2014 Interim Results

11 March 2014

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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 2014 highlights

- **Strong group performance**
  - Adjusted operating profit[1] up **21%** to **£97 million**
  - All three divisions contributing to improved performance
  - Adjusted earnings per share[2] of **50.4p**, up **19%**

- **Strong capital position**
  - Common equity tier one capital ratio of **13.2%**

- Delivered **stronger returns** for shareholders
  - Return on opening equity[3] improved to **18%**
  - **10%** increase in Interim dividend to **16.5p**

- Remain **well positioned** for future growth
  - **Clear, consistent strategy**
  - Maintained **leading positions** in our markets

Notes:
[1] Adjusted operating profit ("AOP") is before exceptional items and amortisation of intangible assets on acquisition.
[2] Adjusted earnings per share ("EPS") is before exceptional items and amortisation of intangible assets on acquisition and the tax effect of such adjustments.
[3] Return on opening equity ("RoE") calculated as adjusted operating profit after tax and non-controlling interests on opening equity. Excludes associate income, exceptional items and amortisation of intangible assets on acquisition.

Agenda

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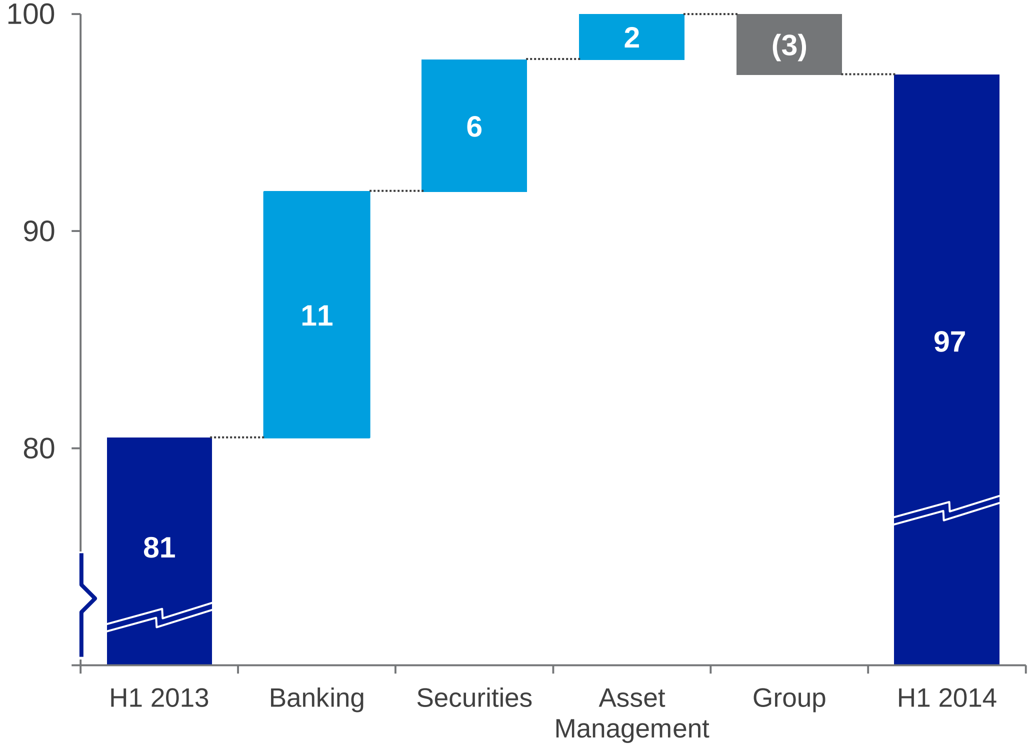
AOP bridge

Strong group performance in the first half

Growth in AOP

£ million



- **Strong group result** with AOP up **21%** to **£97 million**
  – Increased contribution from all 3 divisions
- Good loan book growth and lower bad debts in **Banking**
  – AOP up **14%** to **£90 million**
- Improved trading conditions in **Securities**
  – **Winterflood's** AOP up **81%** to **£13 million**
- **Asset Management** continued to make progress
  – AOP of **£3 million**
- **Group net expenses** increased to £12 million

Summary income statement

Strong growth in profit

£ million	H1 2014	H1 2013[1]	% change
Adjusted operating income	**322.0**	**283.0**	**14%**
Adjusted operating expenses	(202.1)	(176.7)	14%
Impairment losses	(22.7)	(25.8)	(12)%
AOP	**97.2**	**80.5**	**21%**
Tax	(22.2)	(18.0)	23%
Basic EPS	**49.2p**	**40.8p**	**21%**
Adjusted EPS	**50.4p**	**42.2p**	**19%**
Dividend per share	**16.5p**	**15.0p**	**10%**

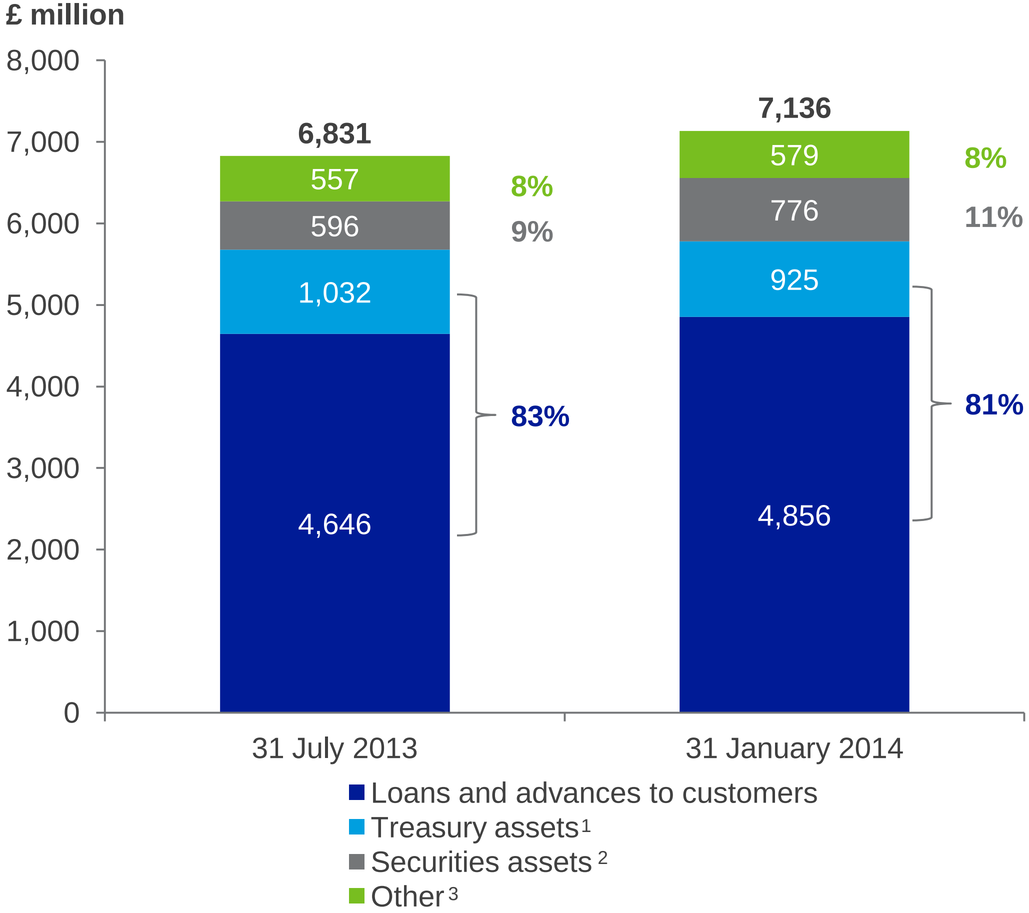
- **14% rise** in **income** to **£322 million**
  - Good loan book growth in **Banking**
  - Improved investor risk appetite in **Securities**
- **Expenses** up **14%** to **£202 million**
  - Expense/income ratio stable at **63%**
  - Investment to support growth
- **Tax** charge of **£22 million**
  - Effective tax rate of **23%**
- **Adjusted EPS** up **19%** to **50.4p**
- **10%** dividend growth to **16.5p**

Note:
[1] 2013 figures restated where applicable following adoption of IAS 19 (Revised) Employee Benefits.

Balance sheet assets

Simple and transparent balance sheet

Total assets



- **Loan book** and **treasury assets over 80%** of total assets
- **5%** loan book growth to **£4.9 billion**
  - **Consistent risk profile**
    - Short-term, around 90% secured with prudent loan-to-value ratios
- **Treasury assets** of **£0.9 billion**
  - Principally deposits with the BoE
  - Liquidity **comfortably ahead** of **regulatory requirements**
- **Securities** assets of **£0.8 billion**
  - **Higher trading activity** in days preceding 31 January 2014
  - Largely offset by related liabilities

Notes:

[1] Treasury assets include £910.0 million (31 July 2013: £982.0 million) gilts and deposits with the Bank of England ("BoE"), £15.1 million (31 July 2013: £10.1 million) certificates of deposit and £nil (31 July 2013: £39.4 million) floating rate notes.

[2] Securities assets include long trading positions, settlement balances and loans to money brokers related to the market making activities of Winterflood and Seydler.

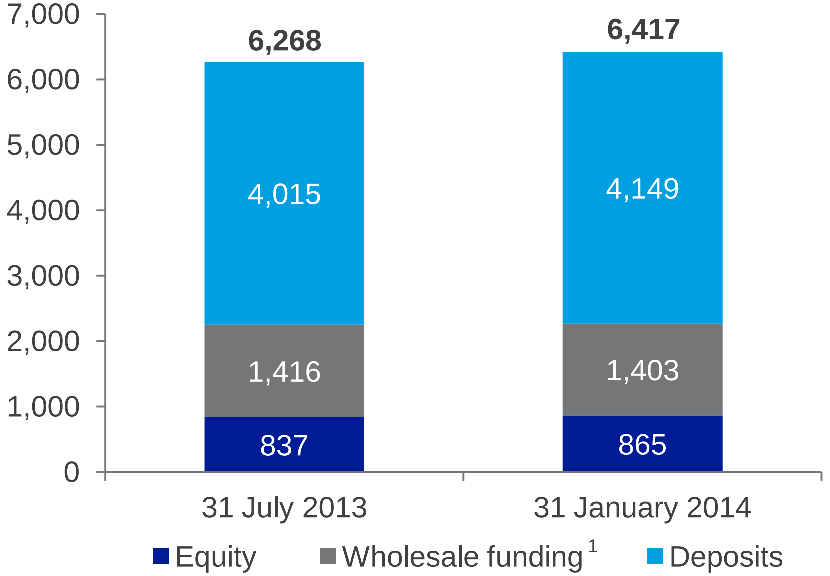
[3] Other assets include loans and advances to banks, intangible assets and other assets.

Funding

Diverse range of funding sources with prudent maturity profile

Diverse sources of funding

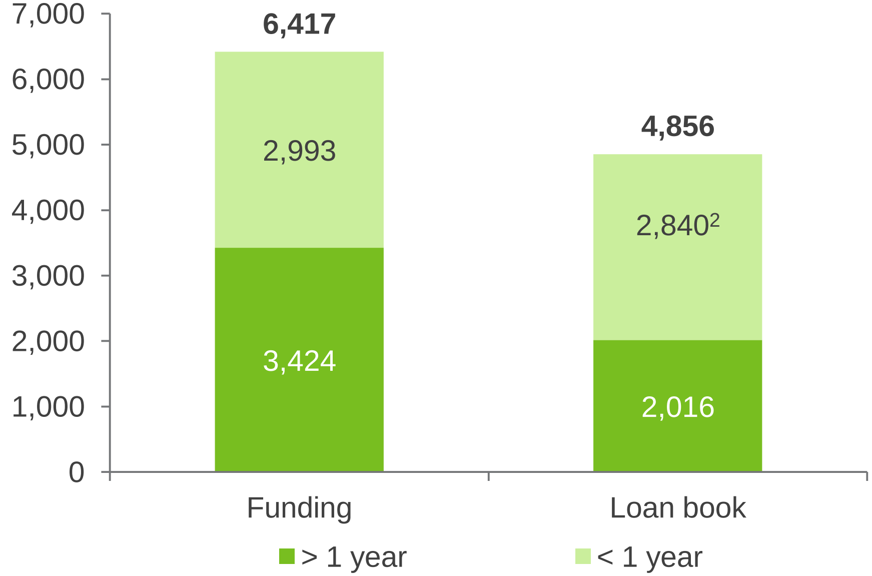
£ million



- Total **funding** of **£6.4 billion**
  - Covers **132%** of loan book
- **Deposits** increased to **£4.1 billion**

Prudent maturity profile

£ million, at 31 January 2014



- **Funding maturity** exceeds loan book maturity
- **Term funding**[3] of **£3.4 billion** covers **71%** of loan book
  - Weighted average maturity **23 months**[4]

Notes:

[1] Includes £265.0 million (31 July 2013: £265.0 million) of undrawn facilities, £932.8 million (31 July 2013: £946.1 million) of drawn facilities, £205.1 million (31 July 2013: £204.9 million) group bond and excludes £7.4 million (31 July 2013: £19.3 million) of non-facility overdrafts included in borrowings in the group's financial statements.

[2] Full loan book maturity breakdown shown in note 7 of the interim results announcement. For the purposes of this chart, the £59.4 million impairment provision has been allocated to the loan book under one year.

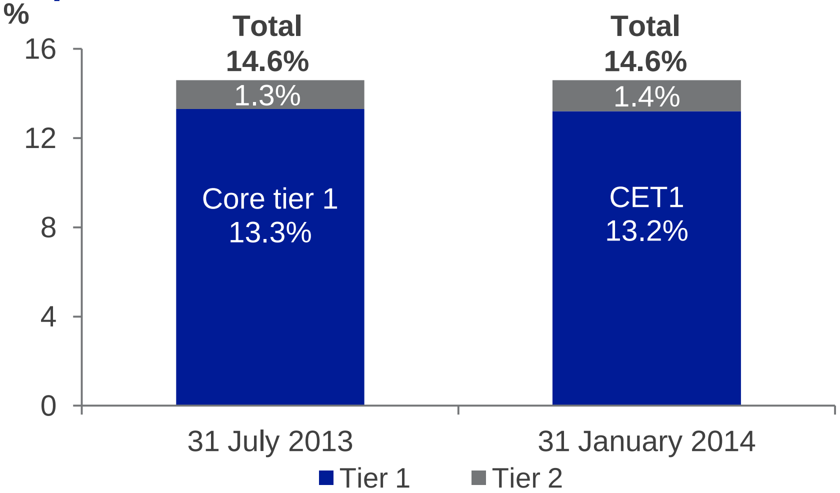
[3] Funding with a residual maturity > 1 year, including equity, wholesale facilities, customer deposits and group bond.

[4] Excluding equity.

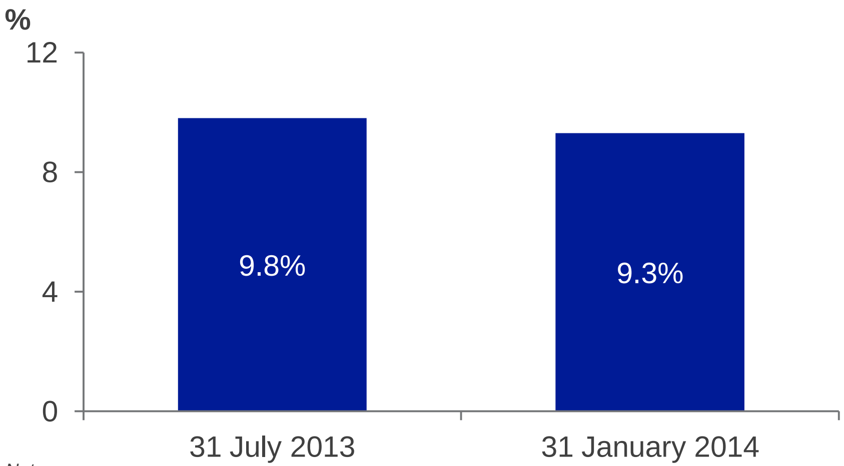
Capital

Group capital remains strong

Capital ratio[1]



Leverage ratio[2]



£ million	31 January 2014	31 July 2013	% change
CET1 capital[1]	**668**	688	(3)%
Total regulatory capital	**738**	759	(3)%
Risk weighted assets	**5,062**	5,185	(2)%

- Reporting for the first time under CRD IV
- Capital remains **strong** with **CET 1 ratio** of **13.2%** and **leverage ratio** of **9.3%**
  - Ratios comfortably above minimum requirements
- CRD IV is **broadly neutral**
  - Benefit of **SME lending discount offset** by new deduction for **foreseeable dividends**
- Remain focused on holding **appropriate level of capital**

Notes:
[1] The highest quality capital is now defined as "common equity tier 1" having previously been referred to as "core tier 1". Accordingly the comparative is based on the legislative definition of core tier 1 capital in force at that time.
[2] Tier 1 capital divided by total assets adjusted for certain capital deductions, including intangible assets and off-balance sheet exposures.

Banking

Good performance in the first half

£ million	H1 2014	H1 2013[1]	% change
Net interest and fees on loan book[2]	208.6	189.3	10%
Treasury & other	9.2	6.4	44%
Adjusted operating income	**217.8**	**195.7**	**11%**
Adjusted operating expenses	(105.5)	(91.6)	15%
Impairment losses	(22.7)	(25.8)	(12)%
AOP	**89.6**	**78.3**	**14%**
RoE[3]	25%	24%	
Expense/income ratio	48%	47%	
Operating margin	41%	40%	

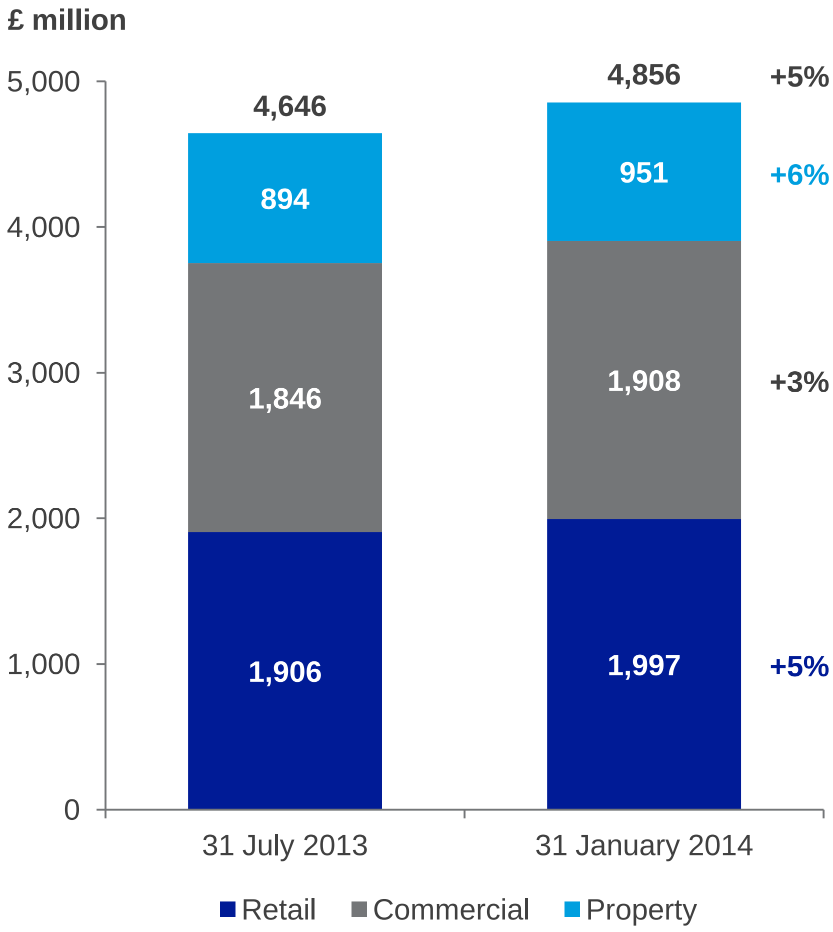
- **Income** up **11%** to **£218 million**
  - Good loan book growth
- **Expenses** of **£106 million,** up **15%**
  - Continued investment in our business to support growth
- **Bad debt charges** reduced by **12%** to **£23 million**
  - Improved credit performance across the portfolio
- **Good growth** in **AOP** to **£90 million**
- **RoE** increased to **25%**

Notes:
[1] 2013 figures restated where applicable following adoption of IAS 19 (Revised) Employee Benefits.
[2] Includes £161.9 million (2013: £144.3 million) net interest income and £46.7 million (2013: £45.0 million) other income. Other income includes net fees and commissions, operating lease income, and other miscellaneous income.
[3] Adjusted operating profit after tax and non-controlling interests on the Banking division's opening equity.

Banking

Good loan book growth continues

Loan book size by business unit



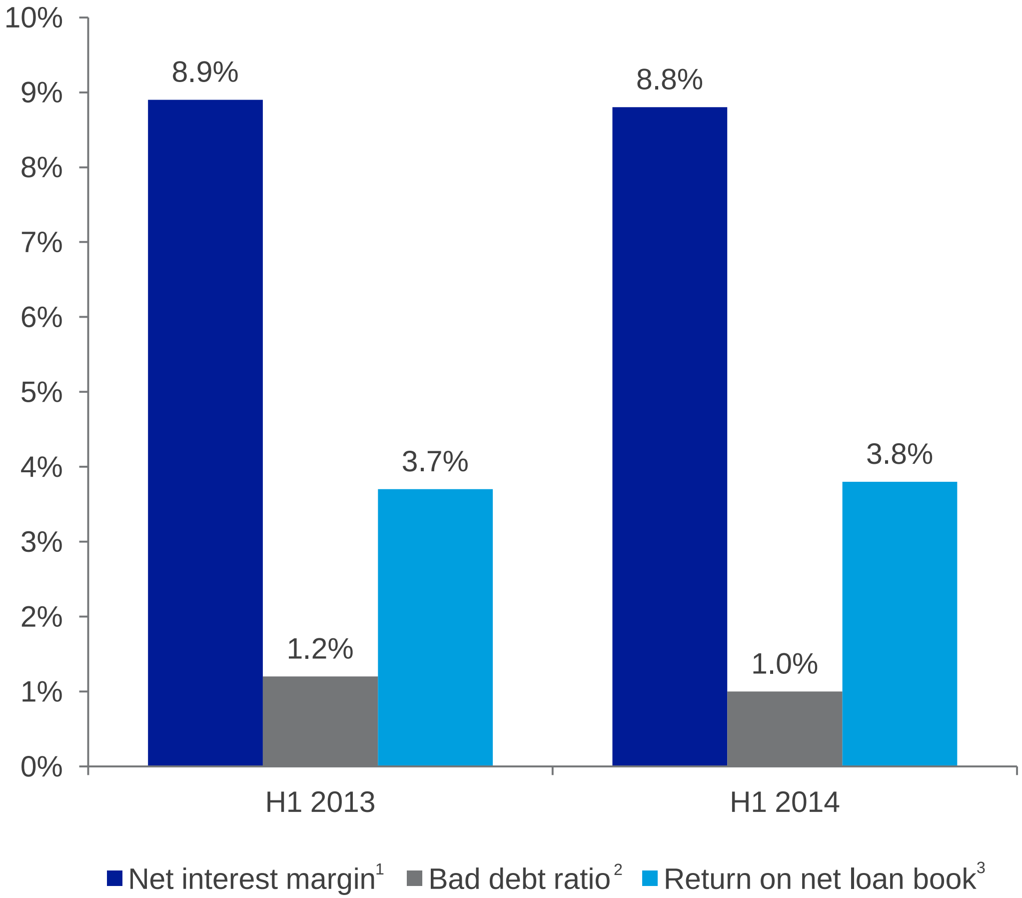
- **Good loan book growth** of **5% in the first half**
  - Up **11%** in the last 12 months
  - **Slightly moderated** from prior year
- **Retail increased 5%**
  - Good demand in **motor finance** despite increased competition
  - Growth across all business lines in **premium finance**
- **Commercial increased 3%**
  - Good growth in **asset finance**
  - Partly offset by seasonal reduction in **invoice finance**
- **Property increased 6%**
  - **Good demand** and limited competition

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

Banking

Distinctive model drives consistently strong returns

Performance ratios



- **Net interest margin** of **8.8%**
  - Business mix broadly unchanged
- **Bad debt ratio of 1.0%**
  - Reduction principally in Property and asset finance
- **Return on net loan book** increased to **3.8%**
  - Continued reduction in the bad debt ratio

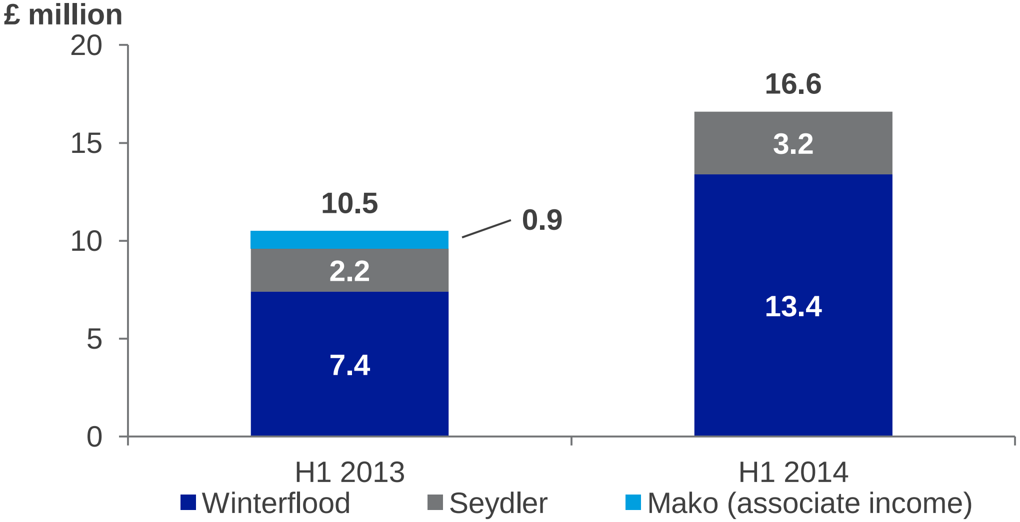
Notes:
[1] Net interest and fees on average loan book.
[2] Impairment losses on average net loan book.
[3] Adjusted operating profit before tax on average net loan book.

Securities

Improved market sentiment for retail investors

£ million	H1 2014	H1 2013	% change
Adjusted operating income	**63.5**	**47.9**	**33%**
Adjusted operating expenses	(46.9)	(37.4)	25%
AOP	**16.6**	**10.5**	**58%**
RoE[1]	25%	16%	
Operating margin[1]	26%	20%	

Adjusted operating profit by business



- **AOP** up **58%** driven by increased profitability in Winterflood
- **Winterflood** AOP up **81%** to **£13 million**
  - **Well positioned** to benefit from recovering risk appetite
- **Seydler** AOP improved to **£3 million**
- **RoE** improved to **25%**

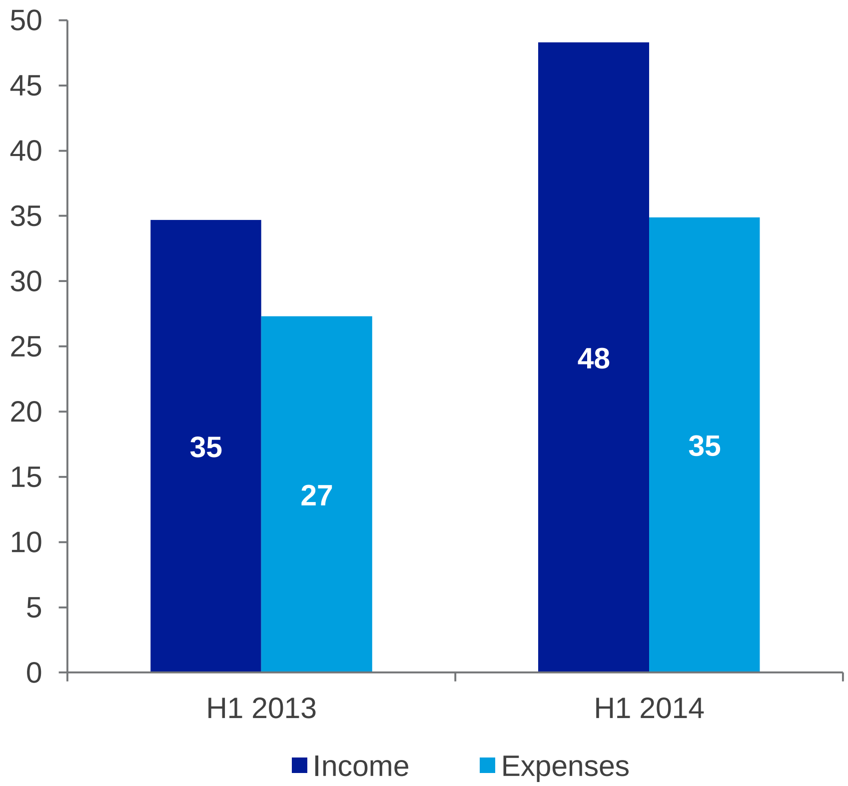
Note:
[1] RoE and operating margin calculations exclude Mako associate income. The increase in the year reflects the increased profitability at Winterflood and Seydler relative to the prior year.

Securities

Improved performance in the first half

Winterflood's income and expenses

£ million



Key figures

	H1 2014	H2 2013	H1 2013
Average bargains per day	**52k**	52k	42k
Income per bargain	**£7.19**	£6.15	£6.52
Loss days	**1**	7	1

- **Better trading conditions** particularly in **AIM**
- **Consistent performance** with only 1 loss day
- **Average bargains per day** of **52k**
  - Stable on H2 2013
- **Income per bargain** increased to **£7.19**
  - **Change** in **mix** to **higher margin** sectors

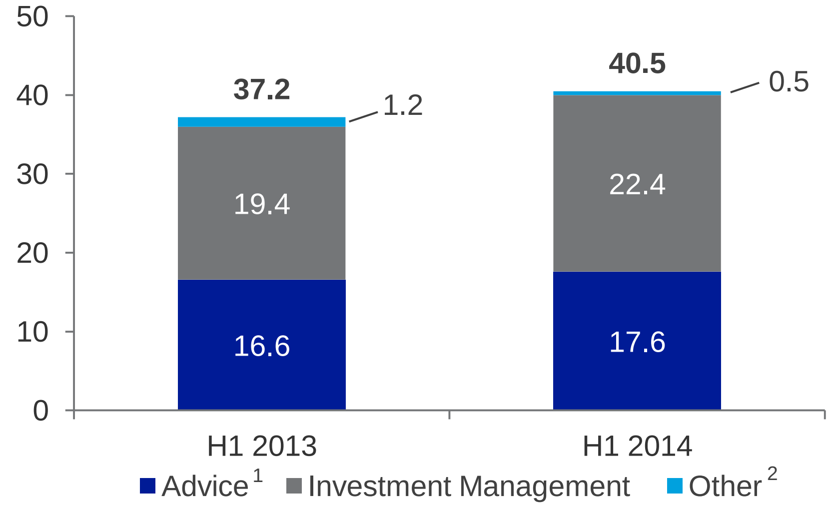
Asset Management

Performance continues to improve

£ million	H1 2014	H1 2013	% change
Adjusted operating income	**40.5**	**37.2**	**9%**
Adjusted operating expenses	(37.3)	(36.1)	3%
AOP	**3.2**	**1.1**	
RoE	16%	4%	
Operating margin	8%	3%	

Components of income

£ million



- Good income growth of **9%** to **£41 million**
  - Principally in investment management as assets increased
- **Modest** increase in **expenses** to **£37 million**
  - Continued to control costs
- **AOP** increased to **£3 million**

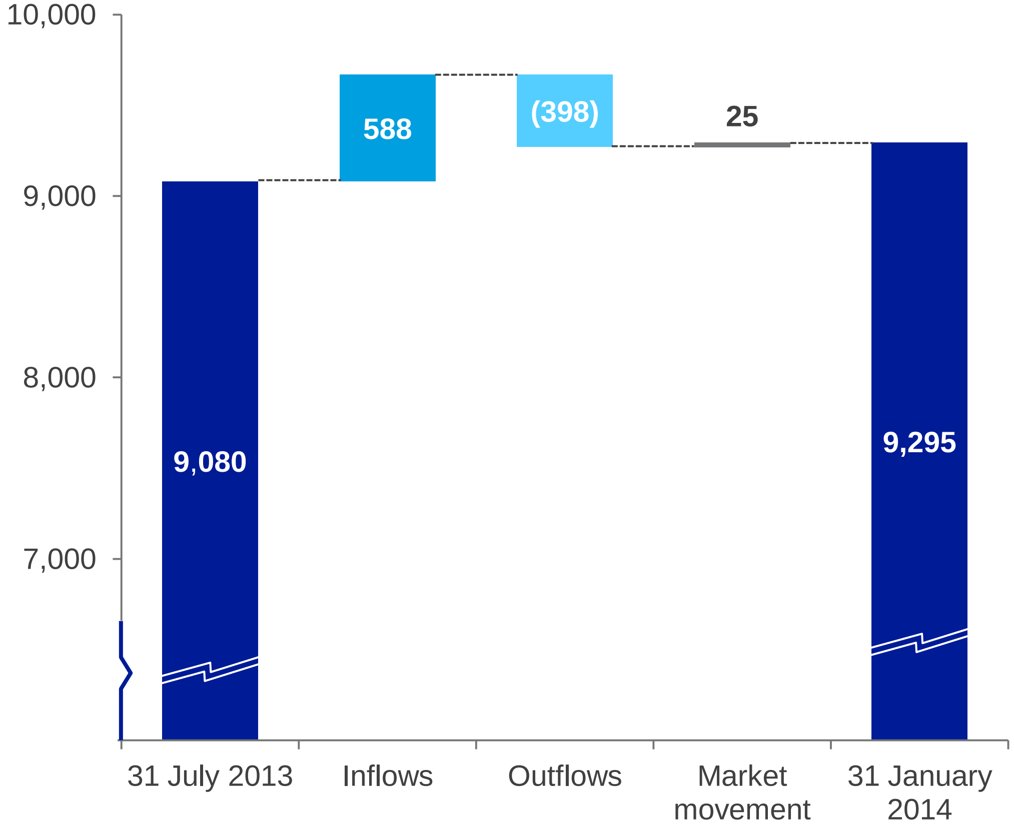
Notes:
[1] Income from financial advice and self directed services, excluding investment management income.
[2] Interest income and expense, income on investment assets and other income.

Asset Management

Good sales momentum across our distribution channels

AuM

£ million



- **Total AuM** increased **2%** to **£9.3 billion**
- **Positive net flows** of **£0.2 billion**
  – Annualised growth rate of **4%**[1]
- **Gross inflows** up to **£0.6 billion**
  – Good growth from advisers and lead generators
- **Outflows** of **£0.4 billion**
  – Client draw-downs and attrition
- Supported by **modest market movements**

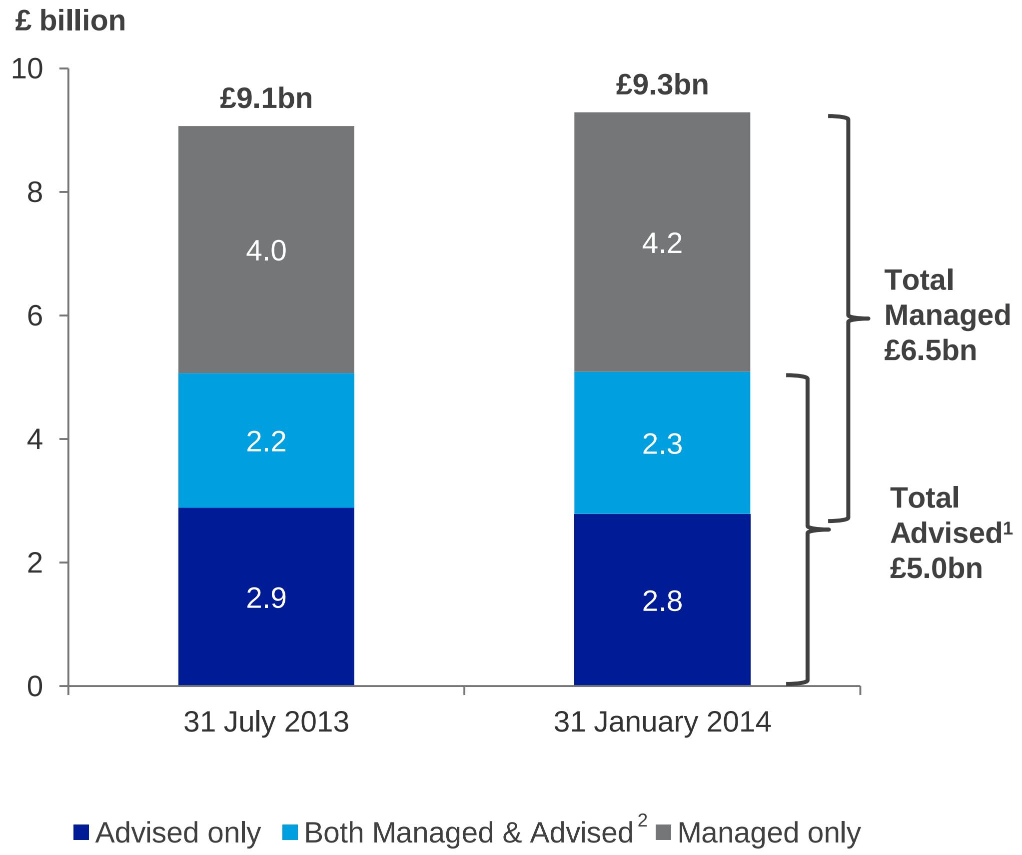
Note:
[1] Excludes market movements.

Asset Management

Components of AuM

- Total managed assets up **5%** to **£6.5 billion**
  - Good inflows and consistent fund performance
- Total advised assets stable at **£5.0 billion**
  - Modest outflows and migrations to **managed** and **advised**
- AuM both **managed** and **advised** increased **3%** to **£2.3 billion**
  - Important for our core **integrated proposition**
  - Represents **45%** of total advised **AuM**

Assets under Management



Notes:
[1] Includes financial planning and self directed assets. Total advised assets are £5,037 million – figures contain roundings.
[2] Included in Advice and other services and Investment management AuM above.

Agenda

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4. Q&A

Business update

Clear strategic priorities and strong competitive positioning

	Close Brothers	Key performance indicators
Strong financial position	• Strong capital position • Prudent funding model: – Borrow long, lend short	FY 2012: 13%; FY 2013: 13%; H1 2014: 13% Common equity tier 1 capital[1]
Clear business models	• Serving niche markets • Predominantly secured lending • Returns focused growth	FY 2012: 12%; FY 2013: 16%; H1 2014: 18% Return on opening equity
Continued investment	• Simple group structure to implement change effectively • Resources to invest	H1 2012: 63; H1 2013: 81; H1 2014: 97 AOP (£m)
Market leading customer proposition	• Specialist, expert knowledge • Decentralised and local model	H1 2012: 3.8; H1 2013: 4.4; H1 2014: 4.9 Loan book (£bn)

Note:
[1] Core tier one capital ratio in FY 2013 and FY 2012.

Business update

Banking – Sustainable loan book growth in all market conditions

Increasing credit supply

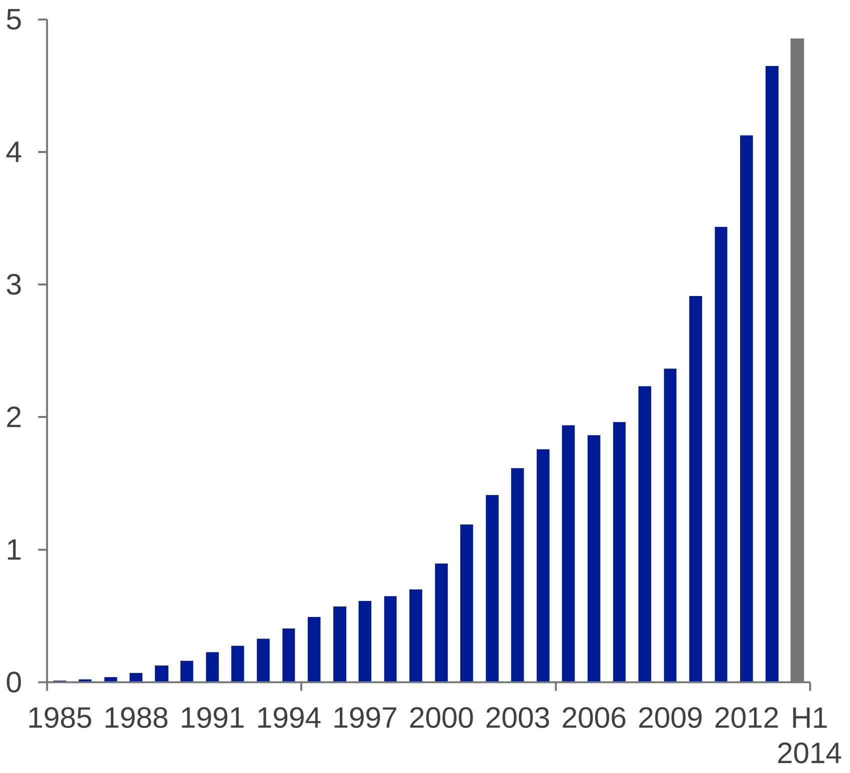
- However, still well below pre-crisis levels
- Competitive landscape still fragmented
- Overall lending environment remains supportive of growth

Continued loan book growth

- Loan book growth has moderated as expected
- Not yet seen significant increase in SME demand
  - Well placed to benefit from improvement

Loan book growth

£ billion

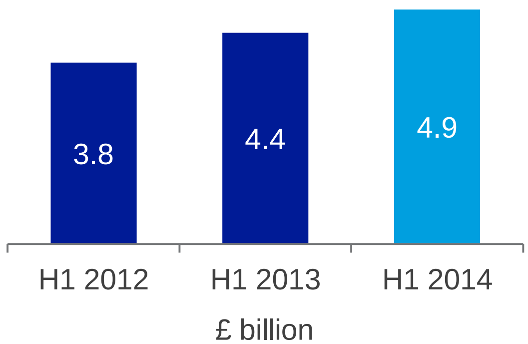


Business update

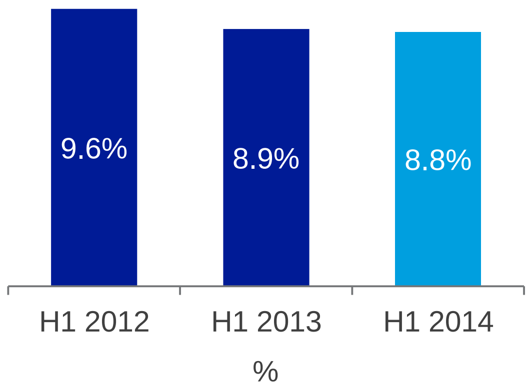
Banking – Continued strong performance

Key drivers for profit growth

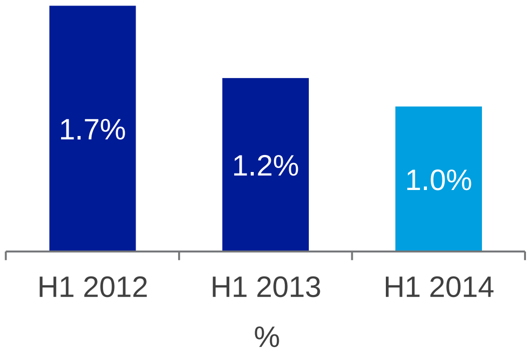
Continued loan book growth



Strong net interest margin



Improved bad debt ratio



H1 2014 return on net loan book: 3.8%

10 year average: 3.5%

H1 2014 return on opening equity: 25%

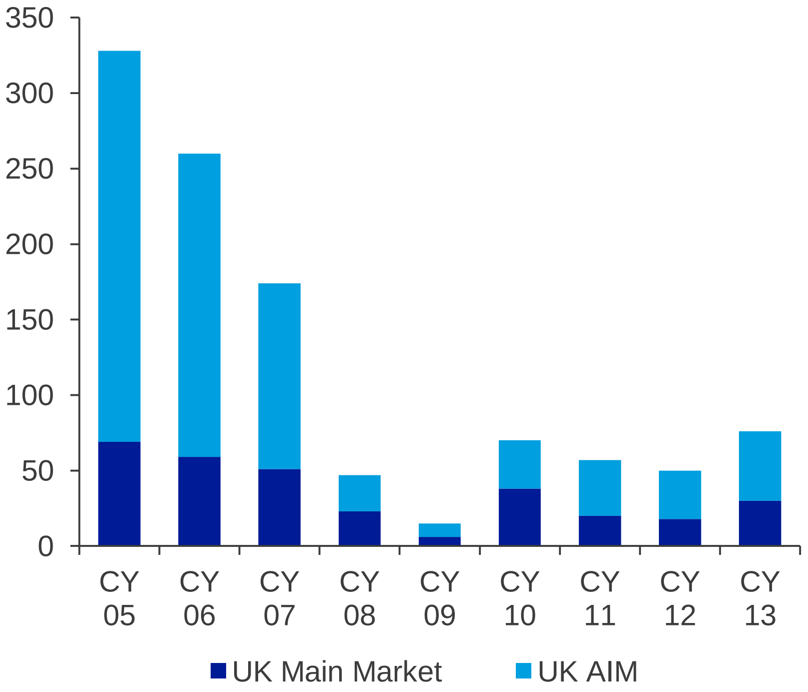
10 year average: 20%

Business update

Winterflood – Improving retail investor risk appetite

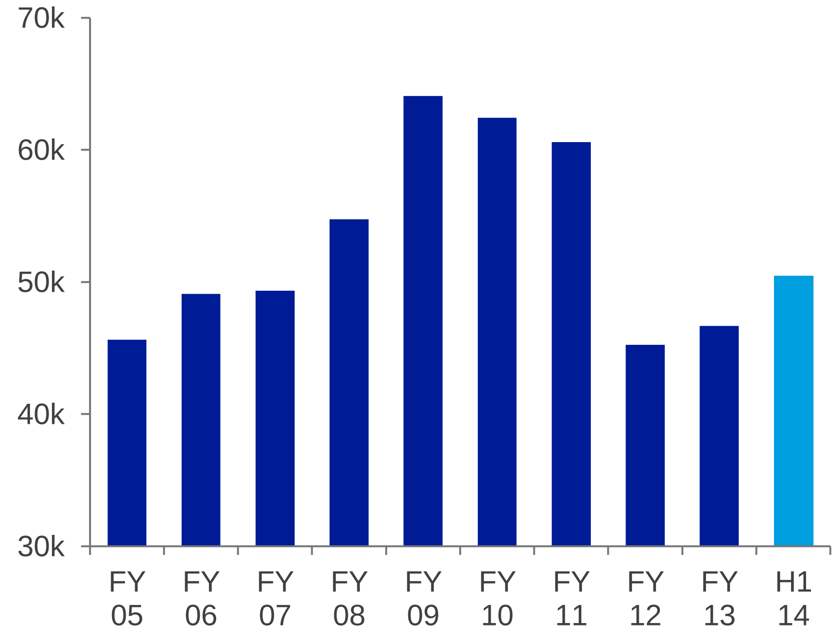
Increased primary market activity

IPOs



Recovering retail trading volumes[1]

Daily average



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

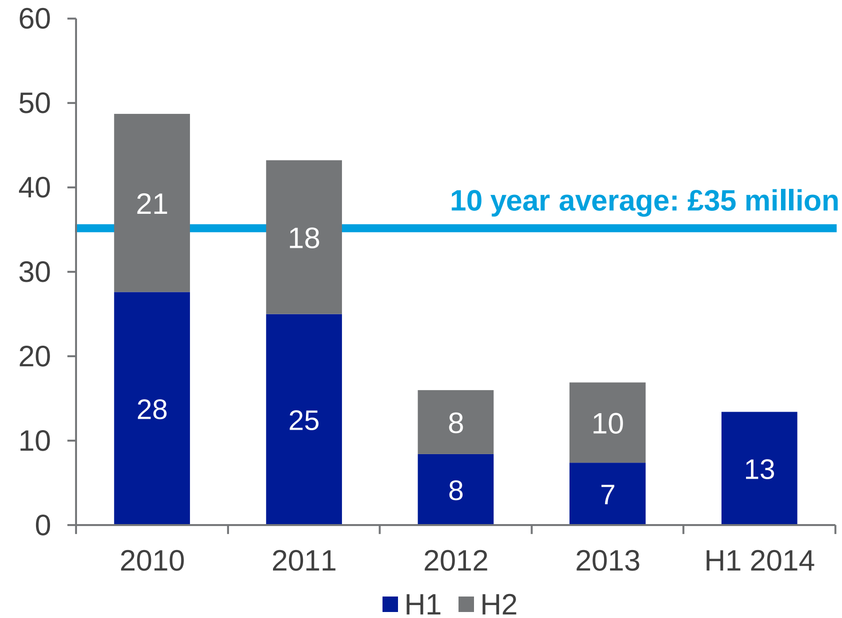
Business update

Winterflood – Well positioned going forward

- **Consistently profitable** through cycle
  - Low number of loss days reflects skill of our market makers
- Maintained **market leading position**
  - Continuing to invest in our proprietary technology
  - Well positioned to benefit from improving risk appetite
- **Improving conditions** but not yet seen full **cyclical recovery**
  - 10 year average AOP of **£35 million**

Winterflood AOP

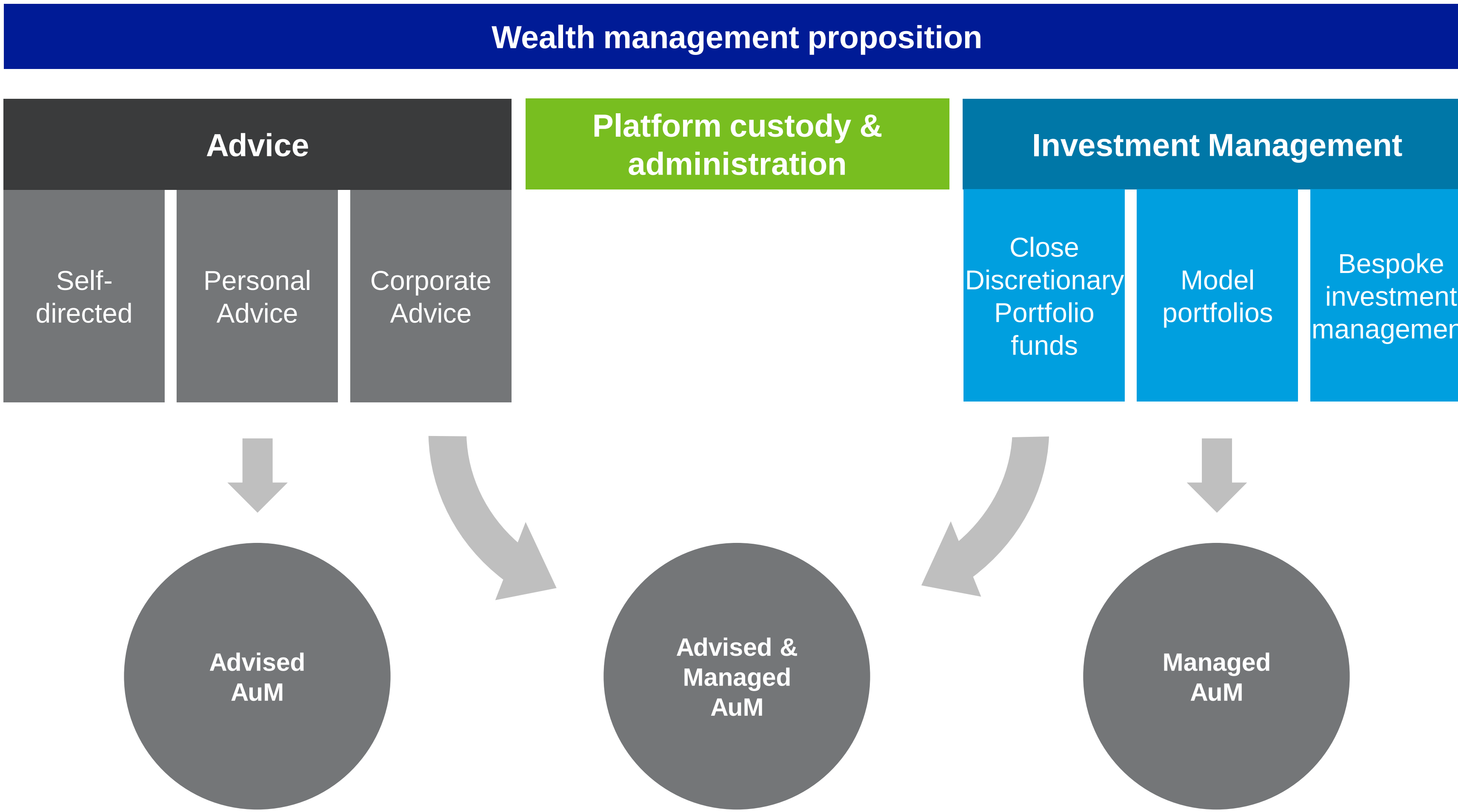
£ million



	2010	2011	2012	2013	H1 2014
Loss days	4	1	13	8	1

Business update

Asset Management - Scalable, vertically integrated business model with multiple distribution channels



Business update

Asset Management - Clear path to profit growth

Inflows

- **£9.3 billion** AuM
- **Net inflows** across **distribution channels**
- Solid demand reflects quality of integrated wealth management **proposition**

Building scale

Capability

- None of our **distribution channels** has reached **maturity**
- Leveraging **investment management capability**
  - Solid 3rd party IFA demand for our funds

Maximising revenues

Margins

- Strong **cost discipline** and increased **operating leverage**
- Improving **efficiency** of our advice process
- Continued **margin expansion**

Continued progress towards medium-term profitability target

Outlook

Business model, strong performance and financial position ensure that we are well placed going forward

- We are **confident in our strategy**
- We see **good opportunities for growth** and will continue to deliver **strong returns** for our shareholders
  - In **Banking** we expect to continue to deliver good growth at attractive margins
  - **Winterflood** is well positioned to continue to benefit from a stronger cyclical recovery
  - In **Asset Management** we continue to make progress towards our profitability target as the business builds scale
- **We remain confident in the outlook for the year**

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11 March 2014

Appendix

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Segmental analysis

Summary income statement

£ million	Banking	Securities	Asset Management	Group	Total
H1 2014					
Adjusted operating income	217.8	63.5	40.5	0.2	322.0
Administrative expenses	(93.4)	(46.0)	(36.6)	(12.0)	(188.0)
Depreciation and amortisation	(12.1)	(0.9)	(0.7)	(0.4)	(14.1)
Impairment losses on loans and advances	(22.7)	-	-	-	(22.7)
Adjusted operating profit/(loss)	**89.6**	**16.6**	**3.2**	**(12.2)**	**97.2**
H1 2013[1]					
Adjusted operating income	195.7	47.9	37.2	2.2	283.0
Administrative expenses	(81.9)	(36.4)	(35.4)	(11.2)	(164.9)
Depreciation and amortisation	(9.7)	(1.0)	(0.7)	(0.4)	(11.8)
Impairment losses on loans and advances	(25.8)	-	-	-	(25.8)
Adjusted operating profit/(loss)	**78.3**	**10.5**	**1.1**	**(9.4)**	**80.5**

Note:
[1] 2013 figures restated where applicable following adoption of IAS 19 (Revised) Employee Benefits.

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	5	5	-	-	-	-
Debt securities in issue	851	1	-	850	-	-
Subordinated loan capital	77	2	-	-	-	75
Drawn facilities[1]	**933**	**8**	-	**850**	-	**75**
Undrawn facilities	265	-	20	245	-	-
Group bond	205	6	-	-	199	-
Deposits by customers	4,149	1,349	1,610	1,092	98	-
Equity	865	-	-	-	-	865
Total available funding – 31 January 2014	**6,417**	**1,363**	**1,630**	**2,187**	**297**	**940**
Total available funding – 31 July 2013	6,268	1,112	1,841	1,324	1,079	912
Movement	**149**	**251**	**(211)**	**863**	**(782)**	**28**

Note:
[1] *Drawn facilities exclude £7.4 million (31 July 2013: £19.3 million) of non-facility overdrafts included in borrowings in the group's financial statements.*

Banking

Loan book and lending statistics by business

Loan book	31 January 2014 £ million	31 July 2013 £ million	% change
Retail	**1,996.5**	**1,906.0**	**5%**
Motor finance	1,341.3	1,278.3	5%
Premium finance	655.2	627.7	4%
Commercial	**1,908.4**	**1,845.7**	**3%**
Asset finance	1,569.5	1,482.3	6%
Invoice finance	338.9	363.4	(7)%
Property	**950.6**	**893.9**	**6%**
Closing loan book	**4,855.5**	**4,645.6**	**5%**

Lending statistics	Typical LTV[1]	Average loan size[2]	Typical loan maturity[3]	Number of customers
Motor finance	75-85%	£6k	2-3 yrs	237k
Premium finance	90%	£600	10 mths	1.5m
Asset finance	80-90%	£34k	3-4 yrs	26k
Invoice finance	80%	£287k	2-3 mths	1k
Property finance	50-60%	£900k	6-18 mths	855

Notes: Lending statistic figures are for illustrative purposes only.
[1] Typical loan-to-value ("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 2014.
[3] Typical loan maturity for new business on a behavioural basis.