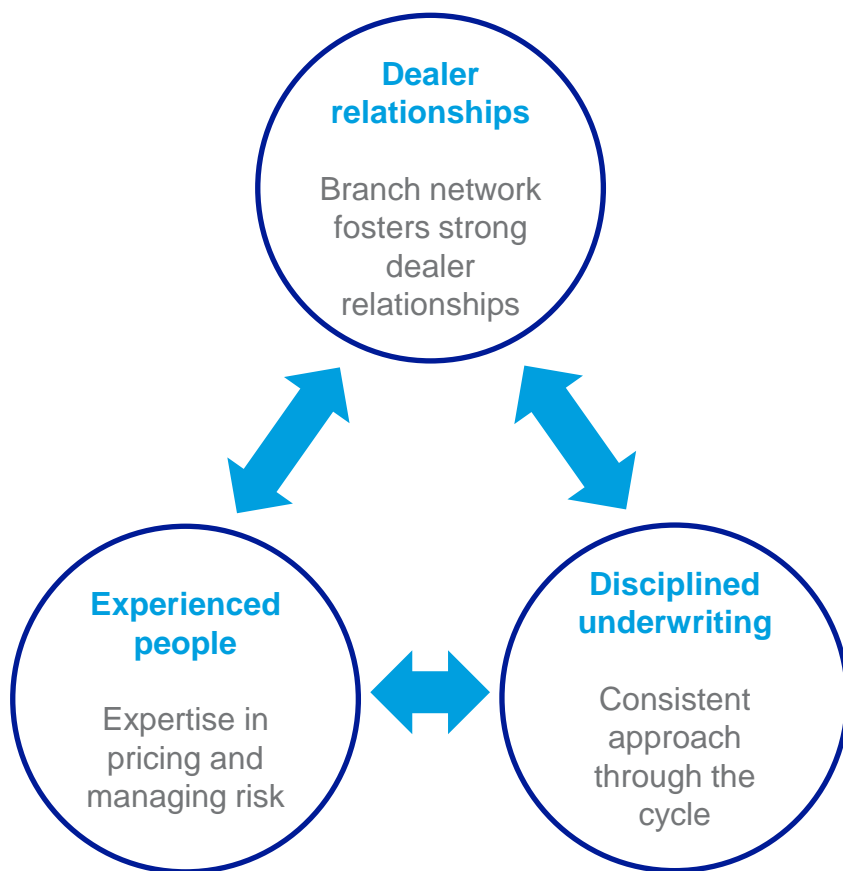
Our dealers

7,500 independent and franchised dealerships



Well placed for growth opportunities

Evolving market landscape



Emerging trends in the industry

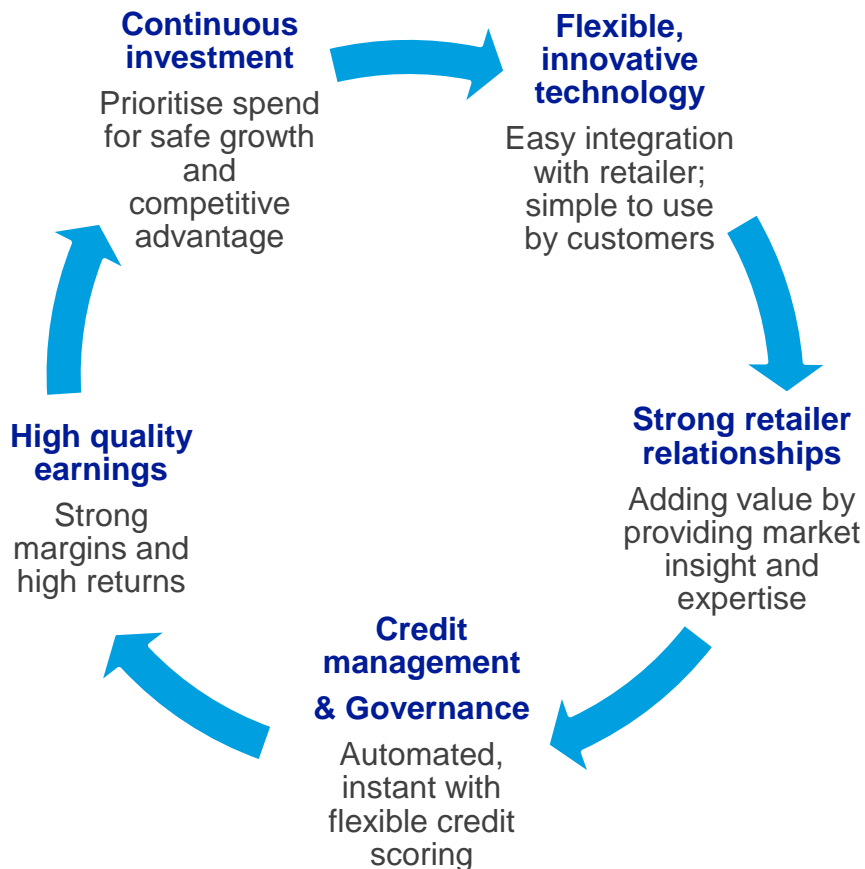
- **Continued strong demand** driving car sales
- Increased compliance **costs** for dealers
- Return of **competition**
- Changing **consumer preferences**
 - **Usership** rather than ownership (e.g. PCP)
 - Increasing role of the **internet**

Our strategic priorities

- **Enhancing our dealer proposition**
 - Assisting small dealers with FCA regulation
 - Key Accounts Division to address consolidation
- Continue to develop new initiatives e.g. **Republic of Ireland**
- Explore **new routes to market**
- **Invest in IT** and enhance our **internal capabilities**

Consumer point of sale finance

Early-stage initiative



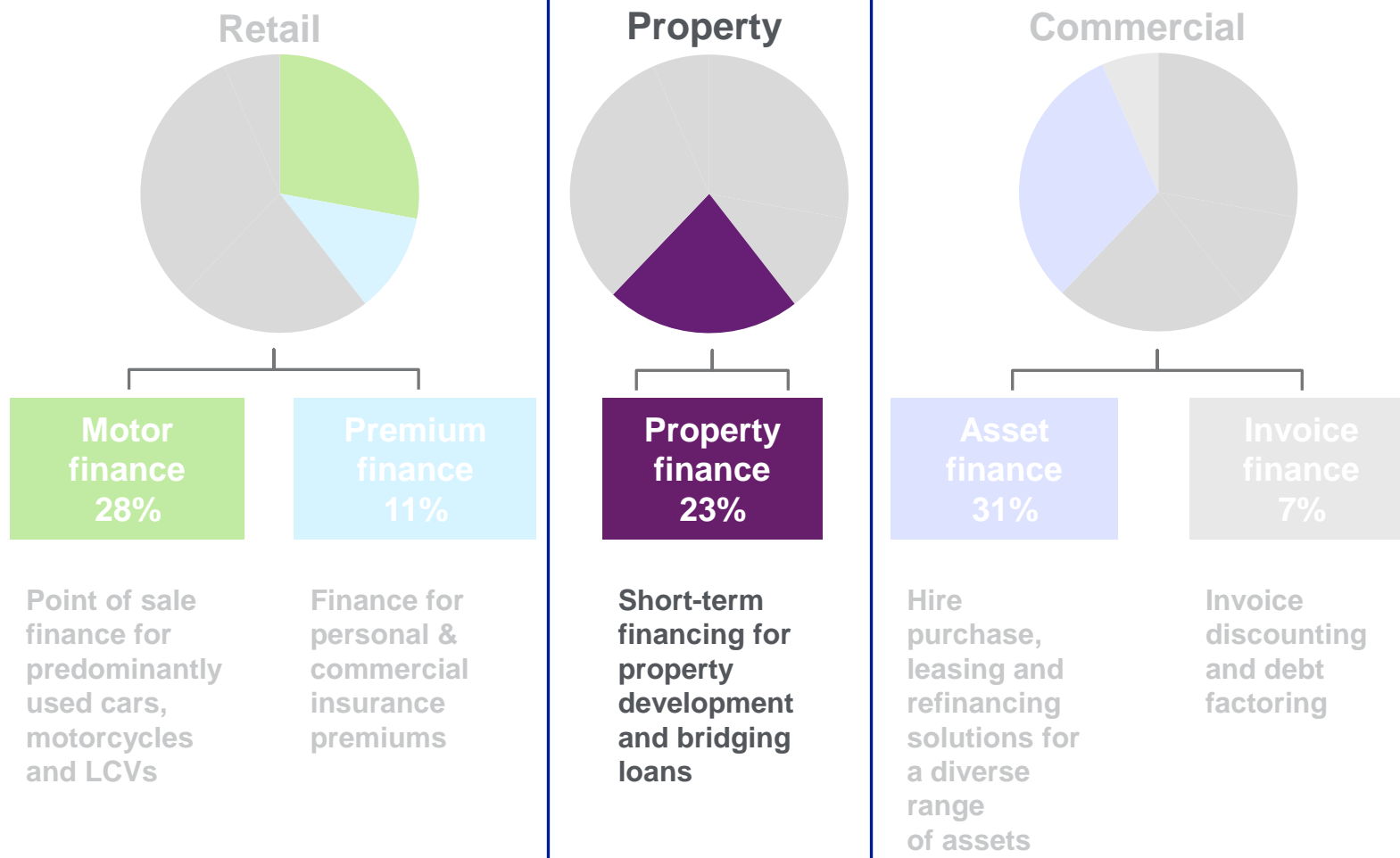
Key characteristics

- Unsecured **point of sale finance** for retail customers
- Predominantly **SME retailers**
- **Strong demand** indicates material market opportunity
- **Exhibits attributes** of the Close Brothers **model**
- **Growing strongly**, but will remain a small part of our business

Property finance

Property

Includes property development and bridging finance



Note: Percentage indicates loan book split at 31 July 2015

What do we finance?

Typical development projects

Nine House development in Sevenoaks - £2.9m loan



Brick Lane – 7 houses, 4 commercial units - £2.3m loan



10,000 sq ft house, Esher - £3m loan, sold for £6m



Substantial extension in Fulham, sold for £3.5m



Relationship driven model

Two distinct brands

Property Finance	
Products	Residential / commercial developments Bridging loans, trading / refurbishment
Headcount	77
Geography	Predominantly London and the South East
Distributions	75% direct / 25% broker
Loan book	£1.3 billion
Average loan size	£1.1 million
Average loan term	6 – 18 months
Typical LTV	50% - 60%
Customers	800
Repeat business	> 70%
Credit	Consider site and relationship with the developer fundamental to underwriting approach

Overview of the business

- 2 distinct brands
 - Close Brothers Property Finance
 - Commercial Acceptances

Key differentiators of our model

- **Strong relationships**
 - Focus on smaller developers
- **Expert people** with good knowledge of the sector
- **Flexible approach** to lending
- **Speed of decision** making

Note: Numbers quoted as at 31 July 2015

Our typical borrower

Proven track record required

Proven track record vital with all
our developers



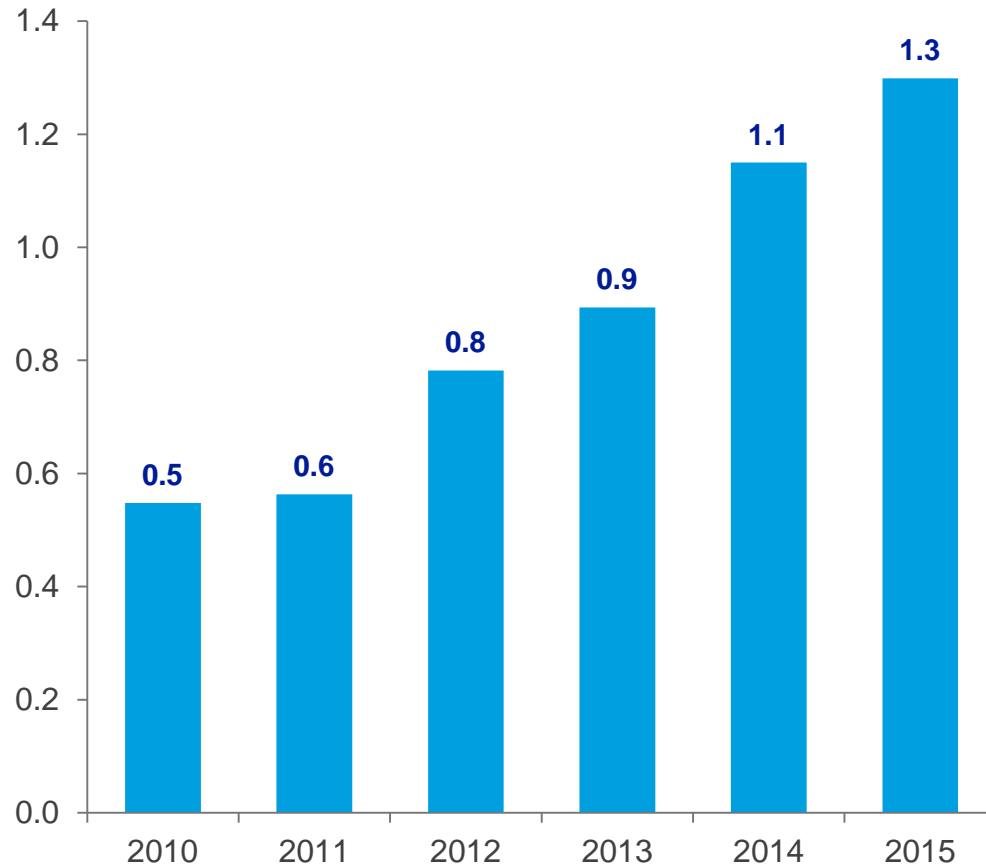
Residential Developers			Bridging Finance		Commercial
Family run business or sole trader	We would be exclusively the senior debt lender	Site located in London and South East or major city in Scotland	Short-term secured lending	95% within M25	Pre-let only

Market overview

Strong growth over last 5 years

Property loan book continues to grow strongly

£ billion



Market overview

- Well **established market position** in the sub £10 million residential development finance market
- **Largest non-clearing bank lender** in the market
- **c.20% market share**¹

Competitive landscape

- **Clearing banks** returning to the sub £10 million sector
- Some **smaller banks** looking to enter senior debt space
- Bridging finance market **remains competitive**

¹ De Montfort University research

Well positioned

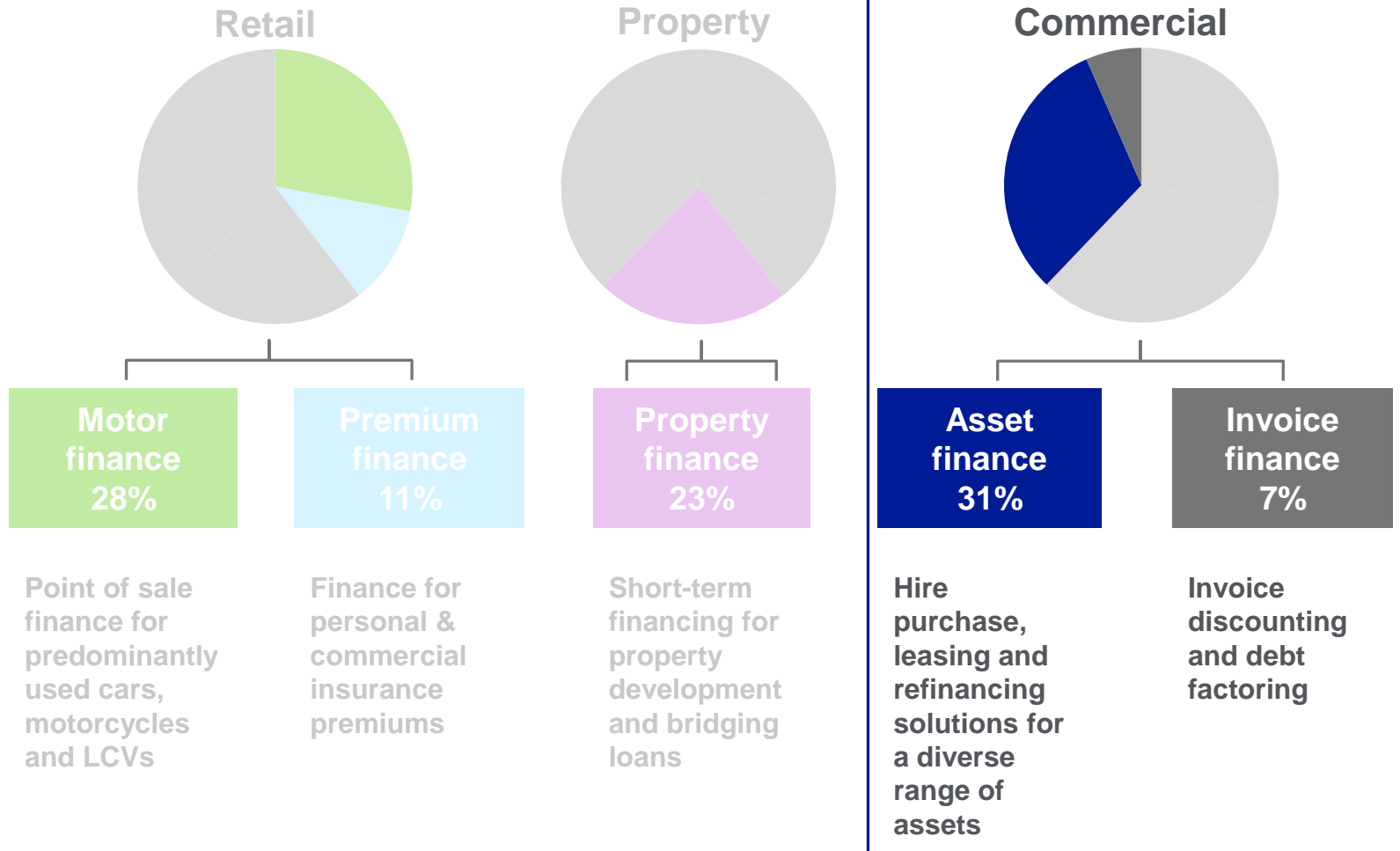
Improving UK economy supporting robust demand

- **Strong market position** in our core market
 - London and the South East
- Long-term **demand** in our **core market** for **our products**
- **More competition seen in bridging finance**
 - We rely on our strong relationships and expert service to **set us apart**
- Looking to expand into **high quality regional locations** as local **economy** improves and **demand** increases
 - Locations with limited supply e.g. Bristol, Cambridge, Manchester, Oxford, Scotland, West Midlands
- **Other opportunities** include commercial to residential conversions

Asset finance

Commercial

Includes Asset and Invoice finance

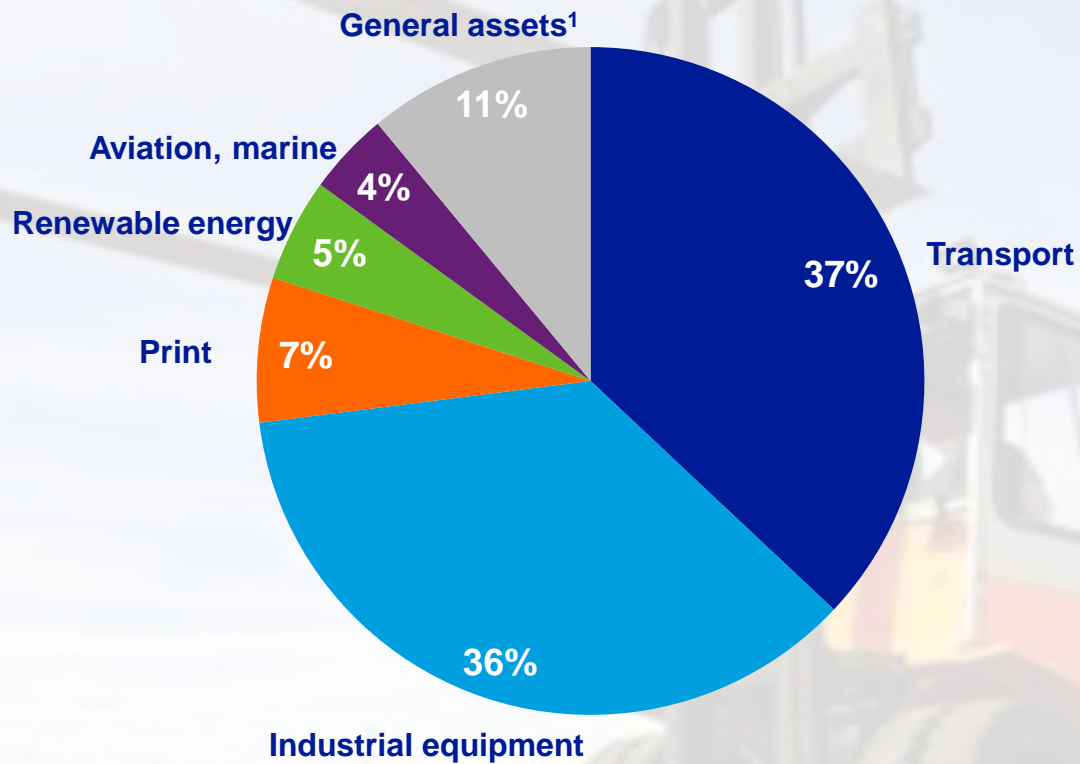


Note: Percentage indicates loan book split at 31 July 2015

What our Asset Finance business does

Diverse range of assets

£1.8 billion loan book at 31 July 2015



Note:

¹ Includes shop fittings, healthcare, football transfers, office equipment

Overview

Direct and indirect distribution

Asset Finance	
Core products	Hire purchase Finance lease Operating lease
Staff	535
Locations	15
Distribution	55% direct / 45% broker
Loan book	£1.8 billion
Average loan	£35,000
Average loan term	40 months
Typical LTV	85% - 90%
Customers	27,000
Market share	7% (of our segments)
Credit	Prudent underwriting with max 85-90% LTVs Repossessions often resold to existing clients

Overview of the business

- Tailor-made finance to the UK SME sector

Key differentiators

- Diverse portfolio
- Strong **brand awareness**
- **Expert knowledge** and strong relationships
- **Speed of service** with local decision making
- **Premium customer service**
 - Net Promoter Score of +71
 - 70% repeat business
- **Flexibility** to meet our customer needs

Who are our customers?

Typically industrial SMEs and medium sized limited companies

Who are our customers?

- SMEs in our specialist sectors:
 - Transport, Aviation & Marine
 - Industrial equipment – manufacturing, construction and recycling, print
 - Professional services – doctors, vets, accountants, lawyers, funeral directors
 - Leasing and rentals – corporate entities
- Many owner operators, family businesses, small but growing businesses
- Companies looking to invest in assets to grow, fulfil new contracts, or release capital to reinvest
- Some lower rate stronger covenant customers to supplement core offering
- Also have large intermediary introduced business

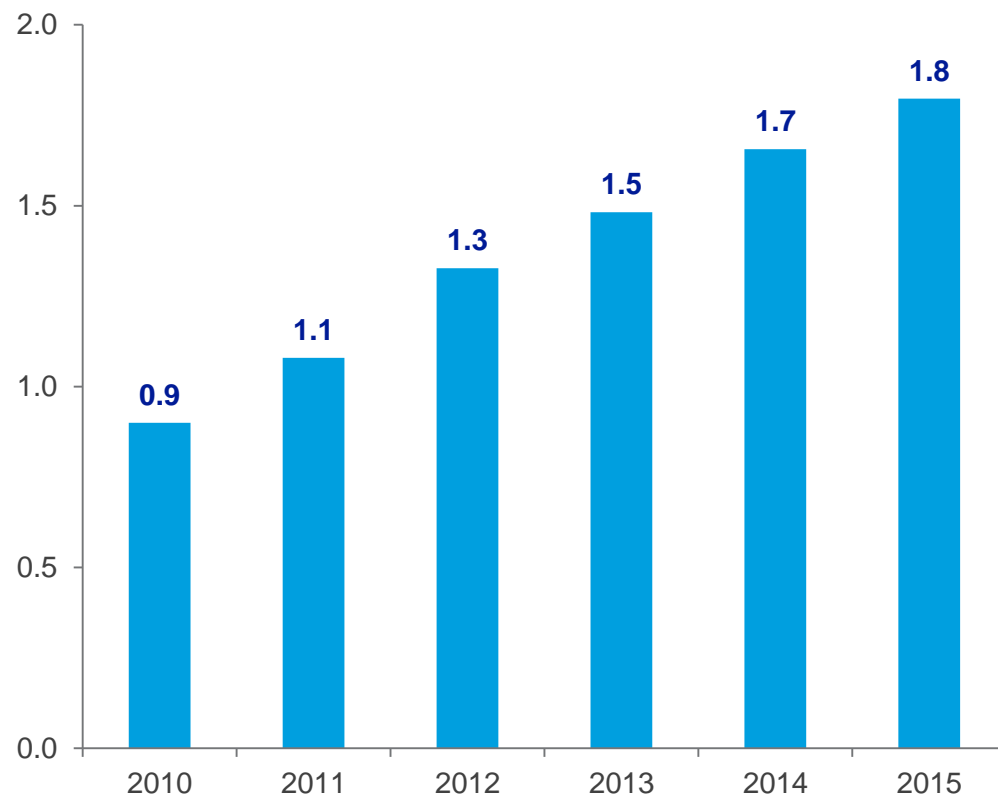


The asset finance market

Improving demand

Asset Finance loan book

£ billion



Market overview

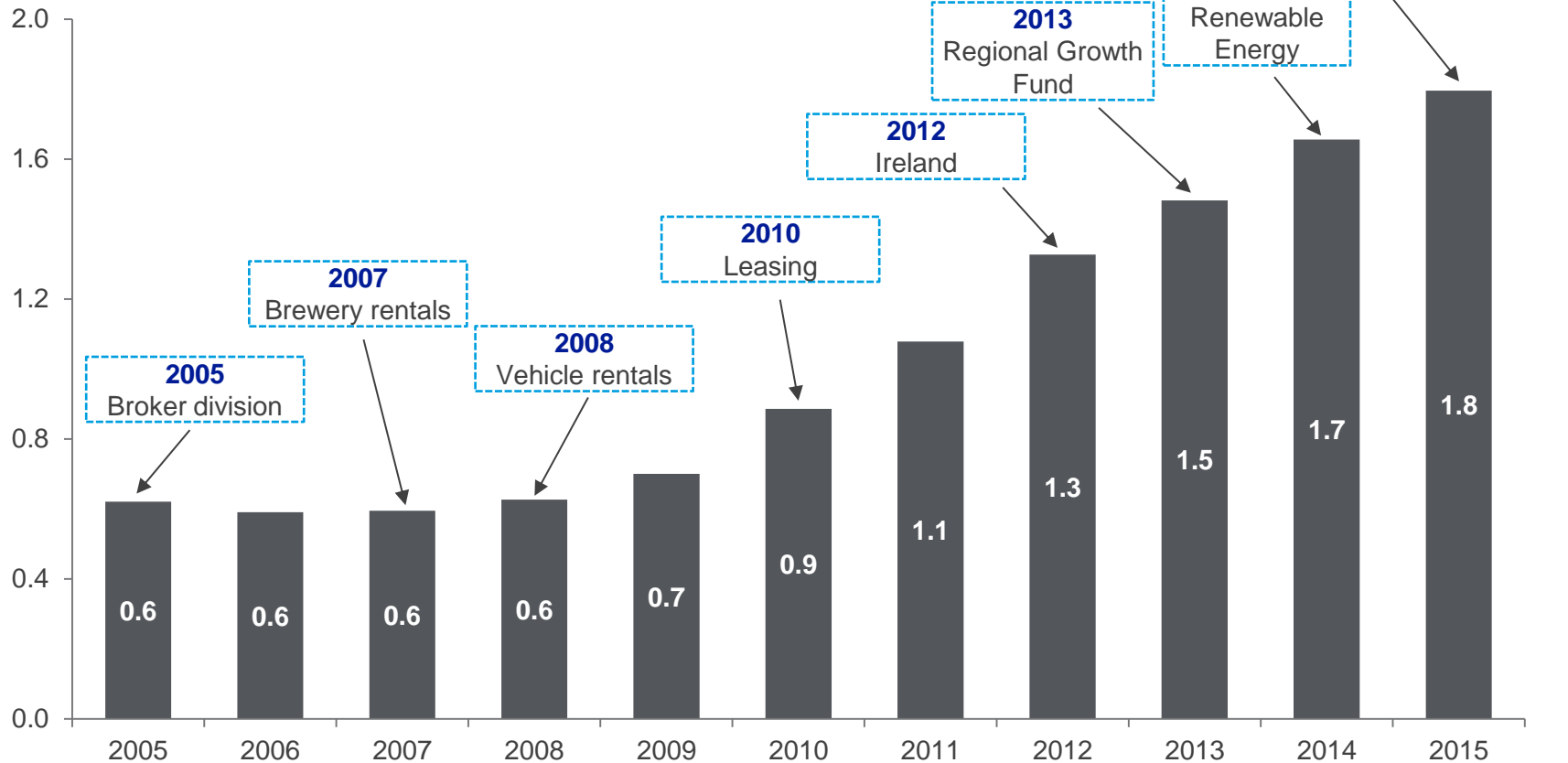
- Our sectors now worth **£18 billion** of volume
- We **grew strongly** during crisis when credit dried up
 - Growing **in line with market** since then
- **Credit supply returning** to market
 - Challenger banks / broker channels
- We **stick to our model** through the cycle
 - Still successful with **record new business volumes** FY15
 - **Held our margins**
 - c.7% market share

Well managed growth across the cycle

Proactive approach

Asset Finance loan book

£ billion

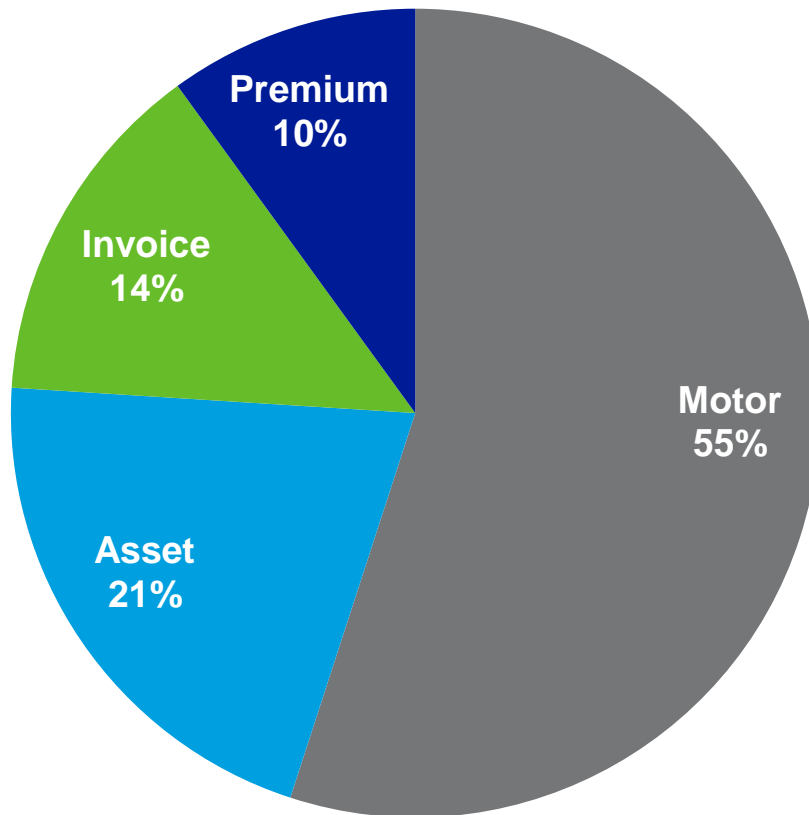


Republic of Ireland

Opportunities as the economy picks up

Republic of Ireland loan book

At 31 July 2015



- **Strong growth** over the last few years
- Loan book now stands at c.£300 million
- **Similar composition** to UK loan book
 - Excludes property
- **Significant opportunities** in line with economic recovery
- **Less competition** than UK market

Renewable energy finance

Specialist team target opportunities

- **Expert team** recruited, launched FY 2014
- Current loan book £100 million with **appetite to grow**
- **Project financing** for Wind, Solar, Hydro
- **Niche and diverse market** with limited competitors
- Some larger ticket deals
- **Good pipeline** of deals with strong fee income

Customers



- Professional developers
- Landowner farmers developing one-off projects
- Estate owners



Competitors

- Santander, Investec, RBS, Barclays, National Australia Bank



Technology Services

Exploring adjacent markets

Initial areas of focus



PCs , Servers, Tablets, inc software



Telecoms, Datacoms Switches



Future potential areas



Broadcast Equipment



Test & Measurement Equipment



Tiled LED Display Screens



Digital Cinema Projection Equipment



Digital Print



Ticketing Systems

Model continues to deliver

Core business and a range of new initiatives

- Core businesses remain **well positioned for future growth**
 - **Improving demand** helping to offset increasing competition
- Explore **new opportunities** that fit with our model
 - Niche, relationship based, high margin
- Continue to deliver **high quality customer service**
- **Invest in people** as specialist staff with **expert knowledge** remain key to our business, e.g. our Training Academy
- Maintain focus on **quality of book** and strength of returns

Banking Division

Key messages

- Maintaining our **disciplined approach** which supports our long track record of growth and profitability
- **Opportunities** for long-term, structural growth
 - Seeking out and investing in new initiatives
- **Deliver strong returns** and grow our loan book
 - Whilst maintaining our prudent capital position
- Deliver **sustainable long-term earnings**
 - **Progressive dividends** for our shareholders

Appendix

Premium Finance

Well established market position

Service differentiator

Close Brothers Premium Finance

Specialist lenders with strong expertise and speed of service



Insurance brokers

1,700 “partnerships”



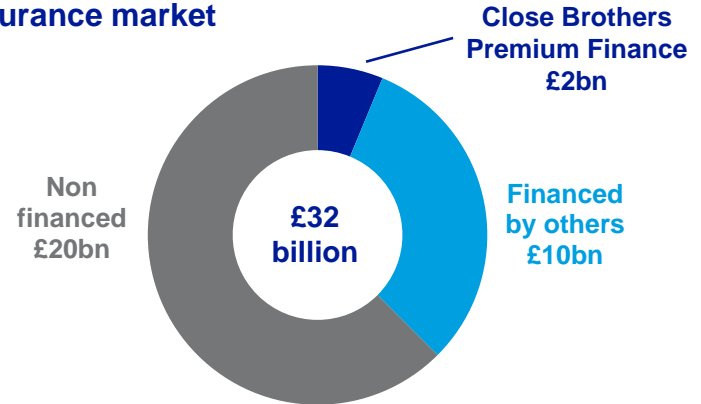
Making insurance more affordable for our customers

1.5 million individuals / 0.2 million SMEs
UK and Republic of Ireland

Lower risk secured business

- **Low loss rates** reflect predominantly **secured nature**
- **Three layers of protection**
 - Insurer, broker, borrower
- Stable cancellation and recovery rates over the long term

UK insurance market



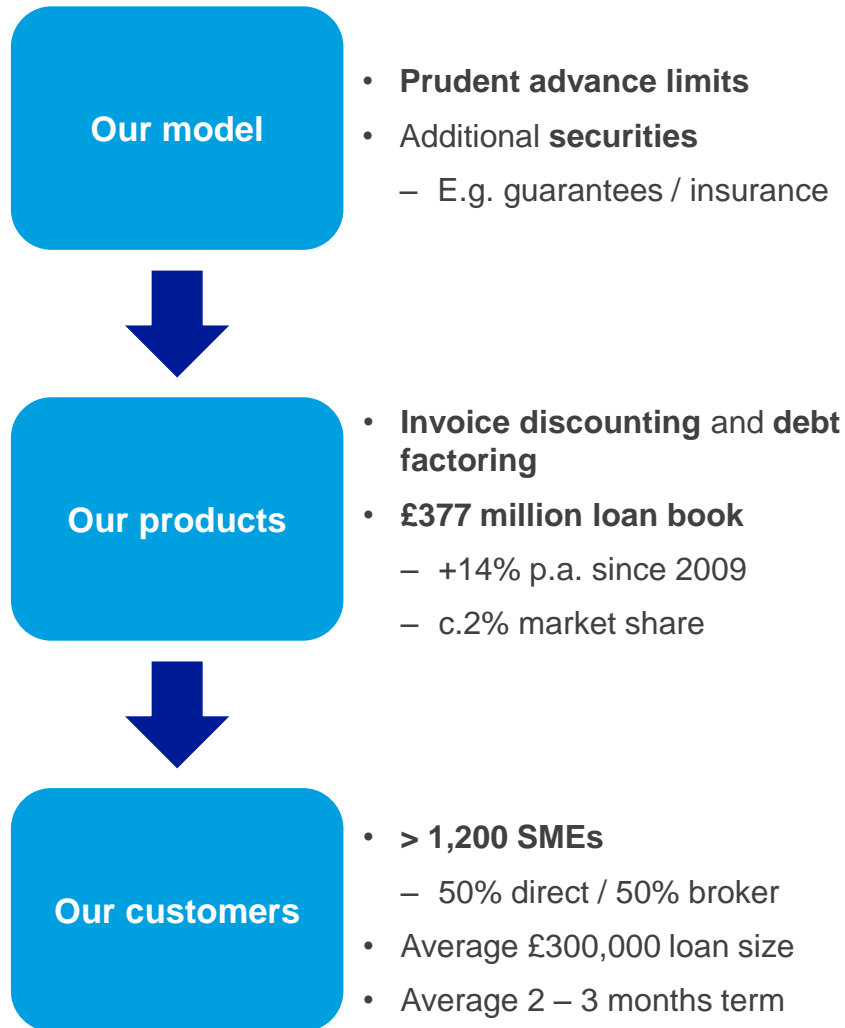
- £32 billion UK insurance market
 - Of which £12 billion is financed
- A mature market with **strong returns**
 - Remains competitive, **holding market share** (c.6%)
 - **High barriers to entry**

Outlook

- We are **exploring new routes to market**
- **Continued investment** in systems and technology
 - Increased regulatory focus, e.g. FCA review

Invoice Finance

Low risk high return business



Market

- £19 billion invoice finance market
 - Grown 5% p.a. since 2009

Competition

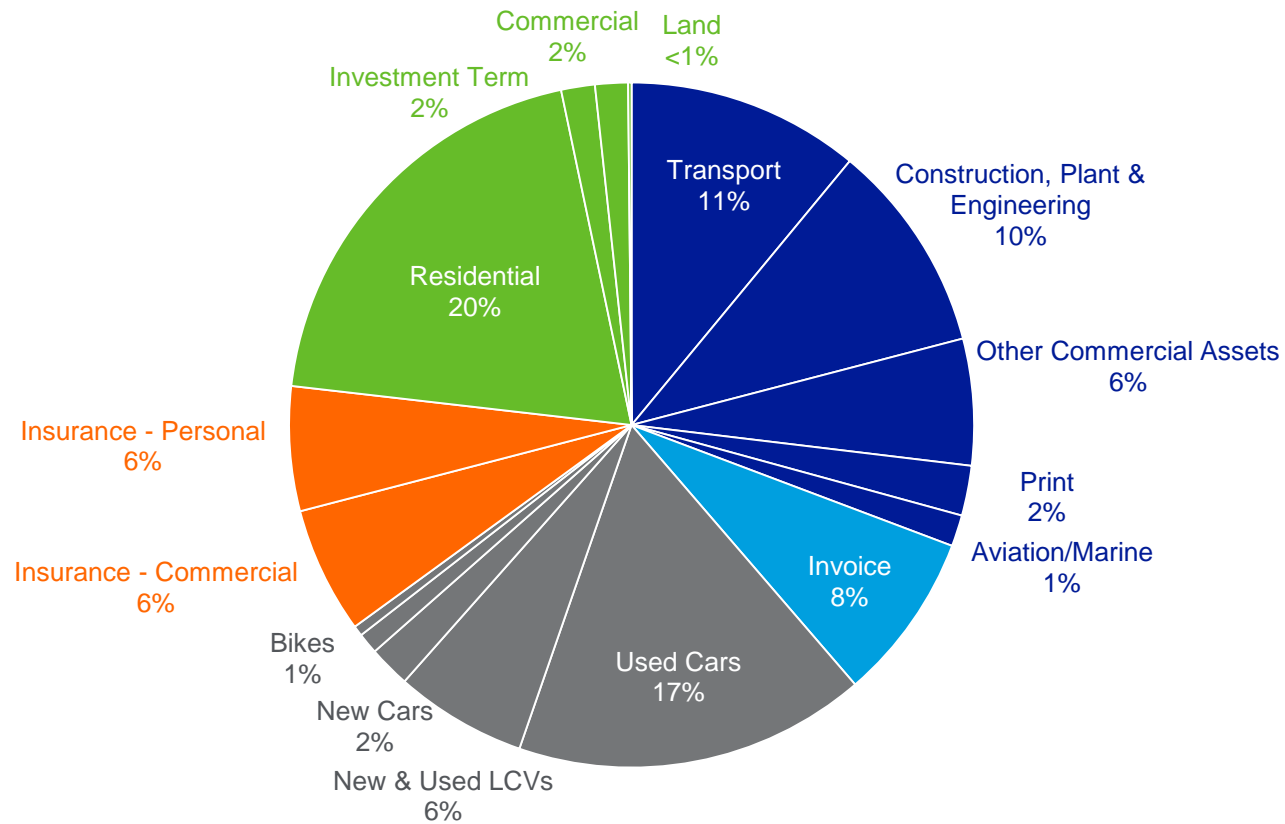
- Market **remains competitive**
 - Close Brothers being a premium provider
- **Smaller banks targeting growth** in this market

Outlook

- Competition increasing but **further growth expected**
 - **Opportunities** include: bigger ticket deals / Ireland

Total loan book

By asset type at 31 July 2015



■ Asset Finance ■ Invoice Finance ■ Motor Finance ■ Premium Finance ■ Property Finance

Banking overview

Loan book and lending statistics by business

Lending statistics	Closing loan book (£m)	Loan book growth (%)	Typical LTV ¹	Average loan size ²	Typical loan maturity ³	Number of customers
Motor finance	1,600.3	9.7%	75 – 85%	£6k	2 – 3 years	300k
Premium finance	665.7	5.0%	90%	£500	10 months	1.8m
Asset finance	1,796.2	8.5%	85 – 90%	£35k	40 months	27k
Invoice finance	376.6	(3.7%)	80%	£300k	2 – 3 months	1.2k
Property finance	1,299.0	13.0%	50 – 60%	£1.1m	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 2015.

³ Typical loan maturity for new business on a behavioural basis.



LENDING | DEPOSITS | WEALTH MANAGEMENT | SECURITIES