Preliminary Results
Year to 31 July 2017

26 September 2017

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 the 2017 financial year

Good financial performance

- 13% increase in **AOP to £265 million**
- 5% **dividend** growth to **60p**

All businesses performing well

- **Maintained strong margins** and **underwriting discipline** in Banking
- **Strong year for Winterflood** with high retail trading activity
- **Good net inflows** and increased profit in Asset Management

Committed to established business model

- Supporting long track record of **trading successfully through the cycle**
- Clear strategy to **protect, improve and extend our model** for the long term

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Financial highlights

Continued profit and dividend growth

- **AOP up 13%** to £265 million, with higher profit in all three divisions
- **AEPS growth of 3% to 131.7p** notwithstanding the bank corporation tax surcharge
- **RoE** remains **strong at 17.9%**
- **Dividend growth** of **5% to 60p**, in line with progressive dividend policy

Segmental performance

All segments performed well given market conditions

£ million	2017	2016	% change
Banking	243.5	223.0	9%
Retail Finance	78.9	79.1	(0%)
Commercial Finance	72.6	69.6	4%
Property Finance	92.0	74.3	24%
Securities	28.1	19.0	48%
Asset Management	17.4	14.4	21%
Group	(24.2)	(22.8)	6%
Adjusted operating profit	264.8	233.6	**13%**

9% growth in Banking profit reflects income growth and low impairments

Strong growth in Property Finance driven by good demand and bad debt provision releases

Significant increase in Winterflood's profit, due to **high retail investor trading activity**

Asset Management made **further progress** with **strong inflows** and **21% profit growth**

Income statement

Higher income and continued investment

£ million	2017	2016	% change
Operating income	**765.6**	**687.4**	**11%**
Adjusted operating expenses	(460.6)	(415.9)	11%
Impairment losses	(40.2)	(37.9)	6%
Adjusted operating profit[1]	**264.8**	**233.6**	**13%**
Operating profit before tax	**258.6**	**228.5**	**13%**
Tax rate	26.2%	18.5%	
Basic EPS	128.3	125.7	2%
Adjusted EPS	131.7	128.4	3%
RoE	17.9%	18.9%	

Higher **lending income** and improved trading at **Winterflood**

Cost increase due to **planned investment in Banking** and **higher variable costs** in Winterflood

Effective tax rate of 26% reflects full year impact of **bank corporation tax surcharge**

3% growth in AEPS to **131.7p,** generating a **strong RoE at 17.9%**

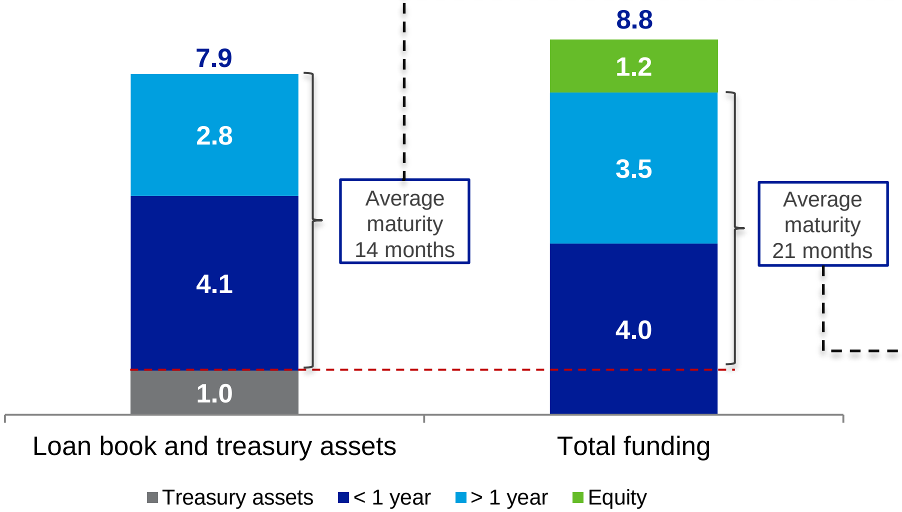
Note:
1 Adjusted operating profit excludes £6.2 million (2016: £5.1 million) of amortisation of intangible assets on acquisition.

Simple and transparent balance sheet

Diverse funding and prudent liquidity

Prudent funding maturity

£ billion



High quality loan book is diverse, predominantly secured and short term with average **maturity of 14 months**

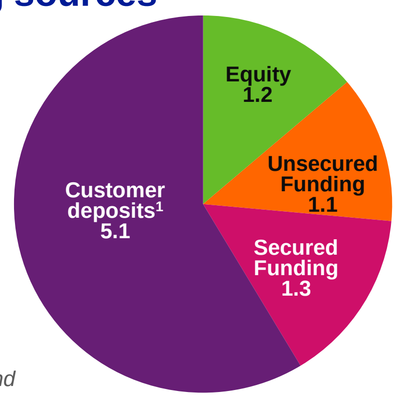
- **£1.0 billion of treasury assets** predominantly on deposit with BoE

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

Borrow long and lend short, with average **maturity** of loan book **funding** at **21 months**

Diverse funding sources

£ billion



Note: 1 Includes both retail and corporate deposits.

Diverse funding reduces reliance on individual source

- **Good access** to both **retail** and **corporate deposits**
- **Strong[2] credit ratings** supports **access to public debt markets**

Note: 2 Moody's rates Close Brothers Group ("CBG") A3/P2 and Close Brothers Limited ("CBL") Aa3/P1, with stable outlook. Fitch rates both CBG and CBL A/F1 with stable outlook.

Capital

Prudent capital position supported by strong profitability

Capital overview

	31 July 2016	31 July 2017
CET1 capital (£m)	901	991
RWAs (£m)	6,683	7,859
CET1 capital ratio	**13.5%**	**12.6%**
Total capital ratio	**13.8%**	**15.2%**
Leverage ratio[1]	10.2%	10.7%

Strong profitability supports **growing CET1 capital base**

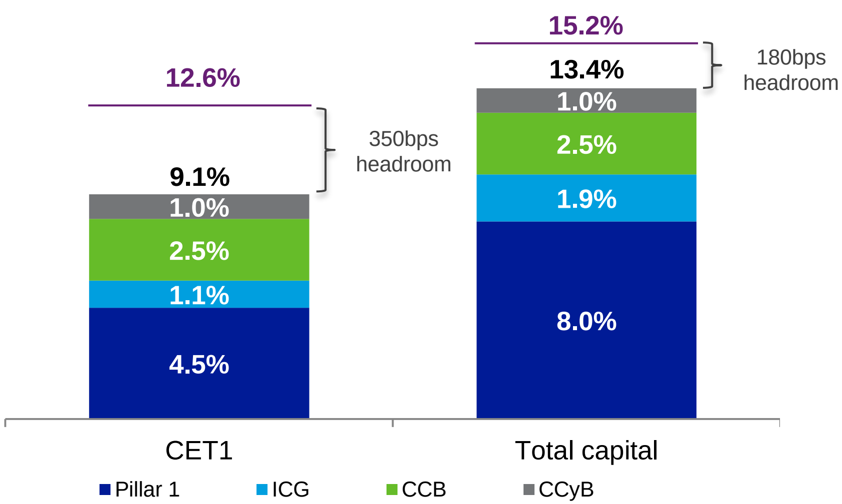
Significant increase in RWAs of 18% to £7.9bn

- Increase in risk weighting of Property Finance loan book to 150%

CET1 capital ratio provides **significant headroom** to 2019 fully loaded requirements

Strong leverage ratio at 10.7%, reflecting prudent capital position and conservative risk weighting under standardised approach

2019 fully loaded capital requirements



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.

Banking

Profit growth and strong returns

£ million	2017	2016	% change
Operating income	**555.3**	**511.2**	**9%**
Adjusted operating expenses	(271.6)	(250.3)	9%
Impairment losses	(40.2)	(37.9)	6%
Adjusted operating profit	**243.5**	**223.0**	**9%**
Net interest margin[1]	8.1%	8.2%	
Expense/income ratio	49%	49%	
Bad debt ratio[2]	0.6%	0.6%	
Return on net loan book[3]	3.6%	3.6%	
RoE	23%	26%	

Higher income in all three segments, reflecting **loan book growth**

Expenses increased **9% to £272 million**, reflecting **cost control whilst investing** in staff, customer proposition and operating efficiency

NIM remains strong as we prioritise margin over growth

£7.5 million one-off bad debt provision releases, with **strong underlying ratio** of **0.7%**

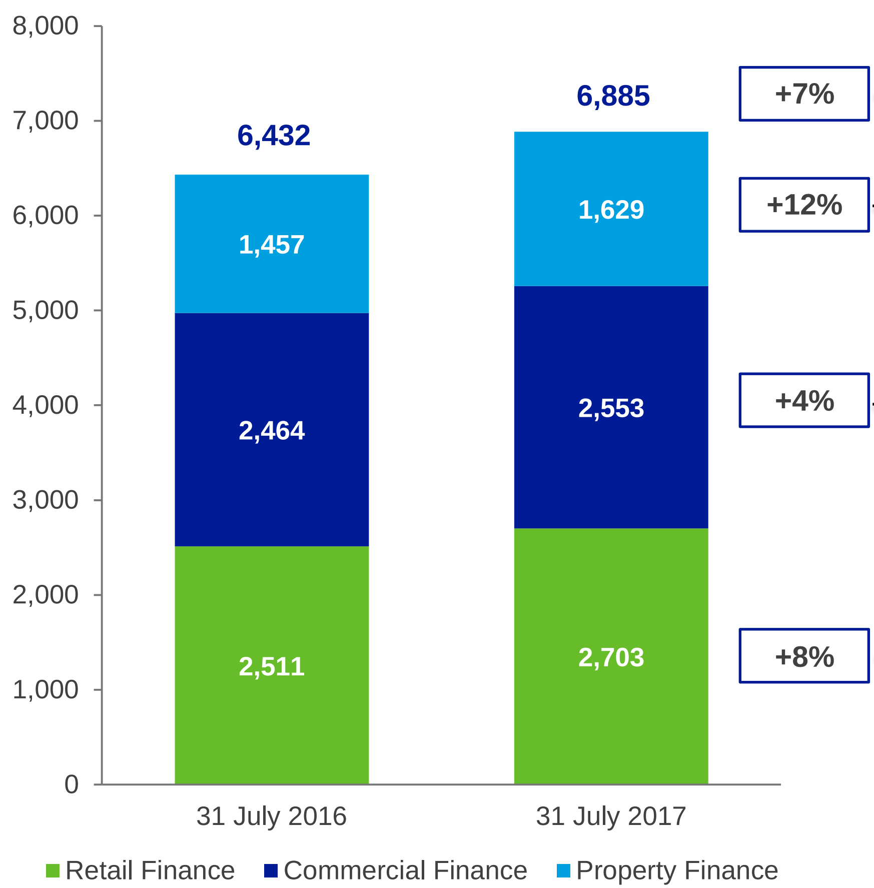
Notes:
1 Net interest, fees and operating lease income divided by average net loan book and operating leases.
2 Impairment losses divided by average net loan book and operating leases.
3 Adjusted operating profit divided by average net loan book and operating leases.

Banking

Diverse loan book provides resilience through the cycle

Loan book size by segment

£ million



7% loan book growth maintaining disciplined approach to lending

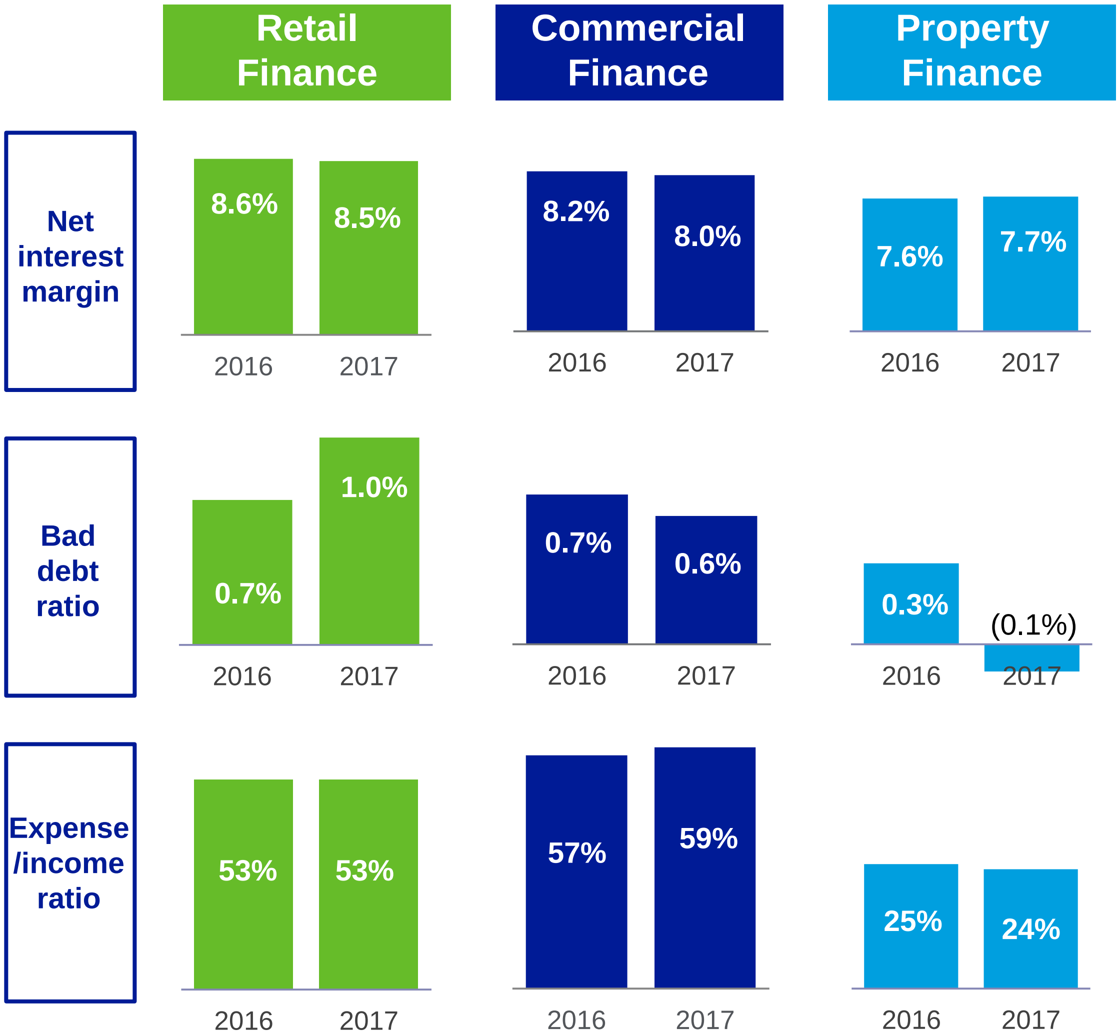
Continued **good demand for specialist residential development finance** and regional growth

Significant **competition in asset finance,** with growth in **invoice finance** and acquisition of **Novitas Loans**

Strong growth in premium finance, whilst UK **motor finance** market remains **competitive**

Banking

Good performance across all lending segments



Strong net interest margin ranging from **7.7% - 8.5%** despite competition in Retail and Commercial Finance

Bad debt ratios remain low

- **Retail Finance** increased from **historical lows**
- **Property Finance** reflects provision releases

Higher expense/income ratio in Commercial Finance, reflecting continued investment in new business initiatives

Securities

Strong performance in favourable market conditions

£ million	2017	2016	% change
Operating income	**106.7**	**82.3[1]**	**30%**
Operating expenses	(78.6)	(63.3)	24%
Operating profit	**28.1**	**19.0[1]**	**48%**
Average bargains per day	65k	52k	26%
Operating margin	26%	23%	
RoE	29%	21%	
Loss days	1	17	

Higher trading income benefiting from increased retail investor activity

Expenses up 24% to £79 million reflecting higher variable costs and settlement fees

AOP up 48% to £28 million, or 64% excluding Euroclear disposal in FY 2016

Consistently profitable trading with **one loss day**

Note:
1 FY 2016 income and operating profit include £3.8 million and £1.9 million respectively relating to the disposal of Euroclear shares.

Asset Management

Good progress in the year

£ million	2017	2016	% change
Operating income	**102.9**	**92.3**	**11%**
Investment management	63.7	57.4	11%
Advice and other services	37.1	32.1	16%
Other income	2.1	2.8	(25%)
Adjusted operating expenses	(85.5)	(77.9)	10%
Adjusted operating profit	**17.4**	**14.4**	**21%**
Underlying AOP[1]	15.5	11.4	36%
RoE	26%	25%	
Operating margin	17%	16%	
Revenue margin[2]	96bps	86bps	
Managed assets at 31 July (£bn)	8.9	8.0	11%
Total client assets at 31 July (£bn)	11.2	9.9	13%

Higher income reflecting **increasing client assets**

Growth in expenses driven by **investment in new advisers** and **acquisitions**

Managed assets increased to **£8.9 billion,** reflecting **strong inflows** and **market movements**

Total client assets increased 13% to £11.2 billion

Notes:
1 2017 underlying AOP excludes £1.6 million profit on disposal and £0.3 million trading profit in respect of OLIM, which was sold in November 2016. 2016 underlying AOP excludes £0.9 million trading profit in respect of OLIM and £0.4 million trading profit and £1.7 million profit on disposal in respect of the corporate business, which was sold in November 2015.
2 Income on client assets divided by average total client assets.

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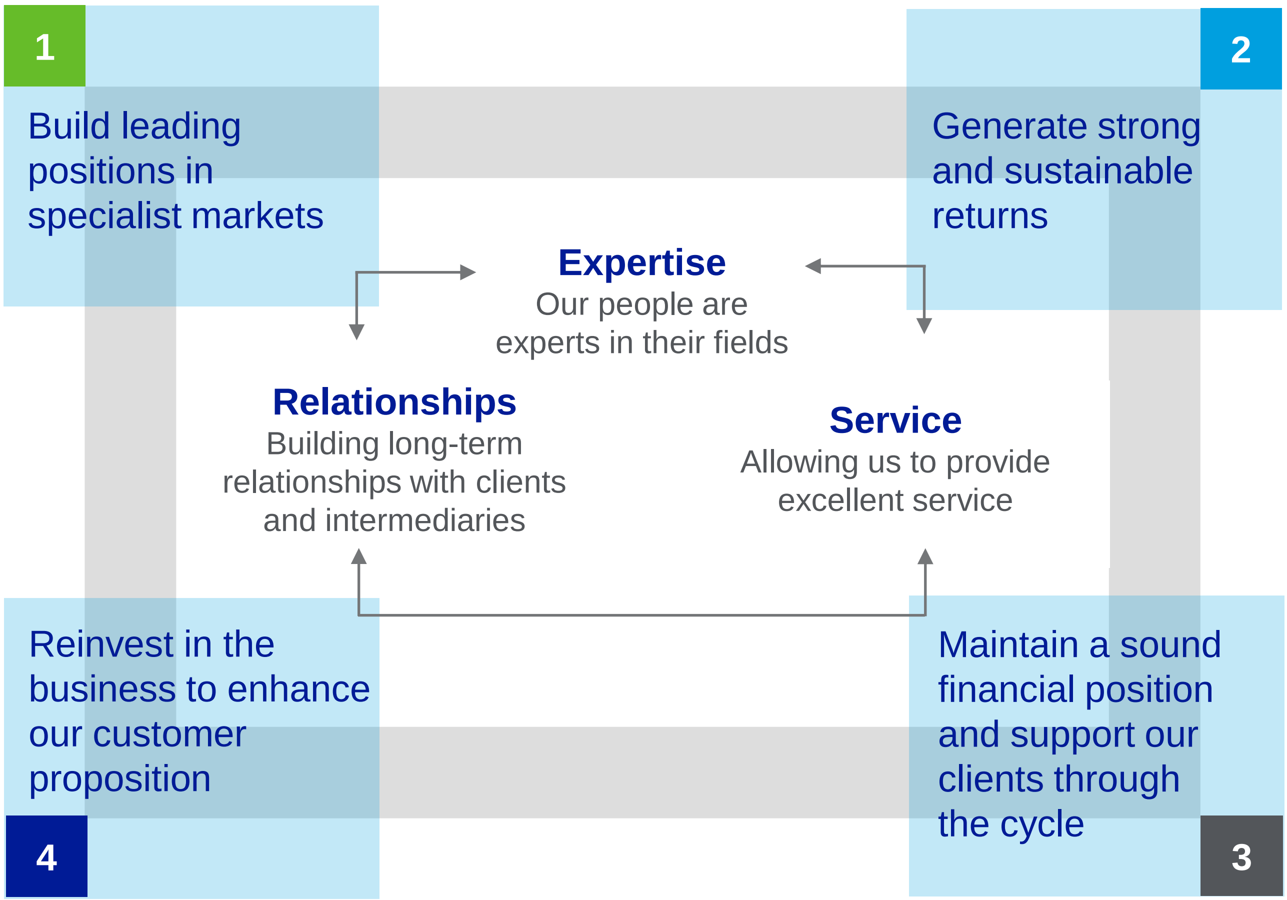
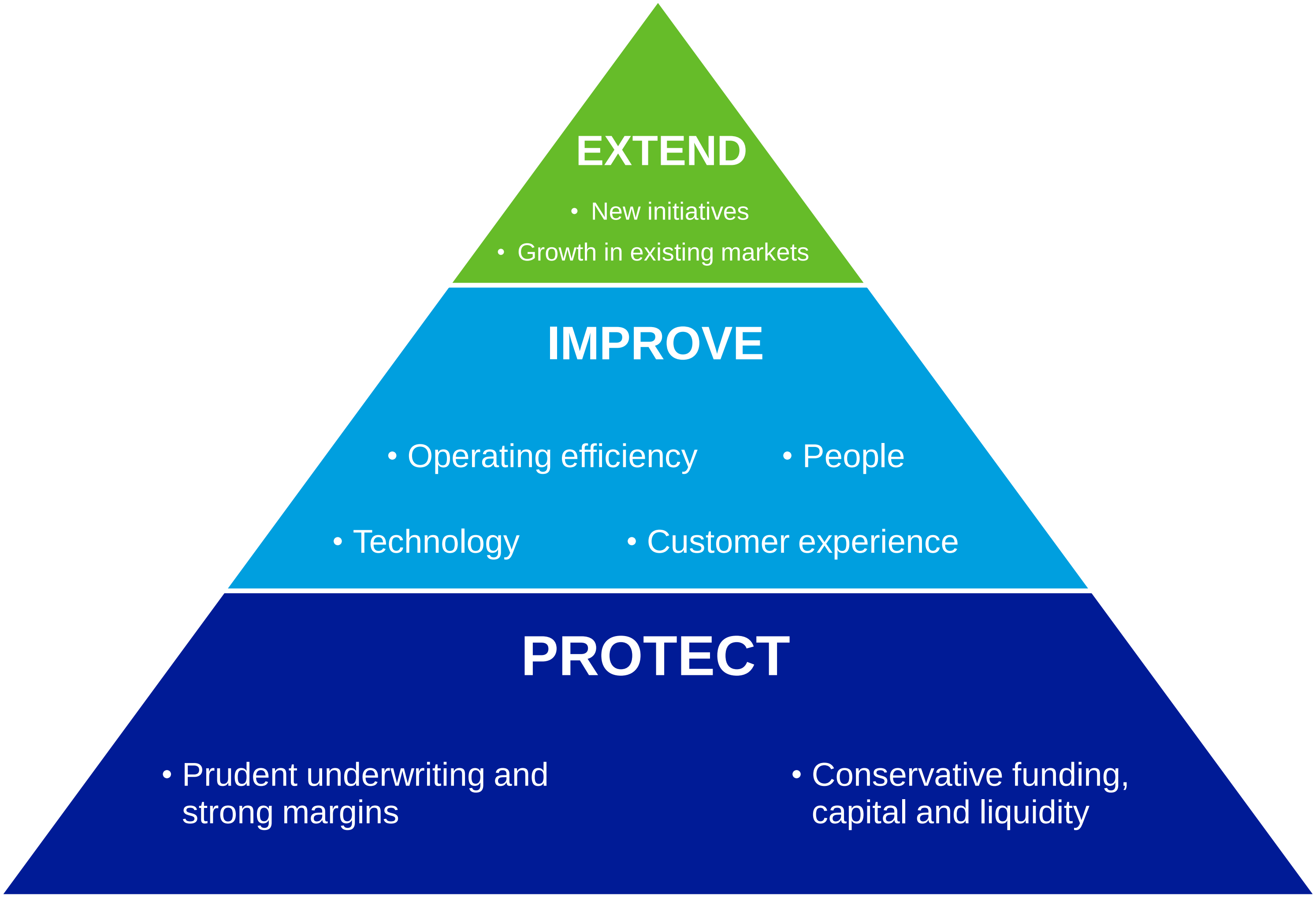
Overview

Established business model for the long-term



Our strategy

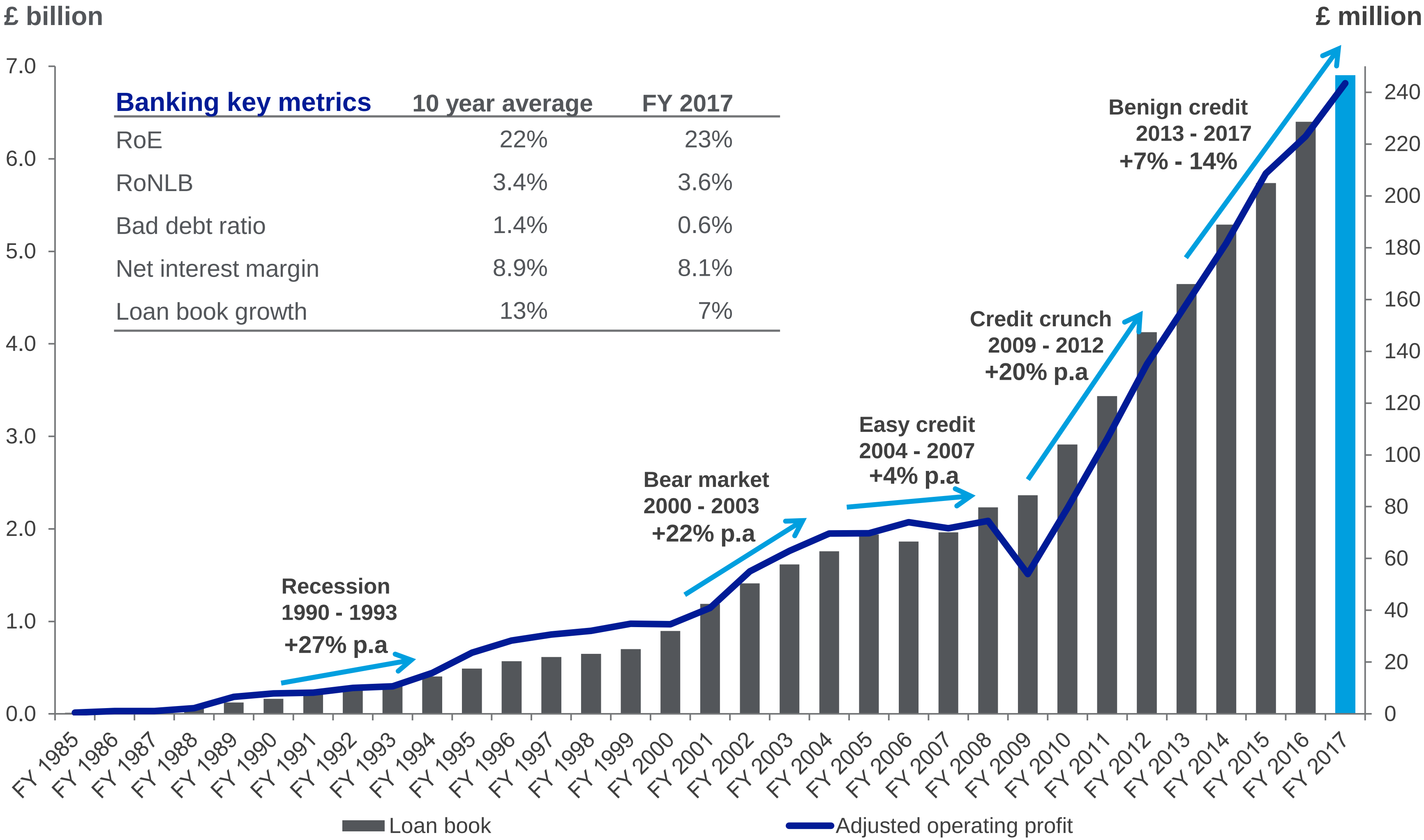
Maximising the potential of our business model



Banking

Long history of profitable growth through the cycle

Banking key metrics	10 year average	FY 2017
RoE	22%	23%
RoNLB	3.4%	3.6%
Bad debt ratio	1.4%	0.6%
Net interest margin	8.9%	8.1%
Loan book growth	13%	7%



Close Brothers

Retail Finance

Intermediated lending through motor dealers and insurance brokers

Specialist products and services

- Point of sale finance for **second hand cars**, motorcycles and LCVs
- **Premium insurance financing** for individuals and businesses

Service, Expertise, Relationships

- **Service led proposition** targeting independent motor dealers and insurance brokers
- **Disciplined underwriting** with conservative LTVs
- Distribution relationships with **7,000 dealers** and **1,700 brokers**
- **PCP c.15%** of motor finance loan book

Strategic developments

- **Maintain margins** and **credit quality** in a competitive UK motor finance market
- Continued **growth in Ireland**
- Ongoing **investment in premium finance** infrastructure
- **Planned investment** to improve service and efficiency **in motor finance**

Commercial Finance

Specialist, secured lending to the SME market

Specialist products and services

- **Asset finance, hire purchase and leasing solutions** secured on a wide range of assets
- **Debt factoring and invoice discounting** to SMEs

Service, Expertise, Relationships

- **Local distribution** with over **200 direct sales personnel** in 26 regional offices
- Direct relationships with **c.27,000 small businesses** and **strong repeat business**
- **Specialist asset knowledge** supports fast, flexible underwriting

Strategic developments

- **Maintain margins and credit quality** in core asset finance business
- Launch of **technology leasing** service
- **Acquisition of Novitas Loans,** specialist provider of secured finance to law firms and their clients
- Exploring **opportunities in Germany**

Property Finance

Specialist property development finance

Specialist products and services

- **Short term residential development finance** to professional property developers
- **Refurbishment loans** and **short term bridging** finance
- **No buy-to-let, residential or commercial mortgages**
- **UK only**

Service, Expertise, Relationships

- Lending to **experienced, well established** professional developers
- **High repeat business**, with c.800 customer relationships
- **Prudent and consistent underwriting** with typical LTVs of 50 - 60%
- **Average unit price** of **£500k**
- Successfully **lending at all stages** in the property **cycle**

Strategic developments

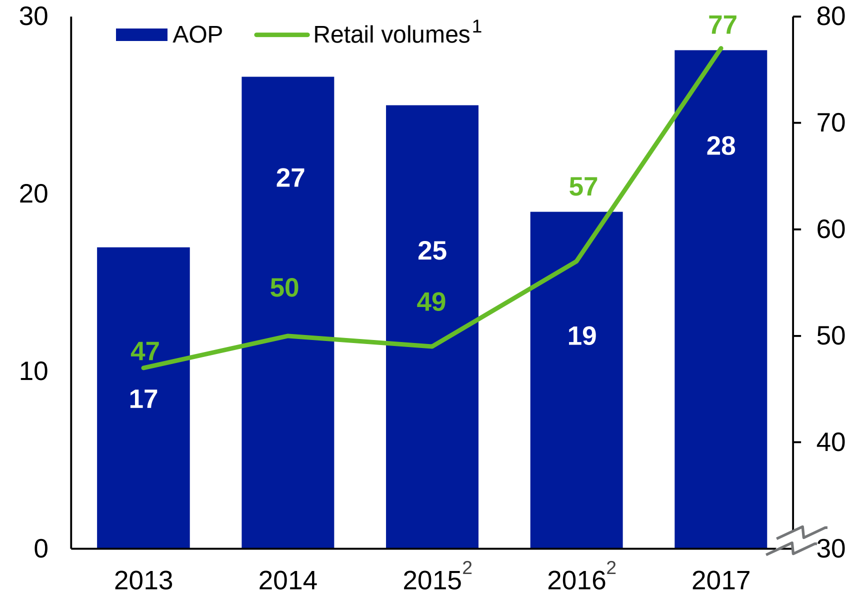
- **Strong profitability** with low impairments
- Continued **solid demand for residential new build** development finance
- Growth in selected **regional locations**, with **c.30%** outside London and the South East
- **Consistent underwriting** supports profitable lending through the cycle

Winterflood

Strong performance in favourable market conditions

- **Largest UK market maker** for retail brokers dealing in c.15,000 securities
- Strong performance driven by higher retail investor trading activity
  - **48% increase in AOP** to £28.1 million
- Consistent profitability with only **one loss day** in FY 2017
- Benefit from **trading expertise** and **proprietary technology**

Operating profit (£ million)



	2013	2014	2015[2]	2016[2]	2017
Loss days	8	4	14	17	1
Bargains per day (k)	47	56	60	52	65

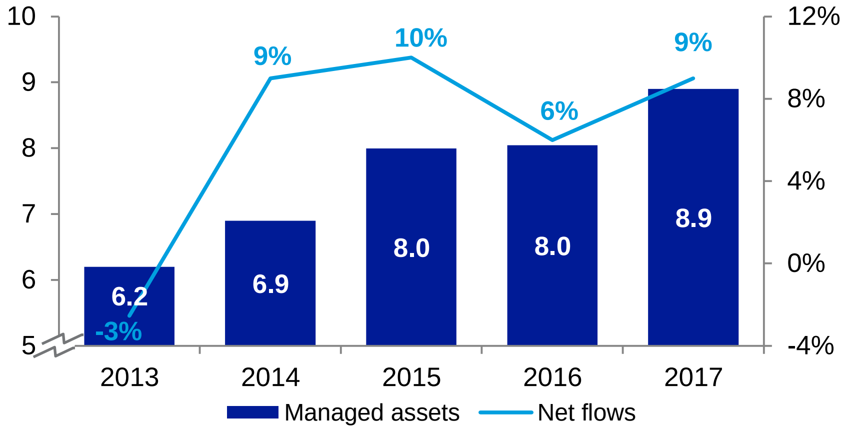
Note:
1 Average daily volumes in respect of UK equity trading on a 'principal to agent' basis across the LSE and ISDX.
2 Operating profit includes profit on disposal of Euroclear shares of £3.5 million in 2015 and £1.9 million in 2016.

Asset Management

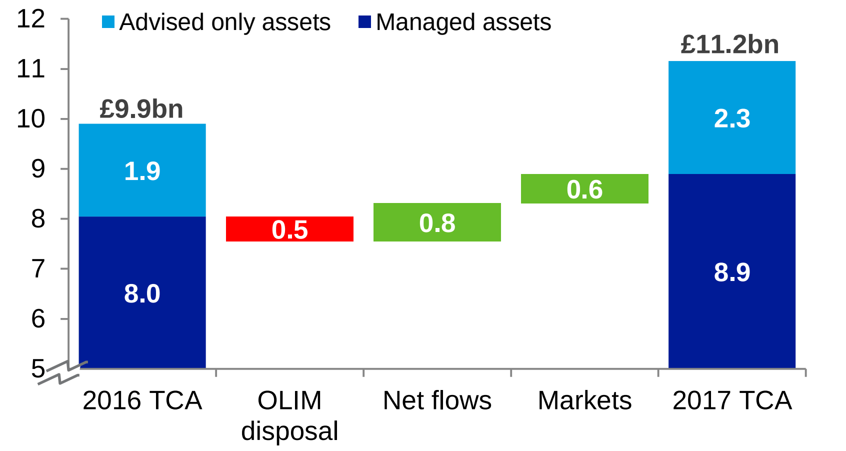
Strong inflows and growth in profit

- **Further progress** supported by **favourable market environment**
  - **£8.9 billion managed assets** and £11.2 billion total client assets
- **Driving growth both organically and through acquisitions**
  - £757 million organic net inflows, 9% of opening managed assets
  - Two acquisitions of IFAs (c.£450 million client assets)
- Maximising growth and operating efficiency
  - Migration to **single technology platform**
  - **Optimising adviser productivity**

Managed assets and net flows (£ billion)



Total client assets (£ billion)



Conclusion

Well positioned longer term

- **Good performance in 2017** financial year
  - **Uncertain economic outlook** longer term

- **Strongly committed to our established business model**
  - Protecting margins and underwriting discipline in Banking
  - Maximising daily profitability in Winterflood
  - Disciplined growth in Asset Management

- **Well positioned** to continue trading successfully through the cycle
  - **Supporting our clients** and **delivering value for shareholders** for the long term

Save the date

Banking division investor seminar

We will be holding an investor seminar on the Banking division

Time:
Wednesday 22nd November 2017
9am – 12pm

Location:
Close Brothers Group
10 Crown Place
London
EC2A 4FT

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Preliminary Results FY 2017

Appendix

26 September 2017

Close Brothers
Modern Merchant Banking

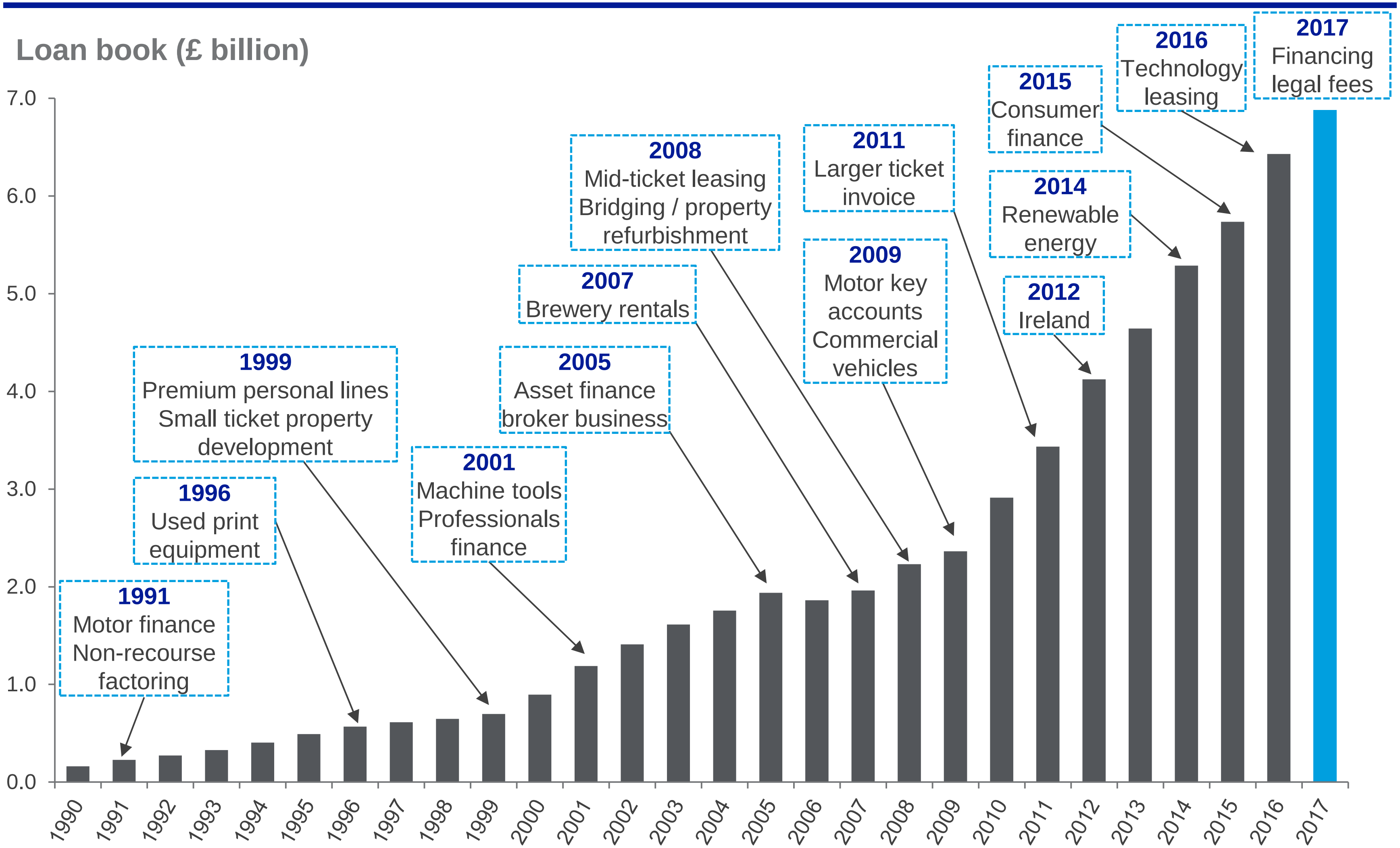
Overview

Five specialist segments

Group Segments			Niche Markets	Specialist Products
Banking Division	Retail Finance	£78.9m AOP	Specialist Lending	• Intermediated finance through motor dealers and insurance brokers
	Commercial Finance	£72.6m AOP		• Secured lending to SME market
	Property Finance	£92.0m AOP		• Specialist residential development finance
Winterflood		£28.1m AOP	Market Making	• Trading services for retail brokers and institutions
Asset Management		£17.4m AOP	Private Client	• Financial advice and investment management

New growth initiatives

Long history of developing new products and entering adjacent markets



IFRS 9

Well positioned for implementation in FY 2019

- IFRS9 applies to **Close Brothers** for the **financial year ended 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	Default event	Lifetime expected loss	Broadly similar to IAS 39

Banking

Loan book and lending statistics by business

	Loan book at 31 July 2017 (£m)	FY17 loan book growth	Typical LTV[1]	Average loan size[2]	Typical loan maturity[3]	Number of customers
Motor finance	1,762	3.3%	75 – 85%	£6.5k	2 – 4 years	270k
Premium finance	941	16.7%	91%	£600	10 months	2.2m
Asset finance	2,017	(0.1%)	80 – 90%	£41.5k	32 months	27k
Invoice finance	536	20.8%[4]	80%	£360k	2 – 3 months	1.7k
Property finance	1,629	11.8%	50 - 60%	£1.2m	6 – 18 months	760

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 2017.
3 Typical loan maturity for new business on a behavioural basis.
4 Acquisition of Novitas Loans, with loan book of £38.2 million at 31 July 2017.

Close Brothers
Modern Merchant Banking

LENDING | DEPOSITS | WEALTH MANAGEMENT | SECURITIES

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