Interim Results 2013

12 March 2013

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Close Brothers

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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

First half 2013 highlights

- **Continued to deliver** on our strategic priorities and achieved a **good first half performance**
  – Adjusted operating profit up **26%** to **£80 million**

- Maintained discipline of lending principles in **Banking**
  – **Strong profit growth** with solid loan book growth and improved credit performance

- In **Securities, Winterflood** remained **consistently profitable**
  – Maintained **leading market position** in continued difficult markets

- **Asset Management** continues to make progress
  – Remain focused on medium term objectives

- Maintained **strong funding, liquidity and capital** position
  – Core tier 1 capital ratio of **12.7%**

- **Interim dividend per share** increased **7%** to **15.0p**

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Financial Highlights

Good result in first half 2013

£ million	First half 2013 to 31 January	First half 2012 to 31 January	% change
Adjusted operating profit	79.8	63.2	26%
Adjusted EPS	41.8p	31.9p	31%
Profit attributable to shareholders	58.8	50.5	16%
Basic EPS (after exceptional items)	40.4p	34.8p	16%
Dividend per share	15.0p	14.0p	7%
Return on opening equity[1]	16%	11%	

Notes:
Adjusted operating profit and EPS exclude exceptional items and amortisation of intangible assets on acquisition and the tax effect of such adjustments.
[1] Based on adjusted operating profit after tax and non-controlling interests on opening equity. Excludes associate income, exceptional items and amortisation of intangible assets on acquisition.

Performance by division

Strong profit growth in first half 2013

Adjusted operating profit/(loss)

£ million	H1 2013	H1 2012	% change
Adjusted operating profit	**79.8**	**63.2**	**26%**
Of which:			
Banking	77.7	61.8	26%
Securities	10.5	13.2	(20)%
Asset Management	1.1	(2.6)	
Group	(9.5)	(9.2)	3%

- **Strong performance in Banking with profit up 26%**
  - Loan book growth 6% in first half
  - Improved bad debt performance
- **Securities impacted by difficult market conditions**
  - Winterflood remained consistently profitable
  - Seydler improved performance offset by lower contribution from Mako
- **Progress in Asset Management**
  - Increase in revenue margin
  - Stable cost base

Summary balance sheet

Maintained strong balance sheet

- **Simple** and **transparent balance sheet**
- **Total assets increased 10% to £7.0 billion**
  - **Loan book up 6% to £4.4 billion**, 63% of balance sheet
  - **Higher treasury assets** due to timing of new funding
  - **Securities** assets and liabilities increased reflecting higher trading activity around the balance sheet date

Summary Balance Sheet

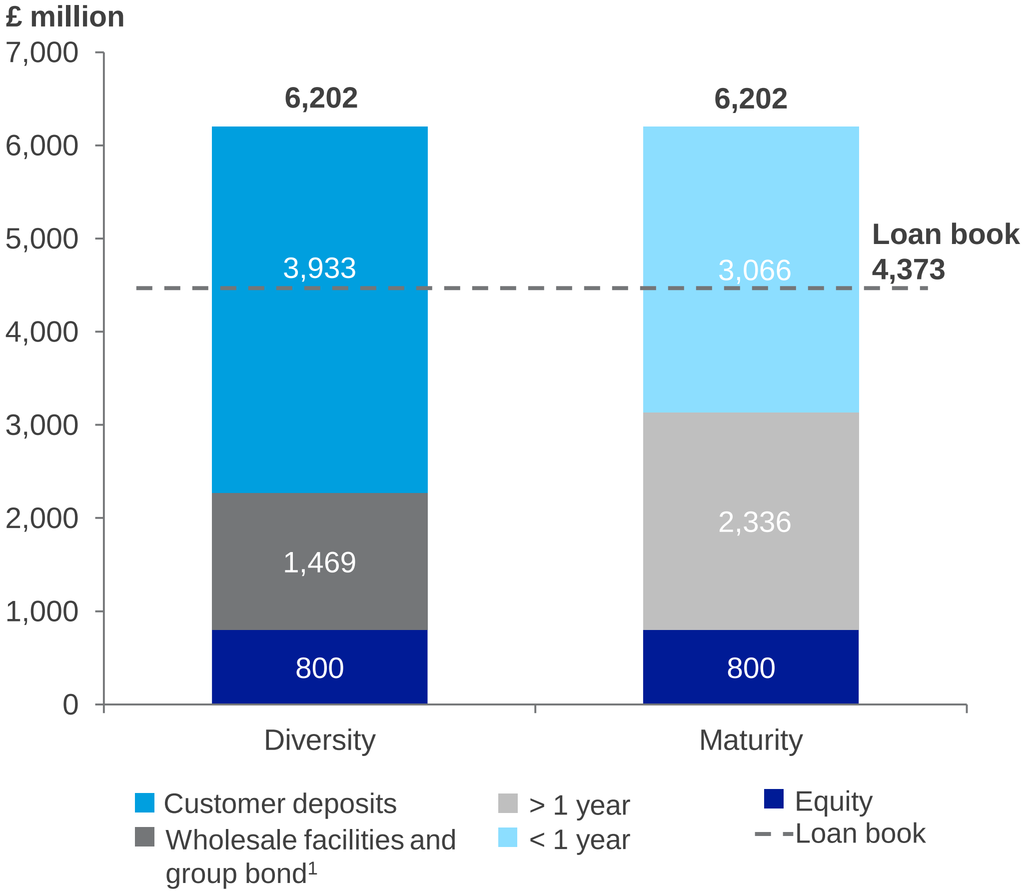
£ million	**31 January 2013**	**31 July 2012**	**Change**
Assets			
Loans and advances to customers	4,373	4,126	247
Treasury assets[1]	1,186	1,060	126
Securities assets[2]	794	599	195
Other[3]	610	571	39
Total assets	**6,963**	**6,356**	**607**
Liabilities			
Deposits by customers	3,933	3,448	485
Borrowings	1,228	1,322	(94)
Securities liabilities[4]	707	502	205
Other	295	314	(19)
Total liabilities	**6,163**	**5,586**	**577**
Equity	800	770	30
Total liabilities and equity	**6,963**	**6,356**	**607**

Notes:
[1] Includes gilts, certificates of deposit, floating rate notes and deposits at the Bank of England.
[2] Includes settlement balances, long trading positions and loans to money brokers.
[3] Includes loans and advances to banks, intangible assets, other assets and assets held for sale.
[4] Includes settlement balances, short trading positions and loans from money brokers.

Funding

Diverse range of funding sources with prudent maturity profile

Funding position at 31 January 2013



- **Total funding increased to £6.2 billion, 142% of loan book**
- **Continued access to diverse range of funding sources**
  - Deposits increased £0.5 billion to £3.9 billion
  - Renewed £0.6 billion of facilities
- **Maintained prudent maturity profile**
  - Term funding[2] increased £0.4 billion to £3.1 billion
  - Covers 72% of loan book
  - Weighted average maturity of 28 months[3] significantly exceeds average loan book maturity of 13 months

Notes:

[1] Includes £257.8 million (31 July 2012: £331.9 million) of undrawn facilities and excludes £17.4 million (31 July 2012: £13.0 million) of non-facility overdrafts included in borrowings in the group's financial statements.

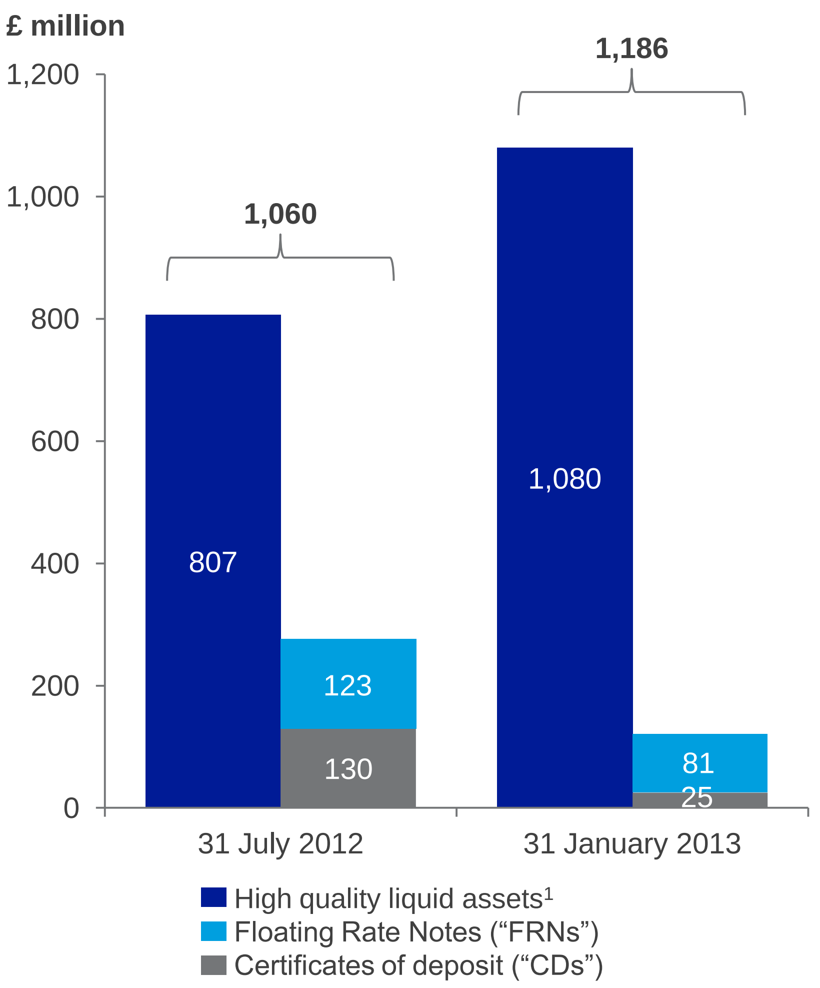
[2] Funding with a residual maturity > 1 year, including equity, wholesale facilities, customer deposits and group bond.

[3] Excluding equity.

Treasury assets and liquidity

Maintained sound level of high quality liquidity

Treasury assets



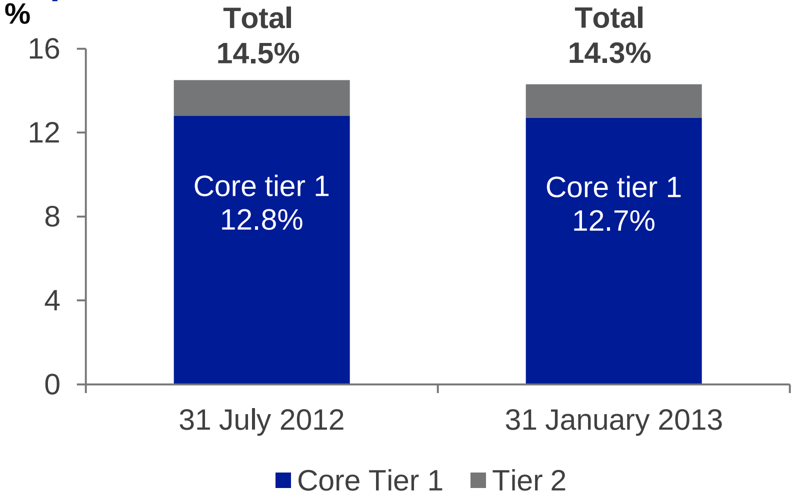
- **Prudent level of high quality liquid assets**
  - **Bank of England deposits** and **gilts**
  - Increase to **£1.1 billion** reflects **timing of new funding** not yet deployed in the loan book
  - Comfortably above **regulatory requirements**
- **CD portfolio** reduced to **£25 million**
- Run-off of less liquid **FRNs substantially complete**

Note:
[1] Includes £981.3 million (31 July 2012: £706.8 million) deposits with Bank of England and £98.1 million (31 July 2012: £100.1 million) gilts.

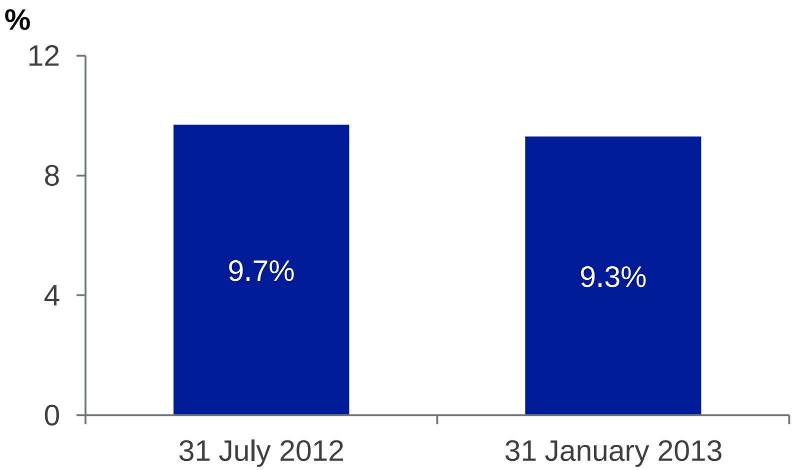
Capital

Strong capital position maintained

Capital ratio



Leverage Ratio[1]



£ million	31 January 2013	31 July 2012	% change
Core tier 1 capital	**648**	621	4%
Total regulatory capital	**732**	703	4%
Risk weighted assets	**5,106**	4,860	5%

- **Strong capital position** comfortably above regulatory requirements
- **Core tier 1 capital ratio broadly unchanged** at **12.7%**
  - Strong profitability offset by 5% increase in RWAs due to loan book growth
  - No material impact expected from Basel III
- **Leverage ratio of 9.3%** well ahead of industry benchmarks

Note:
[1] Core tier 1 capital divided by total assets adjusted for intangible assets and certain off-balance sheet exposures.

Banking

Strong profit growth in the period

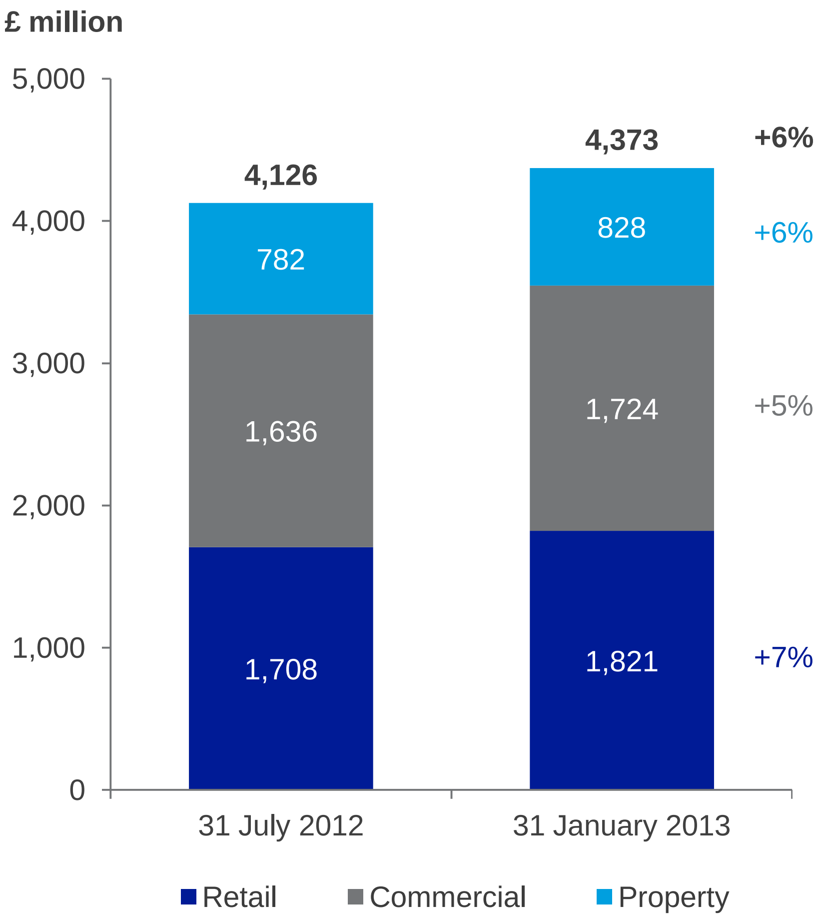
£ million	First half 2013 to 31 January	First half 2012 to 31 January	% change
Net interest and fees on loan book[1]	189.3	172.7	10%
Treasury and other non-lending income	6.4	3.8	68%
Adjusted operating income	**195.7**	**176.5**	**11%**
Adjusted operating expenses	(92.2)	(84.8)	9%
Impairment losses on loans and advances	(25.8)	(29.9)	(14)%
Adjusted operating profit	**77.7**	**61.8**	**26%**
Financial Ratios			
Operating margin	40%	35%	
Expense/income ratio	47%	48%	
Compensation ratio	27%	27%	
Return on opening equity	24%	20%	

Note:
All financial ratios exclude associate income, exceptional items, and amortisation of intangible assets on acquisition.
[1] Includes £144.2 million (2012: £127.2 million) net interest income and £45.1 million (2012: £45.5 million) other income. Other income includes net fees and commission, operating lease income, and other miscellaneous income.

Banking

Solid loan book growth in the period

Loan book size by business unit



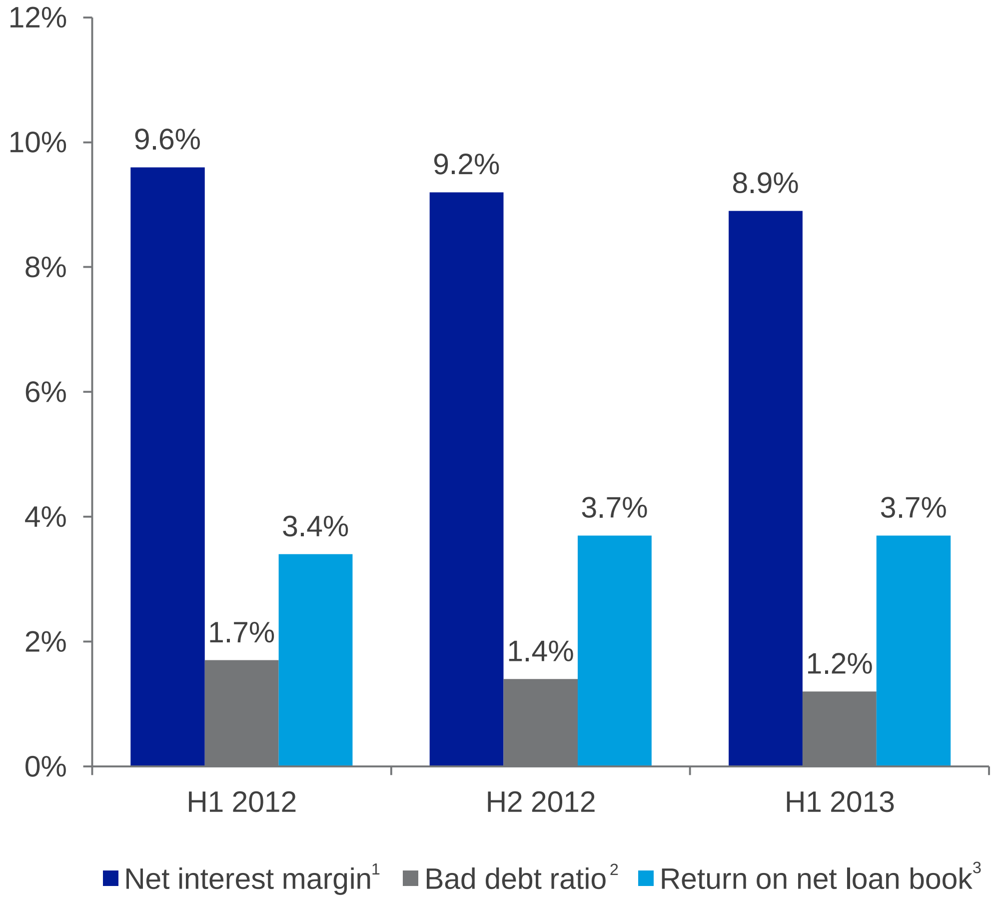
- **Solid growth of 6% in H1**
  - Slightly lower growth rate due to moderation in demand in some markets
- **Retail increased 7%**
  - Solid growth in **Motor finance**, albeit below prior year
  - Increase in **Premium finance**
- **Commercial increased 5%** driven by **Asset finance**
  - **Invoice finance** remains competitive
- **Property growth of 6%**
  - Good demand for residential development finance, partly offset by higher repayments

Note:
A full breakdown by line of business is provided in the Appendix.

Banking

Consistently strong returns

Performance ratios



- **Return on net loan book of 3.7%**
  - Focus on protecting credit quality and returns through disciplined lending criteria
- **Continued reduction in bad debt ratio to 1.2%**
  - Further improvement in Property and Commercial
  - Retail remains at low levels
- **Net interest margin moderated to 8.9%**
  - Remains within historical range of 8.5%-10%
  - Reduction reflects changes in product mix and lower fee income

Notes:
[1] Net interest and fees on average loan book.
[2] Impairment losses on average net loans and advances to customers.
[3] Adjusted operating profit before tax on average net loans and advances to customers.

Securities

Performance reflects continued difficult market conditions

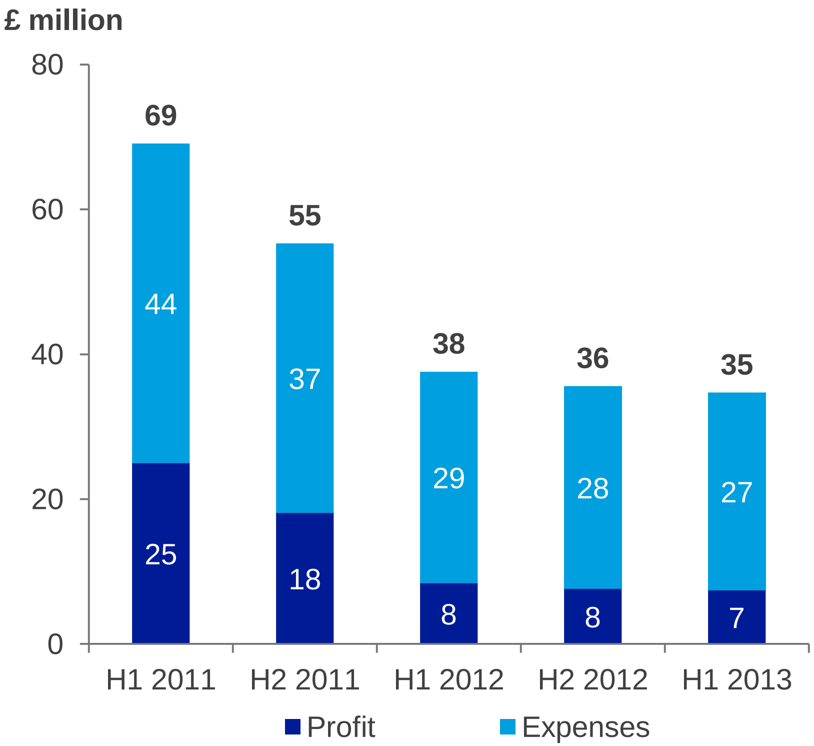
£ million	First half 2013 to 31 January	First half 2012 to 31 January	% change
Adjusted operating income	**47.9**	**51.6**	**(7)%**
Adjusted operating expenses	(37.4)	(38.4)	(3)%
Adjusted operating profit	**10.5**	**13.2**	**(20)%**
Of which:			
Winterflood	7.4	8.4	(12)%
Seydler	2.2	(0.9)	
Mako	0.9	5.7	(84)%
Financial Ratios			
Operating margin	20%	16%	
Expense/income ratio	80%	84%	
Compensation ratio	45%	47%	
Return on opening equity	16%	11%	

Note:
All financial ratios exclude associate income, exceptional items and amortisation of intangible assets on acquisition.

Securities

Winterflood consistently profitable in a difficult market

Income and profitability



Key figures

	H1 2013	H2 2012	H1 2012
Average bargains per day	42k	45k	48k
Income per bargain	£6.52	£6.28	£6.09
Loss days	1	7	6

- Performance impacted by ongoing **low client trading volumes,** particularly in AIM and small cap stocks
  - **Average bargains per day reduced to 42k**
  - **Income per bargain increased slightly to £6.52**
- **Consistent trading performance** with **1 loss day** for the period
- **Flexible business model** with low fixed cost structure
  - **Expenses reduced 7%** in period

Asset Management

Improved performance reflecting progress in the period

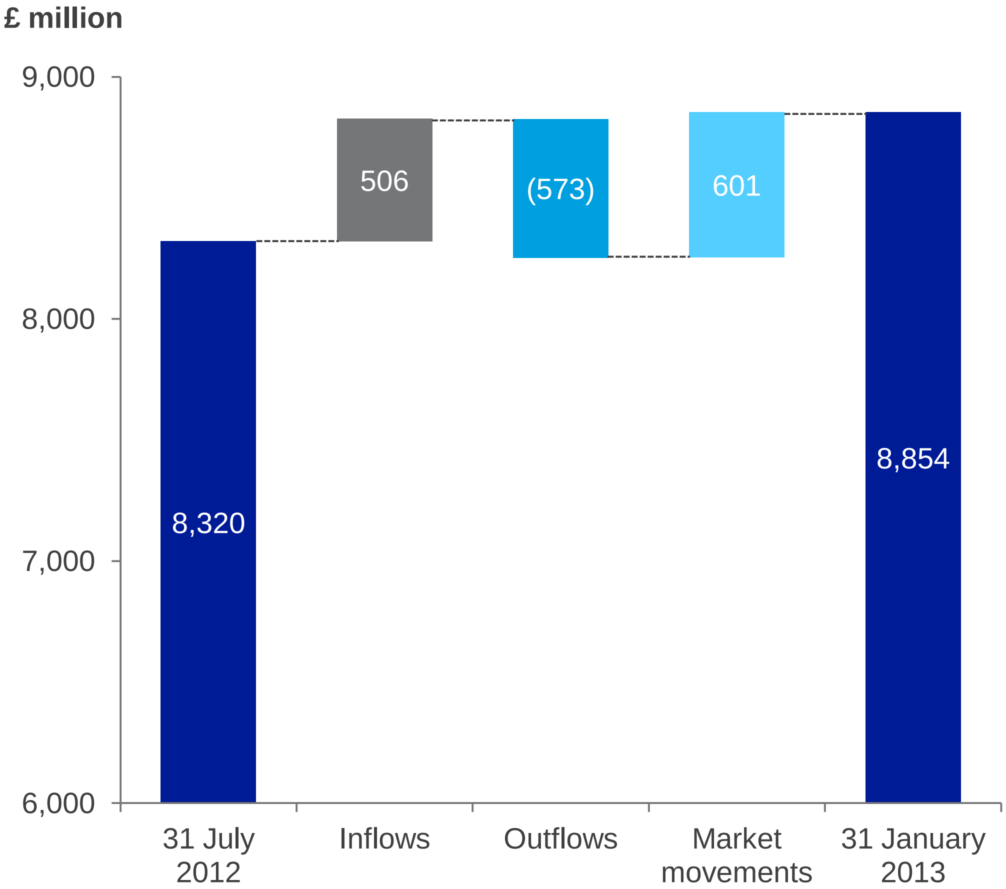
£ million	First half 2013 to 31 January	First half 2012 to 31 January	% change
Income on AuM	36.0	32.9	9%
Advice and other services[1]	*16.6*	*14.5*	*14%*
Investment management	*19.4*	*18.4*	*5%*
Other income[2]	1.2	1.0	20%
Adjusted operating income	**37.2**	**33.9**	**10%**
Adjusted operating expenses	(36.1)	(36.5)	(1)%
Adjusted operating profit/(loss)	**1.1**	**(2.6)**	
Financial ratios			
Operating margin	3%	(8)%	
Expense/income ratio	97%	108%	
Compensation ratio	63%	65%	
Return on opening equity	4%	(8)%	

Notes:
Prior year income numbers have been re-presented to reflect the division's increased focus on the managed and advised private client business.
[1] Income from financial advice and other services, excluding investment management income.
[2] Interest income and expense, income on investment assets and other income.

Asset Management

Increase in AuM

AuM

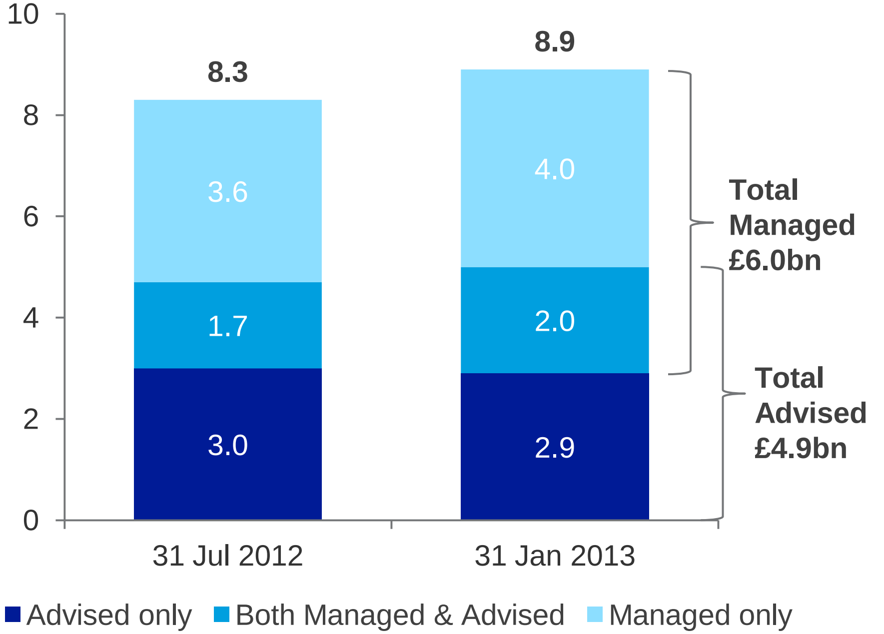


- **Good sales momentum** resulting in **£0.5 billion inflows**
  - Sales from own advisers, fund managers and third party IFAs
- **Outflows of £0.6 billion**
  - Including institutional redemptions and maturity of a legacy structured fund
- **Total AuM** increased 6% to **£8.9 billion**
  - **Positive market movements** of **£0.6 billion**

Asset Management

Income drivers – AuM and revenue margin

AuM at 31 January 2013 (£ billion)



Revenue Margin at 31 January 2013

£ billion	AuM	Revenue Margin[1]
Advice and other services[2]	4.9	70 bps
Investment management	6.0	69 bps
Managed and advised[3]	*2.0*	*> 100 bps*
Total	**8.9**	**84 bps**

Notes:
[1] Based on average AuM of £8.6 billion (2012: £9.1 billion).
[2] Includes financial planning and self directed assets.
[3] Included in Advice and other services and Investment management AuM above.

- Ongoing focus on improving mix to **expand revenue margin**
  - Overall margin increased from **73 to 84 bps** in the year
- Total advised assets of **£4.9 billion**
  - Revenue margin of **70 bps**
- Total managed assets of **£6.0 billion**
  - Revenue margin of **69 bps**
- **AuM both managed and advised** up 24% to **£2.0 billion**
  - Revenue margin of **>100bps**

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1. Introduction – Preben Prebensen, Group Chief Executive

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3. **Business update – Preben Prebensen, Group Chief Executive**

4. Q&A

Business update

Banking

- Captured **sustainable growth** while maintaining **specialist lending model**

- Maintained lending discipline during strong growth of last several years
  - Developing **strong customer relationships** and maintaining **high repeat business**
  - **Well positioned in our markets** with increased presence
  - Continued investing in strengthening **core infrastructure**

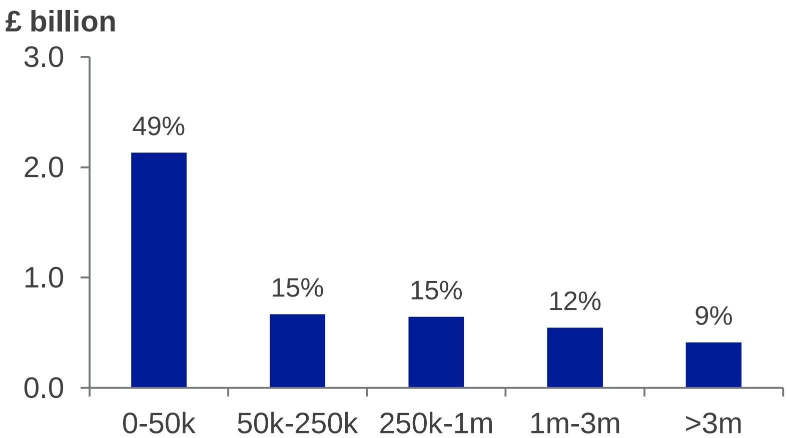
- **Solid but slightly lower loan book growth** in H1
  - Remain confident of further **solid growth prospects**

- **Well positioned** through breadth and diversity of lending to capture ongoing opportunities
  - Priority remains to **maintain strong returns** and **credit quality**

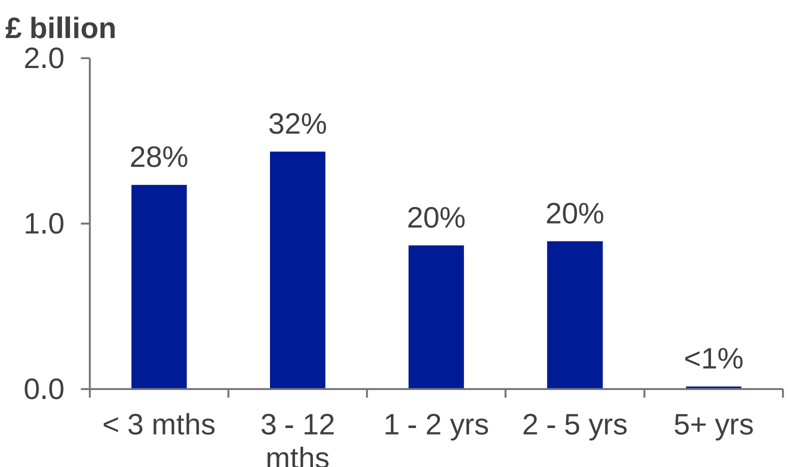
Business update

Banking – specialised, niche lending with overall consistent strong returns

Loan book distribution by size at 31 Jan 2013



Loan book distribution at 31 Jan 2013[1]



- **Predominantly small ticket lending**
  - 49% of loan book under £50k loan size
- **Typically short term lending**
  - 60% has a residual maturity less than 1 year
- **Range of lending** reflected in spread of maturity, size and LTV
  - Common strong risk and return profile
- **Track record of strong returns** through the cycle
  - 10 year average RoE of 19%
  - 10 year average return on net loan book of 3.6%
  - Consistent range of bad debt (1-2.6%) and NIM (8.5-10%) through cycle

Note:
[1] Contractual maturity of gross loan book according to note 7 in the Interim Report 2013.

Business update

Securities

- **Difficult market environment continued for Securities**
  – Low trading volumes reflecting subdued retail investor risk appetite

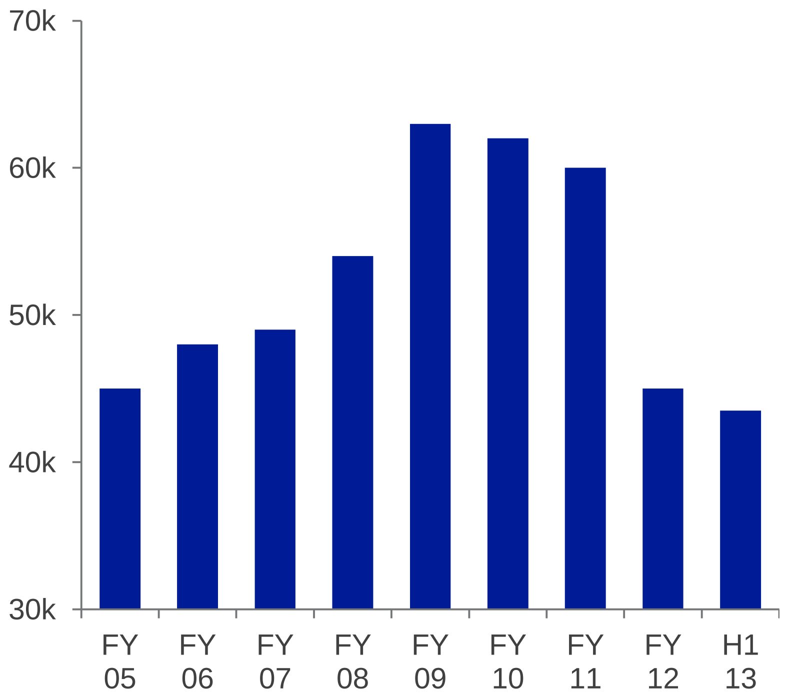
- **Winterflood maintained leading market position** in core market-making
  – Performance as expected in these market conditions

- **Seydler maintained leading position** in its market
  – Benefiting from increased capital markets activity

Business update

Winterflood – consistently profitable with leading market position

UK retail market average daily volumes[1]



- Winterflood's volumes correlate to **low trading volumes in retail market**
- **Remain confident in business model and leading market position in core retail market-making**
  - Highly skilled, experienced traders
  - Flexible, highly variable cost base
  - Relationships with 450+ clients
  - Connected to over 40 trading venues
- **Leveraging core capabilities** to make the most of any market changes
  - Capturing demand for outsourced dealing and custody through WBS
  - Member of LSE's ORB
- **Well positioned to benefit from any market recovery**

Note:
[1] Retail market average daily volumes in respect of UK equity trading on a 'principal to agent' basis across the LSE.

Business update

Asset Management – integrated proposition

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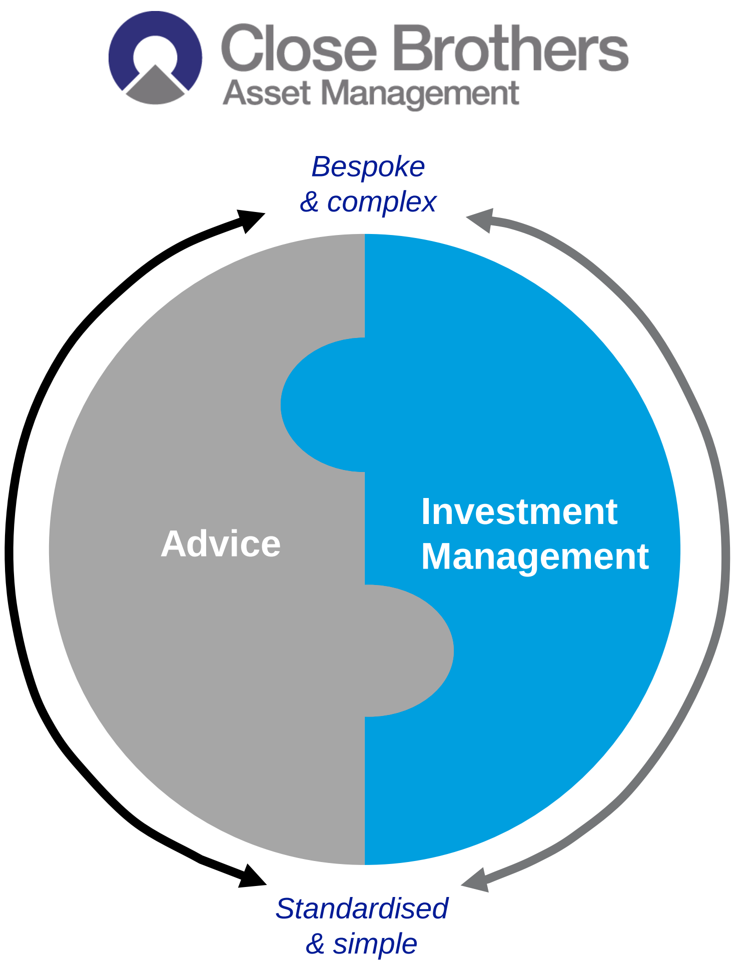

- **Professional, investment-savvy, goal-based financial advice**
  - Integrated investment management
  - National availability
  - Flexible service: face to face, telephone, on-line
  - Consolidated reporting
  - Transparent pricing
  - Self-directed option
- **Institutional-quality investment management**
  - Independent process
  - Global, multi-asset approach
  - Choice of styles and vehicles
  - Strong investment performance
  - Increasing external endorsement

Business update

Asset Management – continues to make progress

- **Good sales momentum** to new clients with **significant proportion into our investment products**
  - Strong endorsement of **quality of proposition and investment products**
  - External recognition from 3rd party IFAs

- Ongoing **integration of back office infrastructure** and systems to **improve scalability**

- **Expanding revenue margin** and **stabilising cost base**

- **On track to reach profitability during FY 2013**

- **Remain focused on achieving medium term targets**
  - Revenue margin of around 100bps and operating margin of at least 15% by FY 2015

Outlook

Well placed for remainder of 2013 financial year

- **Good performance in H1** – businesses **remain well placed** for rest of 2013
  - **Continued solid prospects in Banking** and expect a similar performance in H2
  - In Securities, **Winterflood is well positioned** for any sustained market recovery
  - **Asset Management** continues to make progress and **remains on track**
- **Look forward with confidence** and **expect a good result for full year**

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Interim Results 2013

12 March 2013

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Appendix

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Page

Income Statement

Good result in first half 2013

£ million	First half 2013 to 31 January	First half 2012 to 31 January	% change
Adjusted operating income	283.0	261.8	8%
Adjusted operating expenses	(177.4)	(168.7)	5%
Impairment on loans and advances	(25.8)	(29.9)	(14)%
Adjusted operating profit	**79.8**	**63.2**	**26%**
Exceptional income[1]	-	5.9	
Amortisation of intangible assets on acquisition	(2.5)	(2.3)	9%
Operating profit before tax	**77.3**	**66.8**	**16%**
Tax	(17.9)	(15.5)	15%
Non-controlling interests	(0.6)	(0.8)	(25)%
Profit attributable to shareholders	**58.8**	**50.5**	**16%**
Adjusted EPS	**41.8p**	**31.9p**	**31%**
Basic EPS (after exceptional items)	**40.4p**	**34.8p**	**16%**
Return on opening equity[2]	**16%**	**11%**	

Notes:
Adjusted operating profit and EPS exclude the effect of exceptional items and amortisation of intangible assets on acquisition.
[1] 2012 relates principally to foreign exchange gains realised on reduction of Mako holding.
[2] Based on adjusted operating profit after tax and non-controlling interests on opening equity. Excludes associate income, exceptional items and amortisation of intangible assets on acquisition.

Funding maturity profile

Prudent funding maturity

£ million	Total	<3 months	3-12 months	1-2 years	2-5 years	>5 years
Loans and overdrafts from banks[1]	12	12	-	-	-	-
Debt securities in issue	851	-	501	-	350	-
Subordinated loan capital	77	-	-	-	-	77
Loans against FRN portfolio	66	-	66	-	-	-
Drawn facilities	**1,006**	**12**	**567**	**-**	**350**	**77**
Undrawn facilities	258	13	-	75	170	-
Group bond	205	6	-	-	199	-
Deposits by customers	3,933	1,030	1,438	1,132	333	-
Equity	800	-	-	-	-	800
Total available funding – 31 January 2013	**6,202**	**1,061**	**2,005**	**1,207**	**1,052**	**877**
Total available funding – 31 July 2012	**5,859**	**1,271**	**1,829**	**1,493**	**421**	**846**
Movement	343	(210)	176	(286)	631	32

Note:
[1] Drawn facilities exclude £17.4 million (31 July 2012: £13.0 million) of non-facility overdrafts included in borrowings in the group's financial statements.

Banking

Loan book and lending statistics by business

Loan book (£ million)	31 January 2013	31 July 2012	% change
Retail	**1,820.6**	**1,707.8**	**7%**
Motor finance	1,164.4	1,086.8	7%
Premium finance	656.2	621.0	6%
Commercial	**1,724.0**	**1,635.9**	**5%**
Asset finance	1,420.9	1,327.2	7%
Invoice finance	303.1	308.7	(2)%
Property	**828.6**	**782.2**	**6%**
Closing loan book	**4,373.2**	**4,125.9**	**6%**

Lending statistics	Typical LTV at point of sale[1]	Average loan size[2]	Typical loan maturity[3]
Motor finance	75-85%	£5k	2-3 yrs
Premium finance	90%	£600	10 mths
Asset finance	80-90%	£34k	3-4 yrs
Invoice finance	80%	£270k	2-3 mths
Property finance	50-60%	£800k	6-18 mths

Notes: Lending statistic figures are for illustrative purposes only
[1] Motor Finance is based on the retail price of the vehicle financed. Premium finance LTV based on net loan advanced relative to insurance premium at time of agreement.
[2] Approximations at 31 January 2013.
[3] Typical loan maturity for new business on a behavioural basis.