Half Year Results 2017

14 March 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

Strong performance across all business segments

- **Strong first half performance**, with **profit up in all business segments**
- **Good performance** in Banking with **strong margins** and **low bad debt**
  - **Profits increased** in Retail, Commercial and Property Finance
  - **Slower loan book growth** as we maintain our **lending discipline**
- Securities and Asset Management supported by **favourable market conditions**
- Good growth in earnings and **continued dividend progression**

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Financial highlights

Strong first half performance

- **Strong performance** across all **business segments** with **AOP +21%** to £134.2 million
- Continued **growth in earnings and strong returns**, with **AEPS +9%** to 66.6p and **RoE of 18.0%**
- Good capital position with **CET1 ratio at 12.6%** and **total capital ratio at 15.3%**
- **Progressive dividend growth** with **DPS +5%** to 20.0p

Financial highlights

Increased profitability across all segments

£ million	H1 2017	H1 2016	% change
Banking	122.7	108.4	13%
Retail Finance	39.9	38.9	3%
Commercial Finance	36.5	33.5	9%
Property Finance	46.3	36.0	29%
Securities	14.4	6.8	112%
Asset Management	9.1	8.4	8%
Group	(12.0)	(12.4)	(3%)
Adjusted operating profit	**134.2**	**111.2**	**21%**

- **Strong profit growth in Banking,** across all **three business segments**
  - **Retail Finance** continued to grow with focus on **disciplined lending**
  - Growth in **Commercial Finance** was driven by **higher income**
  - **Property Finance** strong profit growth supported by **provision releases**
- **Significant improvement** in Securities benefiting from **increased trading activity**
- **Good progress** in Asset Management supported by **higher market levels**

Income statement

Earnings growth and ongoing investment

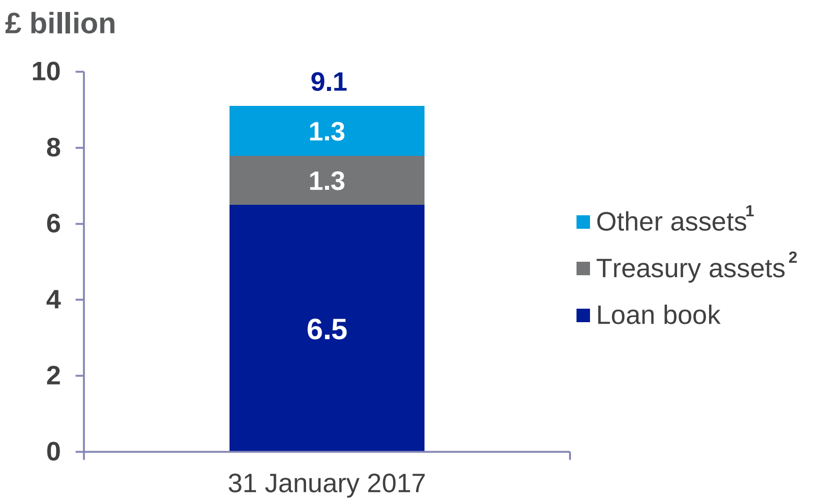
£ million	H1 2017	H1 2016	% change
Operating income	**378.3**	**331.6**	**14%**
Adjusted operating expenses	(226.8)	(203.7)	11%
Impairment losses	(17.3)	(16.7)	4%
Adjusted operating profit	**134.2**	**111.2**	**21%**
Profit attributable to shareholders	**96.8**	**88.6**	**9%**
Tax rate	26%	18%	
Basic EPS	65.1p	59.7p	9%
Adjusted EPS	66.6p	61.1p	9%
RoE	18.0%	17.9%	

- **Income +14%** to £378 million
  - Increased income from lending businesses and Winterflood
- **11% increase in expenses** reflects **continued investment** in Banking and **higher variable costs** in Winterflood
- **Low impairments** benefiting from benign credit environment and provision releases
- **26% effective tax rate** reflects full-year impact of **banking tax surcharge**

Simple and transparent balance sheet

Continued good access to funding markets

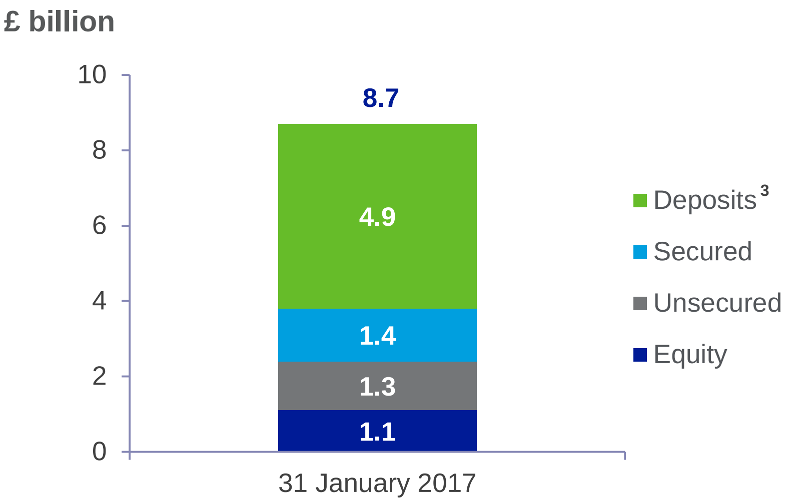
High quality asset base



- **High quality loan book**
  - 14 months average maturity
  - Predominantly secured with conservative LTVs
- **£1.3 billion treasury assets principally** on deposit with BoE

Notes
1 Other assets include securities assets and other assets.
2 In addition to and not included in the above, at 31 January 2017 the group held £100 million (31 July 2016: £nil) of Treasury Bills drawn under the Funding for Lending Scheme which are classified as high quality liquid assets.

Diverse funding sources



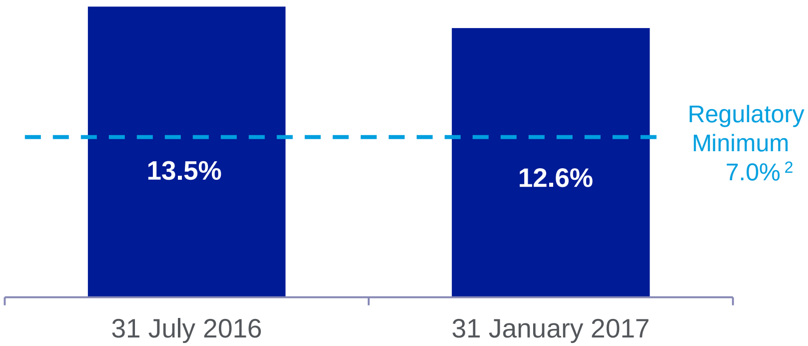
- **Funding 133% of loan book**
  - **Further diversified** with issuance of £250 million bond and £175 million tier 2 capital
- **Borrow long, lend short**
  - Term funding 76% of loan book

Notes
3 Includes both retail and corporate deposits.

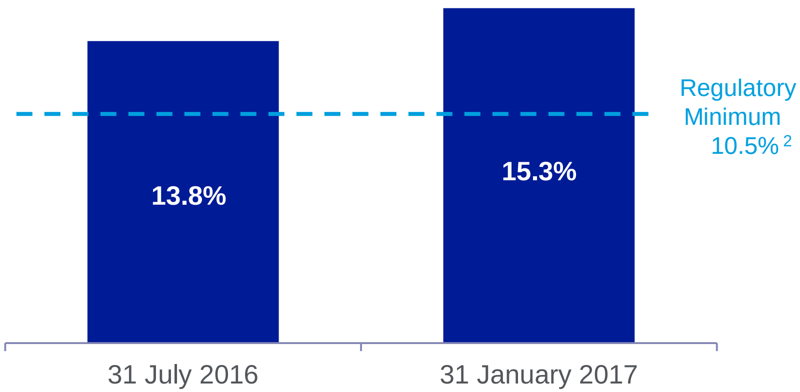
Capital Overview

Good capital position supporting our growth

CET1 ratio



Total capital ratio



£ million	31 January 2017	31 July 2016	% change
Common equity tier 1 capital	938.8	901.4	4%
Total regulatory capital	1,142.7	925.4	23%
Risk weighted assets	7,456.0	6,682.5	12%

- **Good capital position important** to support growth while meeting regulatory requirements
  - Profitable business supports CET1 capital generation
- Strong **leverage ratio at 10.3%**[1]
- 12% increase in RWAs principally due **to higher risk weighting** of property loans
  - c.1%[2] reduction in CET1 and total capital ratios
- **Added £175m tier 2 capital**
  - Maintaining flexibility longer term

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.
2 Fully loaded basis FY19 including Pillar I and capital conservation buffer. Excludes Pillar 2a ICG add-on, currently 1.9% total capital and 1.1% CET1.

Banking

Strong first half result

£ million	H1 2017	H1 2016	% change
Operating income	**274.0**	**248.7**	**10%**
Adjusted operating expenses	(134.0)	(123.6)	8%
Impairment losses	(17.3)	(16.7)	4%
Adjusted operating profit	**122.7**	**108.4**	**13%**
Net interest margin[1]	8.2%	8.3%	
Expense/income ratio	49%	50%	
Bad debt ratio[2]	0.5%	0.6%	
Return on net loan book[3]	3.7%	3.6%	
RoE	23%	25%	

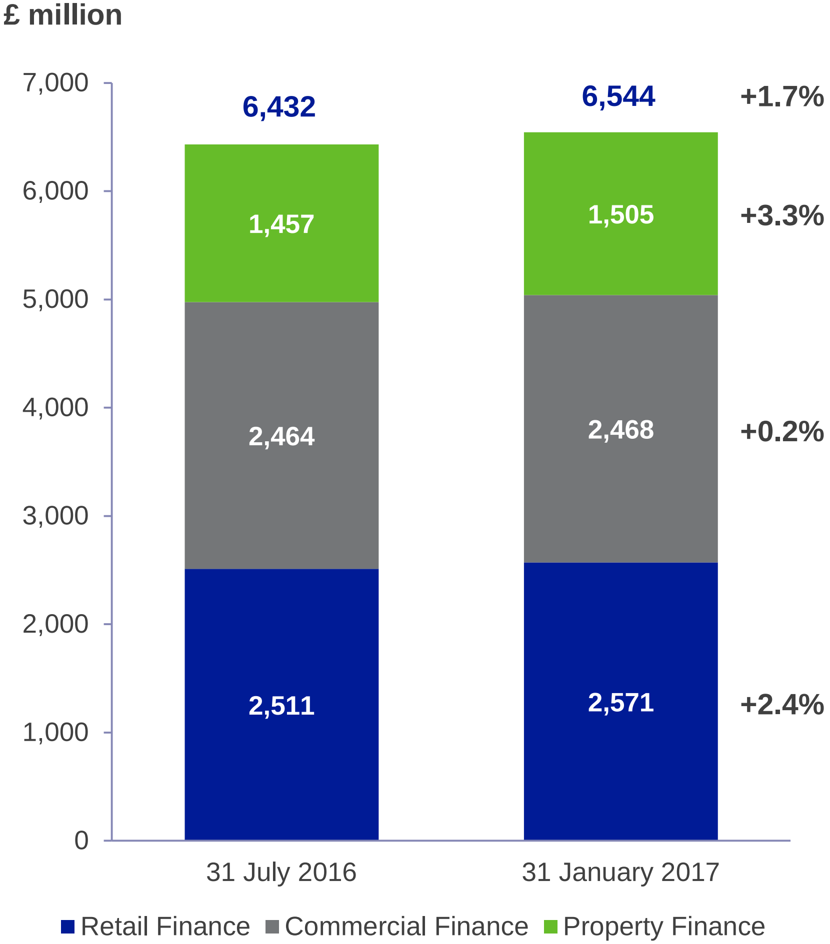
Notes:
1 Net interest and fees on average net loan book and operating leases.
2 Impairment losses on average net loan book and operating leases.
3 Adjusted operating profit on average net loan book and operating leases.

- **Income** up **10%** to **£274.0 million**
  - Growth across **all lending areas**
  - **NIM broadly stable** at 8.2%
- £134.0 million **expenses up 8%**
  - Continued **investment** whilst focusing on **cost control**
- **Bad debt** remains below historical levels
  - Benefits from **benign environment** and provision releases
- **Strong returns** with 3.7% RoNLB
  - Ahead of 3.4% long-term average

Banking

Maintaining disciplined approach

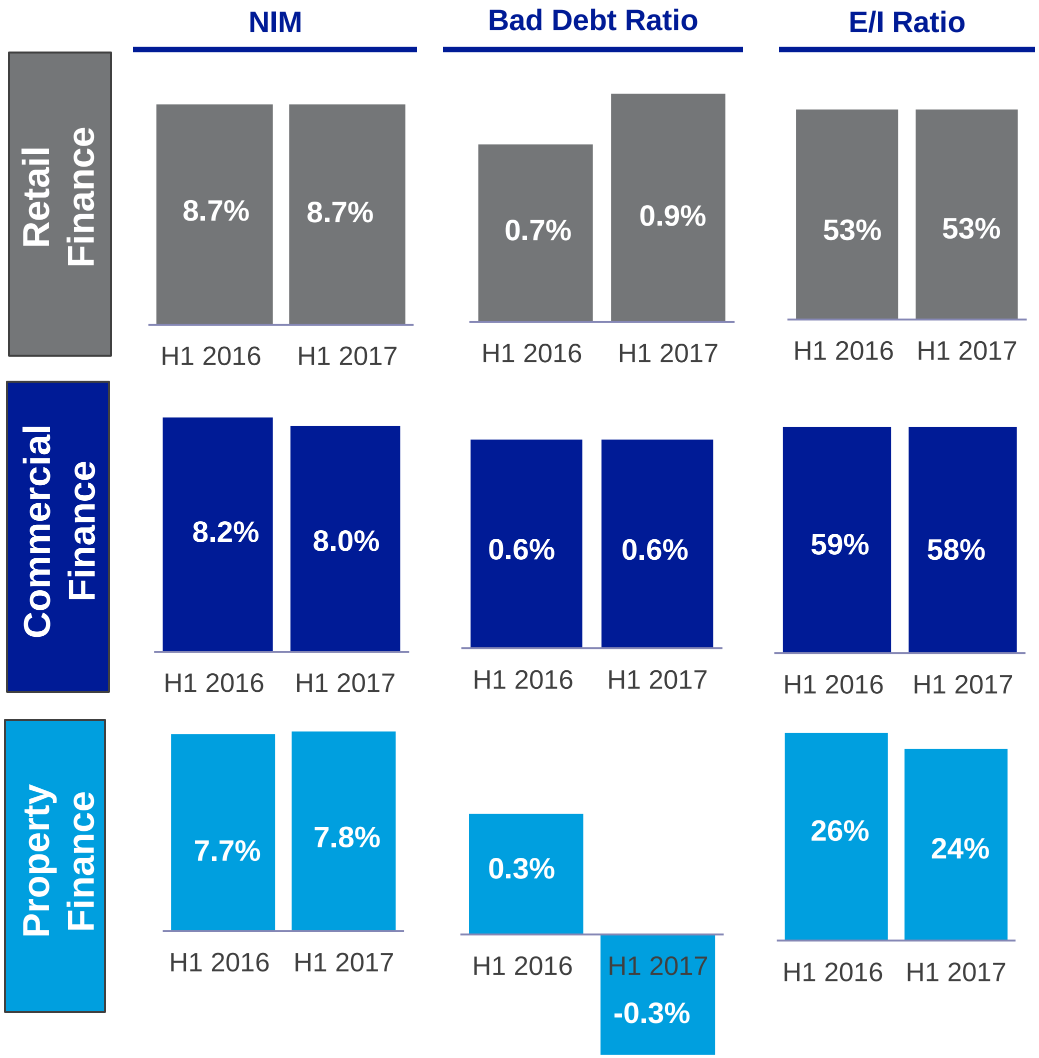
Loan book size by segment



- **1.7% loan book growth** maintaining disciplined approach to lending
- **Retail Finance increased 2.4%**
  - UK motor finance market **remains competitive**
  - **Continued expansion** into Ireland
  - **Strong growth** in premium finance
- **Commercial Finance** remained stable at £2.5 billion
  - **Core asset finance** seeing **ongoing competition**, particularly in broker channel
  - Growth in specialist lending areas such as **green energy**
- **Property Finance increased 3.3%**
  - **Strong new business volumes** partly offset by **higher repayments**

Banking

Good performance across all lending segments



- **Key ratios strong and broadly consistent** across lending segments
- **Strong net interest margin** ranging from 7.8% - 8.7%
  - Marginal reduction in Commercial Finance due to **competition** in **broker channel**
- **Low bad debt ratios**
  - **Retail** increased slightly but remains **below historical levels**
  - **Net recovery in Property Finance** reflecting provision releases
- **Stable E/I ratio** across segments despite ongoing investment

Securities

Significant increase in trading activity

£ million	H1 2017	H1 2016	% change
Operating income	**53.9**	**35.2[1]**	**53%**
Operating expenses	(39.5)	(28.4)	39%
Operating profit	**14.4**	**6.8[1]**	**112%**
Average bargains per day	58k	51k	13%
Operating margin	27%	19%	
RoE	30%	14%	
Loss days	0	13	

- **Significant improvement** in trading performance benefiting from increased **trading by retail investors**
- **£53.9 million income, up 53%**
  - Higher income across **all sectors**, particularly AIM
  - Good trading with **no loss days**
- **Expenses up 39% to £39.5 million** reflecting improved performance
- **AOP up 112% to £14.4 million**

Notes:
1 H1 2016 income and operating profit include £3.7 million and £1.9 million respectively, relating to the disposal of Euroclear shares .

Asset Management

Good progress supported by favourable market environment

£ million	H1 2017	H1 2016	% change
Operating income	**50.1**	**47.0**	**7%**
Investment management	30.8	28.2	9%
Advice and other services	17.4	16.7	4%
Other income	1.9	2.1	(10%)
Adjusted operating expenses	(41.0)	(38.6)	6%
Adjusted operating profit	**9.1**	**8.4**	**8%**
Underlying AOP[1]	7.2	5.7	26%
RoE	27%	29%	
Operating margin	18%	18%	
Revenue margin[2]	96bps	90bps	

Notes:
1 H1 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. H1 2016 underlying AOP excludes £0.4 million trading profit in respect of the corporate business, which was sold in 2016.
2 Income on client assets over average total client assets.

- **Good progress** in the period
  - Underlying AOP up 26% to £7.2 million
- **Managed assets stable** at £7.9 billion
  - **Positive net flows** of £125 million and **market movements** of £207 million
  - Offset by the disposal of OLIM (£492 million)
- **7% increase in operating income** reflecting higher investment management fees
  - **Revenue margin increased** to 96bps
- **Total client assets increased 3%** to £10.2 billion
  - **Acquisition of two IFA businesses**

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Overview

Established business model for the long term

1

Build leading positions in our specialist markets

2

Generate strong and sustainable returns

3

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

4

Reinvest in the business to enhance our customer proposition

Expertise
Our people are experts in their fields

Relationships
Building long-term relationships with clients and intermediaries

Service
Allowing us to provide excellent service

Overview

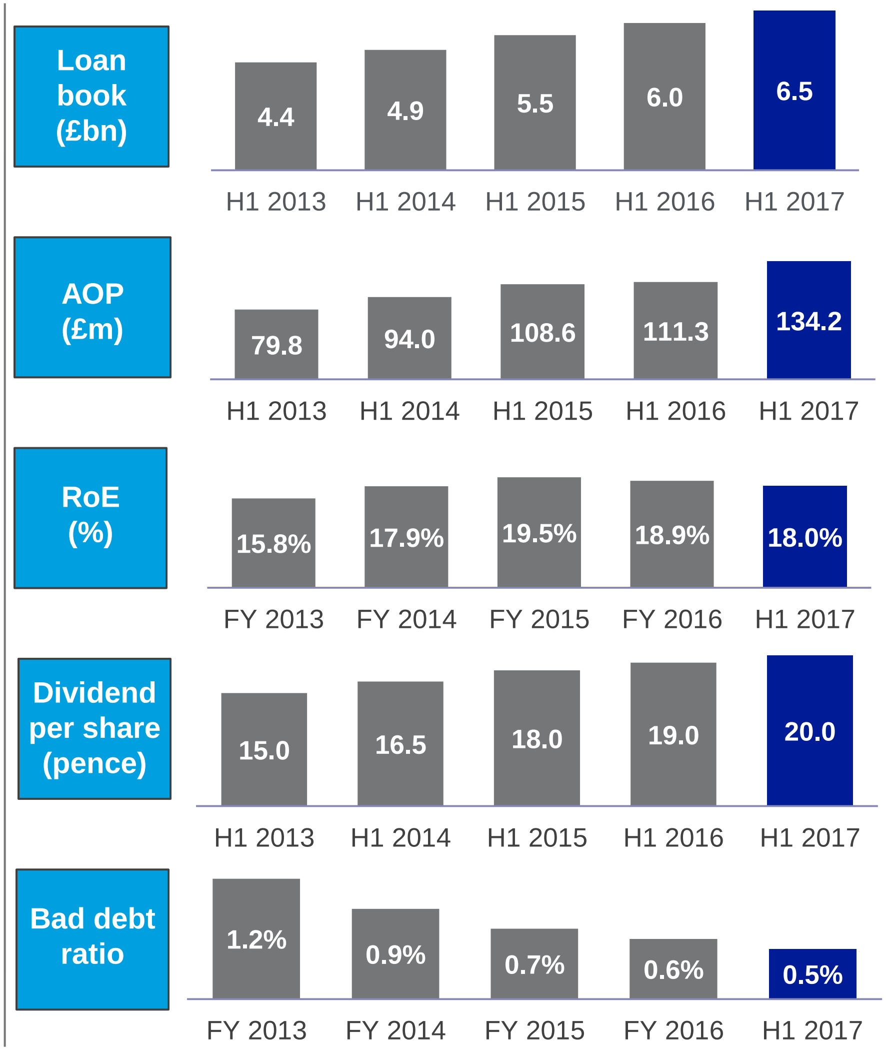
Five specialist segments

Group Segments			Niche Markets	Specialist Products
Banking Division	Retail Finance	£39.9m AOP	Specialist Lending	Intermediated finance through motor dealers and insurance brokers
	Commercial Finance	£36.5m AOP		Secured lending to SME market
	Property Finance	£46.3m AOP		Specialist residential development finance
Winterflood		£14.4m AOP	Market Making	Trading services for retail brokers and institutions
Asset Management		£9.1m AOP	Private Client	Financial advice and investment management

Performance overview

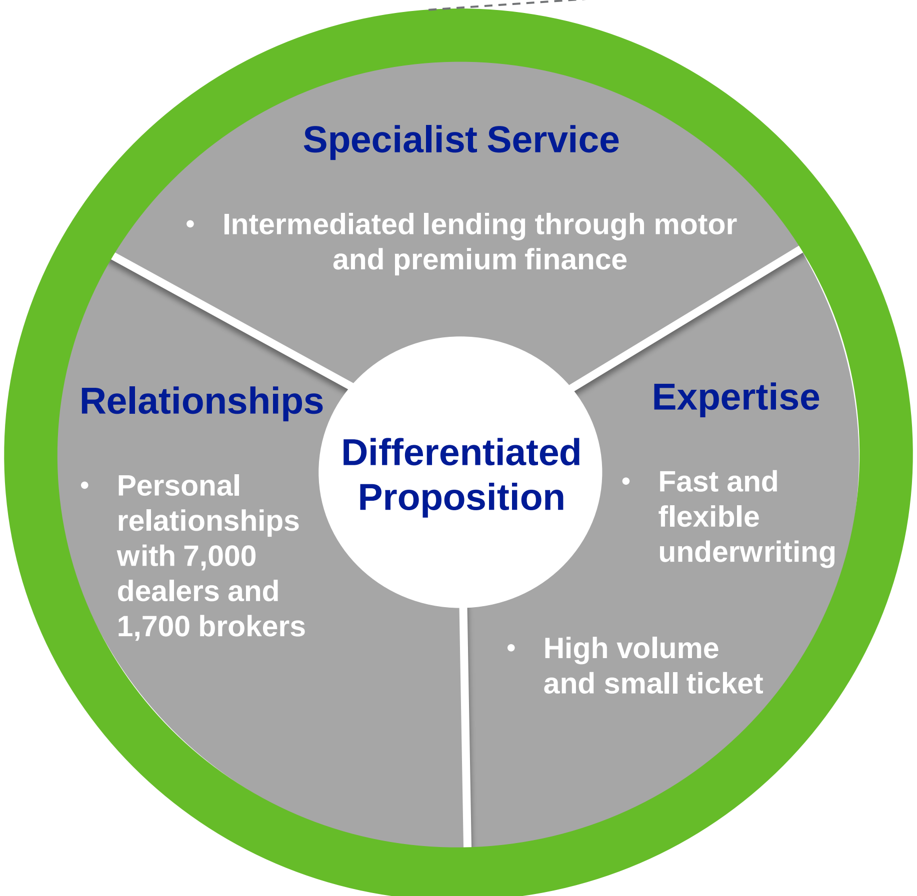
Consistent strategy continues to deliver

- All business segments benefited from **favourable conditions** in the first half
  - Banking segments **performed well** despite ongoing **competition**
  - **Strong performance** in Winterflood reflecting increased **retail investor activity**
  - Asset Management delivered **positive flows**
- **Profitability increased** with **AOP +21%**
  - Maintaining **strong returns** and **dividends** through the cycle
- **Good capital position** supporting growth and continued investment
- **Strong RoE at 18%,** including the tax surcharge



Retail Finance

Loan book increase of 2.4% to £2.6 billion

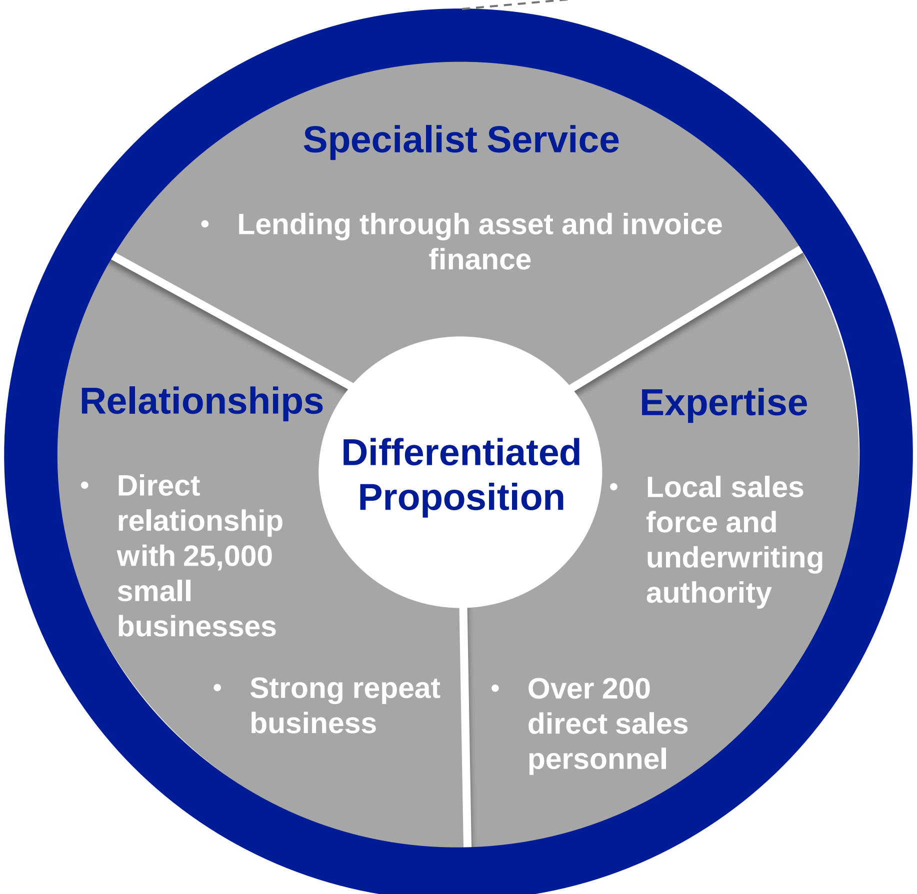


Continued Development

- **Continued competitive environment** in core motor
- Growth remains strong in **Ireland**
- **New broker wins** and **increasing volumes** in premium finance
- Investment in new **consumer point of sale** initiative
- **Ongoing investment** in premium finance infrastructure

Commercial Finance

Loan book remained stable at £2.5 billion with 9% profit growth

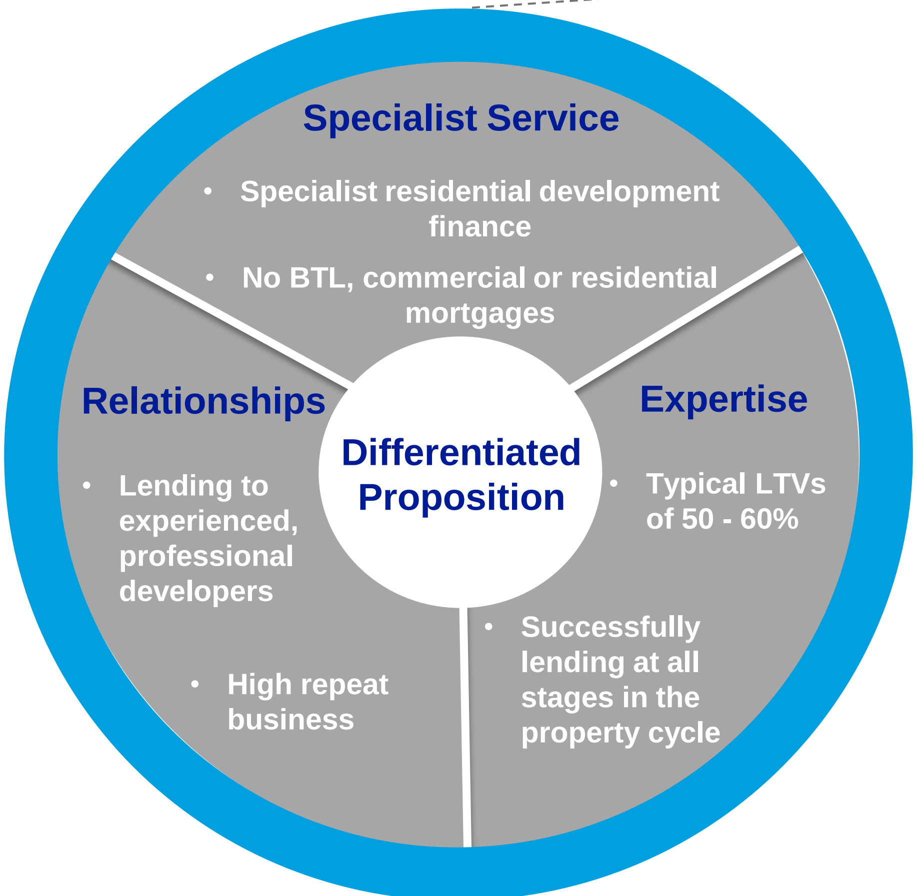


Continued Development

- **Continued competition** in broker channel
- **Strong growth** in specialist lending areas such **as green energy**
- **New growth initiatives** e.g. technology leasing
- **Acquisition** of **specialist provider** of **secured finance** to **law firms** and their **clients**

Property Finance

Strong performance with loan book growing 3.3% to £1.5 billion



Continued Development

- **Strong profitability** with **low impairments**
- **Continued growth** opportunities with **good demand in London** and **regional markets**
- **Consistent underwriting** supports profitable lending **through the cycle**

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Winterflood

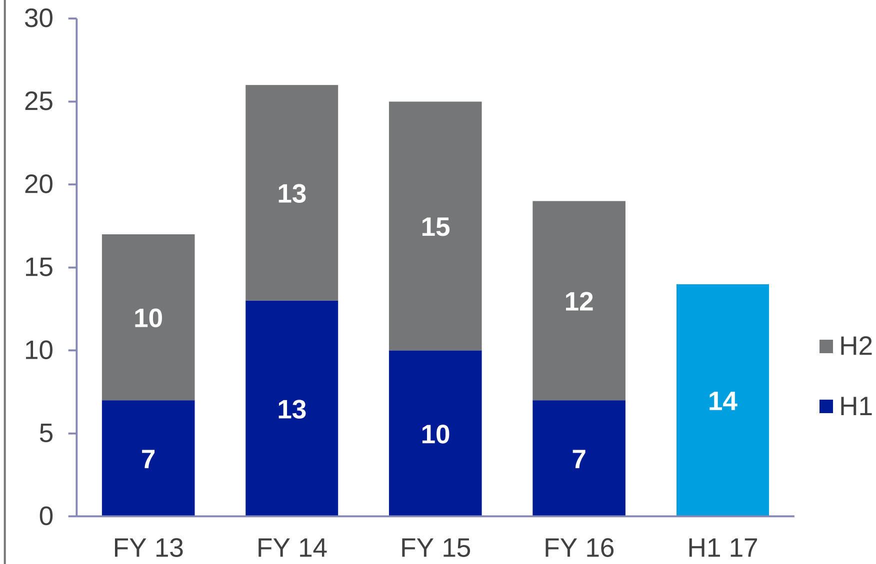
Significant improvement in trading

Favourable market conditions

- **AOP up 112%** to £14.4 million in first half
  - Increase in **retail investor risk appetite** and **better market sentiment**
  - Market retail volumes[1] **increased 63%** YoY
- **Benefit from distinctive business model**
  - Bespoke, efficient and flexible trading solution offered by expert traders
  - Strong proprietary technology
- **Largest UK market maker** for retail brokers dealing in over 15,000 securities

Adjusted operating profit

£ million



8	4	14	17	0	**Loss days**

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

Asset Management

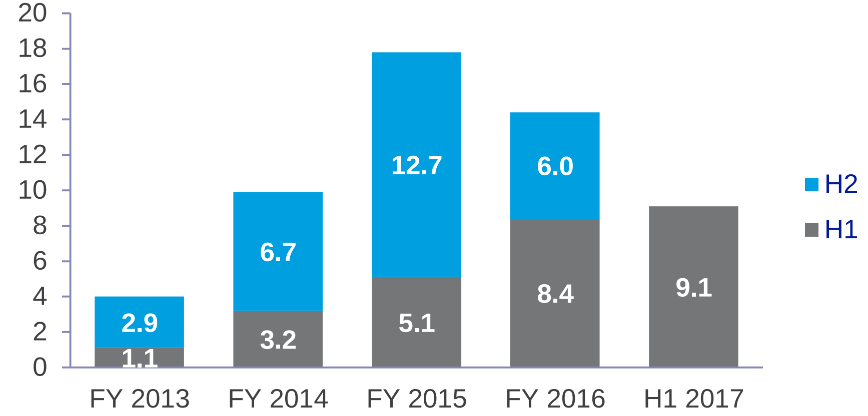
Continued improvement in performance

Commitment to strategy is delivering

- **Good progress** in the period supported by **favourable market environment**
  - Underlying **profit up 26%** to £7.2 million
  - **£7.9 billion managed assets** and £10.2 billion total client assets
- **Driving growth both organically and through acquisitions**
  - £125 million organic net inflows
  - Two acquisitions of IFAs
  - Advisers increased to >100
- **Attractive investment proposition**
  - Financial advice and investment management
  - Range of funds and investment strategies

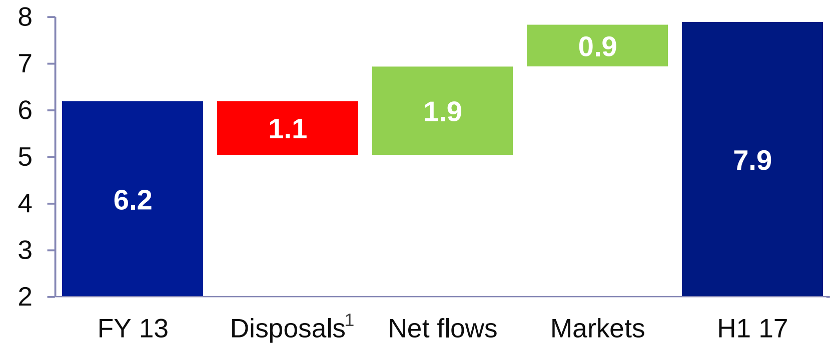
Adjusted operating profit

£ million



Total managed assets

£ billion



Note:
1 Disposal of corporate business in H1 16 and OLIM in H1 17.

Conclusion

Well positioned longer term

- Our **service driven model** and **execution of strategy** underpins **long track record** of **profitability** throughout the cycle
  - Delivering both an **attractive proposition** for our **clients**, and **long-term value** to **our shareholders**

- Overall, we have achieved a **strong performance** in the first half of the year and are confident in delivering a **good result for the full year**

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Appendix

14 March 2017

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Appendix: Overview of IFRS 9

Well positioned for implementation in FY 2019

- IFRS 9 **rewrites the accounting rules** for impairment, classification and measurement of financial instruments and hedge accounting
  - Where **impairment** will have the **widest implications** for Close Brothers
- Under **current treatment** (IAS 39), provisions are recognised on an **incurred loss basis**
- IFRS 9 Introduces a **forward looking approach** to recognising provisions, **via a three stage expected credit loss model**
  - Requires **continuous assessment** of credit risk from inception incorporating **macro-economic assumptions**

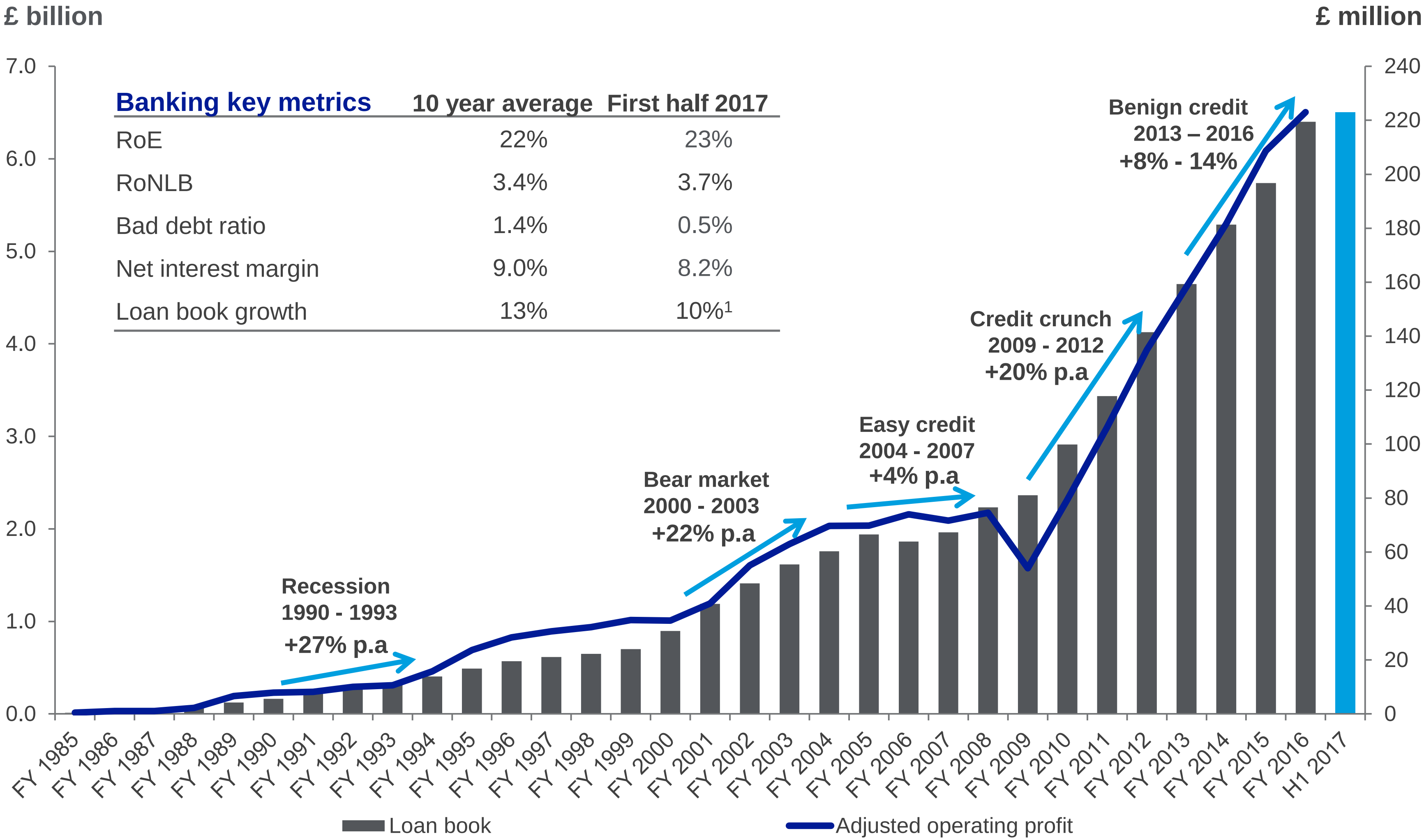
	Criteria	Provision
Stage 1	Inception	12 month expected credit loss
Stage 2	Significant increase in credit risk	Lifetime expected credit loss
Stage 3	Credit impaired / defaulted	Lifetime expected credit loss

- IFRS9 applies to **all banks** for financial years commencing **on or after 1 January 2018**
  - We will begin reporting under IFRS9 for the **financial year ended 31 July 2019**

Proven track record

Long history of profitable growth through the cycle

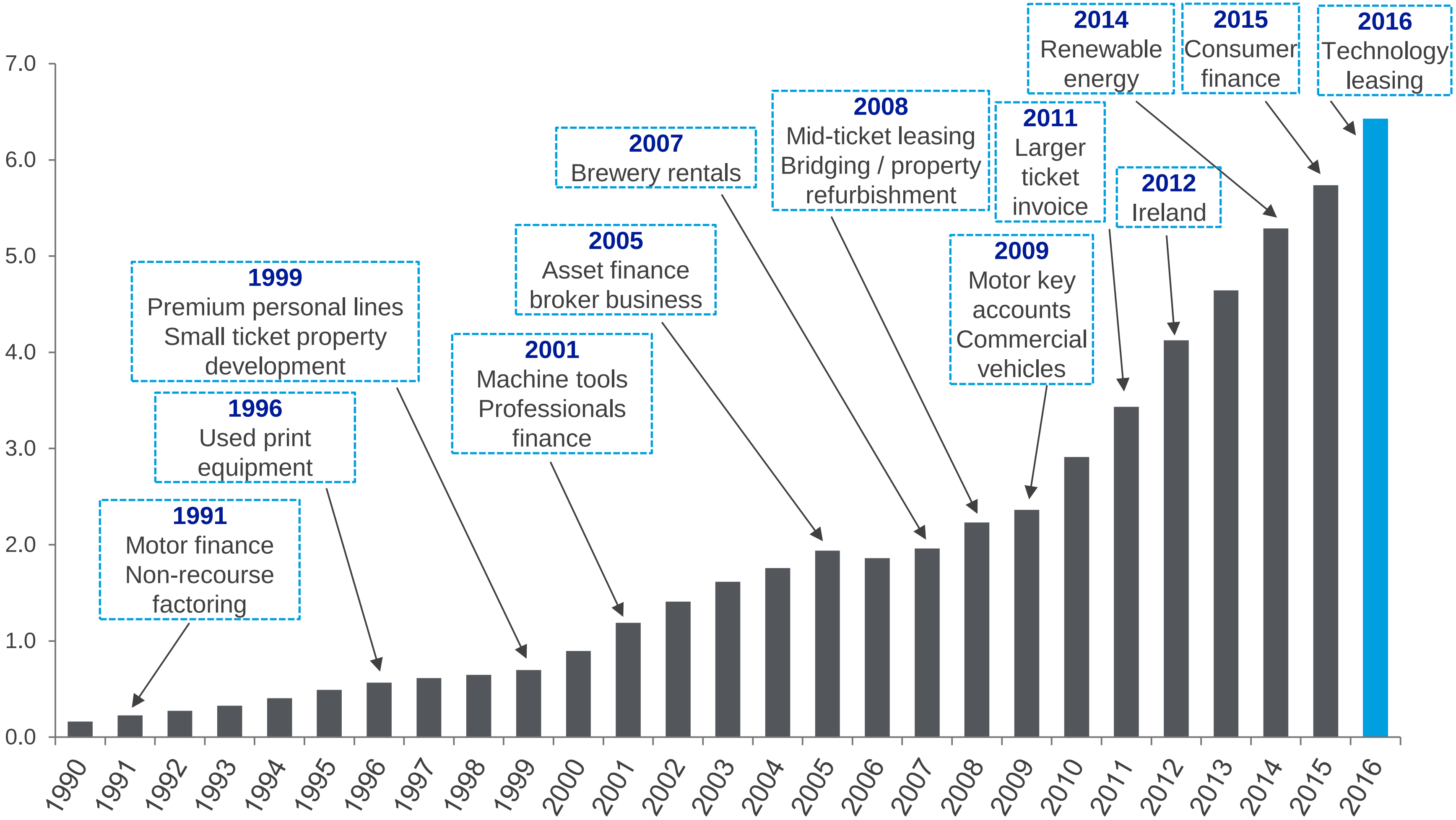
Banking key metrics	10 year average	First half 2017
RoE	22%	23%
RoNLB	3.4%	3.7%
Bad debt ratio	1.4%	0.5%
Net interest margin	9.0%	8.2%
Loan book growth	13%	10%[1]



Note:
1 Loan book growth for 12 months ended 31 January 2017.

New growth initiatives

Long history of developing new products and entering adjacent markets



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Banking

Loan book and lending statistics by business

	Loan book at 31 January 2017 (£m)	H1 17 loan book growth	Typical LTV[1]	Average loan size[2]	Typical loan maturity[3]	Number of customers
Motor finance	1,719.0	0.8%	75 – 85%	£6k	2 – 4 years	270k
Premium finance	851.8	5.7%	90%	£500	10 months	2.1m
Asset finance	2,049.3	1.5%	80 – 90%	£40k	40 months	26k
Invoice finance	418.9	(5.5%)	80%	£300k	2 – 3 months	1.9k
Property finance	1,504.8	3.3%	50 - 60%	£1.2m	6 – 18 months	800

Notes: Lending statistic figures are for illustrative purposes only.
[1] Typical LTV on new business. Motor Finance is based on the retail price of the vehicle financed. Premium finance LTV based on premium advanced.
[2] Approximations at 31 January 2017.
[3] Typical loan maturity for new business on a behavioural basis.

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LENDING | DEPOSITS | WEALTH MANAGEMENT | SECURITIES

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