Close Brothers Group plc

Half Year Results 2023

Close Brothers
Modern Merchant Banking

14 March 2023

Close Brothers SME Apprentice Programme in partnership with University of Sheffield AMRC Training Centre

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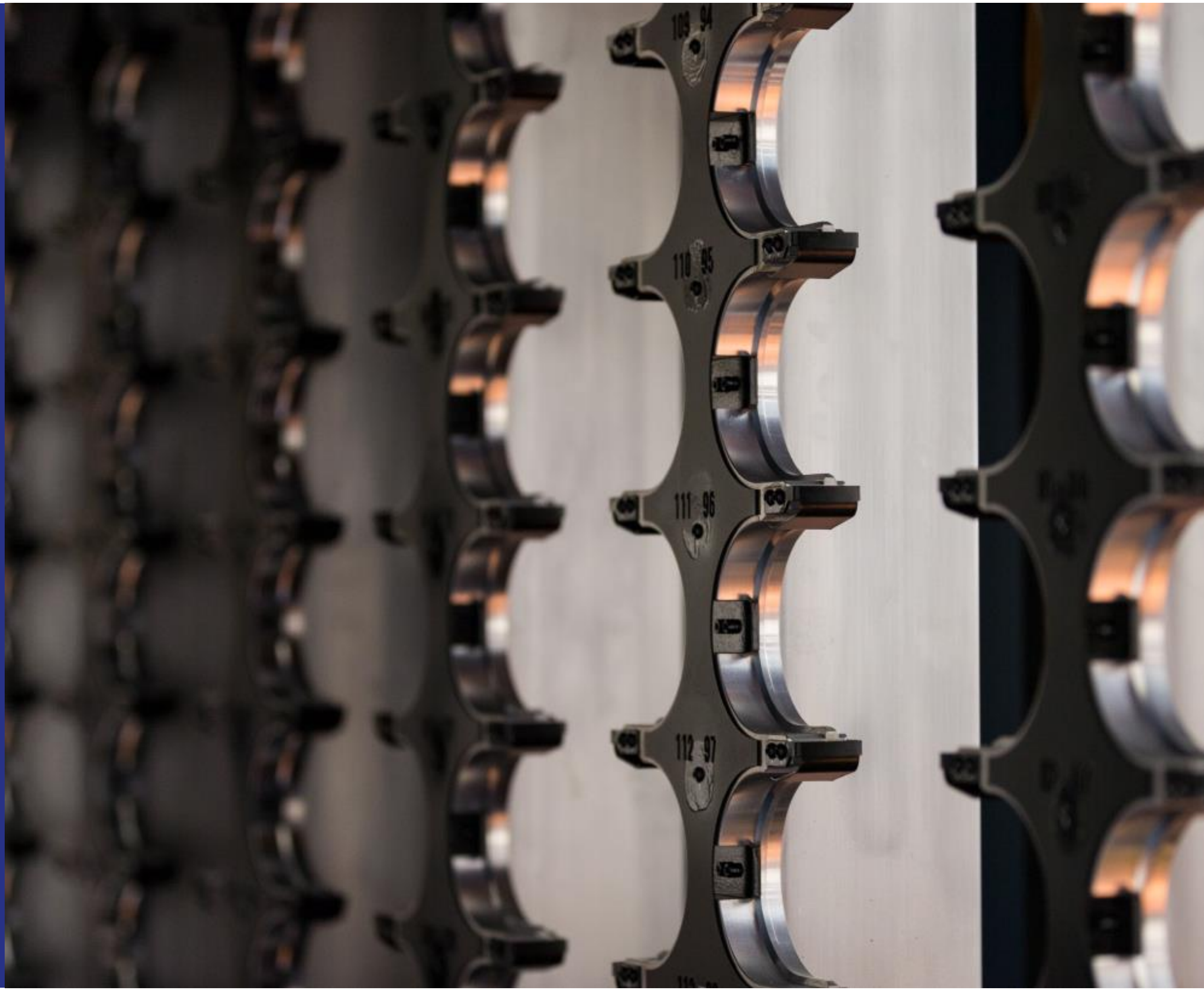
Agenda

01 **Introduction**
Adrian Sainsbury, Chief Executive Officer

02 **Financial update**
Mike Morgan, Group Finance Director

03 **Business update**
Adrian Sainsbury, Chief Executive Officer

04 **Q&A**



01

Introduction

Adrian Sainsbury

Chief Executive Officer

Close Brothers
Modern Merchant Banking

Overview

First half performance significantly impacted by Novitas; resilient underlying performance

- **Reduction in adjusted operating profit** driven by increased provisions in relation to **Novitas**
- Income growth with a strong net interest margin, driving 5% increase in pre-provision profit in **Banking**
- Healthy net inflows of 6% in **Asset Management**, with a strong contribution from new hires
- **Winterflood's** performance continued to reflect challenging market conditions
- Strong **capital, funding** and **liquidity** position, with CET1 capital ratio of 14.0%
- **22.5p interim dividend**, reflecting our underlying performance and confidence in the group's outlook

Novitas

Acceleration of efforts to resolve the issues surrounding Novitas and ensure good customer outcomes

No read-across to other books in our portfolio

Provisions adequately reflects the remaining risk of credit losses

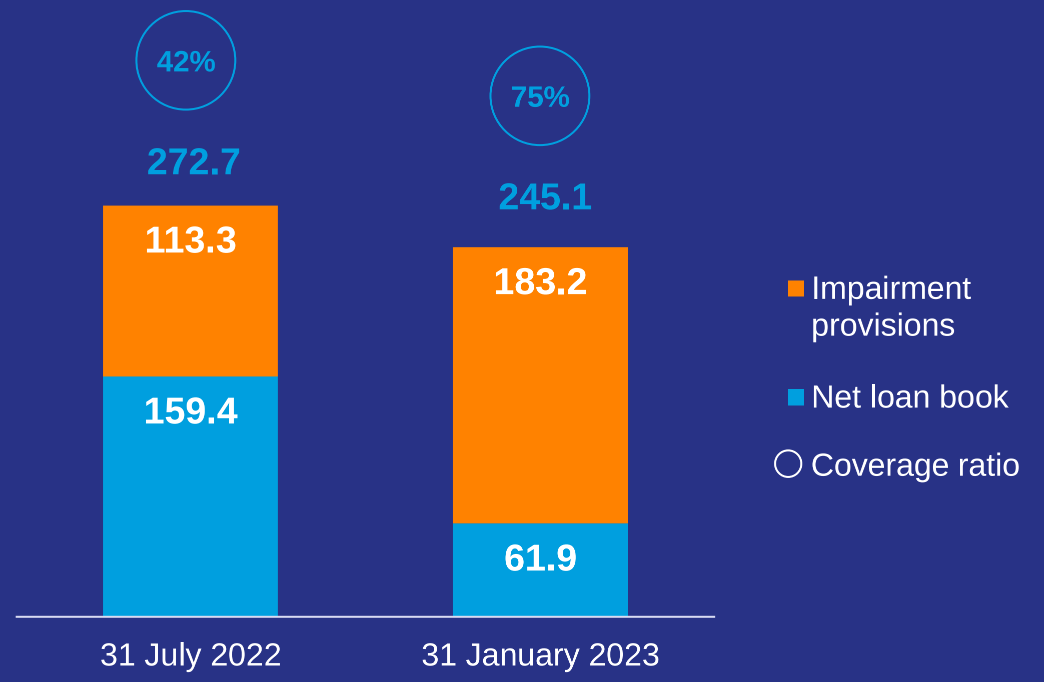
Additional provision recognised in H1 2023, as previously flagged:

- **£24.8 million** included updated assumptions on time frame to recovery as a result of initiated litigation
- **£89.8 million** following a review of cases
  - Material increase in the assumptions for **Probability of Default** and **Loss Given Default**

Litigation against ATE insurer

- Entered into formal legal action **against one of the ATE insurers**
- Relates to the **recoverability** of funds in relation to failed cases
- Considering position in respect of other ATE insurers

Novitas impairment provisions (£ million) and coverage ratio (%)



Other financial impact

Net income related to Novitas expected to reduce from c.£36 million in FY22 to c.£8 million in FY24

02 Financial update

Mike Morgan

Group Finance Director

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Income statement

Reduction in adjusted operating profit mainly driven by higher impairment charges in relation to Novitas

£ million	H1 2023	H1 2022	% change
Operating income	474.3	471.6	1
Adjusted operating expenses	(299.5)	(293.5)	2
Impairment losses	(162.2)	(48.3)	236
Adjusted operating profit	**12.6**	**129.8**	(90)
Adjusted operating profit, pre provisions	**174.8**	**178.1**	**(2)**
Adjusted EPS	6.1p	64.0p	-
Dividend per share	22.5p	22.0p	2

- **Income up 1%** with 5% growth in Banking offsetting a reduction in Asset Management and Winterflood
- **Costs rose 2%** as increased investment and higher staff costs in **Banking** more than offset lower variable costs in **Asset Management** and **Winterflood**
- **Impairment charges increased significantly**, primarily reflecting provisions of £114.6 million related to Novitas, as well as weaker macroeconomic variables and outlook and a rise in arrears in Motor Finance
- **Adjusted profit pre-provisions down 2%**
- **Adjusted EPS** reduced to 6.1p
- Excluding Novitas P&L impact, **RoTE** was **12.5%**
- **DPS** of 22.5p, reflecting the group's **underlying performance** and confidence in our **outlook**

Divisional performance

Reduction in adjusted operating profit reflecting an increase in impairment charges and a reduction in Winterflood's income

£ million	H1 2023	H1 2022	% change
Banking	15.0	120.2	(88)
Commercial excluding Novitas	71.8	68.4	5
Novitas	*(104.9)*	*(30.7)*	*(242)*
Retail	14.7	42.5	(65)
Property	33.4	40.0	(17)
Asset Management	8.6	14.5	(41)
Winterflood	2.4	8.8	(73)
Group	(13.4)	(13.7)	2
Adjusted operating profit	**12.6**	**129.8**	(90)
Adjusted operating profit, pre provisions	**174.8**	**178.1**	(2)

Banking

- **Commercial profit rose 5% excluding Novitas**
- **Profit** in **Retail** and **Property down year-on-year**
- **Banking profit down 88%**, mainly reflecting **higher impairment charges**

Asset Management

- **Healthy annualised net inflows of 6%**
- **Profit reduced 41%** as **stable costs** were more than offset by **lower income**

Winterflood

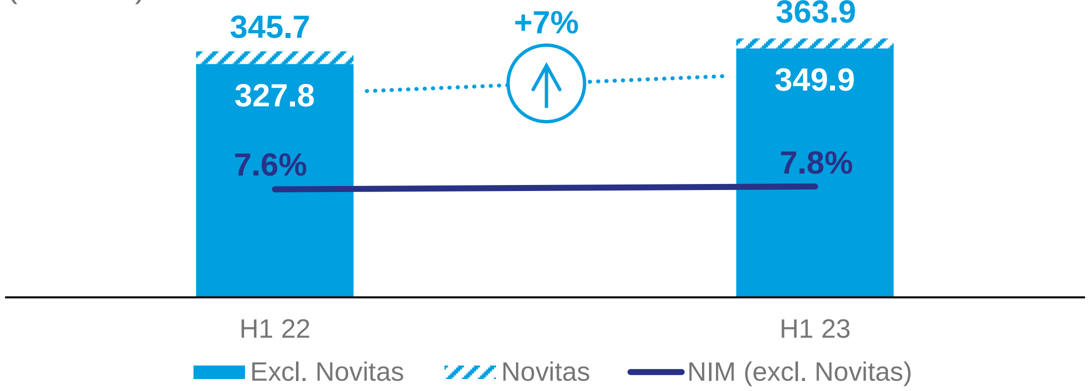
- Performance **impacted** by **continued market-wide slowdown** in **trading activity in higher margin sectors**

Banking highlights

Good demand, with growth in income and pre-provision profit

Income and net interest margin

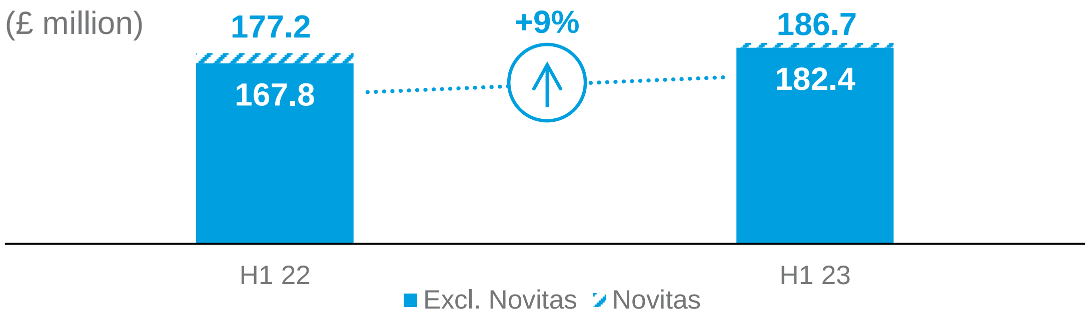
(£ million)



Income growth driven by strong net interest margin and year-on-year loan book growth

Costs

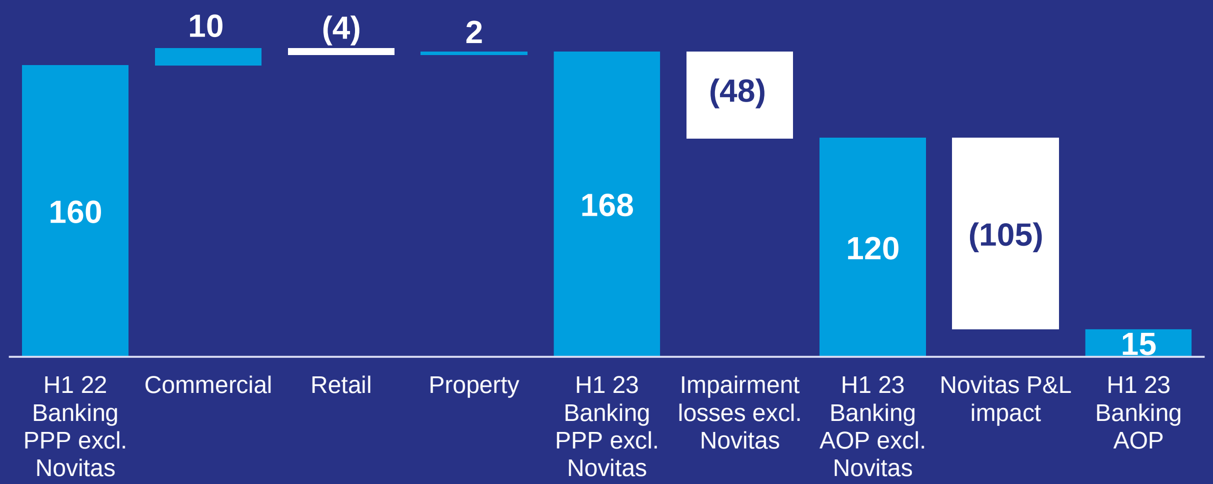
(£ million)



Increased expenses reflecting investment spend and higher staff costs

Movements in adjusted operating profit

(£ million)



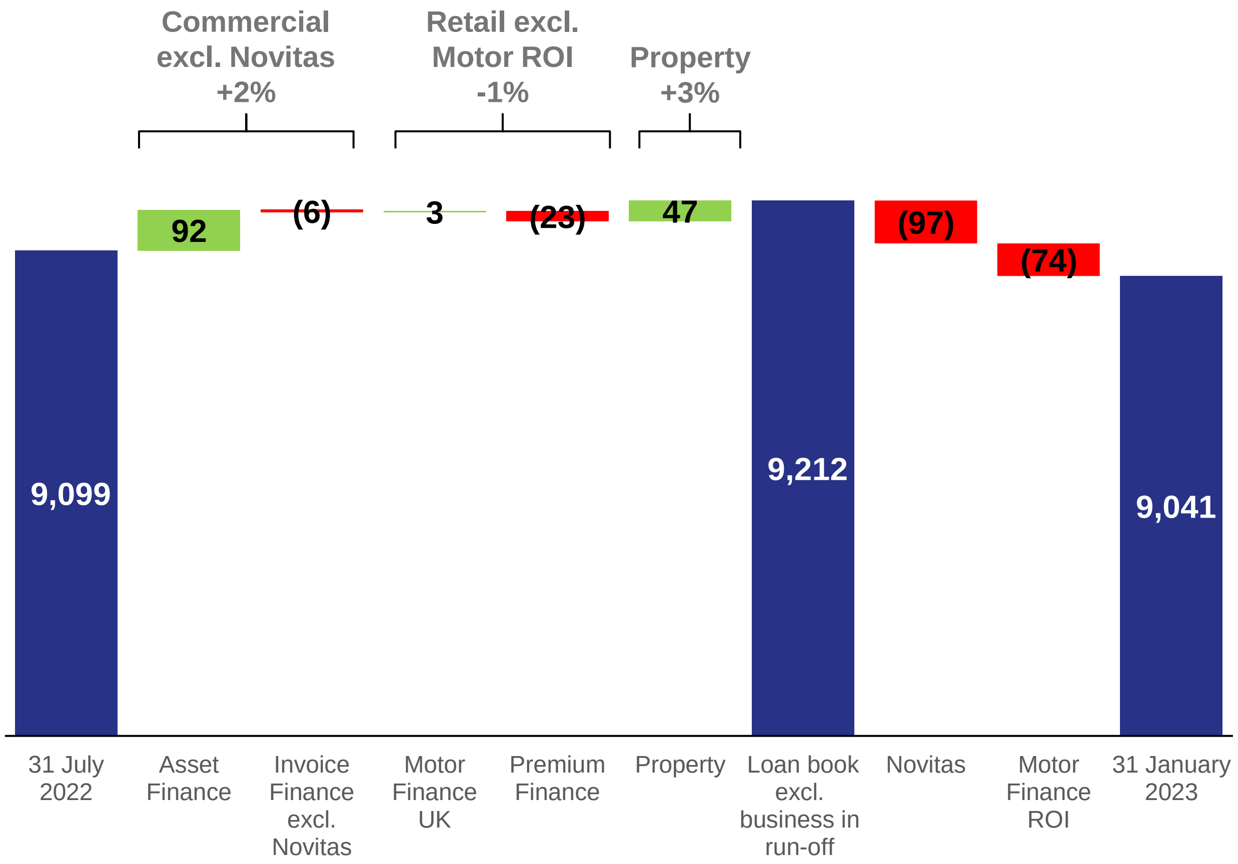
- **Pre-provision profit** (excluding Novitas) **grew 5%** reflecting **good income growth**
- Reduction in **adjusted operating profit** driven by **higher impairment charges** related to **Novitas** (£115 million)
- Excluding Novitas, decline in **adjusted operating profit** reflected **higher impairment charges** and **increased costs** offsetting **income growth**

Banking

Steady demand across Banking businesses, with 1% growth excluding businesses in run-off

Loan book movement by business[1,2,3,4]

(£ million)



Continued demand across our ongoing businesses

- Loan book decreased marginally in the first half, although grew 1% excluding the businesses in run-off
- Continued demand in Commercial and growth in Property, offset by seasonal declines in Premium and Invoice Finance
- Contraction in Motor Finance, with the run-off of the Irish book more than offsetting a stable UK book

Outlook for loan book growth

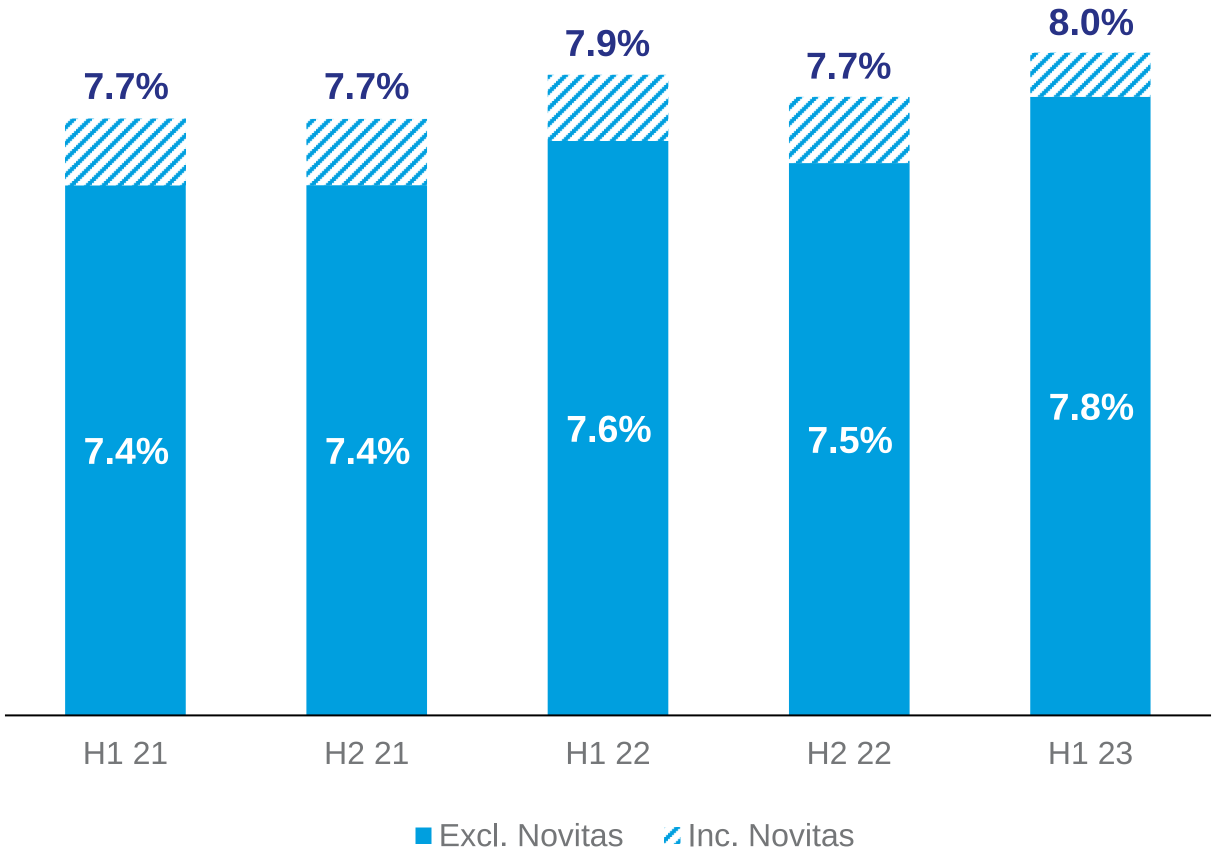
- Loan book growth continues to be an output of our model
- We are actively working to identify incremental and new opportunities in both our existing and adjacent markets
- We remain confident in the growth outlook for the loan book over both the short and medium term

Notes: [1] The Asset Finance and Invoice & Speciality Finance loan books have been re-presented for 31 July 2022 to reflect the recategorization of Close Brothers Vehicle Hire from Invoice & Speciality Finance to Asset Finance. [2] Including £256.3 million of operating lease assets (£199.6 million in Asset Finance and £56.7 million in Invoice & Speciality Finance) (31 July 2022: £185.4 million in Asset Finance and £54.6 million in Invoice & Speciality Finance). [3] The Motor Finance loan book includes £293 million (31 July 2022: £367 million) relating to the Republic of Ireland Motor Finance business, which is in run-off following the cessation of our previous partnership in the Republic of Ireland from 30 June 2022. [4] Movement in Novitas net loan book of £97.5 million, rounded for casting purposes.

Banking

Strong net interest margin as we continue to adopt a disciplined approach to pricing

Net interest margin



Strong net interest margin

- Reflects **pricing discipline** on **new lending**
- Benefited from **optimisation** of the group's **liability mix** and **funding costs** in a rising rate environment
- **14 bps** of **one-off benefits** from mark-to-market swaps

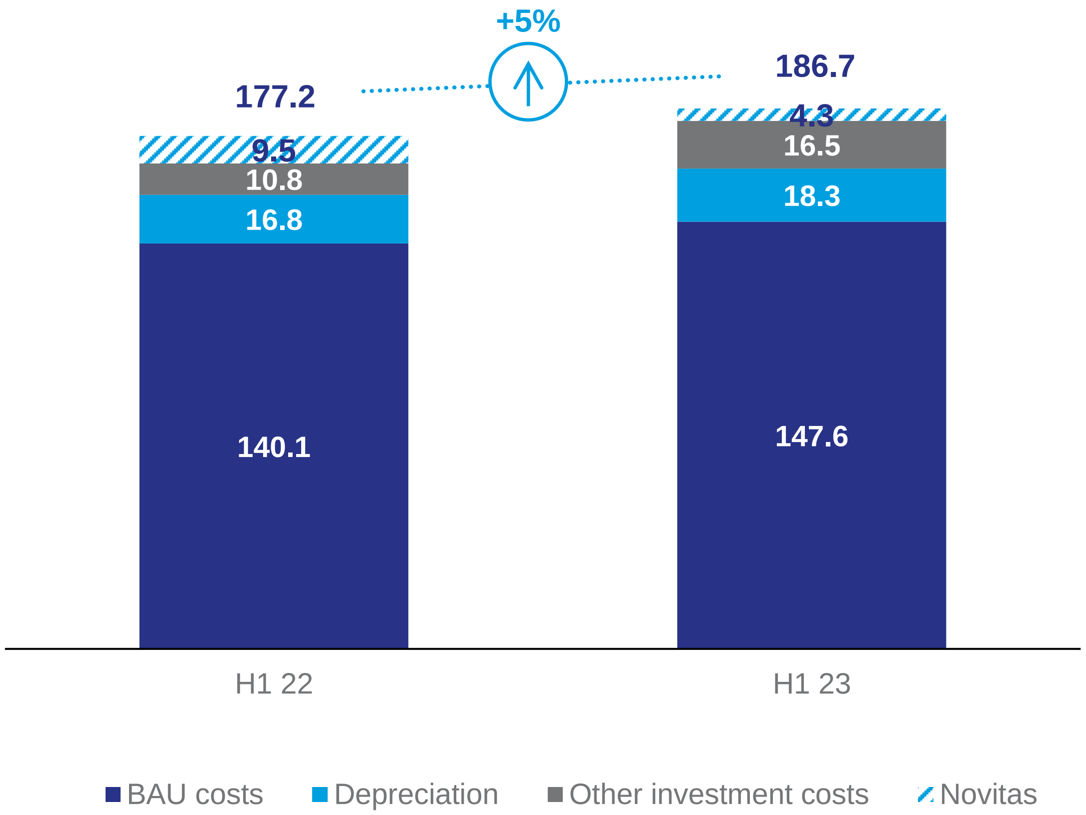
Well positioned to maintain a strong NIM

- **Specialist, relationship driven model** supports net interest margin
- **Consistently strong** NIM compared to **sector average**
- **Prioritise pricing** over volume growth
- **Expect cost of funds** to remain **elevated** in the **next financial year**

Banking

Continued investment and rigorous control of costs, notwithstanding inflationary pressures

Movement in costs[1,2] (£ million)



Business as usual (BAU) costs[3]

- Intensified our focus on cost efficiency
- BAU costs increased to £147.6 million, primarily driven by-inflation-related salary increases and new hires focused on compliance, regulation and IT security

– **BAU costs outlook:**

- A number of strategic cost management initiatives in progress
  - Multi-year technology transformation programme focused on IT strategic services
  - Retail operations simplification programme
- Aim to create capacity to accommodate investments, growth and minimise inflationary pressure
- Continue to evaluate additional opportunities for efficiency with a view to achieving positive operating leverage over the medium term

Investment costs[4]

- Investment costs increased to £34.8 million and included spend on investment programmes, strategic initiatives, operational resilience and related depreciation

– **Investment costs outlook:**

- Expect costs related to existing investment programmes to stabilise over the next financial years
- Depreciation charges related to these programmes will continue to increase

Close Brothers

Notes:[1] Refers to adjusted operating expenses. [2] Related ongoing costs resulting from investment projects are recategorised from investment costs to BAU costs after one year. For comparison purposes, £4.1 million has been recategorised from investment costs to BAU costs in H1 of the 2022 financial year to adjust for investment projects' ongoing costs that commenced prior to the 2022 financial year. [3] Operating expenses excluding depreciation and costs related to strategic initiatives or investment programmes. [4] Includes all depreciation and other costs related to investments (including multi-year projects), strategic initiatives, pilots and cyber resilience. Excludes IFRS 16 depreciation and long term BAU license depreciation.

Banking

Higher impairment charges reflecting Novitas and forward-looking provisions for weaker macroeconomic variables

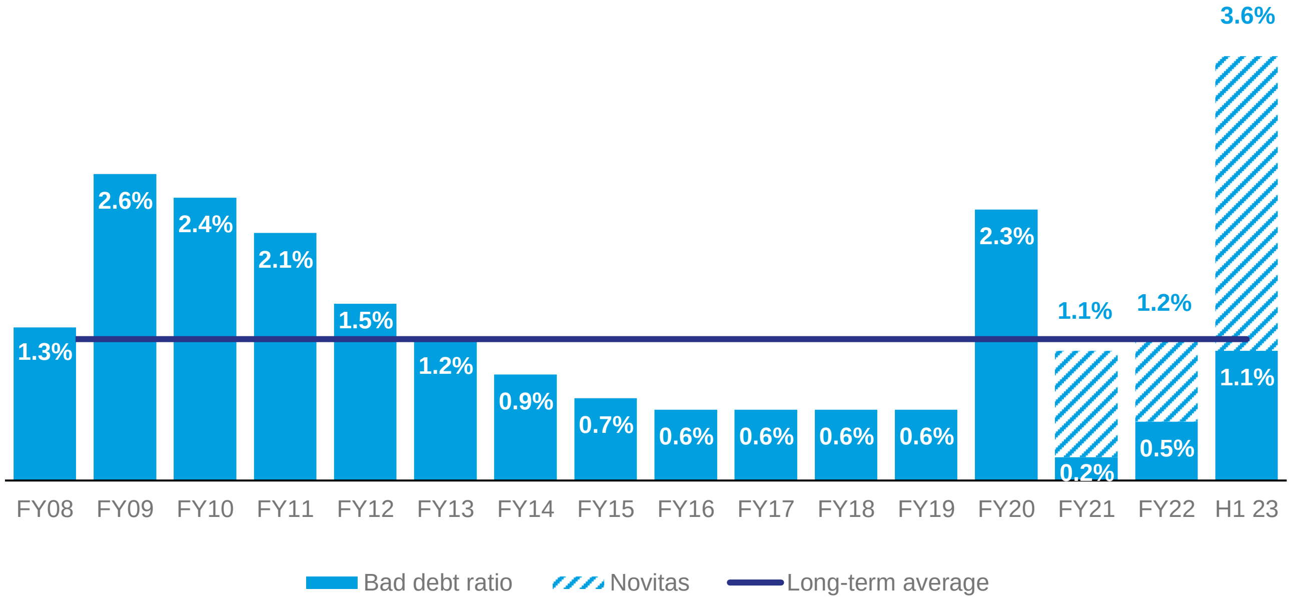
Resilient underlying credit performance

- **£114.6 million of impairment charges** related to **Novitas**, resulting in an **annualised bad debt ratio of 3.6%**
- **£47.6 million of impairment charges** excluding Novitas, **(1.1% bad debt ratio)**, driven by:
  - Weaker macroeconomic variables and outlook[2]
  - Rise in Motor Finance arrears, due to cost of living pressures on customers
  - Ongoing review of provisions and model refinements
- **No significant impact** on credit performance at this stage
  - Actual realised losses equivalent to c.£10 million (excluding Novitas) in H1

Outlook for bad debt ratio

- Continue to monitor closely the evolving impacts of rising inflation and cost of living on our customers
- Remain **confident** in the **quality of our loan book**
  - Predominantly **secured** or structurally **protected**, **prudently** underwritten and **diverse**

Long-term bad debt ratio[1] (1.2% from FY08 to H1 23, excluding Novitas)



Notes: [1] Bad debt ratio calculated using IAS 39 until the change to IFRS 9 in FY19. Bad debt ratio excluding Novitas only disclosed from FY21 onwards. Long average bad debt ratio of 1.2% based on the average bad debt ratio for FY08-H123, excluding Novitas. [2] We have revised the macroeconomic scenarios we use and have left the weightings assigned to them unchanged since the 2022 financial year-end, with the resulting position at 31 January 2023 being a 32.5% weighting to the baseline scenario, 30% to the upside and 37.5% to the downside.

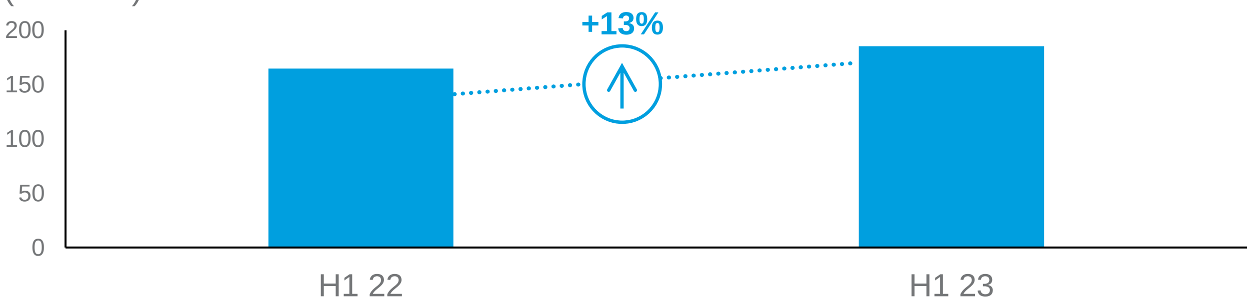
Banking – Commercial (excluding Novitas)

Good demand as we continue to support our SME customers

£ million	H1 2023	H1 2022	% change
Operating income	168.3	149.9	12
Adjusted operating expenses	(88.6)	(79.7)	11
Adjusted operating profit pre provisions	**79.7**	**70.2**	**14**
Impairment losses	(7.9)	(1.8)	n/a
Adjusted operating profit	**71.8**	**68.4**	**5**

Commercial average new business volumes[1]

(£ million)



- **Higher income** reflecting **good loan book growth** and **increased activity-driven income**
- **Cost growth** driven by **higher staff costs** to reflect inflationary environment and **investment spend** on Asset Transformation programme
- **Pre-provision profit up 14%** as we achieved **positive operating leverage**
- **Rise in impairment charges** to take into account weaker macroeconomic variables and outlook
- **Loan book** (excluding Novitas) **up 7% year-on-year** as we saw **good customer demand** and an **increase in new business volumes** despite economic uncertainty

Notes: [1] Commercial average new business volumes excluding Novitas.

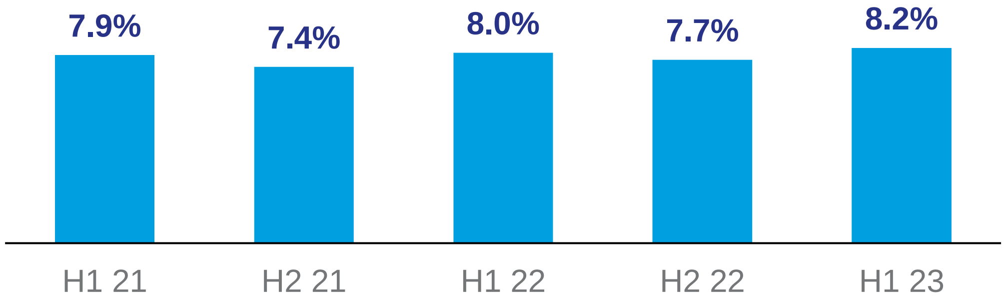
Banking – Retail

Income growth offset by increased impairments

£ million	H1 2023	H1 2022	% change
Operating income	123.2	119.7	3
Operating expenses	(79.1)	(71.9)	10
Operating profit pre provisions	**44.1**	**47.8**	**(8)**
Impairment losses	(29.4)	(5.3)	n/a
Operating profit	**14.7**	**42.5**	**(65)**

Retail net interest margin

(%)



- **3% increase in income** reflecting **year-on-year growth** in the **UK Motor Finance loan book** and a **strong NIM**
- Adhering to model of **pricing discipline**, passing through **higher rates** on **new lending** in Motor Finance
- **Cost growth** driven by **investment in Retail operations simplification programme**, depreciation related to our investment programmes and **higher staff costs**
  - Simplification programme will create efficiencies, whilst delivering customer and control benefits
- **Pre-provision profit down 8%** as income growth was more than offset by investment
- **Increase in impairment charges** driven mainly by:
  - The rise in arrears in Motor Finance, as expected in current environment and in line with industry trends
  - Weaker macroeconomic outlook

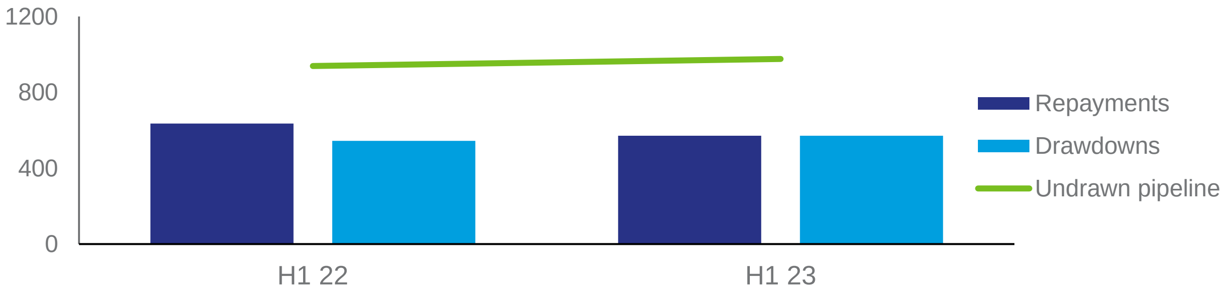
Banking – Property

Strong drawdowns from our healthy pipeline

£ million	H1 2023	H1 2022	% change
Operating income	58.4	58.2	-
Operating expenses	(14.7)	(16.2)	(9)
Operating profit pre provisions	**43.7**	**42.0**	**4**
Impairment losses	(10.3)	(2.0)	n/a
Operating profit	**33.4**	**40.0**	**(17)**

Repayments, drawdowns and undrawn pipeline

(£ million)



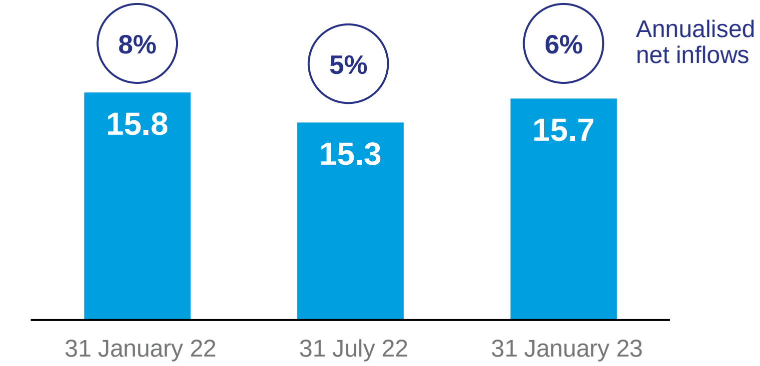
- **Stable income** driven by **good fee income**
  - Marginal decline in NIM although remained strong
- **9% reduction in costs** as we maintained rigorous focus on **cost discipline**
- **Pre-provision profit up 4%** as we achieved **positive operating leverage**
- **Rise in impairment charges** to take into account weaker macroeconomic variables and outlook, in particular lower house price projections
- Saw **strong drawdowns** from our **healthy pipeline** and **repayment levels beginning to normalise** driving **5% year-on-year loan book growth**

Asset Management highlights

Healthy net inflows despite the impact of challenging market conditions on investor sentiment

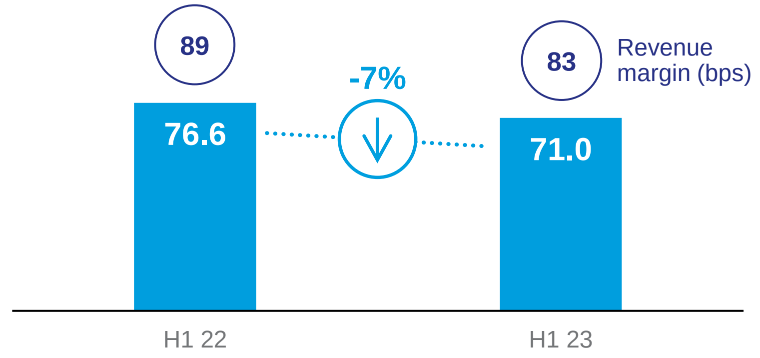
Assets under Management (“AuM”)

(£ million)



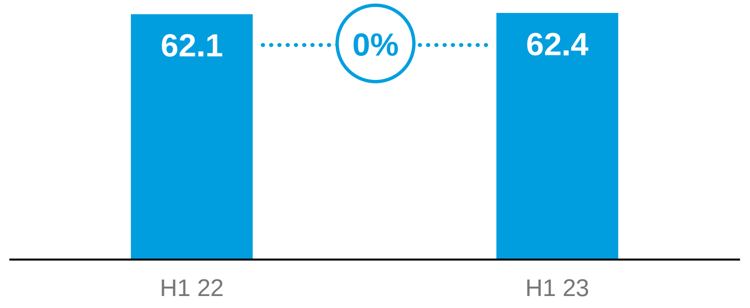
Income

(£ million)



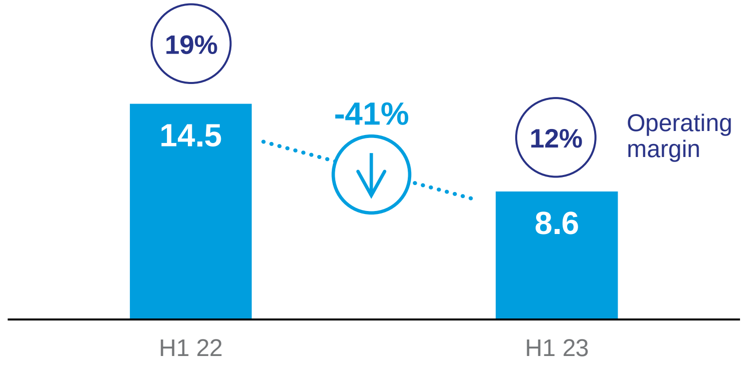
Costs

(£ million)



Adjusted operating profit

(£ million)

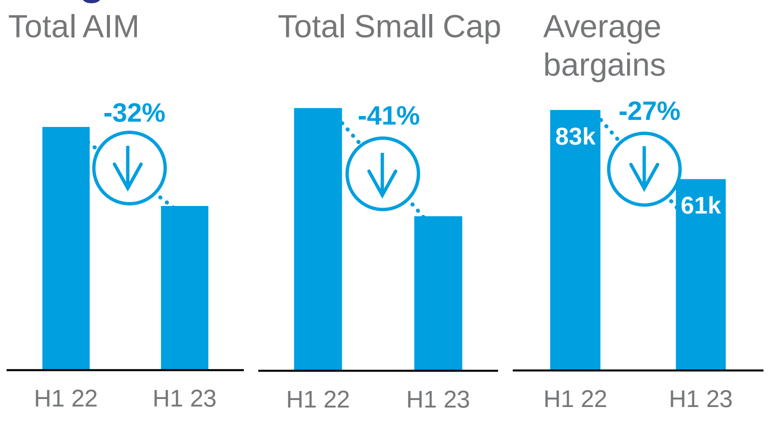


- **Increase in managed assets** (since 31 July 2022) driven by **positive net inflows,** partly offset by **negative market performance**
- **6% annualised net inflows** with **strong contribution from new hires**
- **7% decline in income** driven by **lower average AuM** due to markets and lower **client activity**
- **Decline** in **revenue margin** due to flows into lower margin investment management products
- **Stable expenses** as lower variable compensation offset higher staff costs and investment in new hires
- **41% decrease in adjusted operating profit** as stable costs were more than offset by the reduction in income

Winterflood highlights

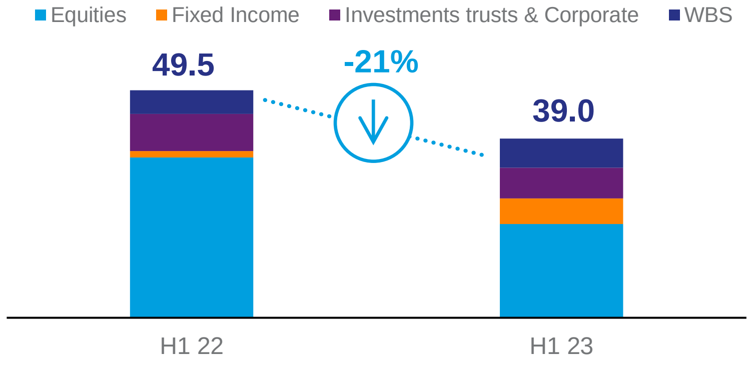
Performance impacted by continued slowdown in trading activity; well placed for when investor appetite returns

Bargains



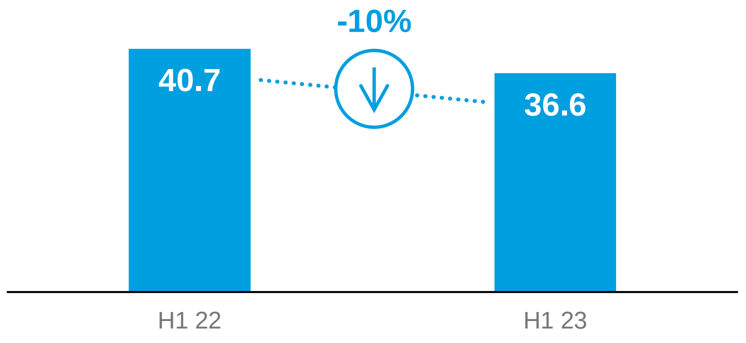
Operating income composition

(£ million)



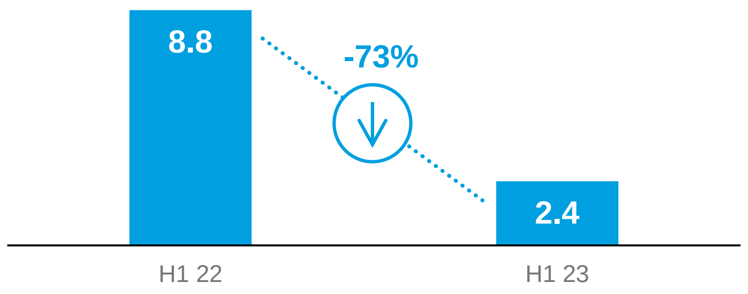
Costs

(£ million)



Operating profit

(£ million)



- Challenging market conditions impacted investor appetite
- **Reduced retail activity** with **average daily bargains at 61k**, marginally above pre-pandemic levels (FY19: 56k)
- **Operating income** decreased reflecting **lower trading revenues** as equity markets suffered sustained declines, particularly in **higher margin sectors** of AIM and Small Cap
- **Diversified revenue streams**, supported by **strong WBS growth**
- **Operating expenses** decreased as a result of lower variable staff costs
- **Long track record** of **trading profitably** in a range of market conditions and **well positioned** to retain our market position

Strong balance sheet

Well placed to continue funding and supporting loan book growth

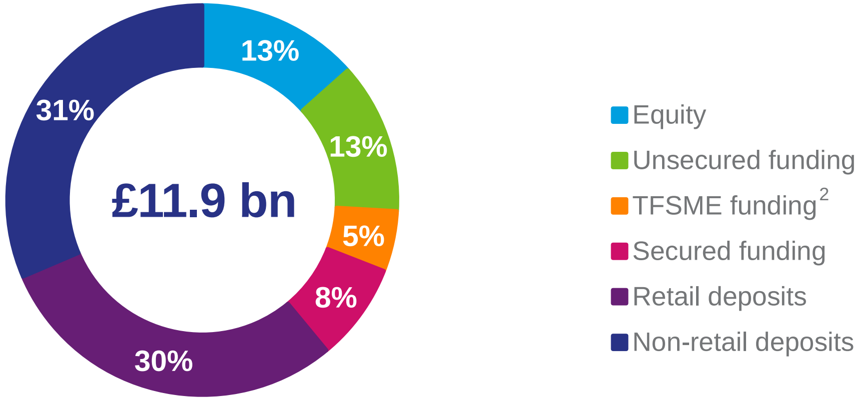
Prudent approach

- Conservative approach to funding, focused on diversity of sources and prudent maturity profile
- Maintain "borrow long, lend short" principle
- Prudent liquidity management, with Liquidity Coverage Ratio of 1,034%

Diverse funding base

- **Average cost of funds** increased to **2.6%** (2022: 1.3%) due to **rising interest rates**
- Mitigated pressure on **cost of funds** by continued **optimisation** of **group's liability mix**
- Expect cost of funds to remain elevated in the next financial year
- **7% increase** in our **total deposit base** to **£7.3bn**
  - **Retail** book now makes up **49% of deposits**
- Strong credit ratings[1], with Close Brothers Ltd rated Aa3 by Moody's

Total funding £11.9 billion	**Average maturity** of loan book funding at **18 months**
Loan book £9.0 billion	**Average maturity** of the loan book at **16 months**
Treasury assets £2.1 billion	Includes **£1.9bn** with central banks



+14%
Increase in retail deposits in the first half

c.£900m
Balances in expanded Notice Account range

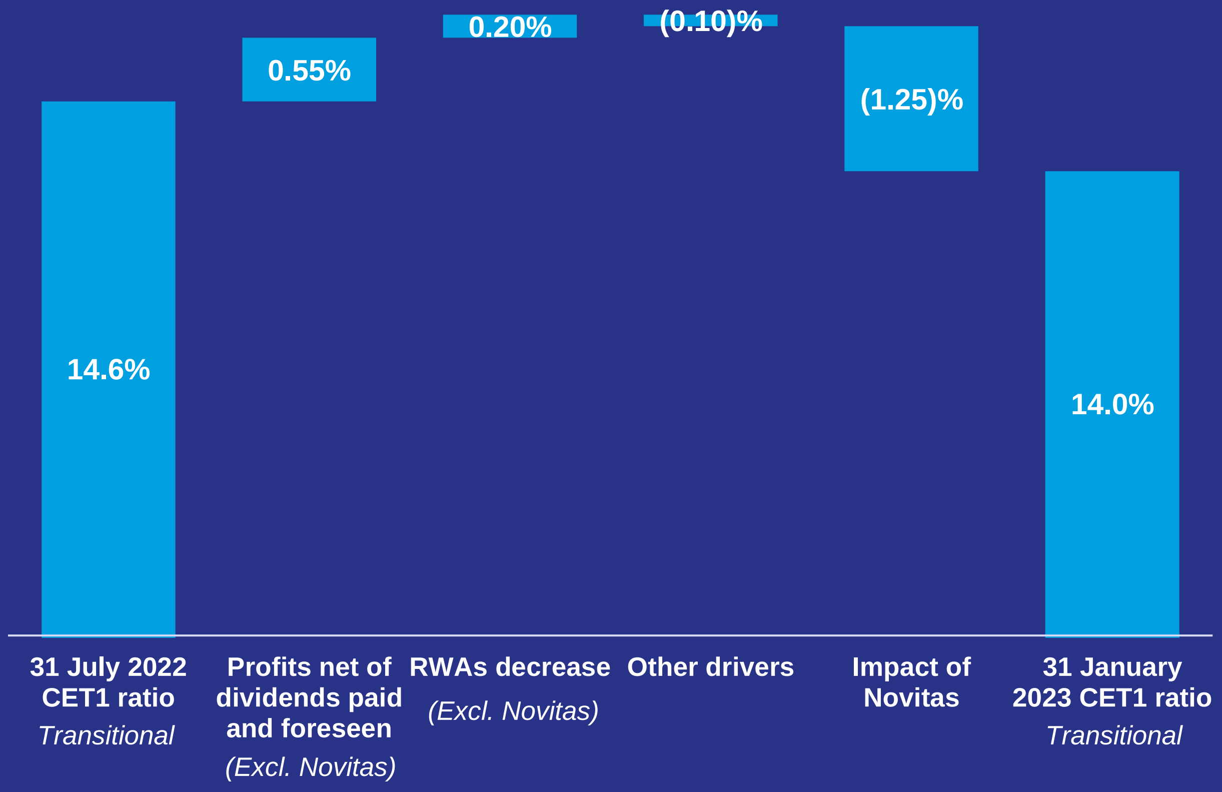
Close Brothers

Notes: [1] Moody's rates Close Brothers Group ("CBG") A2/P1 and Close Brothers Limited ("CBL") Aa3/P1, both with a 'stable' outlook. Fitch rates both CBG and CBL A-/F2 with a 'negative' outlook.
[2] Term Funding Scheme with Additional Incentives for SMEs.

Capital

Strong capital position

Movement in CET1 capital ratio over the year[1]



Capital overview

	31 January 2023	31 July 2022
CET1 capital ratio (transitional)	14.0%	14.6%
Total capital ratio (transitional)	16.1%	16.6%
Leverage ratio[2]	12.0%	12.0%
CET1 capital (£m)	1,311	1,397
RWAs (£m)	9,383	9,591

- **Reduction in CET1 capital** mainly reflected the impact of **Novitas** on **retained earnings** and a **decrease in RWAs**
- Decline in **RWAs** mainly related to derivates held for hedging purposes
- **Leverage ratio** remained strong at **12.0%**
- Continue to engage with the PRA on **IRB application** with additional documentation submitted as part of **Phase 2**

Notes: [1] The fully loaded CET1 ratio, excluding the application of IFRS 9 transitional arrangements, would be 13.7% at 31 January 2023 (31 July 2022: 13.8%).
[2] The leverage ratio is calculated as tier 1 capital as a percentage of total balance sheet assets excluding central bank claims, adjusting for certain capital deductions, including intangible assets, and off balance sheet exposures, in line with the UK leverage framework under CRR.

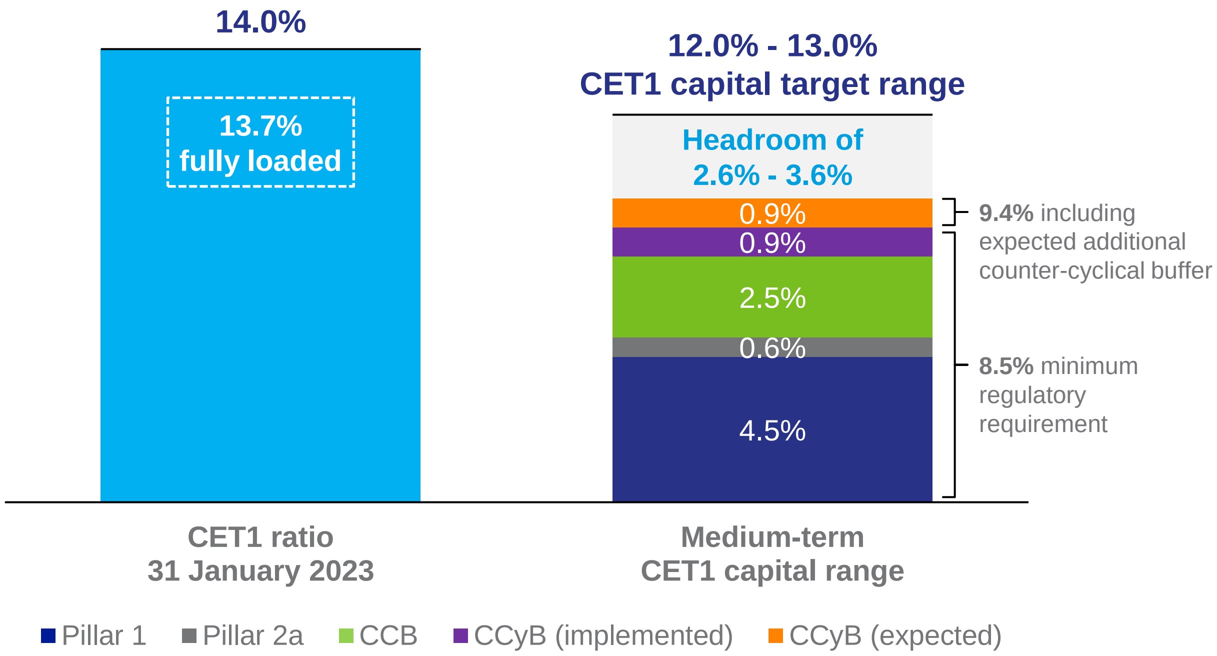
Capital management framework

Prudent management of financial resources is a core part of our business model

CET1 capital ratio target range

Committed to optimising further our capital structure, including the issuance of debt capital market securities if appropriate.

Targeting a CET1 capital ratio range of 12% to 13% over medium term, which will allow the group to maintain a buffer to minimum regulatory requirements while retaining flexibility for growth



Deploying capital to deliver disciplined growth

1 Loan book growth

Deploy capital to support disciplined loan book growth in Banking

2 Strategic growth opportunities

Strategic growth initiatives and small acquisitions in existing or adjacent markets that fit with our business model

3 Capital distributions to shareholders

Commitment to a progressive and sustainable dividend while maintaining a prudent level of dividend cover

Further capital distributions to shareholders will be considered depending on future opportunities

03

Business update

Adrian Sainsbury

Chief Executive Office

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Well placed to move forward on the delivery of our strategy

Strengths of our model have been evidenced through many cycles and remain unchanged

Continued confidence in our model

- Disciplined underwriting and pricing through the cycle
- Quality loan book, predominantly secured, prudently underwritten and diverse
- Service, expertise and long-term relationships
- Distinctive culture
- Long-term dividend track record

Remain focused on our strategic priorities

- PROTECT
- GROW
- SUSTAIN

Resuming our track record of earnings growth and returns

1 Disciplined growth

Delivering disciplined growth

2 Cost efficiency

Intensified focus on cost discipline and efficiency. Committed to delivering positive operating leverage over the medium term

3 Capital optimisation

Committed to optimising further our capital structure

Protect: Keeping our model safe

Investing to take the business model forward while intensifying our focus on cost discipline

PROTECT

Continuous investment to maintain the key strengths of our high-touch business model

- Asset Finance transformation
- Customer deposit platform
- Motor Finance transformation
- Technology transformation programme
- Cyber resilience
- Retail operations simplification programme
- CBAM technology projects
- IRB transition
- Data centre transformation

Intensified focus on cost discipline and efficiency opportunities

- **Strategic cost management initiatives in progress:**
  - Rationalisation of IT infrastructure
  - Operational enhancements in Retail
- **Continue to evaluate opportunities for efficiency**
- **Committed to delivering positive operating leverage over the medium term**

Spotlight: Motor Finance transformation

Multi-year programme of technology, digital, cultural, and sales expertise change

Tangible benefits (since FY19):

- Enabled us to **make the most of growth opportunities** in the second hand car market
- Supported a **decrease** in **dealer time to sell**
- **Strategic partnerships** with AutoTrader and iVendi
- More **routes to customers** and **dealers** via API links
- Increased **sales productivity**

Spotlight: Customer Deposit Platform

Investment programme included a full replacement of the back-office systems, creating a strong foundation to grow our Savings proposition

Tangible benefits (since launch of platform):

- Broadened offering with new product launches and online portal
- **80% growth** in **retail savings book** since launch of platform
- **57% growth** in **retail depositors**
- Supported further optimisation of funding mix, minimising impact of higher interest rates on cost of funding
- Very high service levels, with **customer satisfaction score of 88%**[1]

Notes: [1] Average customer satisfaction score for period 1 August 2022 – 31 January 2023.

Grow: Committed to delivering disciplined growth

Maximising opportunities in existing and adjacent markets

GROW

Focus on delivering disciplined growth, with a strong pipeline of identified target areas that are aligned with our Model Fit Assessment Framework

Financing the UK's transition to a net zero economy

We aim to provide £1.0 billion of funding for battery electric vehicles in the next five years

Over £90 million lent in H1 2023

Significant opportunity in broadening our sustainable finance offering

Incremental growth opportunities

Actively reviewing opportunities for growth that fit our business model

Execution of deals from newly hired specialist teams in Asset Finance

Successful piloting of a buy-to-let offering to existing Property bridging finance customers

Continue to take advantage of opportunities in the ABL space and hired new team in Invoice Finance providing bespoke term loan structures for SMEs

Capitalising on long-term trends in Wealth Management

Target net inflows of 6% - 10% in CBAM, subject to market conditions

6% net inflow rate in H1 2023 with strong contribution from new hires

Building on an excellent track record of increasing client assets organically

Continued selective hiring and in-fill acquisitions

Significant growth potential in WBS

WBS Assets under administration expected to exceed £10 billion in the 2023 financial year

Grew AuAs to £12.4 billion at 31 January 2023, supported by onboarding of Fidelity International

Award-winning and highly scalable proprietary technology

Sustain: Our responsibility

Our responsibility remains fundamental to our purpose, strategy and culture

SUSTAIN

Environment

As a signatory to the **Net Zero Banking Alliance**, we have committed to transition our operational and attributable GHG emissions from our lending and investment portfolios to align with pathways to net zero by mid-century or sooner

Operational

- 22% reduction in fleet vehicle emissions vs 31 July 2022
- Over 40% of company cars now fully electric
- Completed initial assessment across all categories of Scope 3 emissions

Commercial

- CBAM became a signatory of the Net Zero Asset Managers initiative
- Funded over £90 million of battery electric vehicles in the first half of 2023 financial year
- Working with our property customers on sustainable, low carbon homes
- Creating the Sustainable Select Fixed Income fund in March 2023

Society

- A total of £120,000 pledged to support The Wildlife Trusts, Bookmark, Stop Hate UK and Smart Works
- Hosted 37 interns across the Group in partnership with the 10,000 Black Interns and UpReach
- 6 Aspire (school leaver) trainees currently in placements
- Programme of events from our networks covering Black History Month and World Menopause Day, amongst others

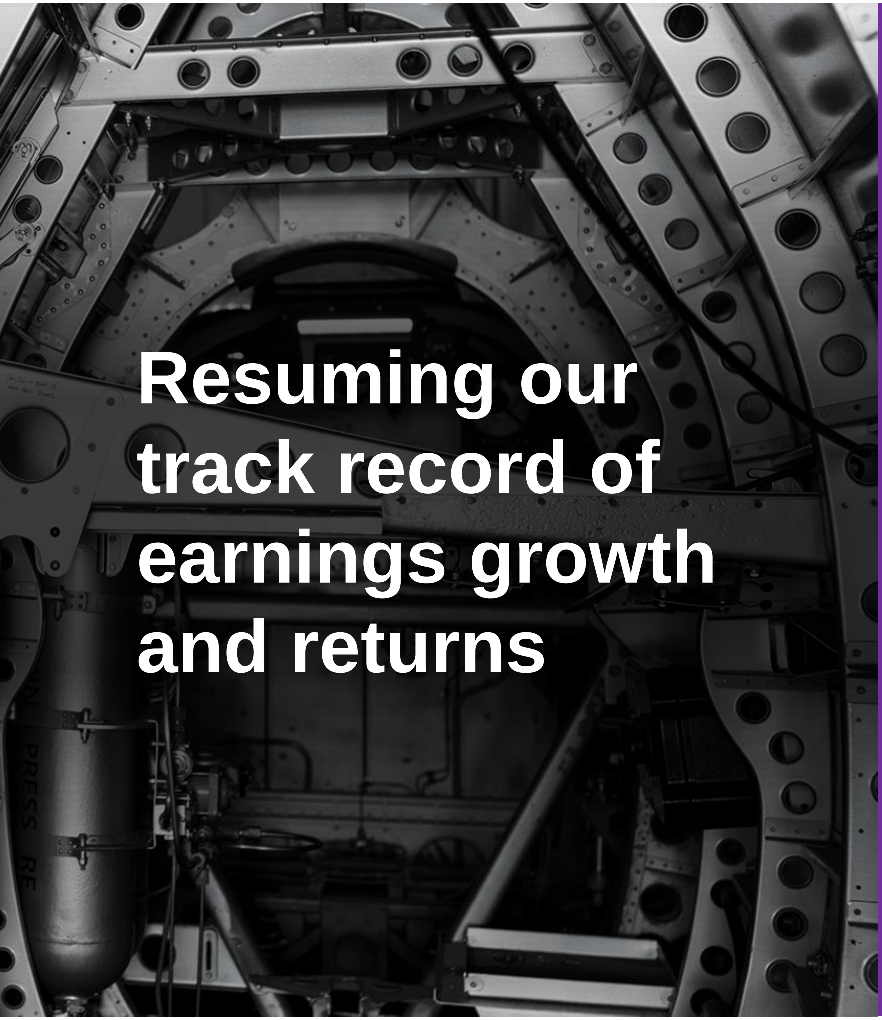
Governance

- 40% of the board are women and one board member is from a minority ethnic background, meeting requirements
- Group Sustainability and Climate Committee established – reporting into two Board committees
- CBAM became a signatory of the UK Stewardship Code
- Preparations for the implementation of the FCA's new Consumer Duty regime continue

RATINGS CDP C MSCI AAA Bloomberg Gender-Equality Index 2020

Outlook

Well placed to move forward on the delivery of our strategy



Resuming our track record of earnings growth and returns

1 Disciplined growth

Focus on delivering **disciplined growth**, actively evaluating potential growth opportunities aligned with our Model Fit Assessment Framework

2 Cost efficiency

Intensified focus on **cost discipline** and **efficiency** with strategic cost management initiatives in progress and more in the pipeline

Committed to delivering **positive operating leverage** over the **medium term**

3 Capital optimisation

Committed to further **optimising** our **capital structure**

- Issuance of **debt capital market** securities if appropriate
- Targeting a **CET1 capital ratio range of 12% to 13%** over the **medium term**

04 Q&A

Close Brothers
Modern Merchant Banking

Appendix

Appendix: Business update – Banking

Delivering disciplined growth

GROW

COMMERCIAL

Asset Finance

- Continue to build expertise in the financing of **green and transition assets**
- Focused on **expanding sector coverage**, with recently hired **Agricultural Equipment** and **Materials Handling teams** building a **healthy pipeline** and **executing deals**
- Well positioned to capitalise on **continued demand** for finance from SMEs

Invoice & Speciality Finance

- Focused on taking advantage of opportunities in the **Asset Based Lending** space including via syndication partnerships and financing larger loans
- **New team** focused on **bespoke term loan structures** for SMEs
- Expect **growth trajectory** to follow the **economic conditions**

RETAIL

Motor Finance

- Using **APIs** to **connect into strategic partners** (including AutoTrader and iVendi)
- Innovative **dealer proposition** proving successful, with our **forecourt offering** being evolved further
- **Expanded our credit policy** to provide **broader coverage of AFVs**[1] as they become more prevalent in second hand car market over the longer term

Premium Finance

- Continued focus on **digital, data** and **insight capabilities** to enhance our offering and support brokers' decisioning
- Anticipate **demand for funding** of insurance policies could **increase** given **current macroeconomic uncertainties**

PROPERTY

Property

- **Undrawn pipeline of commitments** strong at **c.£1 billion**, although economic uncertainty expected to continue to impact market activity
- Successful piloting of a **specialist buy-to-let extension** to our **existing bridging finance customers** – continuing to offer product
- Partnership with **Travis Perkins**, establishing a facility enabling SME housebuilders to access supplies and materials directly, **proven successful**
- Continue to build out **bridging finance offering**
- **Economic uncertainty** expected to continue to **impact activity** in the property market

Notes: [1] Alternatively Fuelled Vehicles

Appendix: Business update - Asset Management

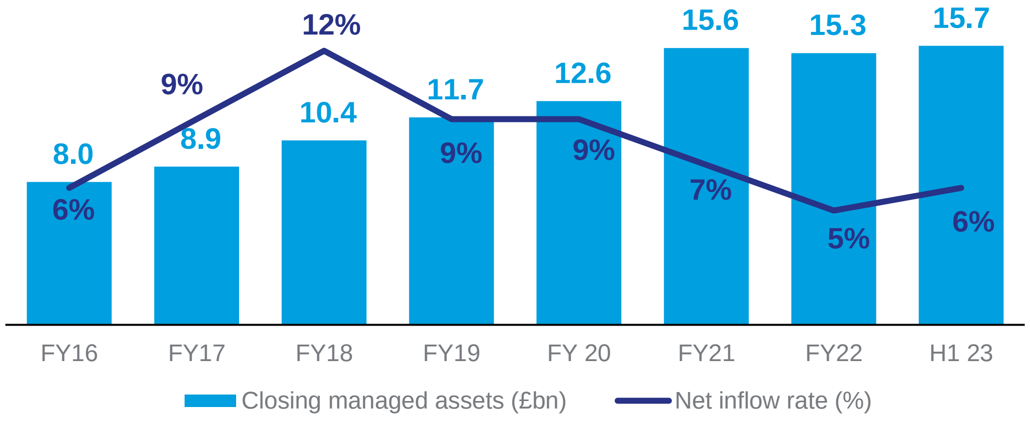
GROW

Well placed to continue to build on a long track record of growth

	Target net inflows of 6% - 10%			H1 23 milestones
Inorganic growth	Acquisitions			Five new client facing colleagues
	Hiring			
Business development growth	Broaden and deepen channels	Proposition development	New market areas	Creating Sustainable Select Fixed Income fund
Foundational growth	• Excellent client service and high staff retention • Smooth administration • Strong investment performance • Strong brand and reputation			Investor in Customers Silver Award

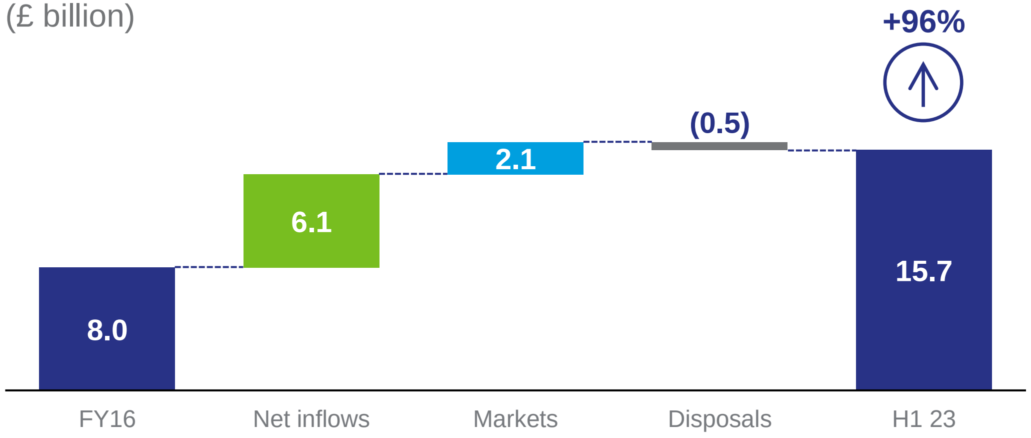
Net inflow rates and closing managed assets

(% and £ billion)



Assets under management

(£ billion)



Close Brothers

Appendix: Business update - Winterflood

Continued WBS growth drives income diversification

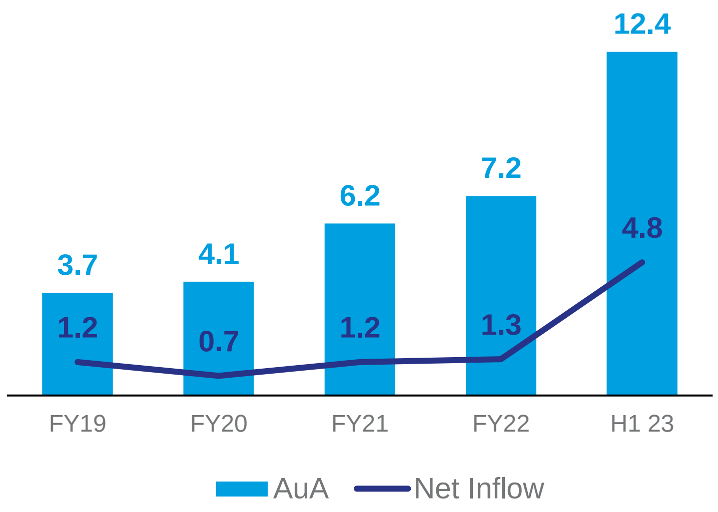
GROW

Winterflood Business Services

- **WBS continued its positive trajectory despite declining equity markets and record low consumer confidence**
- Assets under administration (“AuA”) **up 72% to £12.4 billion in H1**, after successfully completing the planned migration of custody assets of Fidelity International
- **Strong income growth of 24%** to £6.3 million
- **Strong pipeline** of clients and diversification of client base provides a basis to drive growth both **externally** and **organically**

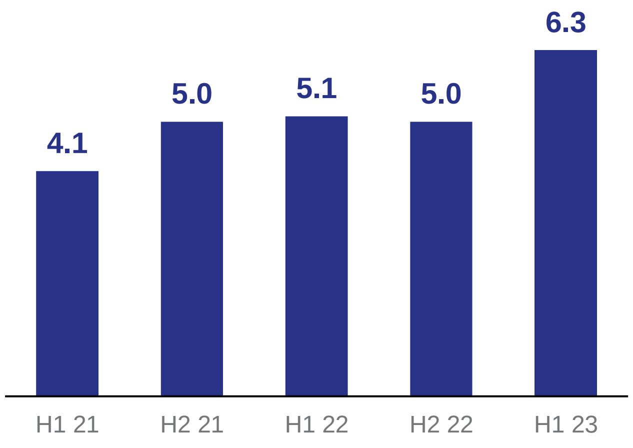
WBS AuA

(£ billion)



WBS Income

(£ million)



Diversification of client base

Fee driven revenue model – greater predictability from fees

Sticky annuity style income stream

Significant growth potential

WBS Clients

Appendix: Income Statement

Including and excluding Novitas

Including Novitas £ million	H1 2023	H1 2022	% change
Operating income	474.3	471.6	1
Adjusted operating expenses	(299.5)	(293.5)	2
Impairment losses	(162.2)	(48.3)	236
Adjusted operating profit	**12.6**	**129.8**	**(90)**
Adjusted operating profit, pre provisions	**174.8**	**178.1**	**(2)**

Excluding Novitas (£ million)	H1 2023	H1 2022	% change
Operating income	460.3	453.7	1
Adjusted operating expenses	(295.2)	(284.1)	4
Impairment losses	(47.6)	(9.1)	n/a
Adjusted operating profit	**117.5**	**160.5**	**(27)**
Adjusted operating profit, pre provisions	**165.1**	**169.6**	**(3)**

Appendix: Lending model

Prudent and disciplined approach to lending

A proven and resilient lending model

Long track record of disciplined and consistent lending through the cycle

Predominantly secured loan book, with short tenors and low average loan sizes

Experience in underwriting, collections and credit risk management

Scenario planning to leverage internal expertise and experience

Well positioned to protect the business and maximise opportunity in the event of a downturn

	Core products and security[1]	Average loan size[2,3]	Typical loan maturity[2,3]
Asset Finance	• Commercial asset financing, hire purchase and leasing solutions • Diverse range of assets and sectors	c.£58k	3 – 4 years
Invoice & Speciality Finance	• Debt factoring, invoice discounting and asset-based lending • Includes our smaller, specialist businesses	c.£510k	3 months
Motor Finance	• Point of sale finance for predominantly used vehicles • PCP c.10% of the loan book	c.£7k	4 years
Premium Finance	• Personal and commercial insurance policies • Policy refundability and/or broker recourse	c.£0.5k	10 months
Property Finance	• Residential development finance, refurbishment and bridging loans • Typical LTVs below standard market levels	c.£1,350k	12 – 24 months

Notes: [1] Lending statistic figures are for illustrative purposes only and may not be representative of all loan types. The profile of individual loans may vary significantly. [2] Approximations at 31 January 2023. [3] Typical loan maturities for new business on a contractual basis, except core Invoice Finance which is on a behavioural basis. Average loan size and typical loan maturity include the Invoice Finance business only.

Appendix: Motor Finance Transformation programme

Multi-year programme significant enhanced capabilities and improved how we do business

PROTECT

GROW

SUSTAIN

A multi-year programme of technology, digital, cultural and sales expertise change that delivered significant improvements to the way we operate as a business

- £34 million investment programme initiated in 2017
- Focused on improving **service proposition,** enhancing **operational efficiency** and **control**, improving **underwriting** and **collections** processes, upgrading **legacy technology systems** and increasing **UK sales effectiveness**

Enhanced capabilities delivered

Process optimisation
Dealer funding process, dashboards

Dealer management
Integration and strategic insights

Telephony systems
New capabilities and strategic partner

Salesforce rollout
CRM roll-out

Credit optimisation
Underwriting platform, decision engine and bureau data

Sales capability
Roll out of training across core competencies, leadership and management

Electronic commissions
Dealer commission payments moved to electronic BACS process

Covid support team
Specialist support mobilised for Covid period

Move to hubs
Organisational design changes, moving to 5 hubs

Channel expansion
API service, online calculators, lead generation, remote e-signature

Appendix: Motor Finance Transformation programme

Delivered significant financial and non-financial benefits

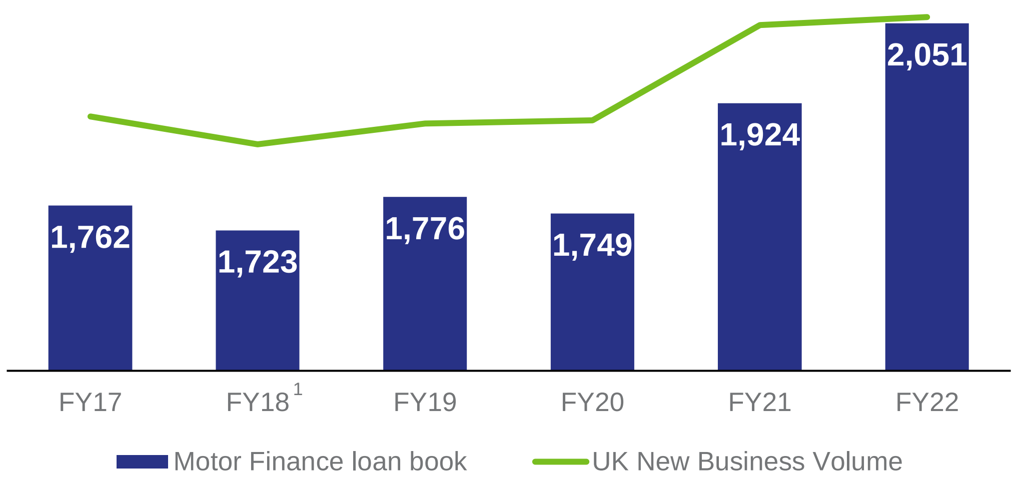
PROTECT

GROW

SUSTAIN

Financial benefits

Loan book (£ million) and new business volumes



- Enabled us to make the most of growth opportunities in the second hand car market
- Supporting new business volumes and loan book growth

Non-Financial Benefits

- Improved customer journey
- Stable and resilient systems
- Encouraged knowledge sharing culture
- Delivering better service to dealers and customers
- Improved control environment and process standardisation
- Delivering insight led dealer proposition
- Enabled effective response to Covid-19, with remote lending capability supporting dealers during lockdowns

Brand Health (dealer)	Net Ease (customer)	Dealer Satisfaction
55	+81	+75

Notes: [1] FY18 Motor Finance loan book restated for IFRS 9 transitional adjustment.

Appendix: Motor Finance Transformation programme

2022: Motor's award winning year

Delivering for our Partners and Customers in 2022

Motor's Award Winning Year

19 May – CAR FINANCE AWARDS 2022
- **WINNER**: Innovation of the Year
- **SHORTLISTED**: Best Service for Dealers & Best Independent Lender

8 Sept – CONSUMER CREDIT AWARDS 2022
- **SHORTLISTED**: Best Car Finance Provider

21 Sept – WOMEN IN CREDIT AWARDS
- **WINNER**: Transformation of the Year Winner – Jill Hood

6 Oct – MOTOR TRADER INDEPENDENT DEALER AWARDS 2022
- **SHORTLISTED**: Finance Provider of the Year

12 Oct – CarDealer POWER
- **WINNER**: Finance Provider of the Year
- Product Innovation of the Year

17 Oct – Automotive Inspiring Automotive Women
- **WINNER**: Becky Hughes & Mandy Smith

20 Oct – MotorFinance EUROPE CONFERENCE & AWARDS 2022
- **WINNER**: Independent Provider
- Best Pandemic Response
- Lifetime Achievement Seán Kemple

3 Nov – MarketingWeek AWARDS 2022
- **SHORTLISTED**: Digital Transformation

23 Nov – MOTOR TRADER INDUSTRY AWARDS
- **SHORTLISTED**: Finance Provider of the Year

Sustain: Our Responsibility

Our responsibility is fundamental to our purpose, strategy and culture

SUSTAIN

Sustainable objectives	Environment	Society	Governance
	Reducing our impact on the environment and tackling climate change	Ensuring we are a diverse and inclusive employer Serving the needs of our customers	Setting high standards of corporate governance to ethically and transparently achieve long term success for our stakeholders
Our progress ***At 31 July 2022***	• **45% reduction** in **Scope 1 and 2 emissions** since 2019[1] • Further **43% reduction** in fleet vehicle emissions vs 2021 • Completed **initial assessment** across **all categories** of **Scope 3** emissions • Published our inaugural **TCFD report** • Became a **signatory** to the **Net Zero Banking Alliance**	• **33% female senior managers** at 31 July 2022 • **10%** of **managers** from an **ethnic minority background** at 31 July 2022 • **Strong customer scores**[2]: - Property Finance NPS +87 - Asset Finance CSAT +88 - Savings online CSAT +88	• **50%** of **board members** were **female** at 31 July 2022 • CBAM became a **signatory** of the **UK Stewardship Code** • Received strong ratings of **B-** from **CDP**, **AAA** from **MSCI** and **CIS-1 ESG Credit Impact Score** from **Moody's**
Our targets	• **Operationally net zero by 2030** through our **Scope 1 and 2 emissions** • Align **all operational and attributable emissions** from our **lending and investment portfolios** with **pathways to net zero** by **2050** • Aim to provide **over £1.0 billion** of lending for **battery electric vehicles** over the **next five years**	• **36% female senior managers** by **2025** • **14%** of our **managers** to be of an **ethnic minority background** by **2025** • **Maintain** or **improve customer satisfaction scores** across our businesses	• Maintain **high standards of governance**, with **appropriate Board level oversight** • Aim to **maintain or improve ESG ratings**

Some of our partners and commitments

Stop Hate UK · The Valuable 500 · Make-A-Wish United Kingdom · upReach · Stonewall (Acceptance without exception) · Cancer Research UK · Bookmark (Change a child's story) · the trussell trust (Stop UK Hunger) · Race at Work Charter · Smart Works

Notes: [1] Market based Scope 1 and 2 emissions. [2] Customer satisfaction score ("CSAT"). Net promoter score ("NPS"). Property Finance NPS excludes Commercial Acceptances.

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