

Banking Division

Investor seminar

22 November 2017



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Introduction

Preben Prebensen

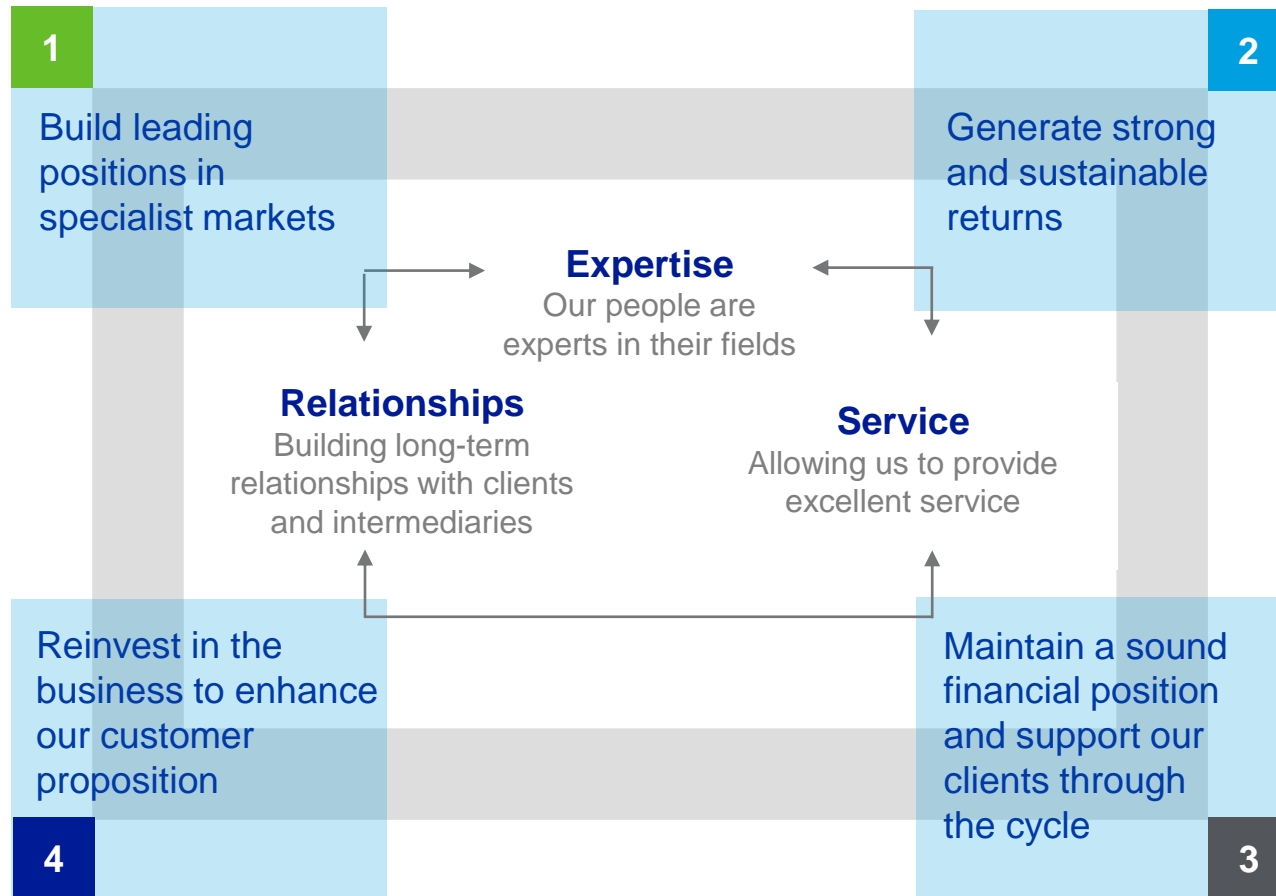
Chief Executive Officer

Agenda

- | | |
|---|---|
| 1. Introduction | Preben Prebensen |
| 2. Banking model in action | Adrian Sainsbury |
| 3. Financial delivery and investment | Mike Morgan |
| 5. Prudent funding and liquidity | Malcolm Hook |
| 6. Business presentations | Asset Finance – Neil Davies
Invoice Finance – David Thomson
Premium Finance – Sharon Bishop
Motor Finance – James Broadhead
Property Finance – Frank Pennal |
| 7. Q&A | |

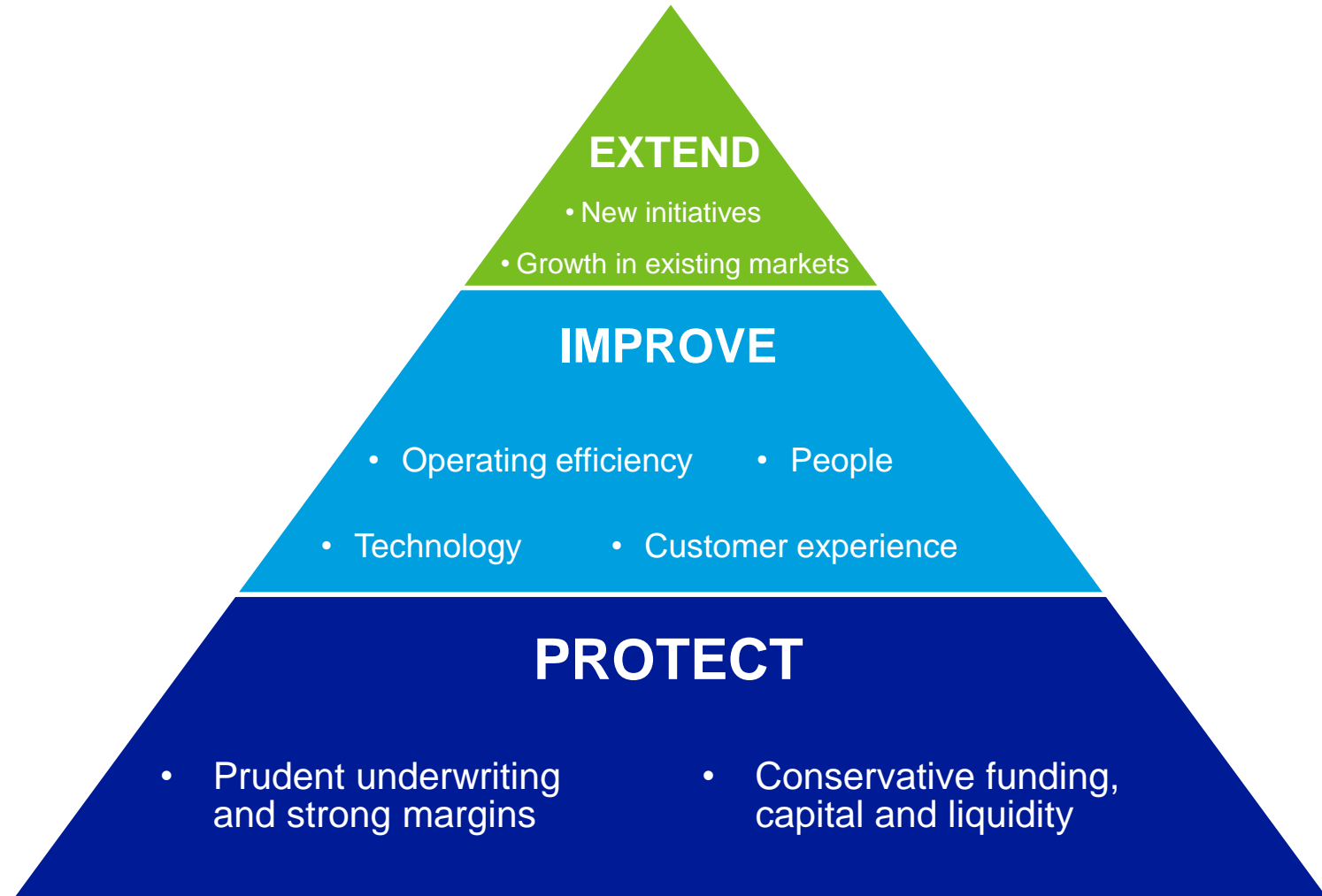
Close Brothers model

Established business model through the cycle



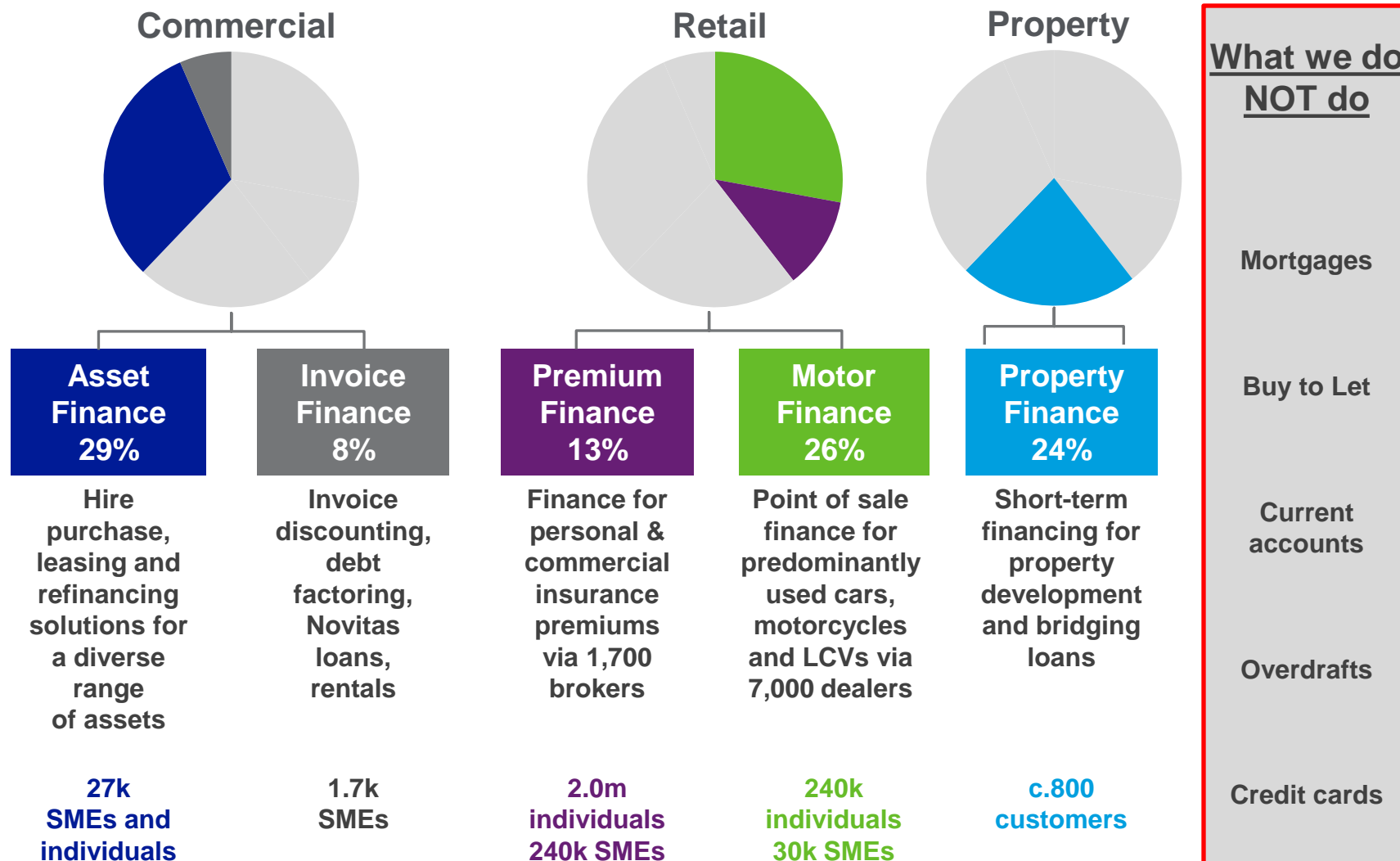
Active management of the model

Maximising the potential of our business model



Diversity of our businesses

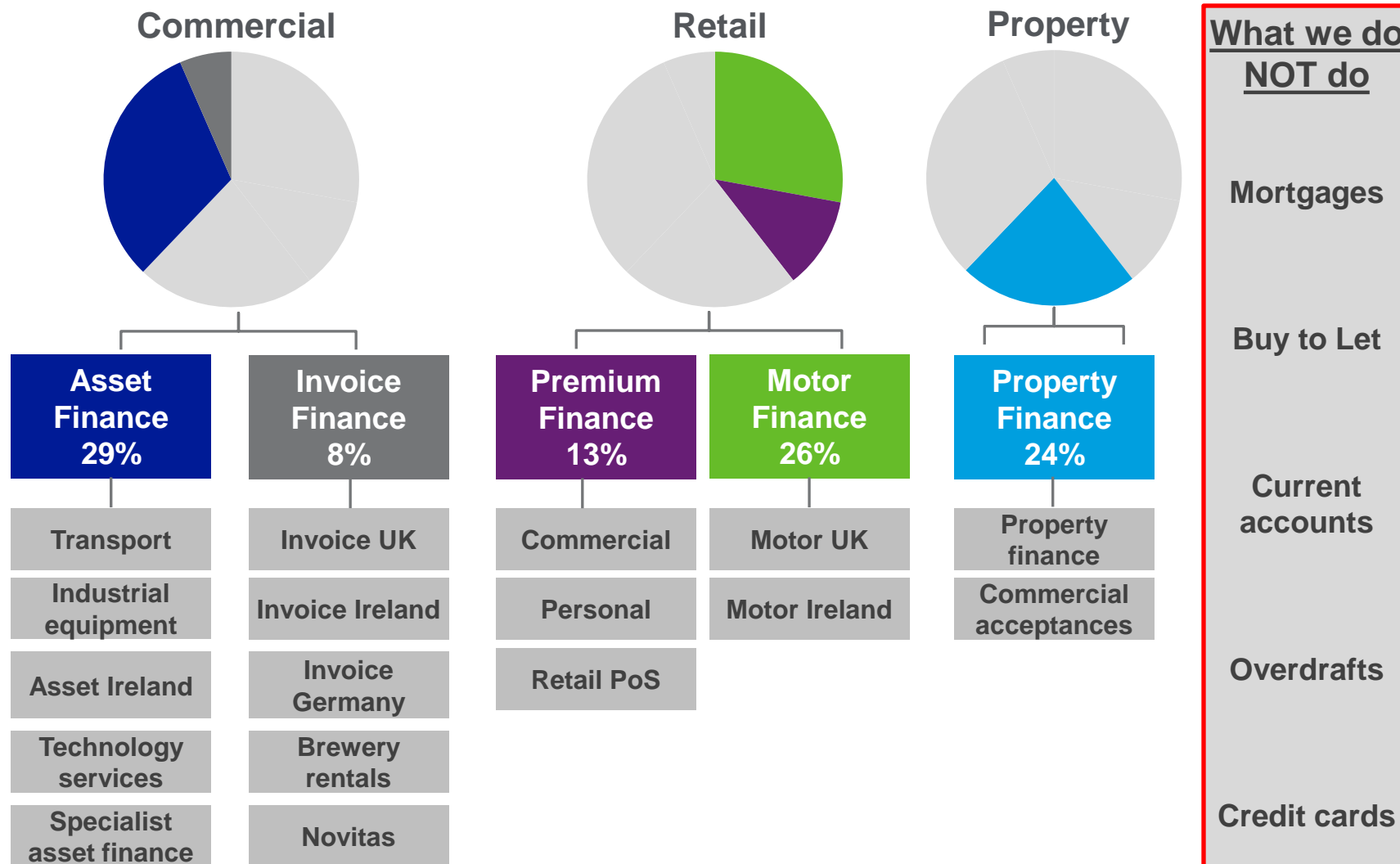
Three specialist lending segments



Note: Percentage indicates loan book split at 31 July 2017

Diversity of our businesses

Three specialist lending segments



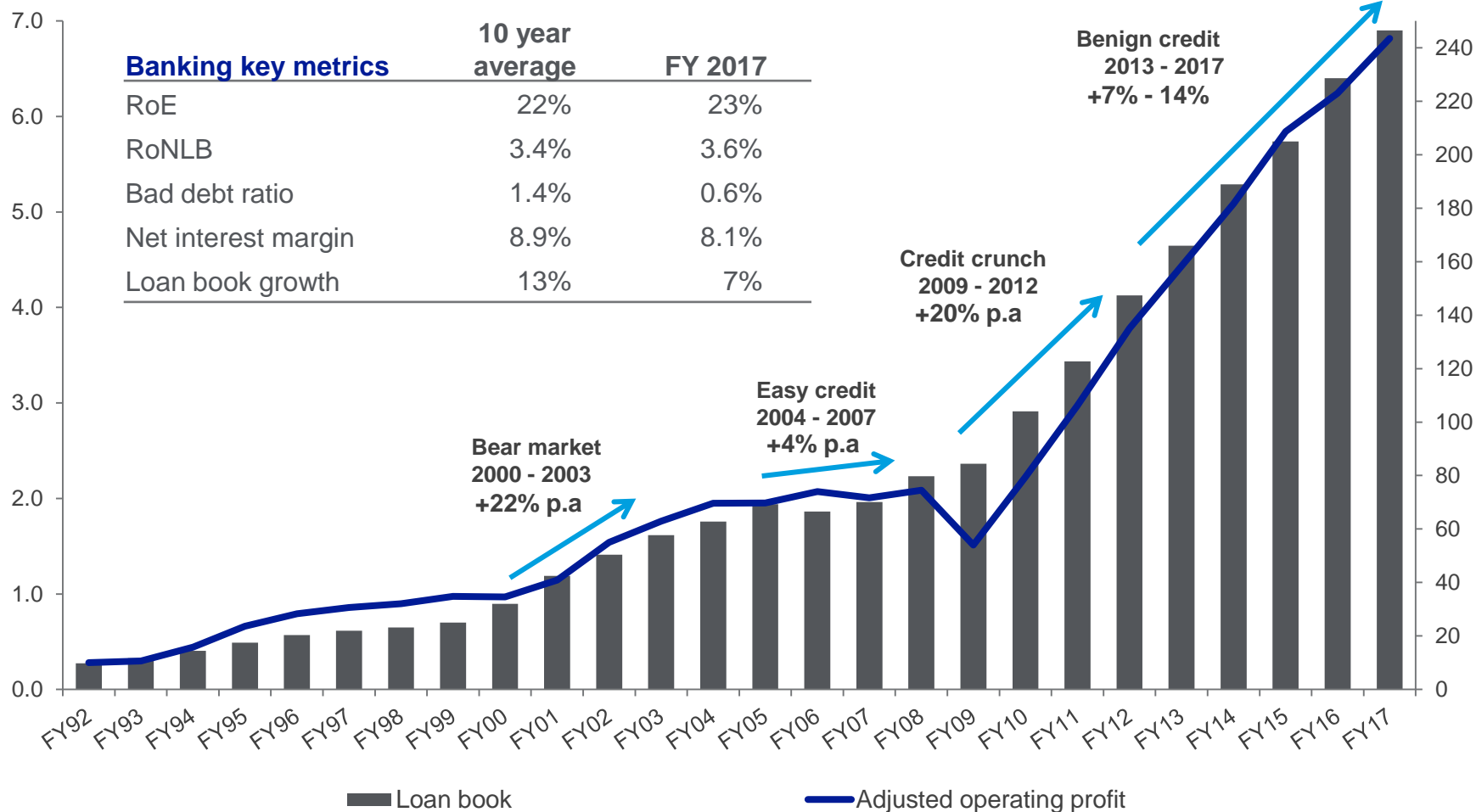
Note: Percentage indicates loan book split at 31 July 2017

Banking track record

Long history of profitable growth through the cycle

£ billion

£ million



Consistent underwriting

Consistent lending criteria through the cycle

Credit risk appetite unchanged

- **Strong risk culture** – “cradle to grave”
- Predominantly **secured lending**
- Funding assets we **know** and **understand**

Underwriting criteria unchanged

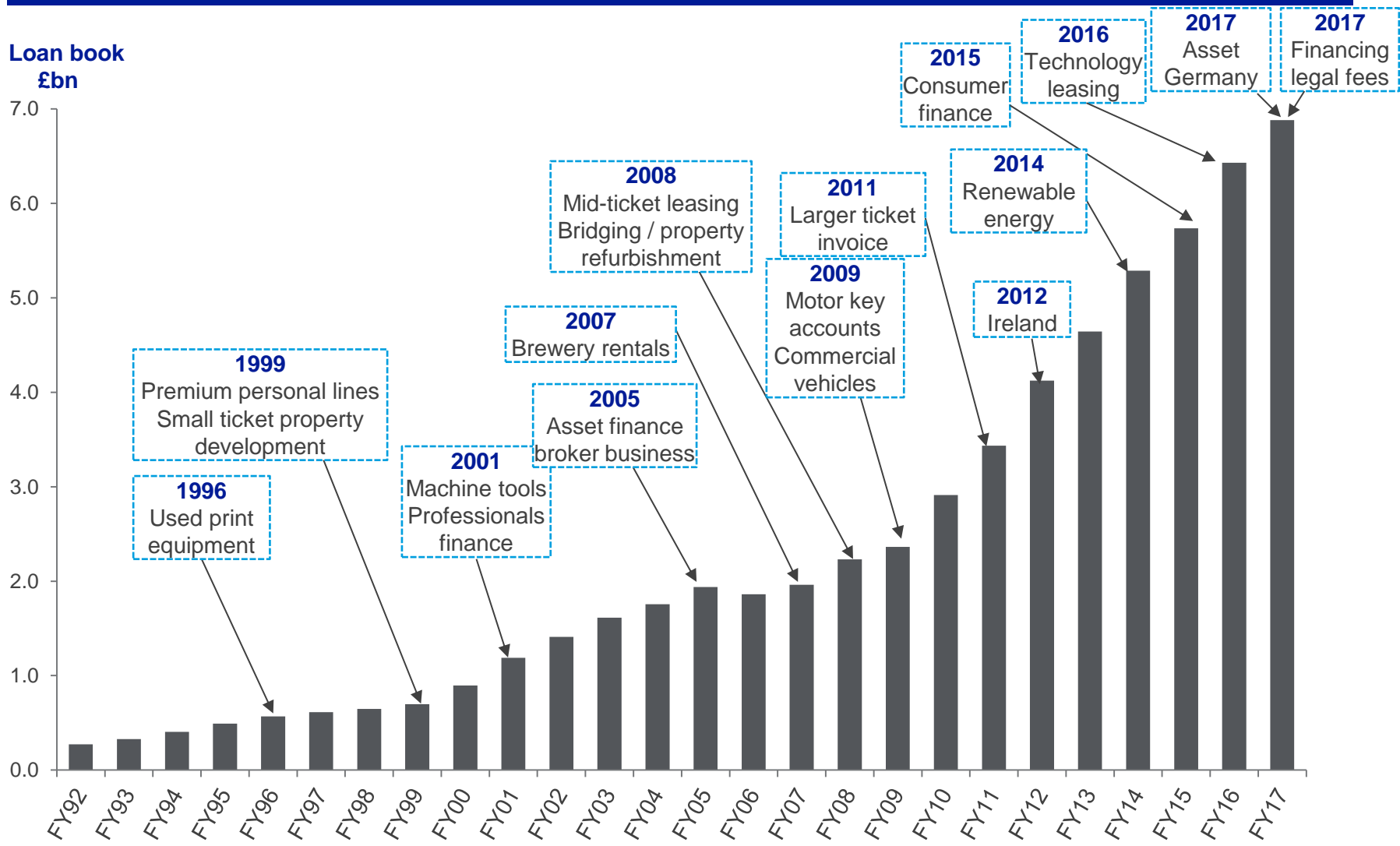
- **Local underwriting** with central oversight
- Majority of **loans underwritten manually** against defined lending policy
- **Maintain quality of new business** in the face of increased competition

Business	Typical LTV	Average loan size ¹	Typical loan maturity
Motor Finance	75 – 85%	£6.5k	2 – 4 years
Premium Finance	91%	£600	10 months
Asset Finance	80 – 90%	£41.5k	32 months
Invoice Finance	80%	£360k	2 – 3 months
Property Finance	50 - 60%	£1.2m	6 – 18 months

Note: 1 Average outstanding loan

Extending the model

Actively seeking new niches



Financial delivery and investment

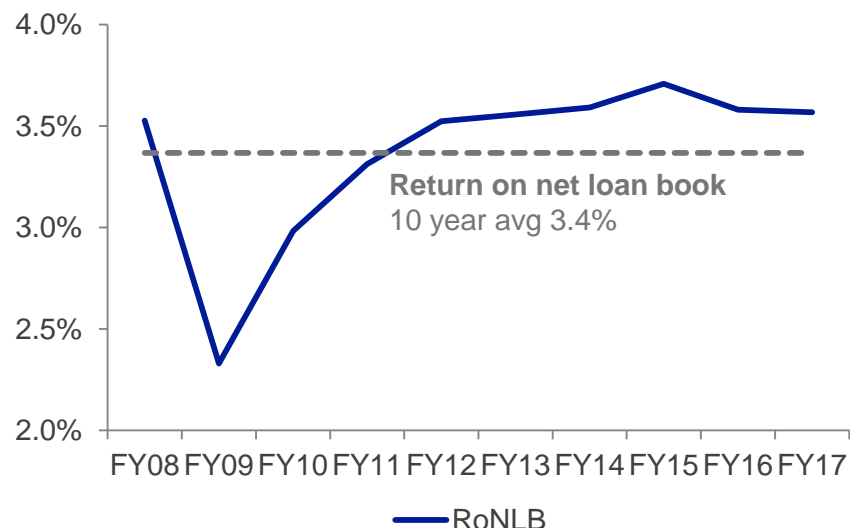
Mike Morgan

Banking Division CFO

Pricing and underwriting discipline

Model supports strong and consistent returns through the cycle

Consistent returns



RoNLB % Breakdown

Key metrics

FY17

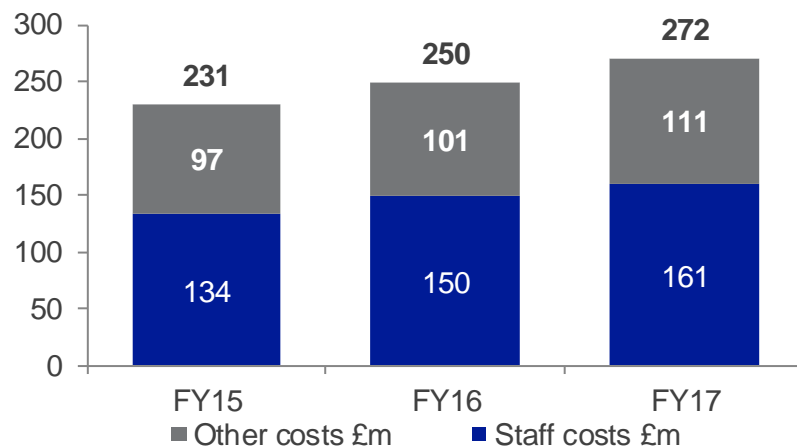
NIM %	8.1%
Bad debt %	(0.6%)
Expense %	(3.9%)
RoNLB %	3.6%

- **Strong returns through the cycle**
 - FY17 RoNLB 3.6%
 - 10 year average 3.4%
- **NIM remains high at over 8%**
 - Prioritise margins over growth
 - NIM consistent across segments
- **Bad debt low at 0.6%**
 - 10 year average 1.4%
 - Maintain underwriting discipline
- **Investing through the cycle**
 - Active management of BAU costs
 - E/I ratio below 50%

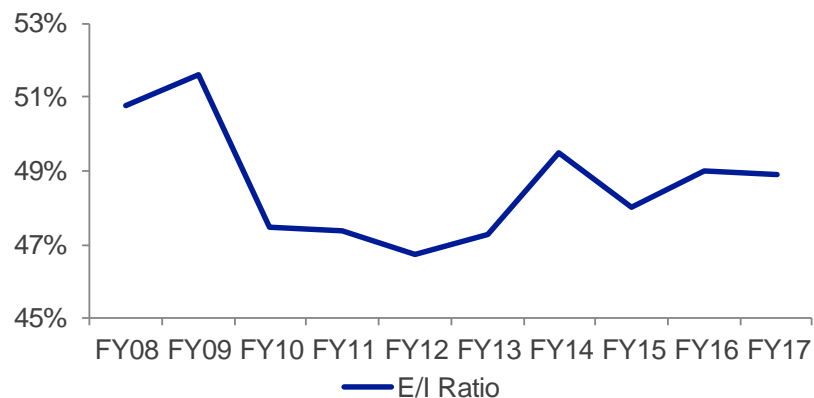
Cost discipline

Control costs while investing to protect, improve and extend the model

Adjusted operating expenses



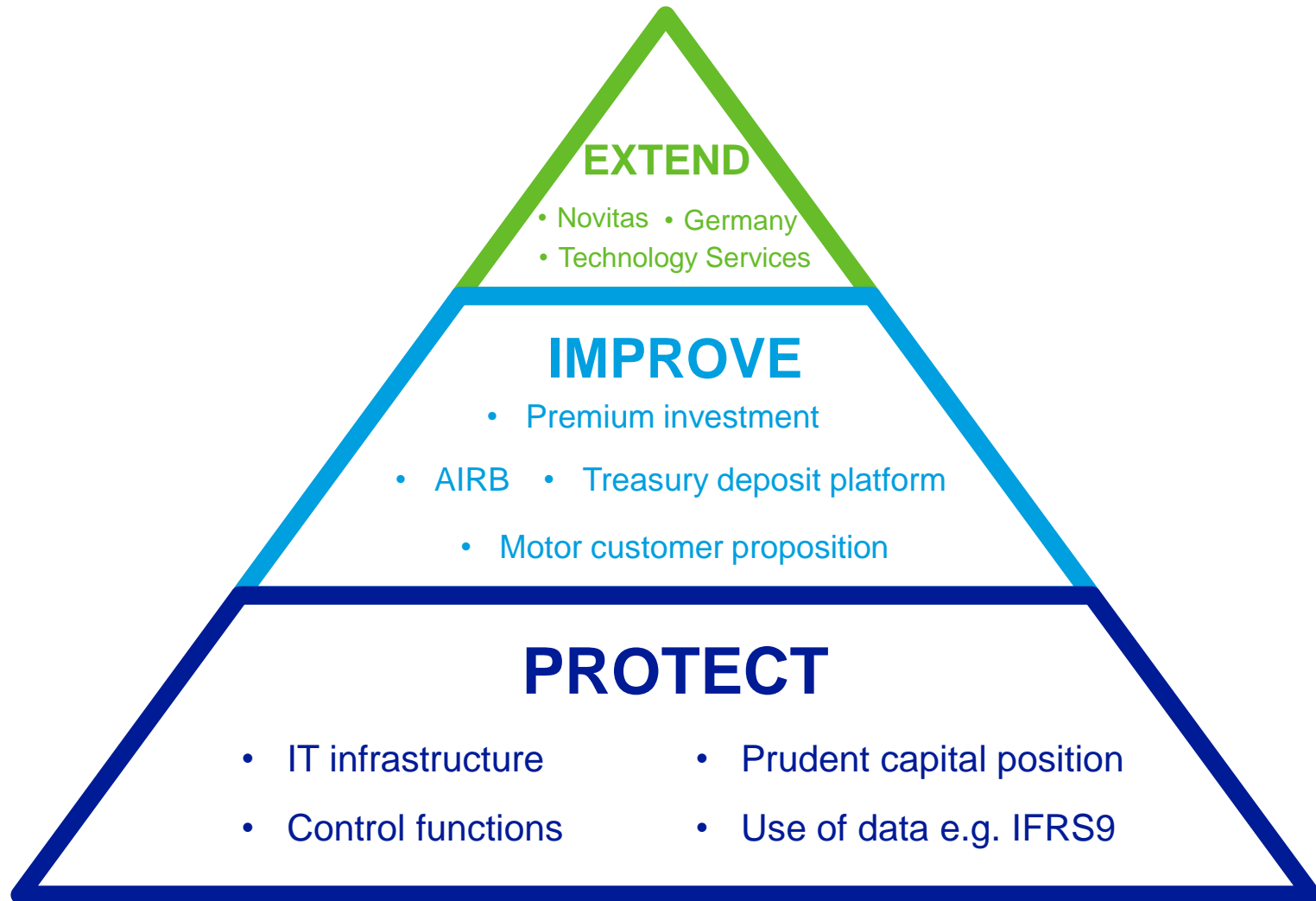
Expense/ income ratio trend



- **E/I ratio stable** and remains below 50%
 - **Operating leverage neutral** for FY17
 - c.50% of cost increase investment driven
- **High-touch** people-intensive **model**
 - Staff costs c.60% of cost base
 - c.50% of FY17 cost growth staff driven
- Continue to **invest through the cycle**
 - **Protecting and improving** proposition of existing businesses
 - **Extending model** by investing in new initiatives and product offerings

Investing in the model

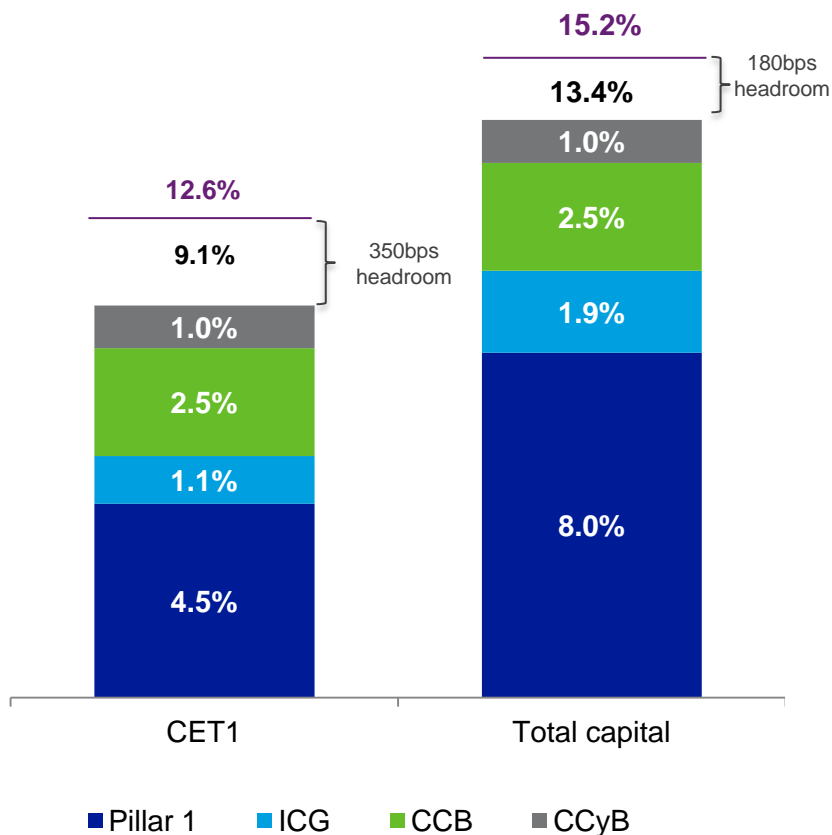
Maximising the potential of our business model



Actively managing capital

Prudent capital position supported by strong profitability

2019 fully loaded capital requirements



Prudent approach to capital

- **Strong profitability** supports **growing CET1 capital base**
- CET1 capital ratio provides **significant headroom** to 2019 fully loaded requirements
- **Strong leverage ratio¹ at 10.7%**, reflecting prudent capital position and conservative risk weighting under standardised approach

AIRB

- **Opportunity** to optimise capital position
- Current risk weightings do not reflect **secured nature of the book and long track record**
- **Commenced discussions** with the PRA

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

IFRS 9

Well positioned for implementation in FY 2019

- IFRS9 applies to **Close Brothers** for the **financial year ending 31 July 2019**
- Fundamental change in accounting for credit losses from “incurred” to “expected” basis
 - Use of models to estimate expected credit losses based on **composition of loan book** and **macroeconomic outlook**
- Good progress towards implementation
 - Initial model build complete with 12 month **parallel run through FY 2018**
- Implementation will **increase** impairment provisions on balance sheet and may result in higher **volatility in income statement**

Three stage model

Stage 1	All loans not in stage 2 or 3	12 months expected loss	No requirements under IAS 39
Stage 2	Significant increase in credit risk	Lifetime expected loss	No requirements under IAS 39
Stage 3	Objective evidence of impairments	Lifetime expected loss	Similar to IAS 39

Prudent funding and liquidity

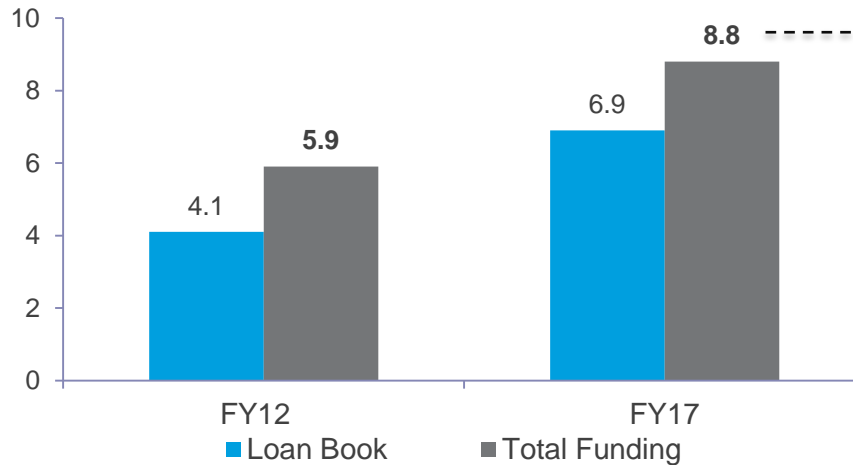
Malcolm Hook

Group Treasurer

Diversity of funding

Diversity of funding sources supports lending through the cycle

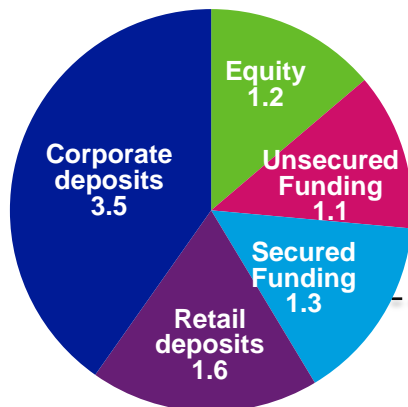
Increase in funding to support loan book growth £ billion



- **Funding** has been increased by **£2.9bn** since 2012 to support the **Bank's lending**
- **Growth driven through increase in:**
 - Customer deposits
 - Unsecured and secured funding
 - Equity

- **Prudent level of funding at 127% of loan book**

Diverse funding sources¹ £ billion



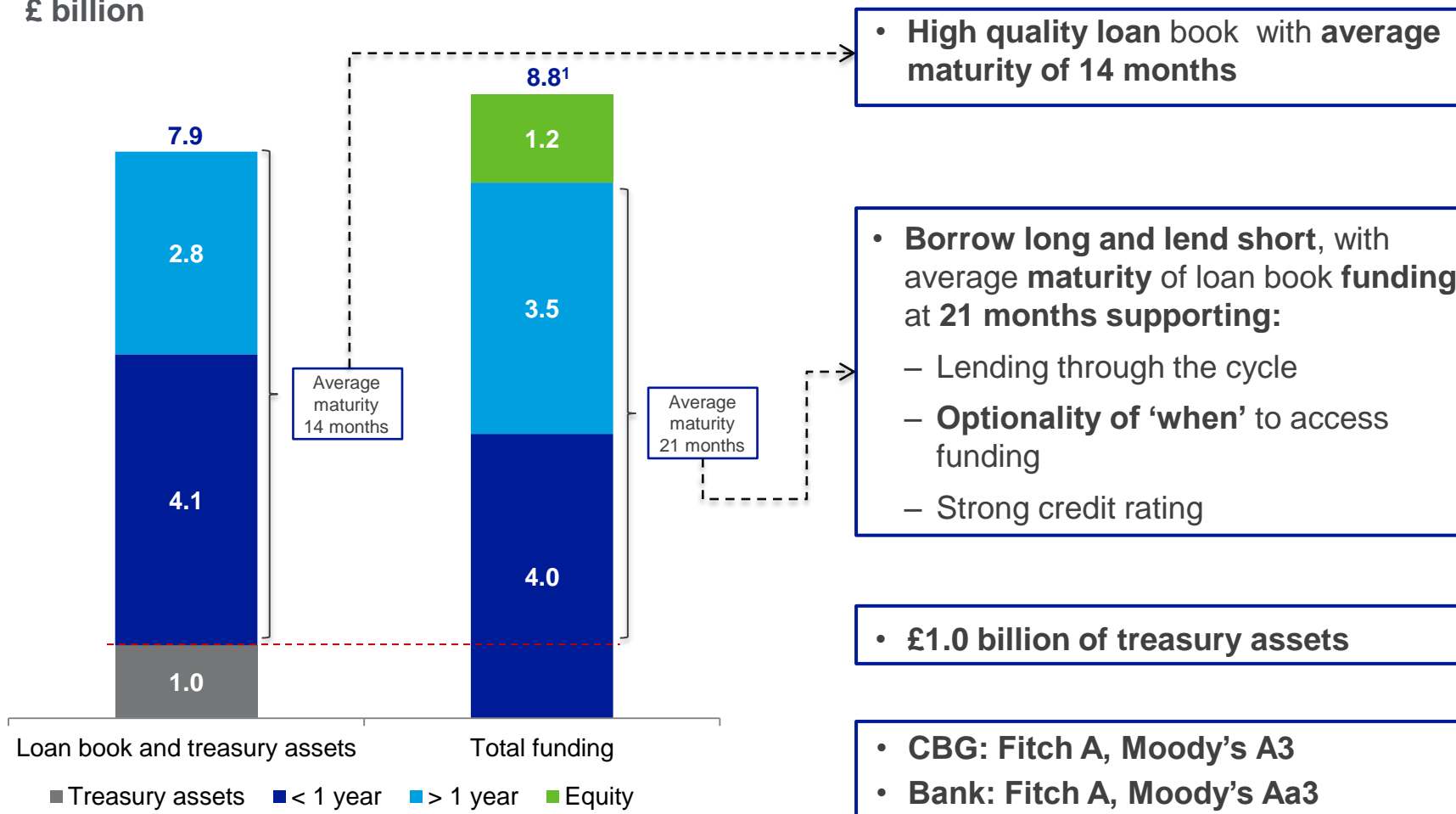
- **Diverse funding** reduces concentration risk
 - **Good access** to both **retail and corporate** deposits
 - **Strong credit ratings** supports **access to public debt markets**
- **Optionality of 'where'** to source funding

Note: 1 Total funding may not add up to £8.8bn due to rounding

Prudent maturity and strong liquidity

“Borrow long, lend short” increases resilience

Funding maturity £ billion



Note: 1 Total funding may not add up to £8.8bn due to rounding

Enhancing customer deposits

Reinvesting in the business to enhance our customer proposition



1. Analysis



2. Observations



3. Focus groups

Current retail savings proposition

Fixed Term Deposits	ISAs	Notice accounts	Easy Access	Online
✓	X	X	X	X

Understanding our customers

- c.60% of our retail depositors are **from older families with large savings**
- **Customer surveys** have evidenced steadily improving levels of satisfaction

Enhancing customer proposition

- Investment in **customer deposits platform** will enhance our customer proposition with:
 - **Expanded range** of retail products and **online offering**
 - Further opportunity to realise **operational efficiencies**
 - Increased funding optionality within customer deposits

Business presentations

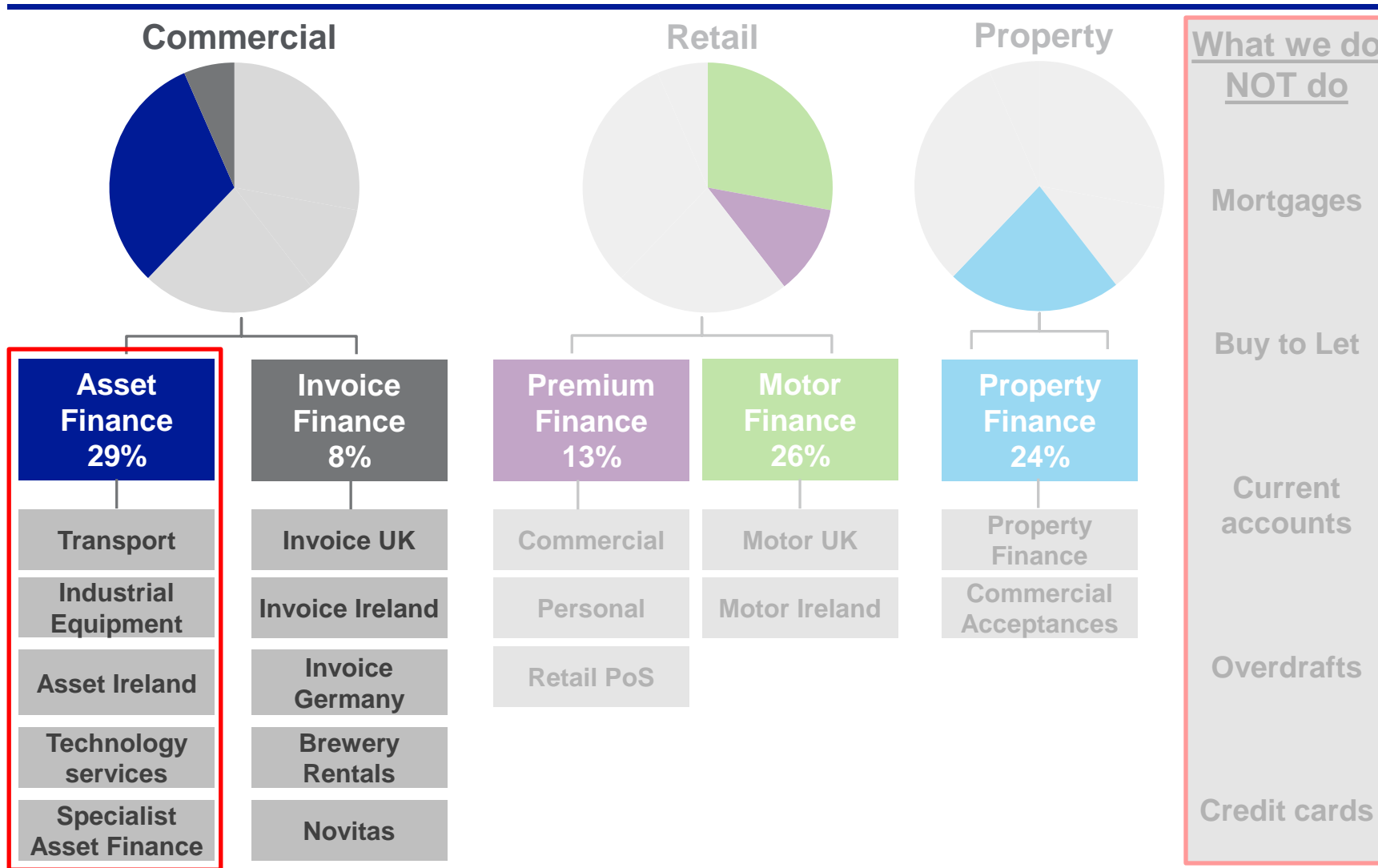
Asset Finance

Service, expertise, relationships

Neil Davies

Diversity of our businesses

Three specialist lending segments



Note: Percentage indicates loan book split at 31 July 2017

Asset Finance

Business overview

Asset Finance	
Core products	Hire purchase Finance lease Operating lease
Staff	c.440
Locations	11 regional offices
Distribution	55% direct / 45% indirect
Loan book size	£2.0 billion
Average loan size	£41,500
Average loan term	32 months
Typical LTV	80% - 90%
Customers	27,000
Market share	7% (of our segments)
Credit	<ul style="list-style-type: none">• Prudent underwriting, conservative LTV• Repossessions often resold to existing clients

Overview of the business

- **Tailor-made finance** to the UK SME sector
 - Specialised refinancing
 - Customised lending for second hand assets

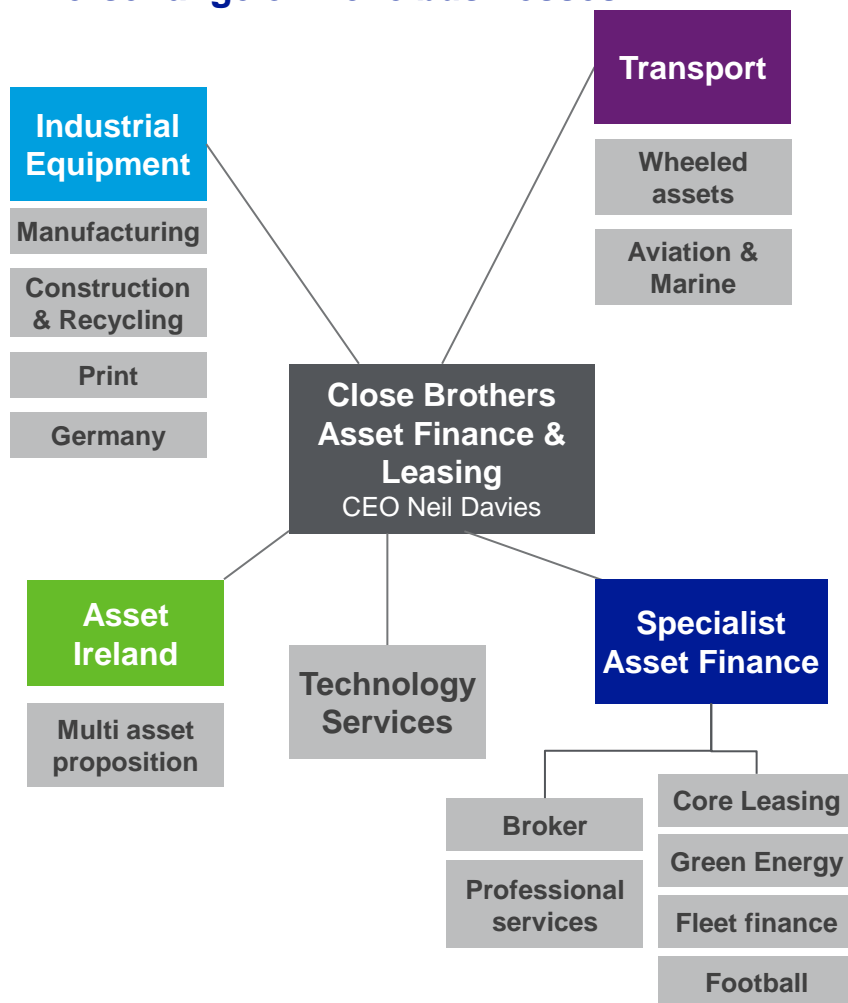
Key differentiators

- **Diverse portfolio**
- **Expert knowledge** and **strong relationships**
- Industry focused **direct sales** team
- **Flexibility** to meet our customer needs
- Largest asset finance provider outside the clearing banks

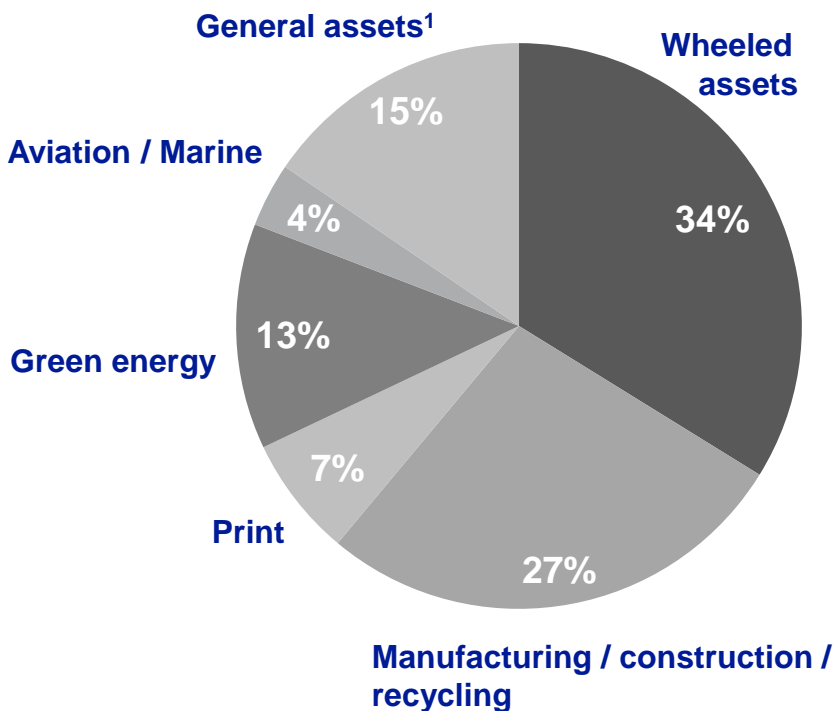
Specialist expertise driven model

Well established local footprint across a diverse range of assets

Diverse range of niche businesses



Diverse asset mix



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

People and distribution

Local expertise

- Extensive geographic coverage via **11 regional offices**
- Industry leading **direct sales force**
 - Deep industry **knowledge**
 - Appropriately **empowered**
 - Responsibly **incentivised**
- Safeguarding our sales force through **retention** and **development**
 - Sales Academy to **develop future sales talent**
- Approach extends to our **strong broker relationships** and **customers**



Case Study

Applying the model

- Well established **plant hire SME**
- Yellow metal assets
- Number of deals written, **ongoing relationship**

RELATIONSHIPS

- Most recent £3.5 million refinancing transaction
- Number of banks engaged

EXPERTISE

- Understand the **customer**
- Understand the **asset**
- Make the **process** simple

SERVICE

- Monthly finance payment commitment **reduced by 50%**



Extending the model

New products and geographies

Technology Services

- Residual and Non-RV leasing, HP, receivables, chattel mortgage
- Targeting **SME to mid-corporates** with >£10m turnover
- Specialist **team of 17 in London**
- Focus on building a pipeline through both direct and indirect distribution channels



Asset Finance Germany

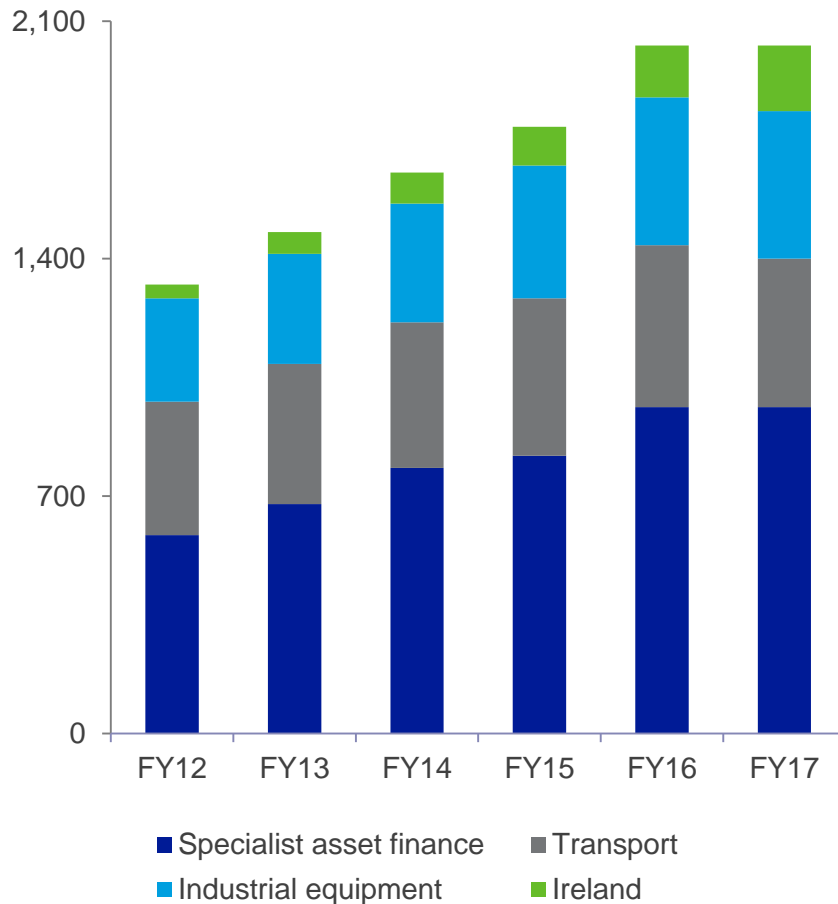
- **UK-style proposition:** bespoke lending on asset classes we know well, speed of delivery
- Targeting Germany's **Mittelstand**
- Experienced local **team of 9 in Mainz**
- Officially **launched in June 2017**
- Commenced writing business, **strong pipeline**



Summary

Asset Finance

Loan book (£m)



Key Messages

- **Diverse** portfolio of **specialist** businesses
- Consistent delivery of **service** and **expertise** through direct sales model delivers **high customer value**
- Continue to build on an active **history of innovation**
- Market and competitive dynamics impact each business differently to deliver overall **value over the longer term**
- **Prioritise return** and **credit quality**

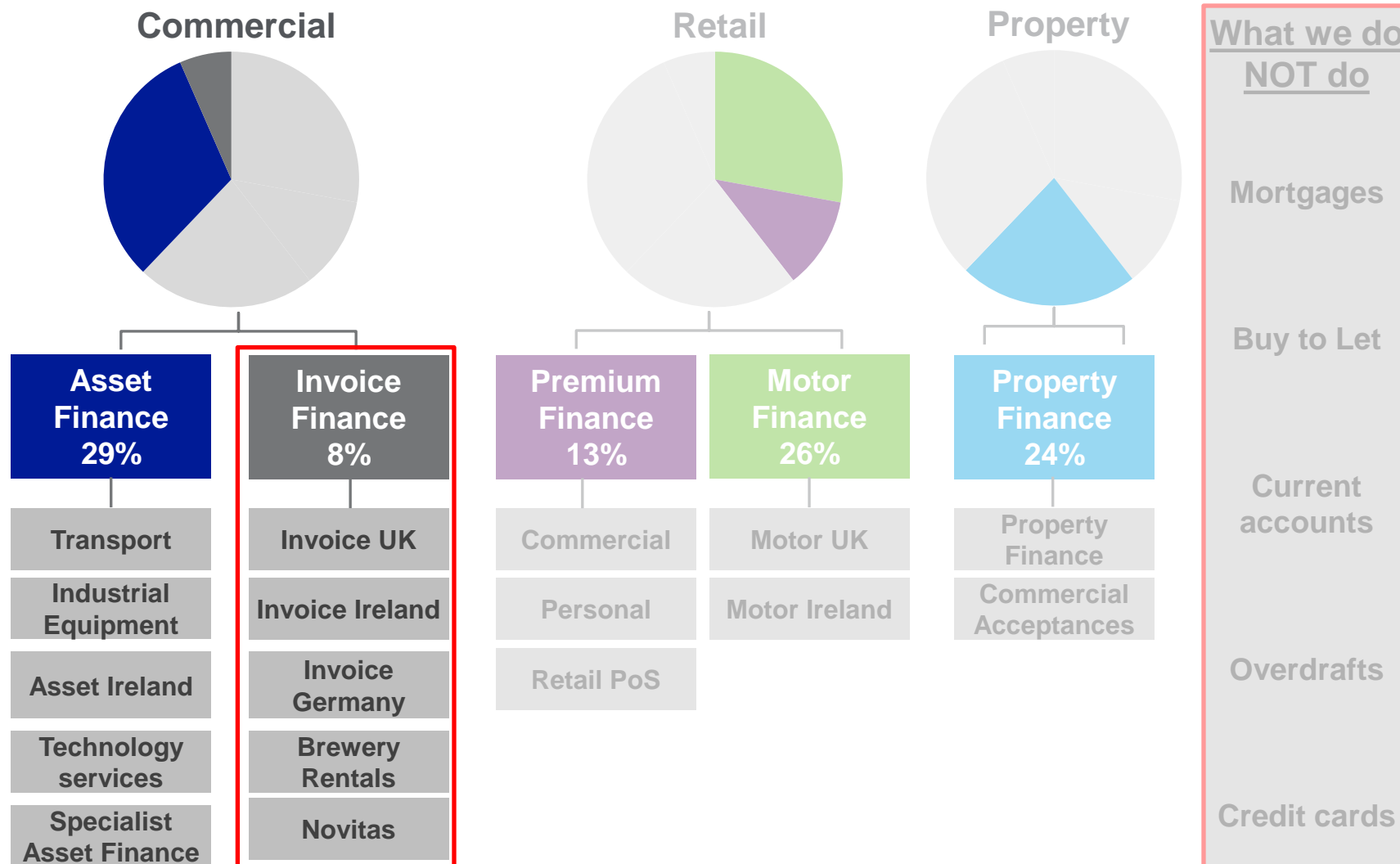
Invoice Finance

Extending the model

David Thomson

Diversity of our businesses

Three specialist lending segments



Note: Percentage indicates loan book split at 31 July 2017

Extending the model – Technology and Product Evolution

Business overview

Invoice Finance

Invoice Finance ¹	
Products	Invoice discounting, invoice factoring and asset-based lending (“ABL”)
Customers	c.1,300 SMEs
Key segments	Recruitment, manufacturing, distribution, printing, engineering
Staff	c.200
Distribution	<ul style="list-style-type: none">• c.47% direct vs c.53% broker• c.55 front office staff
Geography	5 offices across the UK, Ireland, Germany
Average loan size	£360k
Typical LTV	80%

Note 1: Invoice Finance UK, Rol and Germany

Overview of the business

- Invoice discounting, factoring and asset based lending (ABL)
- Finances SME working capital requirements

Key differentiators

- **Market-leading** IDeal™ software
- **Strong client relationships** and low attrition
- **Speed of service** and local underwriting
- **Operational excellence**
 - Cash allocation: 1 day
 - Debt turn: 49 days
- **Strong brand:** leading independent player

Delivering the model

Product evolution



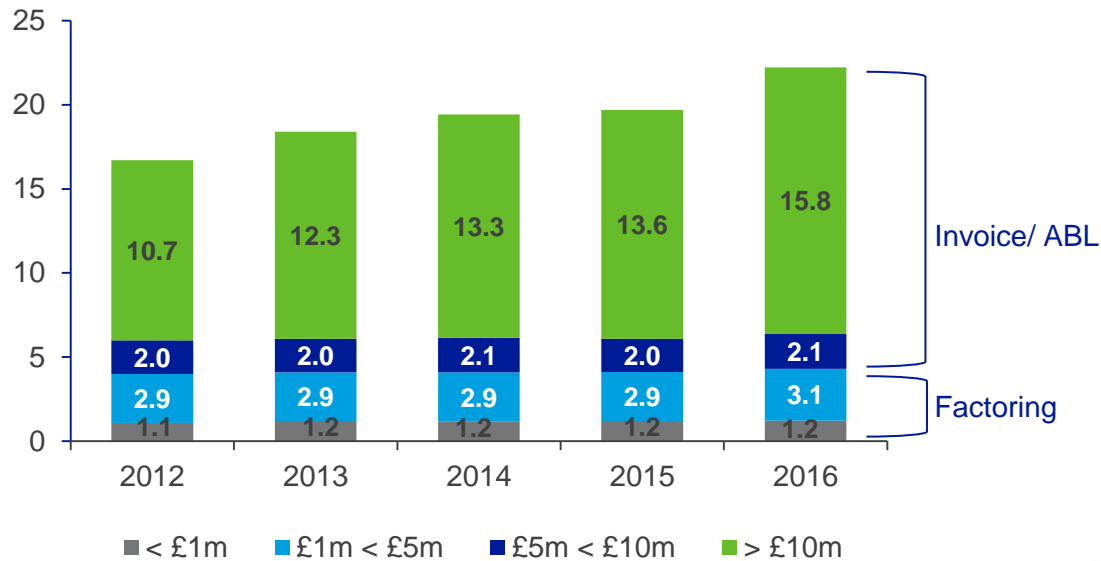
Market leading technology

- **Seamless integration** with over 250 accounting software
- Instant **cash transfers**
- **Easy** to use
- Extracts sales ledger in **real time**
- Automatic **reconciliation**
- **24/7 online** access
- Dedicated **relationship manager**

Product evolution: ABL

Strong demand for larger tickets and ABL

Industry analysis: Loan book by client turnover (£bn)



Main growth seen in clients with turnover >£10m

- Small ticket **factoring** market has remained static
- Growth focused in the **larger ticket segment**
- **Enhanced ABL and Cash Flow** product offering launched in 2017 and now represents 7% of our book



Source: ABFA statistics

Extending the model – Acquisition

Product extension: Novitas Loans

Specialist market

Product	Typical loan metrics
Family Funding solicitor fees for divorce and contested probate cases	Size: London c.£100k; outside London £25-50k Tenor: 12-15 months
Civil litigation Funding 3rd party disbursements	Clinical negligence Size: £10-30k Tenor: 3-4 years Personal injury Size: £1k-5k Tenor: 1-2 years



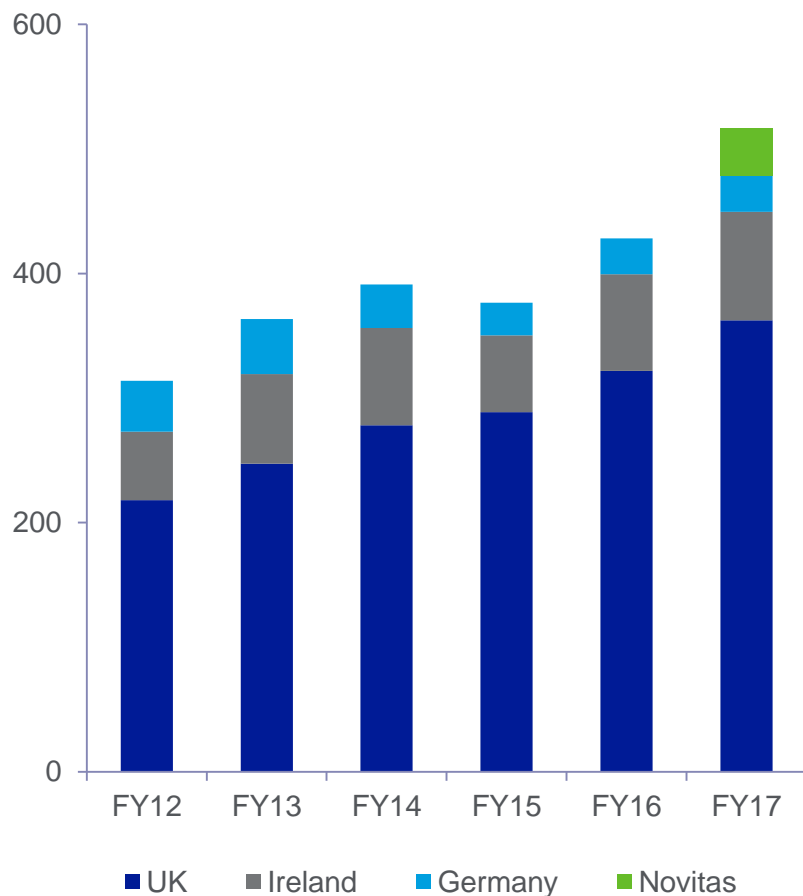
Business overview

- **Specialist** lender to clients of UK law firms
 - Acquired by Close Brothers in May 2017
- **Good fit** with Close Brothers model
 - Relationship based
 - Niche market
 - Secured, small ticket, short tenor
- **Market leading Novitas brand** retained
- Developing a **dedicated law firm funding proposition**
 - Clear opportunities for cross selling

Summary

Invoice Finance

Loan book (£m)



Key Messages

- Differentiated proposition based on **expertise**, **speed of service** and **market leading technology** highly valued by our clients
 - Ability to deliver complex, bespoke transactions
 - **Average client life** in excess of **5 years** reflects strength of client relationships
- Continue to invest in **new initiatives** to help drive growth for the long term
- Focus on **quality of underwriting** and **maintaining margins**

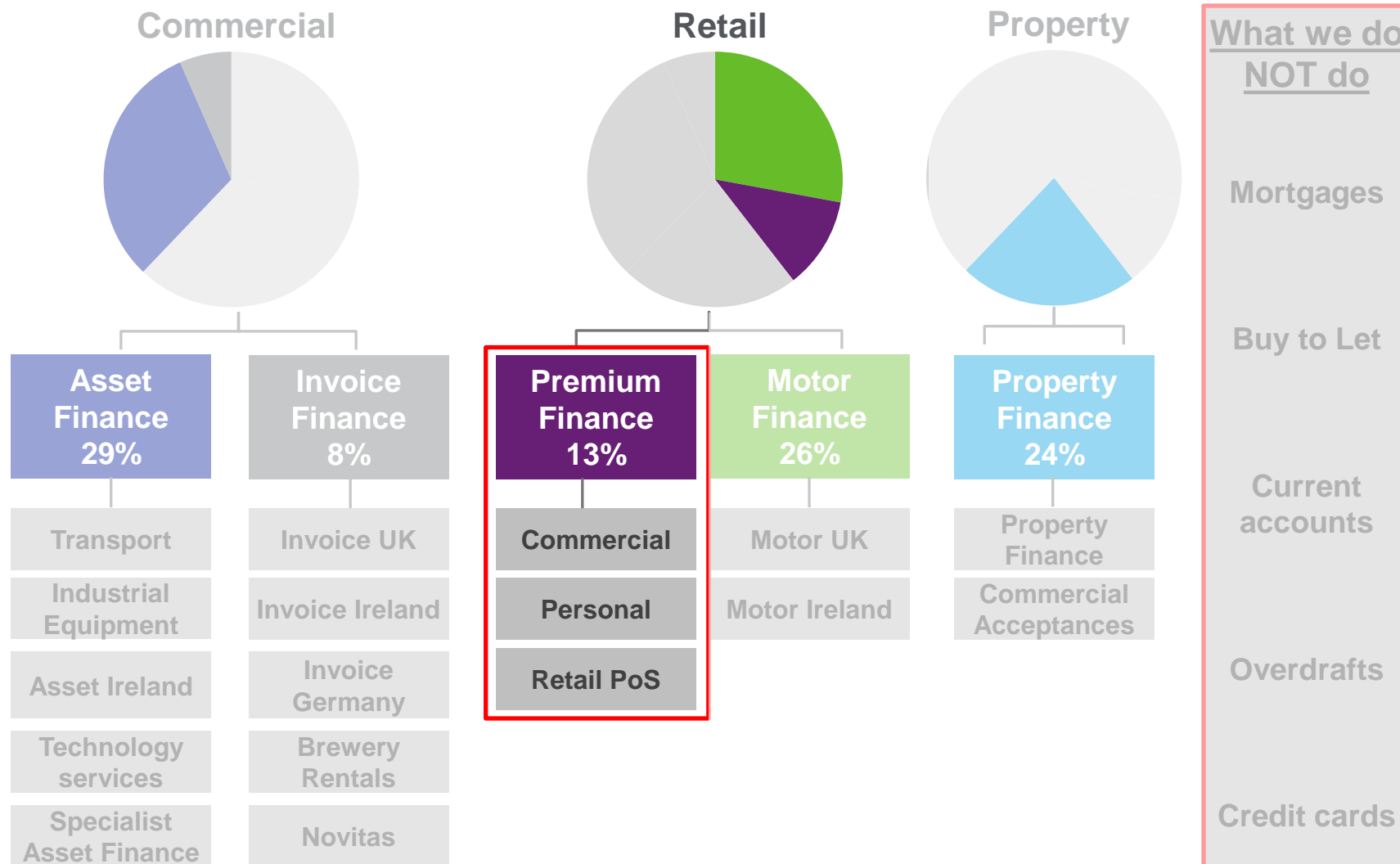
Premium Finance

Improving the model

Sharon Bishop

Diversity of our businesses

Three specialist lending segments



Note: Percentage indicates loan book split at 31 July 2017

Business overview

Premium Finance

Premium Finance	
Product	Intermediated recourse and non-recourse instalment finance
Customers	2.0m customers and 240k SMEs
Distribution	Network of c.1,700 insurance brokers
Sector	50% personal, 50% commercial
Geography	UK and Republic of Ireland
Staff	c.350

Key metrics	Personal	Commercial
Average loan size¹	c.£600	c.£4.5k
Average loan term	10 months	

Note: 1 Average loan size at inception

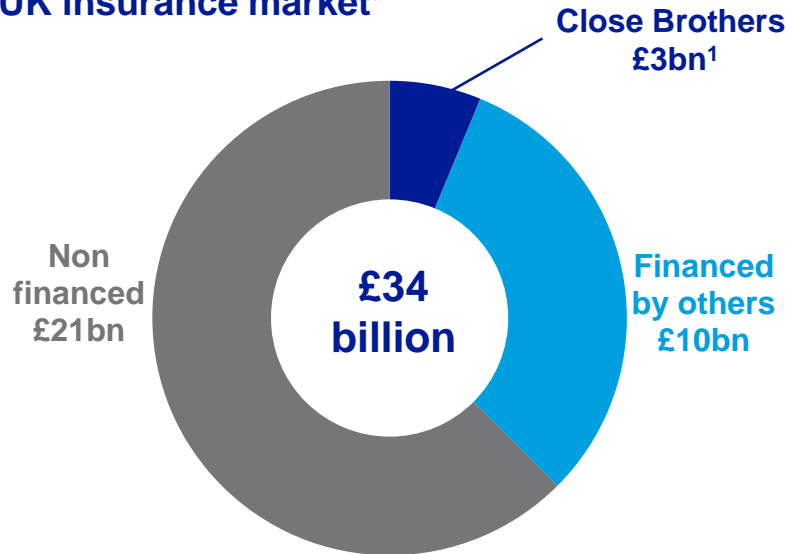
Overview of the business

- **Specialist, high margin business** operating in a mature, intermediated market
- **Strong returns** and high quality of earnings
- **Strong broker relationships**
 - Long-term, sticky contracts
- **Three layers of protection:**
 - Insurer (if premium refundable)
 - Broker (if recourse)
 - Borrower

Market and Distribution

Mature intermediated market

UK insurance market*



- **£34 billion** UK insurance market, of which **£13 billion** is financed by:
 - Insurers
 - Brokers who self fund
 - 3rd party finance providers

Source: *Net Written Premium data from the Association of British Insurers

Note: 1 Market share of £3bn, loan book of £0.9bn

Product lines

Personal lines

- Motor and household insurance
- Typically recourse to the broker
- Predominantly refundable policies
- Online is dominant sales channel

Commercial lines

- Business insurance
- Typically non-recourse to the broker
- Often refundable products
- Offline is dominant sale channel

What differentiates us

Distinctive proposition

Long term, 'sticky' broker relationships



- Average broker relationship is 15 years
- Majority of brokers on minimum 3 year contracts, with Premium Finance as single provider of finance

Our People



- We recruit experts from the insurance and banking industries
- Average senior account managers tenure is over 10 years
- Specialist sales trainers

Investment through the cycle



- Resources to invest for the long term
- Big enough to invest; small enough to deliver

Technology and process integration



- Technology and processes fully integrated with the broker's sale of insurance
- Differential product offerings such data and analytics

Investing through the cycle

Improving our proposition

Strategic priorities

Benefits delivered



Service

Enhancing our proposition for brokers and customers

- Major **new broker wins**
- Faster, **paperless customer sign-up**
- **New tools** to support brokers

15% loan book growth



Expertise

Leveraging technology to improve operating efficiency

- Enhanced contact centre **technology**
- Automation projects reduced cost and increased **operating leverage**

Loan every 3 seconds



Relationships

Putting our brokers at the heart of what we do

- **Joint data projects** with brokers
- Longer term contracts
- Broker retention rate of over 98%

98% broker retention

Supporting an online motor broker with pricing

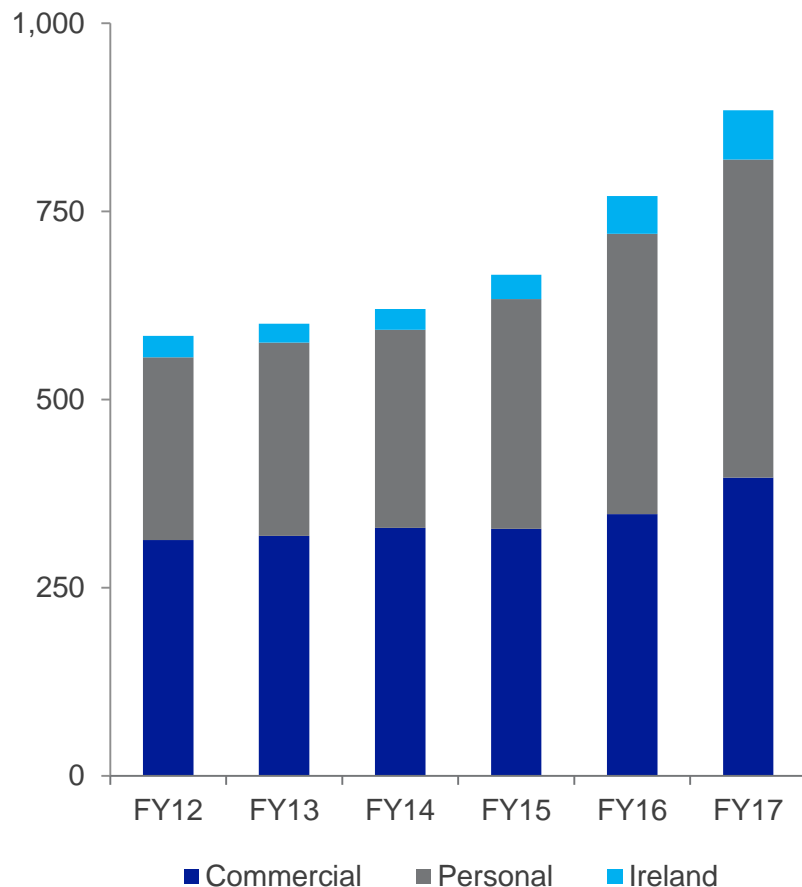
Income



Summary

Premium Finance

Loan book (£m)



Key Messages

- **Stable, well understood niche market**
 - Multi-year integrated broker relationships
- **Extensive investment** resulting in growth and **improved operating efficiency**
 - New broker wins
 - Increased penetration of existing brokers
- **Strong pipeline** from new broker wins provides near term growth visibility
- **Sticking to the model**, continuing to write good quality, high margin business with strong multi tiered relationships

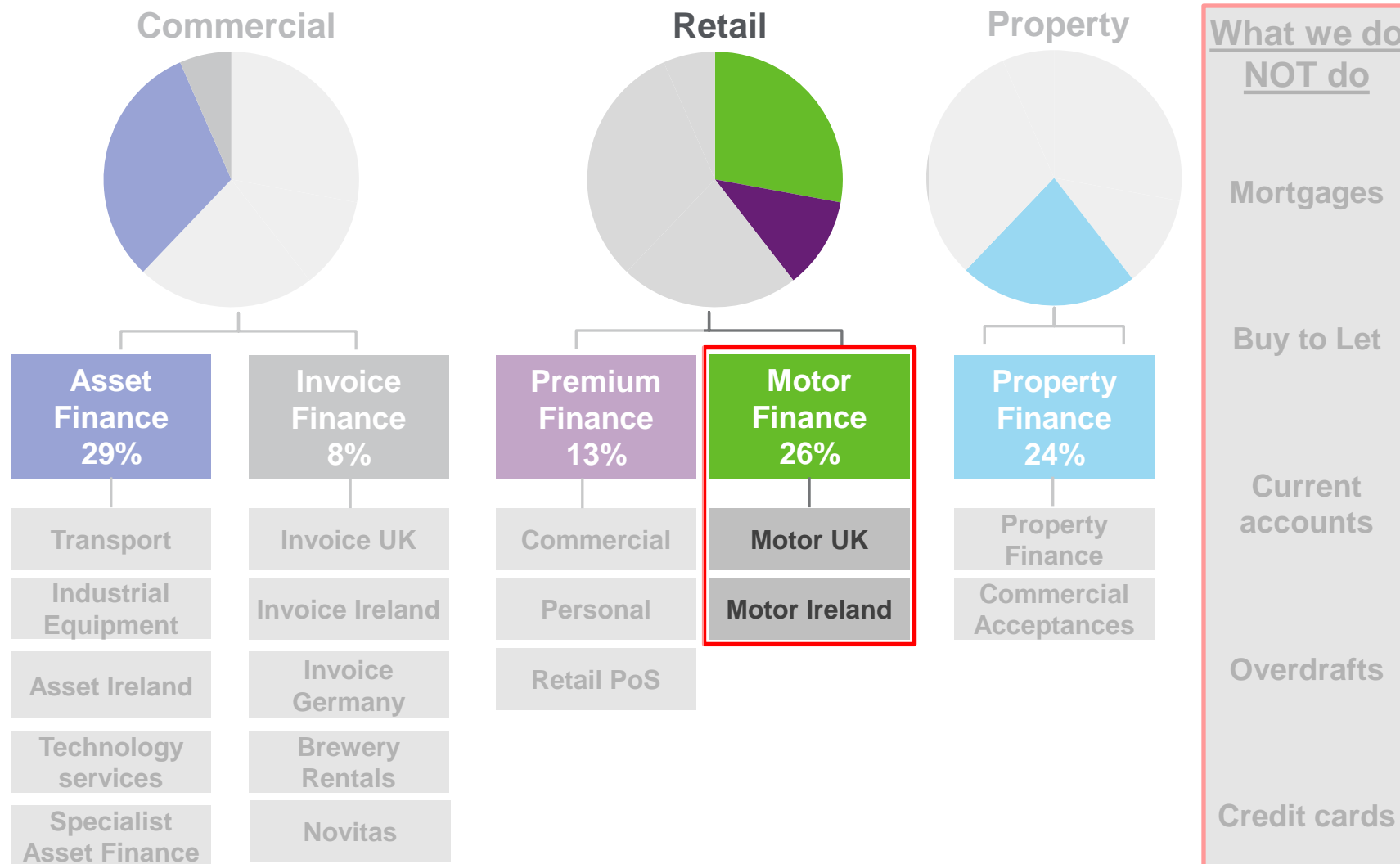
Motor Finance

Protecting the model

James Broadhead

Diversity of our businesses

Three specialist lending segments



Note: Percentage indicates loan book split at 31 July 2017

Motor Finance

Business overview

Motor Finance	
Product	81% Hire purchase 14% Personal Contract Purchase 5% Other
Vehicle types	73% car, 18% LCV, 3% motorbike, 6% other
Staff	c.390
Locations	17 offices across the UK
Distribution	7,000 regional dealerships
Loan book size	£1.8 billion
Average loan size	Ave. outstanding loan: c.£6,500 Ave. loan at inception: c.£8,500
Average loan term	2 – 4 years
Typical LTV	75% - 85%
Customers	c. 270,000
Geography	UK and Republic of Ireland

Note: Numbers quoted as at 31 July 2017

Overview of the business

- **Point of sale finance** distributed via dealerships across the UK
- Distribution relationship with First Auto Finance in Ireland

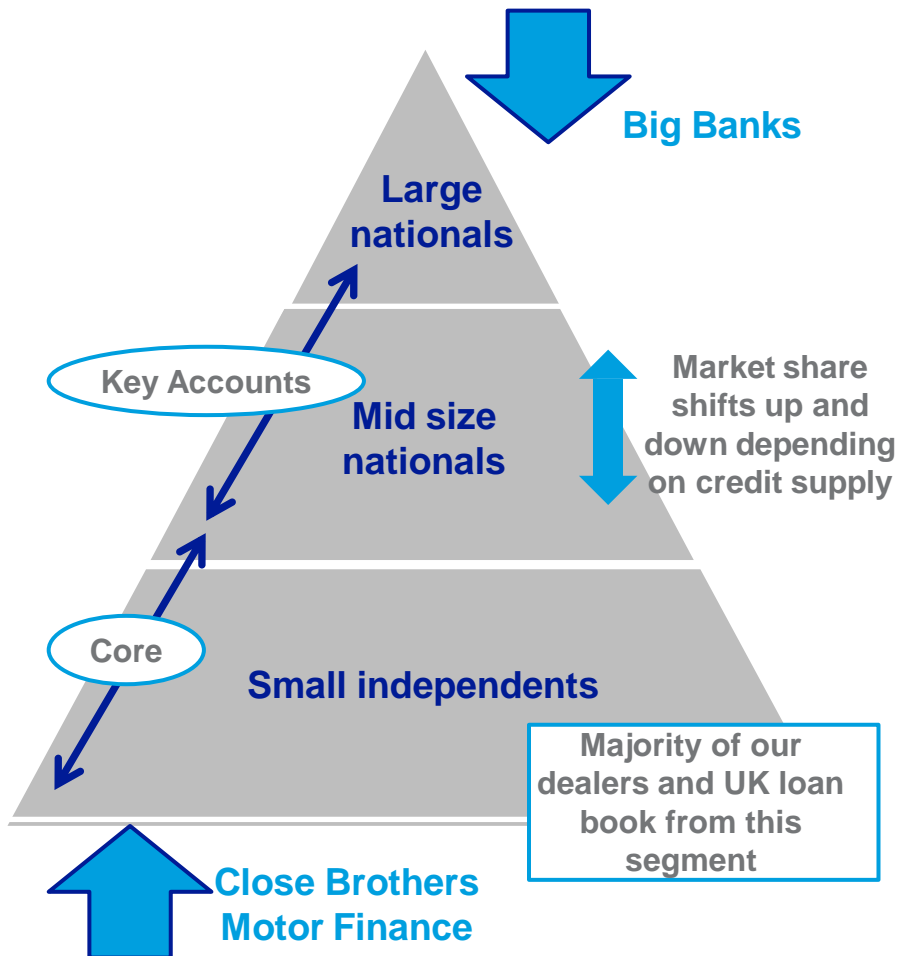
Key differentiators of our model

- **Local presence** and strong dealer relationships
- **Expert people** with **underwriting authority**
- **Consistent approach** to lending through the cycle
- Focus on **used cars** where sharpest depreciation has already occurred

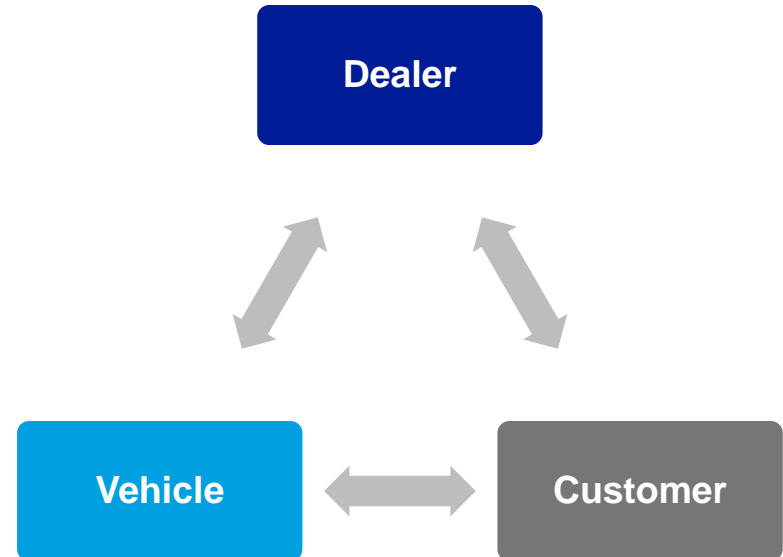
Motor Finance today

A differentiated business model

Focus on small and mid size dealers



Prudent, manual underwriting

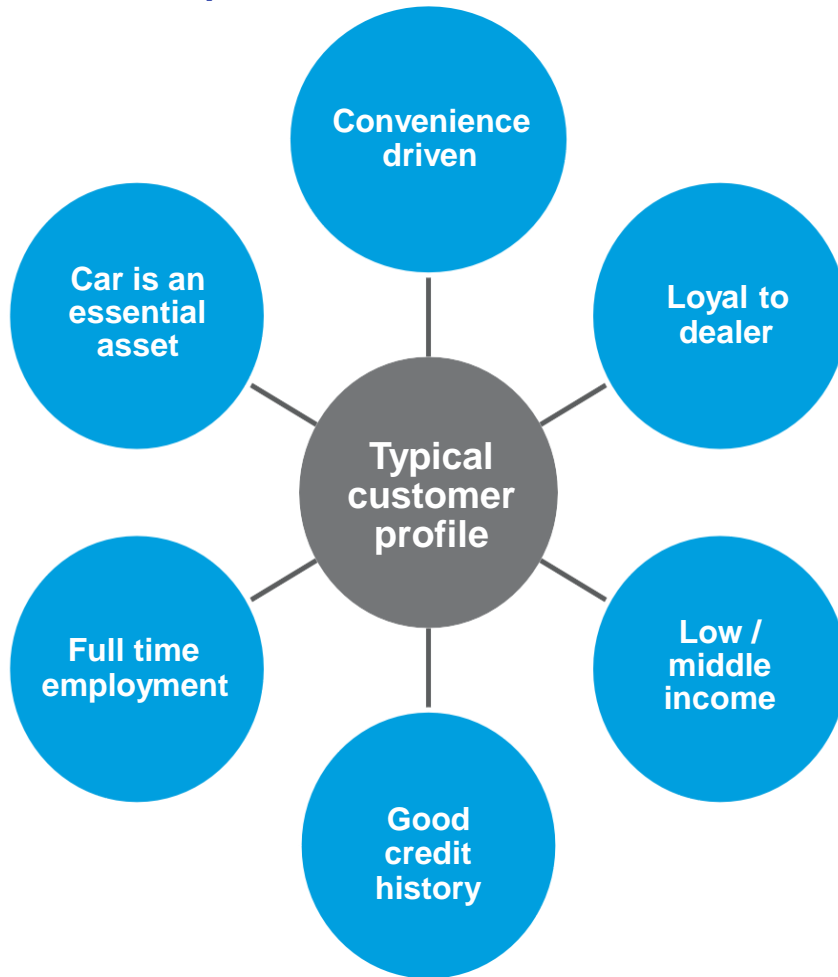


- **Vast majority of deals underwritten manually**
 - Underwriter expertise and judgement applied to all three aspects

Motor Finance today

Dealer and customer profile

Customer profile



Dealer profile



Stable Expert
Very Small



Enthusiastic Learner
Very Small



Informed Seller
Small



Determined Earner
Medium



Seasoned Professional
Large

Dealer case study

C.H. Render (Flaxton, York)



Product portfolio

Motor Finance

HP

81% of loan book

- Our core product
- **Average advance:** £8,000
- **Typical LTV:** 75-85%
- **Average age of vehicle at origination:** 5 years
- **Term:** 2 – 4 years
- Loan fully paid off by term end, at which point customer owns vehicle

PCP

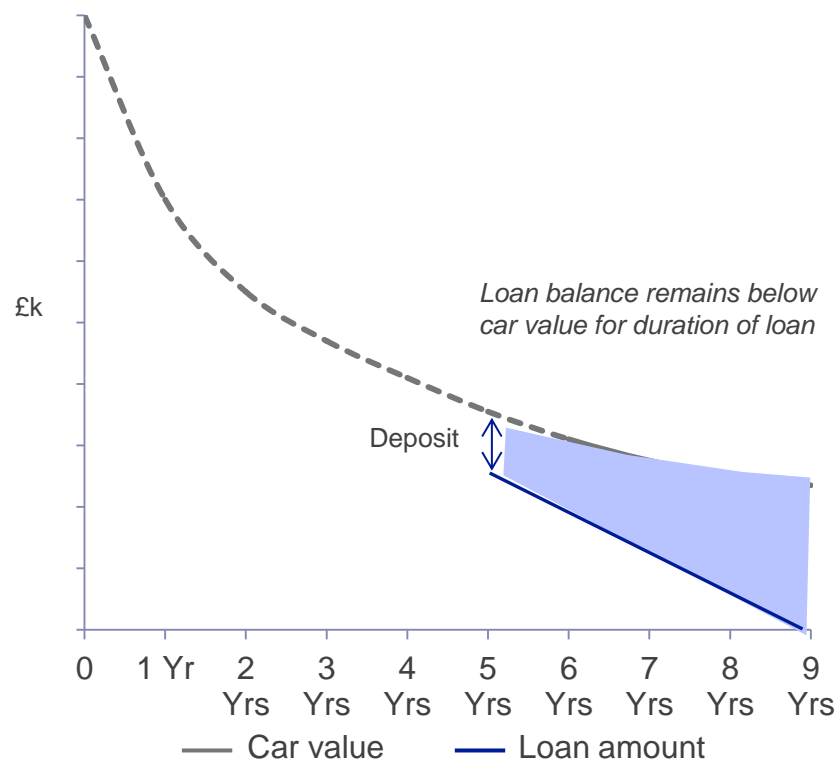
14% of loan book

- Typically newer, higher value cars for higher credit quality customers
- **Average advance:** £14,000
- **Average GMFV*:** 85%
- **Average age of vehicle at origination:** 1.7 years
- **Term:** 4 years
- Option to acquire at term end

Note: Average figures exclude RoI

*Guaranteed minimum future value

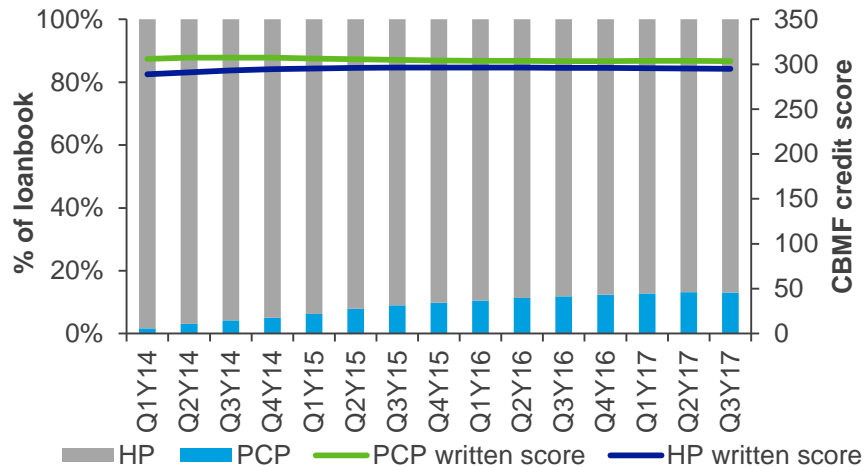
Illustrative HP used car loan



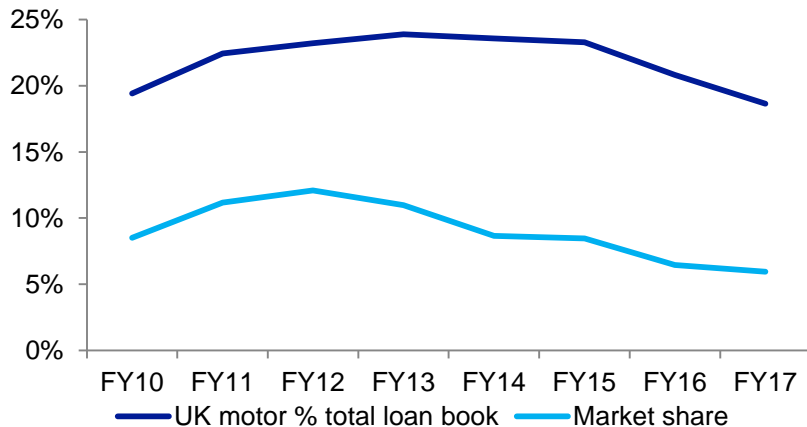
Credit risk and underwriting

Prudent lending decisions and consistent risk appetite

Loan book product split



Market share¹



Conservative underwriting model

- Local, predominantly **manual underwriting**
 - Provides flexibility and early warning intelligence of changing market environment

Consistent risk appetite

- **Low exposure risk** due to low advances and prudent terms
 - PCP customers typically higher credit quality
 - Lower GFVs on PCP than market average
 - Lower LTVs than market average
 - Diesel exposure broadly in line with market
- Comfortable with current level of bad debts
- Maintain profitability and margin through the cycle

Note: 1 Based on FLA statistics of UK used car market financed by independent lenders

Investing through the cycle

Protecting the model

Motor Finance investment programme

Dealer Service Proposition

Industry leading dealer solutions to help dealers grow

Sales Operating Model

Using tools and insight for more targeted sales activity

Credit Optimisation

Adopting new technology to support our underwriting

Model Office

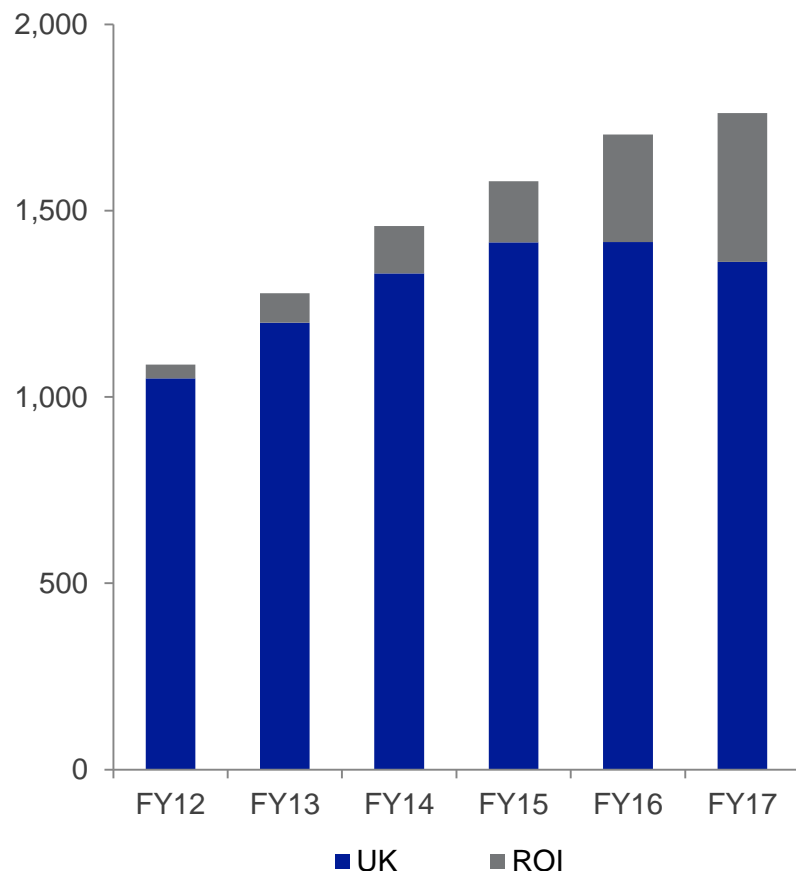
Enhancing our branch office capability

- We **continue to invest** in the business in a rapidly changing market
 - Increased regulation
 - Changing customer preferences
 - Increased competition
 - Disintermediation
- Multi-year **investment programme** designed to:
 - **Protect** and defend the core business
 - **Improve** dealer and customer interactions
 - Create optionality to **extend** the model

Summary

Motor Finance

Loan book (£m)



Key messages

- **Differentiated business model**
 - **Local branch network** servicing small independent dealers underserved by big banks
 - **Prudent, manual underwriting** approach based on a combined view of dealer, asset and customer
- Continued **focus on underwriting standards** and **protection of margin**
- **Investment through the cycle**
 - We invest in our business to protect the model and support its sustainability for the long-term

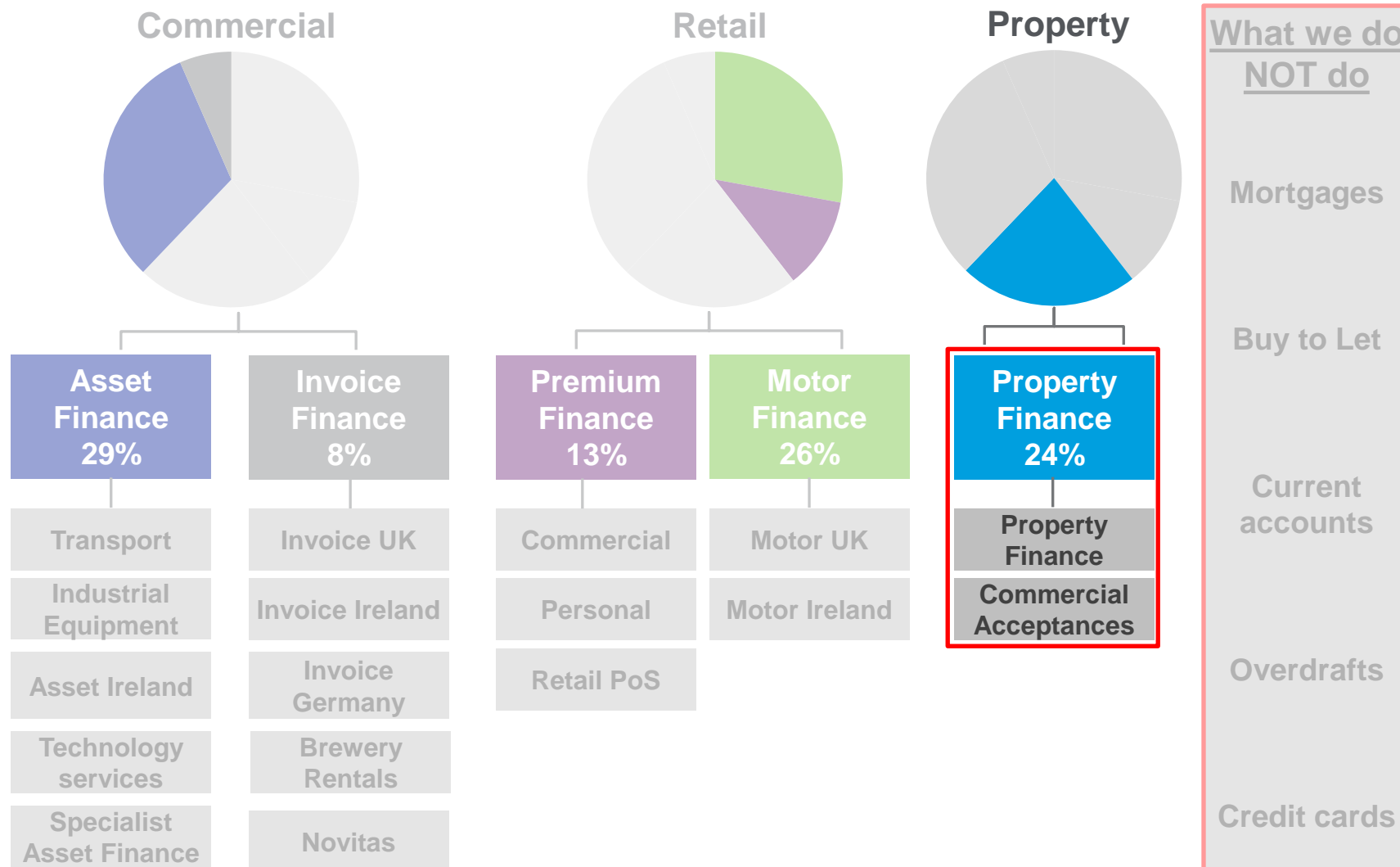
Property Finance

Service, expertise, relationships

Frank Pennal

Diversity of our businesses

Three specialist lending segments



Note: Percentage indicates loan book split at 31 July 2017

Property Finance

Business overview

Property Finance	
Products	Residential / commercial developments Bridging loans, trading / refurbishment
Headcount	c.85
Geography	Predominantly London and South East
Distributions	80% direct / 20% broker
Loan book size	£1.6 billion
Average loan size	£1.2 million
Average loan term	6 – 18 months
Typical LTV	50% - 60%
Customers	c.800
Repeat business	75%

Note: Numbers quoted as at 31 July 2017

Overview of the business

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

Key differentiators of our model

- **Speed of service**
 - A quick yes and a quicker no
- **Highly specialist teams**
 - Able to talk borrowers' language
- Reputation as a **conservative, through-the-cycle** lender
 - Attract “like minded” clients
- **Largest non-clearing bank lender**
 - 20% share of sub £10m sector*

**De Montfort University research*

Strong customer relationships

Quality customers reinforce our brand



Typical Property Finance client

- Penn, Bucks
- 8 houses: loan £3m
- Longstanding branded developer
 - Client of 7 yrs



Typical Commercial Acceptances client

- Walthamstow refurbishment: loan £360k
- Long term client of 18 years
- Only operate in E17 postcode

Extending the model

Regional growth initiative

Manchester City Centre: 14 houses, £3.5m loan



- Expanding into **high quality regional locations** as local economy improves

- Locations with limited housing supply e.g. Bristol, Manchester, Edinburgh, Glasgow, West Midlands

- **Majority** of regional developments we fund are **family housing** (c.80%)

- Below the Help to Buy limit

- **Well timed and driving growth** with share of book expected to rise further

- Offsetting flat London market

- Planned increase in regional share of property development loan book from 27% in FY14 to 40% in FY17

Burton Latimer: 39 houses, £3.7m phased loan



Experience and risk management

Sticking to the model

Key underwriting criteria

✓	Secured senior debt only
✓	Professional developers with track record
✓	Site visit conducted pre-lend
✓	All loans approved by Credit Committee
✓	Conservative LTVs (up to 60% of GDV)
✓	London or high quality regional towns
✓	Full planning permission required

Do not do

✗	Buy to let or developments marketed solely to investors
✗	Mezzanine / second charge funding
✗	Pre-planning deals

Conservative underwriting criteria

- **Tightened criteria** in 2009 and maintained since
- Business has delivered a profit every year since founded more than 30 years ago

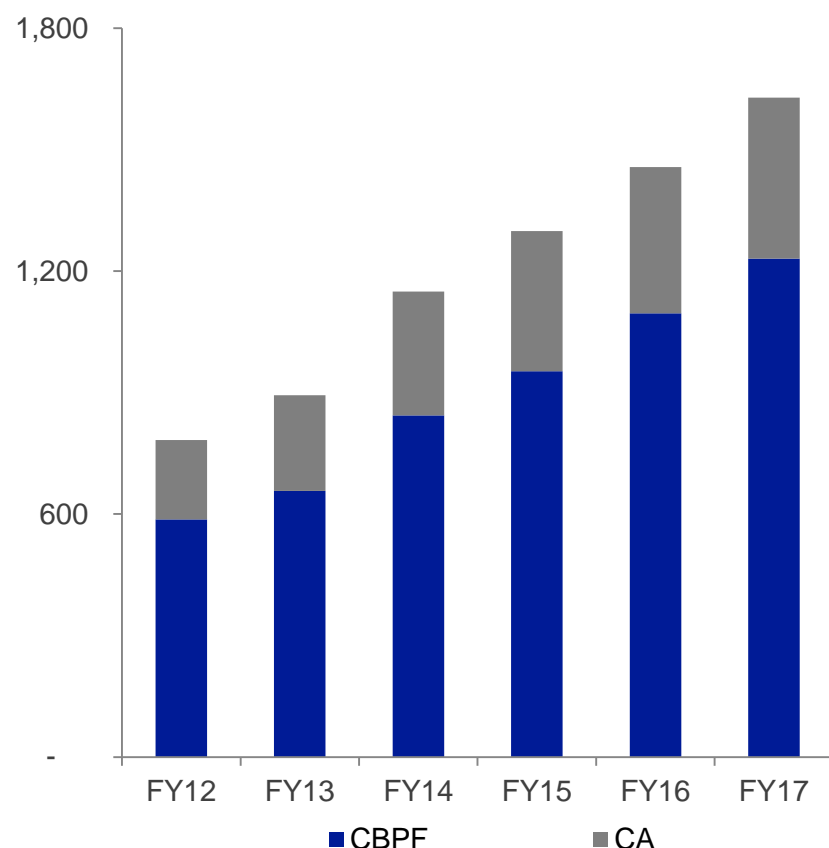
Expertise of people

- **Market leading teams** in their niche sectors
 - High average tenure
 - › Over 15 years amongst senior sales staff
 - Very **low staff turnover**
 - › Only 2 senior departures to other lenders in the past 20 years
 - **Importance of culture**
 - › Service excellence and consistent delivery

Summary

Property Finance

Loan book (£m)



Key messages

- **Success built on long term relationships** underpinned by conservative underwriting and sector expertise
 - **Market leaders** in respective businesses
 - **Disciplined** approach to **lending**
 - Staff critical
- **Well positioned** for further but more modest growth
 - Good visibility of **future pipeline**
 - Sustain downside risk and seize opportunities as they arise
 - Priority is **maintaining margins** and **quality of book**
- Sticking to the sectors of the property market we know and understand

Conclusion

- **Distinctive and established business model** supports long track record of **performance through the cycle**
- **Experience** and **expertise** supports confidence in **credit quality** and strong **client relationships**
- Our business portfolio is **diverse, specialised and differentiated**
 - Creating **resilience** and **opportunity**
- Actively working to **protect, improve and extend** our business in **existing** and **new markets**
- **Well positioned** to continue **lending consistently and profitably** in a range of market conditions

Q&A