Half Year Results 2018

13 March 2018

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 across all business segments

Good profit growth in the first half

- **6%** increase in **AOP to £142 million**
- **Strong RoE of 17%**
- **5% interim dividend** growth to **21p**

Continued good performance in all three divisions

- **Profit growth** in Banking with **stable net interest margin** and **low bad debt**
- Continued **strong trading at Winterflood** supported by positive market sentiment
- Significant **increase in profit** and **strong net inflows** in Asset Management

Disciplined application of our business model

- Delivering **service and expertise** to our customers and clients
- Maintaining **prudent and disciplined approach** across our businesses
- **Continued investment** in infrastructure and new business initiatives

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Financial highlights

Good profit growth in the first half

- **Good performance** across all **businesses** with **AOP +6%** to £142.3 million

- **Earnings growth and strong returns**, with **AEPS +7%** to 71.2p and **ROE of 17.3%**

- Capital position remains strong, with **CET1 ratio at 12.7%** and **leverage ratio at 10.7%**

- **Progressive dividend growth** with **DPS +5%** to 21.0p

Segmental performance

Good performance across all business segments

£ million	H1 2018	H1 2017	% change
Banking	128.5	122.7	5%
Retail	42.8	39.9	7%
Commercial	39.7	36.5	9%
Property	46.0	46.3	(1%)
Securities	14.7	14.4	2%
Asset Management	11.4	9.1	25%
Group	(12.3)	(12.0)	3%
Adjusted operating profit	142.3	134.2	**6%**

Good profit growth in Banking with stable net interest margin and low impairments

Flat profit in Property reflects **provision releases** in H1 17

Continued strong performance for Winterflood, benefiting from **high investor trading activity**

Strong profit growth in Asset Management, driven by net inflows and positive market movements

Income statement

Higher income and continued investment

£ million	H1 2018	H1 2017	% change
Operating income	**405.5**	**378.3**	**7%**
Adjusted operating expenses	(239.4)	(226.8)	6%
Impairment losses	(23.8)	(17.3)	38%
Adjusted operating profit[1]	**142.3**	**134.2**	**6%**
Operating profit before tax	**138.6**	**131.4**	**5%**
Tax rate	25%	26%	
Basic EPS	69.2	65.1	6%
Adjusted EPS	71.2	66.6	7%
RoE	17.3%	18.0%	

Growth in operating income, with **higher income in all three divisions**

Impairments remain low and stable excluding **provision releases** of £5.4 million in H1 17

Effective tax rate reduced by 1% reflecting lower corporation tax rate

Higher AEPS, generating a **strong RoE**

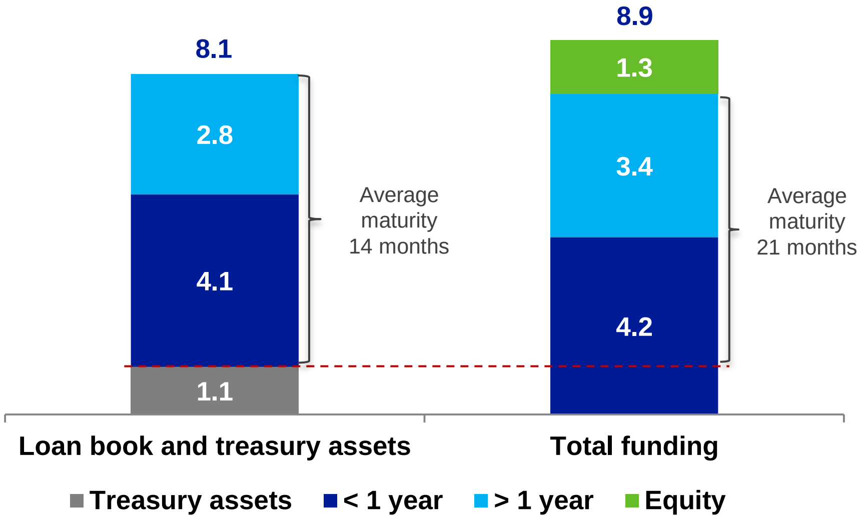
Note:
1 Adjusted operating profit excludes £3.7million (2017: £2.8 million) of amortisation of intangible assets on acquisition.

Simple and transparent balance sheet

Diverse funding and prudent liquidity

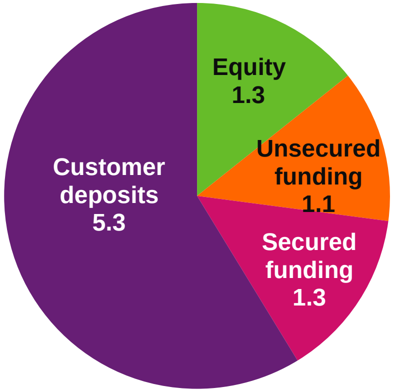
Prudent funding maturity

£ billion



Diverse funding sources

£ billion



Prudent funding and **liquidity**

- Funding at **128% of loan book**
- Average **maturity** of loan book **funding** at **21 months**
- Sound liquidity with **£1.1 billion of treasury assets** predominantly on deposit with BoE

Maintained diverse funding base

- New **Motor securitisation**
- **Limited reliance on TFS/FLS**
- Investing in **new deposit platform** to diversify our retail offering

Capital

Strong capital position

Capital overview

	31 July 2017	31 January 2018
CET1 capital (£m)	991	1,032
RWAs (£m)	7,859	8,120
CET1 capital ratio	**12.6%**	**12.7%**
Total capital ratio	**15.2%**	**15.2%**
Leverage ratio[1]	10.7%	10.7%

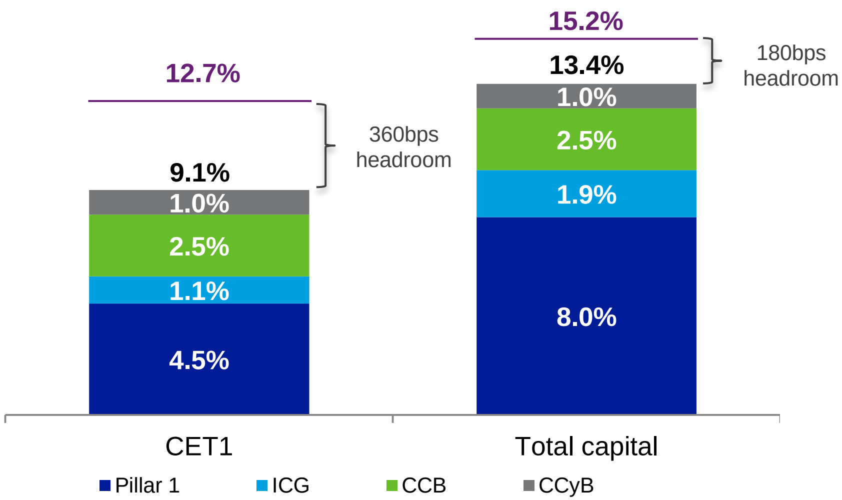
Continued growth in CET1 capital base

3% growth in RWAs reflects loan book growth and mix at period end

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

Strong leverage ratio

2019 fully loaded capital requirements



Expect **limited impact from Basel 3** update under standardised approach, but continue to monitor

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	H1 2018	H1 2017	% change
Operating income	**293.9**	**274.0**	**7%**
Adjusted operating expenses	(141.6)	(134.0)	6%
Impairment losses	(23.8)	(17.3)	38%
Adjusted operating profit	**128.5**	**122.7**	**5%**
Net interest margin[1]	8.2%	8.2%	
Expense/income ratio	48%	49%	
Bad debt ratio[2]	0.7%	0.5%	
Return on net loan book[3]	3.6%	3.7%	
RoE	20%	23%	

Income growth reflects stable net interest margin

Expenses increased **to £142 million**, reflecting higher staff cost and continued investment

Good profit growth despite the provision releases in H1 17

Stable net interest margin reflecting continued pricing discipline

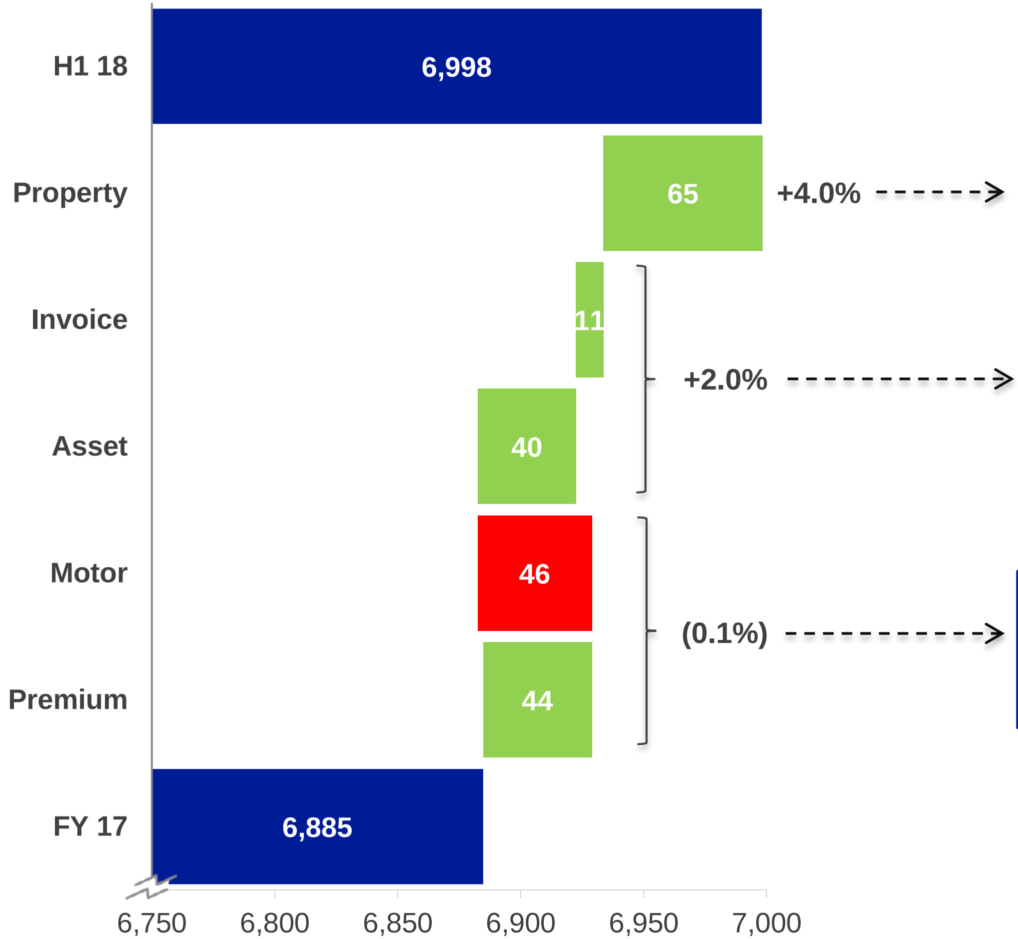
Bad debt ratio reflects **strong and stable underlying credit performance**

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

Loan book growth reflects diverse portfolio

Loan book growth by segment (£ million)



1.7% loan book growth maintaining disciplined approach to lending

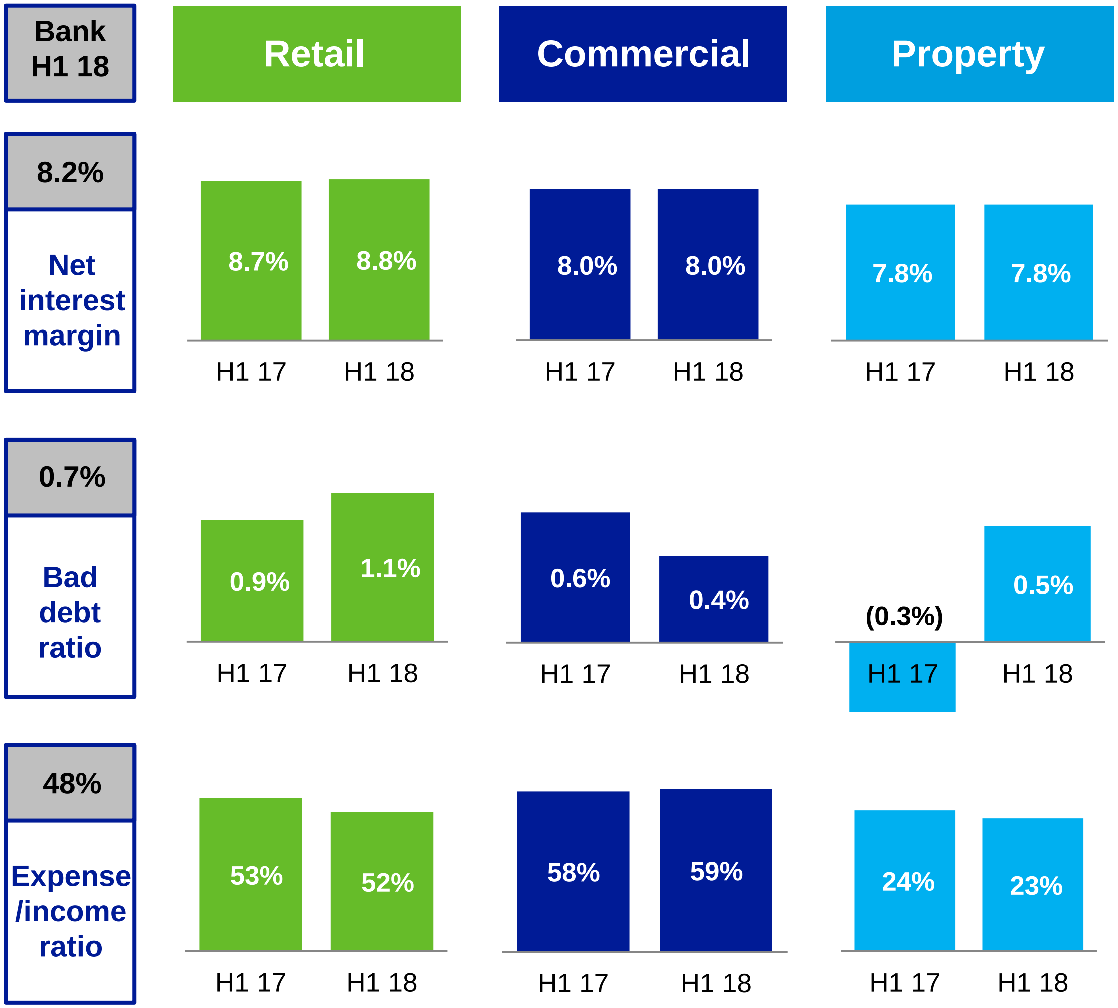
Good growth in Property continued, with solid pipeline

Commercial loan book increased, with 2% growth in both **Invoice** and **Asset Finance**

Retail remained **flat,** with **5% growth in Premium Finance** offset by a **3% contraction** in **Motor Finance**

Banking

Stable and consistent performance across segments



Strong and stable net interest margin ranging from **7.8% - 8.8% in H1 18**

Overall credit performance remains stable

- Bad debt ratio in **Retail stable** on H2 17
- **Commercial** saw low arrears and strong collections
- **Property** ratio reflects **provision releases** in H1 17

Stable expense/income ratios despite ongoing investment

Securities

Continued strong trading performance

£ million	H1 2018	H1 2017	% change
Operating income	**55.6**	**53.9**	**3%**
Operating expenses	(40.9)	(39.5)	4%
Operating profit	**14.7**	**14.4**	**2%**
Operating margin	26%	27%	
RoE	30%	30%	
Loss days	0	0	

Higher trading income, particularly in FTSE 350 and AIM

Expenses up to £41 million reflecting variable cost model

Consistently profitable trading with **no loss days**

Asset Management

Profit growth supported by strong net inflows

£ million	H1 2018	H1 2017	% change
Operating income	**56.0**	**50.1**	**12%**
Investment management	35.8	30.8	16%
Advice and other services	20.0	17.4	15%
Other income	0.2	1.9	
Adjusted operating expenses	(44.6)	(41.0)	9%
Adjusted operating profit	**11.4**	**9.1**	**25%**
RoE	33%	27%	
Operating margin	20%	18%	
Revenue margin[1]	97bps	96bps	
Annualised net inflows as % of opening managed assets	13%	3%	

Higher advice and investment management income reflecting **growth in client assets**

Growth in expenses driven by **new hires** and **systems investment**

Operating margin **improved to 20%[2]**

Strong net inflows, with **managed assets** growing 9% to **£9.7 billion** and **total client assets** increasing 6% to **£11.8 billion**

Notes:
1 Income on client assets divided by average total client assets.
2 H1 2017 underlying operating margin excluding OLIM, which was sold in November 2016, was 15%.

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Overview

Consistently managing the business for the long-term

Good H1 performance	Managing for the long-term

Good H1 performance

- Continued **benign credit environment** and **supportive financial markets**
- **Loan book growth of 1.7%** reflecting continued lending discipline
- Maintained **strong margin** and **credit quality**
- Continued **strong trading** performance in Winterflood
- **Significant growth** in client assets and profit in **Asset Management**

• **H1 RoE**	**17.3%**
• **AOP**	**+6%**
• **DPS**	**+5%**

Managing for the long-term

- Continue to **focus on our customers** and **clients**
- Investment in people, infrastructure and new business to **protect, improve and extend** our proven business model
- **Maintain** strong net interest **margin** and **underwriting discipline**
- Conservative approach to **funding, capital** and **liquidity**
- **Maximising growth opportunities** within the boundaries of our model

- **Support for our clients**
- **Strong return on equity**
- **Sustainable progressive dividend**

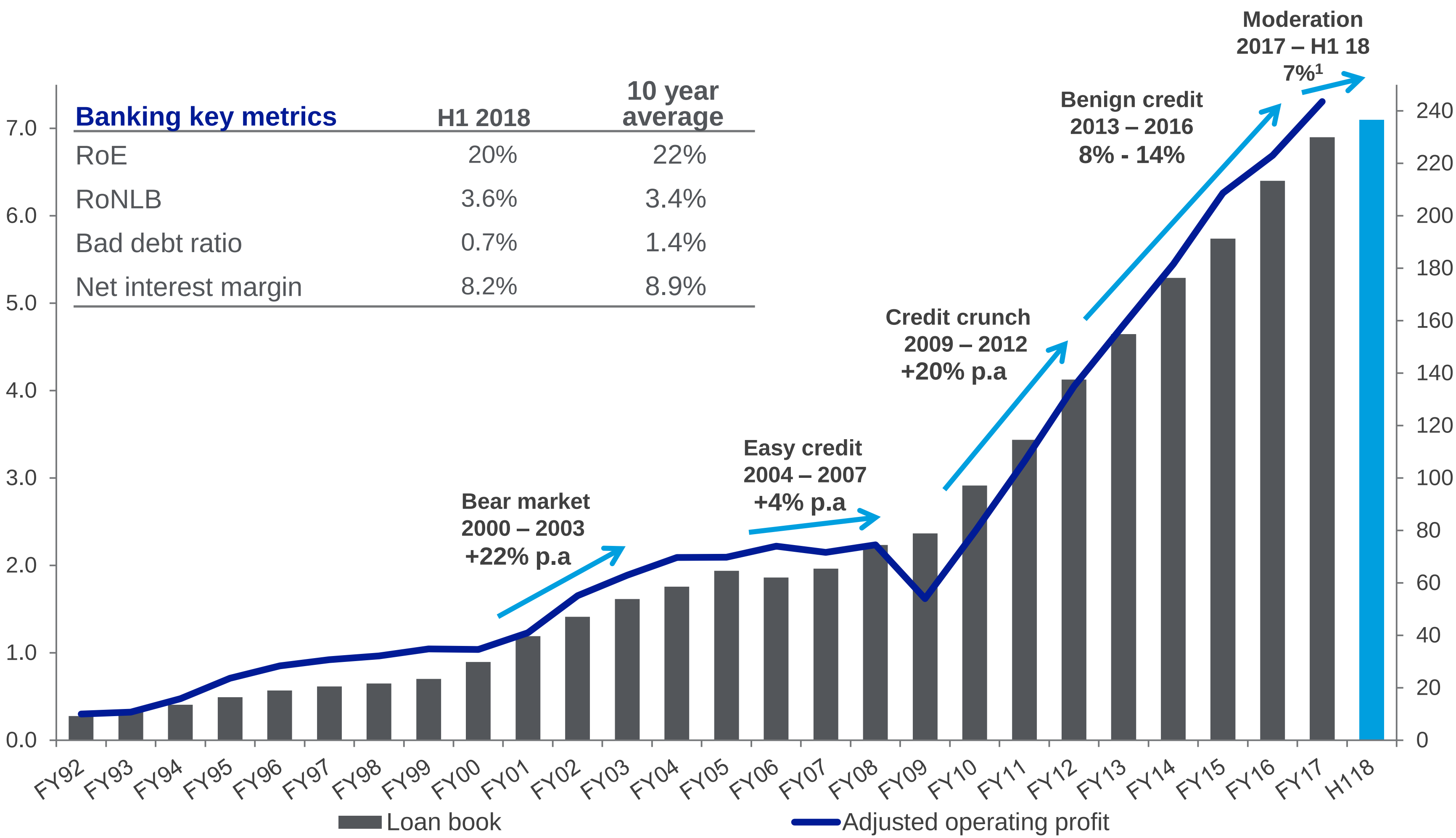
Banking track record

Long history of profitable growth through the cycle

£ billion

£ million

Banking key metrics	H1 2018	10 year average
RoE	20%	22%
RoNLB	3.6%	3.4%
Bad debt ratio	0.7%	1.4%
Net interest margin	8.2%	8.9%



Note: 1 Loan book growth for 12 months ended 31 January 2018.

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Retail

Intermediated lending through Motor and Premium Finance

Current dynamics

- **Growth in Premium Finance** reflecting new broker wins and recent investment
- **Small contraction in UK motor loan book** reflects price and underwriting discipline in competitive market
- **Consistent credit quality** supported by prudent underwriting, focus on used cars and low exposure to PCP

Long-term focus

- Continuing multi-year **investment in Premium Finance**
- **Maintain price** and **underwriting discipline** in Motor Finance with prudent LTVs and GFVs
- Initiated **Motor Finance investment programme** to enhance dealer and customer proposition

Commercial

Specialist, secured lending to SMEs through Asset and Invoice Finance

Current dynamics

- Modest **growth in Asset Finance** despite **ongoing competition**
- **Invoice Finance** seeing **good growth,** supported by extension into new products
- **Strong credit performance** with low arrears and strong collections

Long-term focus

- **Maximising opportunities** in existing business areas
- **Novitas** now fully integrated and **progressing well**
- Expanding into **new niches** to **support medium term growth** e.g. asset finance in Germany and technology leasing

Property

Specialist residential development finance

Current dynamics

- **Good loan book growth** in London, South East and the regions, reflecting **continued demand** for residential property development finance
- Maintaining **strong profitability** and low impairments

Long-term focus

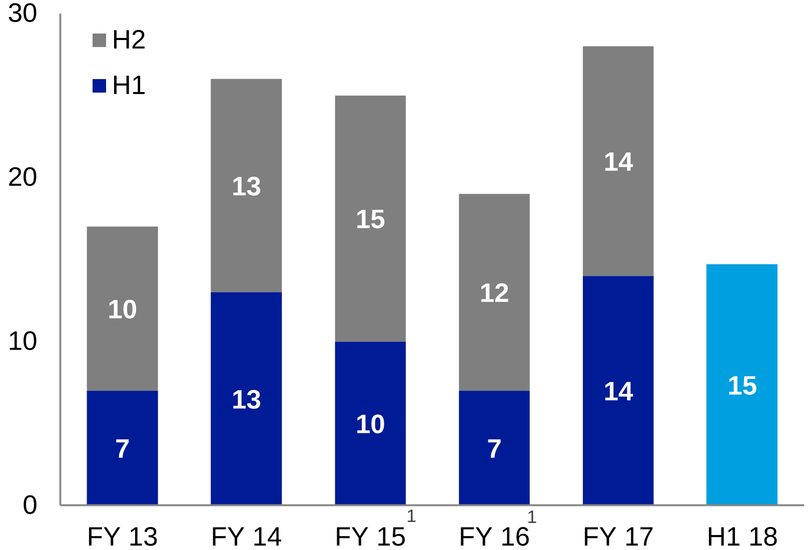
- **Solid pipeline** of new business
- **Strong structural demand** for new build family homes
- **Continued expansion** in high quality regional locations

Winterflood

Maximising trading opportunities in favourable markets

- Another strong performance in H1 with **2% growth in AOP** to £14.7 million
  - **Consistently high trading activity** across FTSE 350 and AIM
- **Maximising daily trading opportunities**
- Consistently profitable trading with **no loss days** in the first half
- Delivering **high quality execution services** to retail intermediaries and institutional investors

Operating profit (£ million)



FY 13	FY 14	FY 15	FY 16	FY 17	H1 18	
8	4	14	17	1	0	**Loss days**

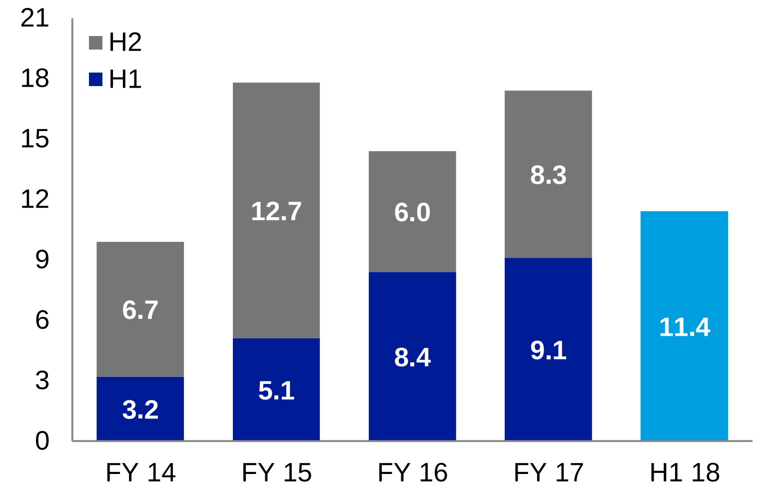
Note:
1 Operating profit includes profit on disposal of Euroclear shares of £3.5 million in 2015 and £1.9 million in 2016.

Asset Management

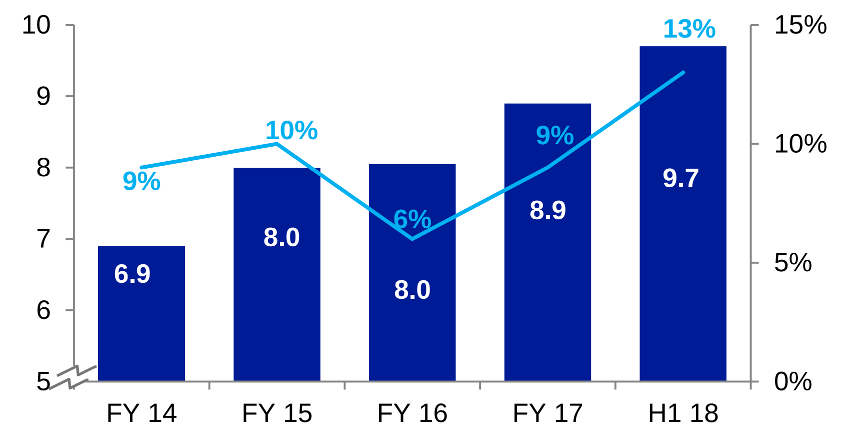
Strong performance in the period

- **Significant improvement** in the period supported by **strong net inflows at 13%**
  - All channels performing well
- **£9.7 billion managed assets** and **£11.8 billion total client assets**
  - £573 million net inflows
  - £240 million of positive market movements
- **Operating margin** increased to **20%**
- **Continued investment** in new hires and systems improvements
- Focus on **growing client asset base** and **improving operating efficiency**

Adjusted operating profit (£ million)



Managed assets and net flows (£ billion)



Conclusion

Remain well positioned for the full year

- **Good performance in the first half,** with contribution from all three divisions
- Established business **model continues to deliver**
- **Long-term commitment to our clients, customers** and proven **business model**
- **Well positioned** to deliver a **good result for the full year**

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Interim Results
H1 2018

Appendix

13 March 2018

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IFRS 9

Implementation in FY 2019

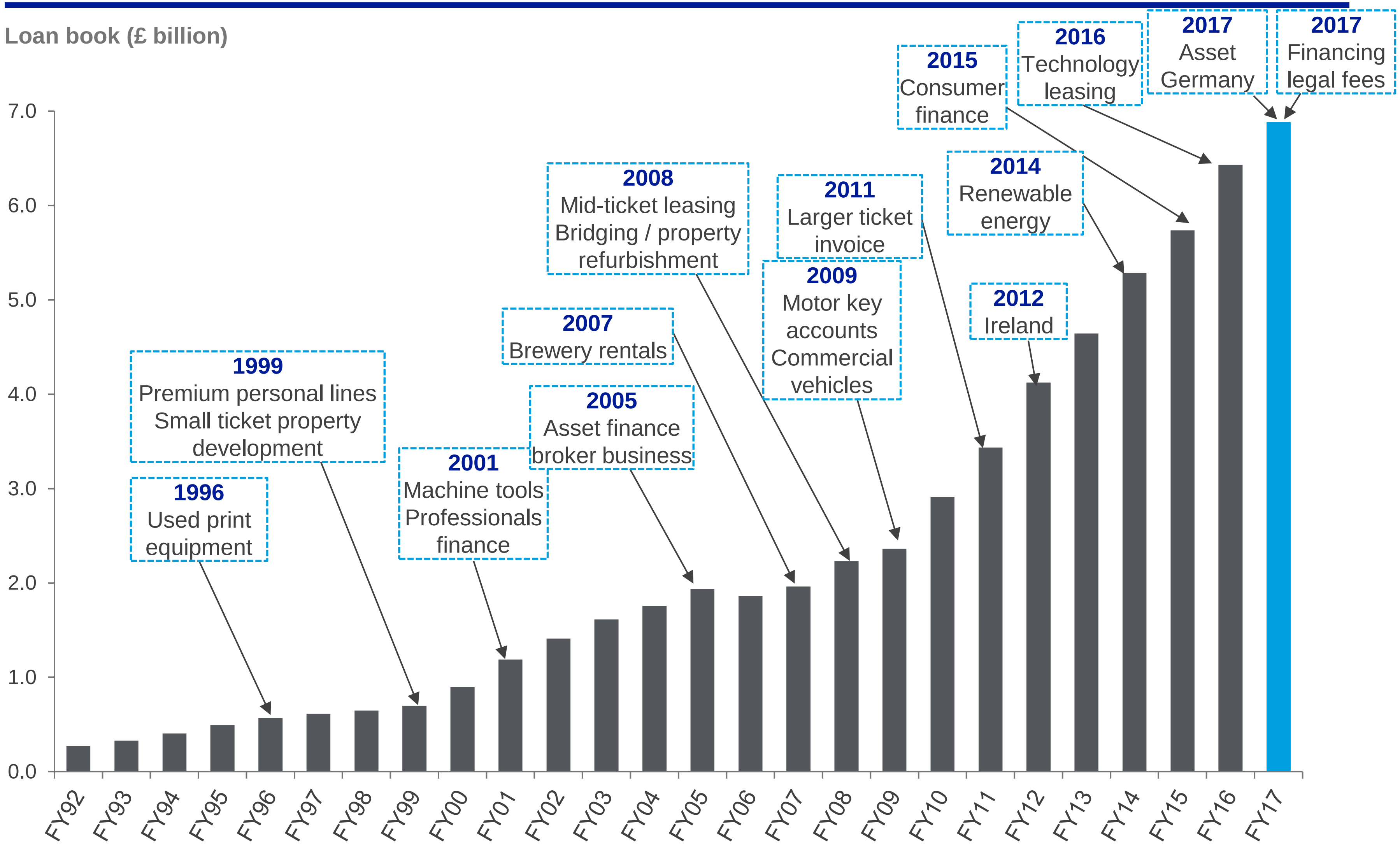
- IFRS9 applies to **Close Brothers** for the **financial year ending 31 July 2019**
- Fundamental change in accounting for credit losses from "incurred" to "expected" basis
  - Use of models to estimate expected credit losses based on **composition of loan book** and **macroeconomic outlook**
- Good 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	Default event	Lifetime expected loss	Broadly similar to IAS 39

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 January 2018 (£m)	H1 18 loan book growth	Typical LTV[1]	Average loan size[2]	Typical loan maturity[3]	Number of customers
Motor Finance	1,716	(2.6%)	75 – 85%	£6.5k	2 – 4 years	264k
Premium Finance	985	4.7%	90 – 95%	£600	10 months	2.3m
Asset Finance	2,057	2.0%	80 – 90%	£40k	41 months	24k
Invoice Finance	547	2.1%	80%	£350k	2 – 3 months	7.7k
Property Finance	1,694	4.0%	50 - 60%	£1.2m	6 – 18 months	700

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 January 2018.
3 Typical loan maturity for new business on a contractual basis, Invoice Finance on a behavioural basis.

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