Disclaimer

Certain statements included or incorporated by reference within this presentation may constitute “forward-looking statements” in respect of the group’s operations, performance, prospects and/or financial condition.

By their nature, forward-looking statements involve a number of risks, uncertainties and assumptions and actual results or events may differ materially from those expressed or implied by those statements. Accordingly, no assurance can be given that any particular expectation will be met and reliance should not be placed on any forward-looking statement. Additionally, forward-looking statements regarding past trends or activities should not be taken as a representation that such trends or activities will continue in the future. No responsibility or obligation is accepted to update or revise any forward-looking statement resulting from new information, future events or otherwise. Nothing in this presentation should be construed as a profit forecast.

This presentation does not constitute or form part of any offer or invitation to sell, or any solicitation of any offer to purchase any shares or other securities in the company, nor shall it or any part of it or the fact of its distribution form the basis of, or be relied on in connection with, any contract or commitment or investment decisions relating thereto, nor does it constitute a recommendation regarding the shares and other securities of the company. Past performance cannot be relied upon as a guide to future performance and persons needing advice should consult an independent financial adviser.

Statements in this presentation reflect the knowledge and information available at the time of its preparation.

Liability arising from anything in this presentation shall be governed by English Law. Nothing in this presentation shall exclude any liability under applicable laws that cannot be excluded in accordance with such laws.
Introduction
Preben Prebensen
Chief Executive Officer
## Agenda

<table>
<thead>
<tr>
<th></th>
<th>1. Introduction</th>
<th>Preben Prebensen</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2. Banking model in action</td>
<td>Adrian Sainsbury</td>
</tr>
<tr>
<td></td>
<td>3. Financial delivery and investment</td>
<td>Mike Morgan</td>
</tr>
<tr>
<td></td>
<td>5. Prudent funding and liquidity</td>
<td>Malcolm Hook</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Invoice Finance – David Thomson</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Premium Finance – Sharon Bishop</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Motor Finance – James Broadhead</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Property Finance – Frank Pennal</td>
</tr>
<tr>
<td></td>
<td>7. Q&amp;A</td>
<td></td>
</tr>
</tbody>
</table>
Close Brothers model
Established business model through the cycle

1. Build leading positions in 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
Active management of the model
Maximising the potential of our business model

PROTECT
• Prudent underwriting and strong margins
• Conservative funding, capital and liquidity

IMPROVE
• Operating efficiency
• People
• Technology
• Customer experience

EXTEND
• New initiatives
• Growth in existing markets

Diversity of our businesses
Three specialist lending segments

Commercial
- Asset Finance 29%
  - Hire purchase, leasing and refinancing solutions for a diverse range of assets
  - 27k SMEs and individuals

Retail
- Invoice Finance 8%
  - Invoice discounting, debt factoring, Novitas loans, rentals
  - 1.7k SMEs

- Premium Finance 13%
  - Finance for personal & commercial insurance premiums via 1,700 brokers
  - 2.0m individuals

- Motor Finance 26%
  - Point of sale finance for predominantly used cars, motorcycles and LCVs via 7,000 dealers
  - 240k individuals

- Property Finance 24%
  - Short-term financing for property development and bridging loans
  - c.800 customers

What we do NOT do
- Mortgages
- Buy to Let
- Current accounts
- Overdrafts
- Credit cards

Note: Percentage indicates loan book split at 31 July 2017
Diversity of our businesses

Three specialist lending segments

<table>
<thead>
<tr>
<th>Commercial</th>
<th>Retail</th>
<th>Property</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Asset Finance</strong> 29%</td>
<td><strong>Invoice Finance</strong> 8%</td>
<td><strong>Premium Finance</strong> 13%</td>
</tr>
<tr>
<td>Transport</td>
<td>Invoice UK</td>
<td>Commercial</td>
</tr>
<tr>
<td>Industrial equipment</td>
<td>Invoice Ireland</td>
<td>Motor UK</td>
</tr>
<tr>
<td>Asset Ireland</td>
<td>Invoice Germany</td>
<td>Personal</td>
</tr>
<tr>
<td>Technology services</td>
<td>Brewery rentals</td>
<td>Motor Ireland</td>
</tr>
<tr>
<td>Specialist asset finance</td>
<td>Novitas</td>
<td>Property finance</td>
</tr>
</tbody>
</table>

**What we do NOT do**

- Mortgages
- Buy to Let
- Current accounts
- Overdrafts
- Credit cards

Note: Percentage indicates loan book split at 31 July 2017
Banking track record
Long history of profitable growth through the cycle

<table>
<thead>
<tr>
<th>Banking key metrics</th>
<th>10 year average</th>
<th>FY 2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>RoE</td>
<td>22%</td>
<td>23%</td>
</tr>
<tr>
<td>RoNLB</td>
<td>3.4%</td>
<td>3.6%</td>
</tr>
<tr>
<td>Bad debt ratio</td>
<td>1.4%</td>
<td>0.6%</td>
</tr>
<tr>
<td>Net interest margin</td>
<td>8.9%</td>
<td>8.1%</td>
</tr>
<tr>
<td>Loan book growth</td>
<td>13%</td>
<td>7%</td>
</tr>
</tbody>
</table>

- Bear market 2000 - 2003 +22% p.a
- Easy credit 2004 - 2007 +4% p.a
- Credit crunch 2009 - 2012 +20% p.a
- Benign credit 2013 - 2017 +7% - 14%

Banking key metrics for FY 2017:
- **RoE**: 23%
- **RoNLB**: 3.6%
- **Bad debt ratio**: 0.6%
- **Net interest margin**: 8.1%
- **Loan book growth**: 7%

Adj usted operating profit and loan book growth over the years.
### Consistent underwriting

Consistent lending criteria through the cycle

#### Credit risk appetite unchanged
- **Strong risk culture** – “cradle to grave”
- Predominantly **secured lending**
- Funding assets we **know** and **understand**

#### Underwriting criteria unchanged
- **Local underwriting** with central oversight
- Majority of **loans underwritten manually** against defined lending policy
- **Maintain quality of new business** in the face of increased competition

#### Business

<table>
<thead>
<tr>
<th>Business</th>
<th>Typical LTV</th>
<th>Average loan size</th>
<th>Typical loan maturity</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Motor Finance</strong></td>
<td>75 – 85%</td>
<td>£6.5k</td>
<td>2 – 4 years</td>
</tr>
<tr>
<td><strong>Premium Finance</strong></td>
<td>91%</td>
<td>£600</td>
<td>10 months</td>
</tr>
<tr>
<td><strong>Asset Finance</strong></td>
<td>80 – 90%</td>
<td>£41.5k</td>
<td>32 months</td>
</tr>
<tr>
<td><strong>Invoice Finance</strong></td>
<td>80%</td>
<td>£360k</td>
<td>2 – 3 months</td>
</tr>
<tr>
<td><strong>Property Finance</strong></td>
<td>50 - 60%</td>
<td>£1.2m</td>
<td>6 – 18 months</td>
</tr>
</tbody>
</table>

*Note: 1 Average outstanding loan*
Extending the model
Actively seeking new niches

Loan book £bn

1996 Used print equipment
1999 Premium personal lines
Small ticket property development
2001 Machine tools
Professionals finance
2005 Asset finance
Broker business
2007 Brewery rentals
2008 Mid-ticket leasing
Bridging / property refurbishment
2009 Motor key accounts
Commercial vehicles
2011 Larger ticket invoice
2014 Renewable energy
2012 Ireland
2015 Consumer finance
2016 Technology leasing
2017 Asset Germany
2017 Financing legal fees

Close Brothers
Financial delivery and investment
Mike Morgan
Banking Division CFO
Pricing and underwriting discipline

Model supports strong and consistent returns through the cycle

- **Strong returns through the cycle**
  - FY17 RoNLB 3.6%
  - 10 year average 3.4%

- **NIM remains high at over 8%**
  - Prioritise margins over growth
  - NIM consistent across segments

- **Bad debt low at 0.6%**
  - 10 year average 1.4%
  - Maintain underwriting discipline

- **Investing through the cycle**
  - Active management of BAU costs
  - E/I ratio below 50%

**RoNLB % Breakdown**

<table>
<thead>
<tr>
<th>Key metrics</th>
<th>FY17</th>
</tr>
</thead>
<tbody>
<tr>
<td>NIM %</td>
<td>8.1%</td>
</tr>
<tr>
<td>Bad debt %</td>
<td>(0.6%)</td>
</tr>
<tr>
<td>Expense %</td>
<td>(3.9%)</td>
</tr>
<tr>
<td>RoNLB %</td>
<td>3.6%</td>
</tr>
</tbody>
</table>
**Cost discipline**
Control costs while investing to protect, improve and extend the model

- **E/I ratio stable** and remains below 50%  
  - Operating leverage neutral for FY17  
  - c.50% of cost increase investment driven

- **High-touch** people-intensive model  
  - Staff costs c.60% of cost base  
  - c.50% of FY17 cost growth staff driven

- Continue to **invest through the cycle**  
  - Protecting and improving proposition of existing businesses  
  - Extending model by investing in new initiatives and product offerings
Investing in the model
Maximising the potential of our business model

EXTEND
- Novitas
- Germany
- Technology Services

IMPROVE
- Premium investment
- AIRB
- Treasury deposit platform
- Motor customer proposition

PROTECT
- IT infrastructure
- Control functions
- Prudent capital position
- Use of data e.g. IFRS9
Actively managing capital
Prudent capital position supported by strong profitability

2019 fully loaded capital requirements

Prudent approach to capital

- **Strong profitability** supports growing CET1 capital base
- CET1 capital ratio provides **significant headroom** to 2019 fully loaded requirements
- **Strong leverage ratio**¹ at 10.7%, reflecting prudent capital position and conservative risk weighting under standardised approach

**AIRB**

- **Opportunity** to optimise capital position
- Current risk weightings do not reflect secured nature of the book and long track record
- **Commenced discussions** with the PRA

---

Note: 1 The leverage ratio is calculated as tier 1 capital as a percentage of total balance sheet assets, adjusting for certain capital deductions, including intangible assets, and off balance sheet exposures.
IFRS 9
Well positioned for implementation in FY 2019

- IFRS9 applies to Close Brothers for the financial year ending 31 July 2019

- Fundamental change in accounting for credit losses from “incurred” to “expected” basis
  - Use of models to estimate expected credit losses based on composition of loan book and macroeconomic outlook

- Good progress towards implementation
  - Initial model build complete with 12 month parallel run through FY 2018

- Implementation will increase impairment provisions on balance sheet and may result in higher volatility in income statement

Three stage model

<table>
<thead>
<tr>
<th>Stage</th>
<th>Description</th>
<th>Expected Loss</th>
<th>IAS 39 Requirements</th>
</tr>
</thead>
<tbody>
<tr>
<td>Stage 1</td>
<td>All loans not in stage 2 or 3</td>
<td>12 months</td>
<td>No requirements</td>
</tr>
<tr>
<td></td>
<td></td>
<td>expected loss</td>
<td>under IAS 39</td>
</tr>
<tr>
<td>Stage 2</td>
<td>Significant increase in credit risk</td>
<td>Lifetime expected</td>
<td>No requirements</td>
</tr>
<tr>
<td></td>
<td></td>
<td>loss</td>
<td>under IAS 39</td>
</tr>
<tr>
<td>Stage 3</td>
<td>Objective evidence of impairments</td>
<td>Lifetime expected</td>
<td>Similar to IAS 39</td>
</tr>
<tr>
<td></td>
<td></td>
<td>loss</td>
<td></td>
</tr>
</tbody>
</table>
Prudent funding and liquidity

Malcolm Hook
Group Treasurer

Close Brothers
Diversity of funding

Diversity of funding sources supports lending through the cycle

Increase in funding to support loan book growth

<table>
<thead>
<tr>
<th>Year</th>
<th>Loan Book</th>
<th>Total Funding</th>
</tr>
</thead>
<tbody>
<tr>
<td>FY12</td>
<td>4.1</td>
<td>5.9</td>
</tr>
<tr>
<td>FY17</td>
<td>6.9</td>
<td>8.8</td>
</tr>
</tbody>
</table>

- **Funding** has been increased by £2.9bn since 2012 to support the Bank’s lending
- **Growth driven through increase in:**
  - Customer deposits
  - Unsecured and secured funding
  - Equity

Diverse funding sources

<table>
<thead>
<tr>
<th>Source</th>
<th>FY12</th>
<th>FY17</th>
</tr>
</thead>
<tbody>
<tr>
<td>Corporate deposits</td>
<td>3.5</td>
<td></td>
</tr>
<tr>
<td>Unsecured Funding</td>
<td>1.1</td>
<td>1.3</td>
</tr>
<tr>
<td>Secured Funding</td>
<td>1.3</td>
<td></td>
</tr>
<tr>
<td>Retail deposits</td>
<td>1.6</td>
<td></td>
</tr>
<tr>
<td>Equity</td>
<td>1.2</td>
<td></td>
</tr>
</tbody>
</table>

- Prudent **level of funding** at 127% of loan book
- **Diverse funding** reduces concentration risk
  - **Good access** to both retail and corporate deposits
  - **Strong credit ratings** supports access to public debt markets
- **Optionality of ‘where’** to source funding

Note: 1 Total funding may not add up to £8.8bn due to rounding
Prudent maturity and strong liquidity
“Borrow long, lend short” increases resilience

Funding maturity
£ billion

- High quality loan book with average maturity of 14 months

- Borrow long and lend short, with average maturity of loan book funding at 21 months supporting:
  - Lending through the cycle
  - Optionality of ‘when’ to access funding
  - Strong credit rating

- £1.0 billion of treasury assets

- CBG: Fitch A, Moody’s A3
- Bank: Fitch A, Moody’s Aa3

Loan book and treasury assets
Total funding

- Treasury assets
- < 1 year
- > 1 year
- Green Equity

Average maturity
14 months

Average maturity
21 months

Note: 1 Total funding may not add up to £8.8bn due to rounding
Enhancing customer deposits
Reinvesting in the business to enhance our customer proposition

1. Analysis

2. Observations

3. Focus groups

Current retail savings proposition

<table>
<thead>
<tr>
<th>Fixed Term Deposits</th>
<th>ISAs</th>
<th>Notice accounts</th>
<th>Easy Access</th>
<th>Online</th>
</tr>
</thead>
<tbody>
<tr>
<td>✓</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
</tr>
</tbody>
</table>

Understanding our customers

• c.60% of our retail depositors are from older families with large savings

• Customer surveys have evidenced steadily improving levels of satisfaction

Enhancing customer proposition

• Investment in customer deposits platform will enhance our customer proposition with:
  – Expanded range of retail products and online offering
  – Further opportunity to realise operational efficiencies
  – Increased funding optionality within customer deposits
Business presentations
Asset Finance
Service, expertise, relationships
Neil Davies
Diversity of our businesses
Three specialist lending segments

Note: Percentage indicates loan book split at 31 July 2017
# Asset Finance

## Business overview

<table>
<thead>
<tr>
<th>Core products</th>
<th>Asset Finance</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Hire purchase</td>
</tr>
<tr>
<td></td>
<td>Finance lease</td>
</tr>
<tr>
<td></td>
<td>Operating lease</td>
</tr>
<tr>
<td>Staff</td>
<td>c.440</td>
</tr>
<tr>
<td>Locations</td>
<td>11 regional offices</td>
</tr>
<tr>
<td>Distribution</td>
<td>55% direct / 45% indirect</td>
</tr>
<tr>
<td>Loan book size</td>
<td>£2.0 billion</td>
</tr>
<tr>
<td>Average loan size</td>
<td>£41,500</td>
</tr>
<tr>
<td>Average loan term</td>
<td>32 months</td>
</tr>
<tr>
<td>Typical LTV</td>
<td>80% - 90%</td>
</tr>
<tr>
<td>Customers</td>
<td>27,000</td>
</tr>
<tr>
<td>Market share</td>
<td>7% (of our segments)</td>
</tr>
<tr>
<td>Credit</td>
<td>• Prudent underwriting, conservative LTV</td>
</tr>
<tr>
<td></td>
<td>• Repossessions often resold to existing clients</td>
</tr>
</tbody>
</table>

## Overview of the business

- **Tailor-made finance** to the UK SME sector
  - Specialised refinancing
  - Customised lending for second hand assets

## Key differentiators

- **Diverse portfolio**
- **Expert knowledge** and **strong relationships**
- Industry focused **direct sales** team
- **Flexibility** to meet our customer needs
- Largest asset finance provider outside the clearing banks
Specialist expertise driven model
Well established local footprint across a diverse range of assets

Diverse range of niche businesses

- Industrial Equipment
  - Manufacturing
  - Construction & Recycling
  - Print
  - Germany
- Asset Ireland
  - Multi asset proposition
- Close Brothers Asset Finance & Leasing
  - CEO Neil Davies
  - Technology Services
  - Specialist Asset Finance
    - Broker
    - Professional services
    - Core Leasing
    - Green Energy
    - Fleet finance
    - Football

Diverse asset mix

- General assets¹
- Aviation / Marine
- Green energy
- Print
- Manufacturing / construction / recycling

Note: 1 Includes shop fittings, healthcare, football transfers, office equipment
People and distribution

Local expertise

• Extensive geographic coverage via 11 regional offices

• Industry leading direct sales force
  – Deep industry knowledge
  – Appropriately empowered
  – Responsibly incentivised

• Safeguarding our sales force through retention and development
  – Sales Academy to develop future sales talent

• Approach extends to our strong broker relationships and customers
Case Study
Applying the model

- Well established plant hire SME
- Yellow metal assets
- Number of deals written, ongoing relationship

- Most recent £3.5 million refinancing transaction
- Number of banks engaged

- Understand the customer
- Understand the asset
- Make the process simple

- Monthly finance payment commitment reduced by 50%
Extending the model
New products and geographies

Technology Services

• Residual and Non-RV leasing, HP, receivables, chattel mortgage

• Targeting **SME to mid-corporates** with >£10m turnover

• Specialist **team of 17 in London**

• Focus on building a pipeline through both direct and indirect distribution channels

Asset Finance Germany

• **UK-style proposition:** bespoke lending on asset classes we know well, speed of delivery

• Targeting Germany’s **Mittelstand**

• Experienced local **team of 9 in Mainz**

• Officially **launched in June 2017**

• Commenced writing business, **strong pipeline**
Summary
Asset Finance

Key Messages

• **Diverse** portfolio of **specialist** businesses

• Consistent delivery of **service** and **expertise** through direct sales model delivers **high customer value**

• Continue to build on an active **history of innovation**

• Market and competitive dynamics impact each business differently to deliver overall **value over the longer term**

• Prioritise **return** and **credit quality**

### Loan book (£m)

- **Specialist asset finance**
- **Transport**
- **Industrial equipment**
- **Ireland**

<table>
<thead>
<tr>
<th></th>
<th>FY12</th>
<th>FY13</th>
<th>FY14</th>
<th>FY15</th>
<th>FY16</th>
<th>FY17</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fiscal</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Year</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>FY12</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>FY13</td>
<td>700</td>
<td>700</td>
<td>700</td>
<td>700</td>
<td>700</td>
<td>700</td>
</tr>
<tr>
<td>FY14</td>
<td>1,400</td>
<td>1,400</td>
<td>1,400</td>
<td>1,400</td>
<td>1,400</td>
<td>1,400</td>
</tr>
<tr>
<td>FY15</td>
<td>2,100</td>
<td>2,100</td>
<td>2,100</td>
<td>2,100</td>
<td>2,100</td>
<td>2,100</td>
</tr>
</tbody>
</table>

*Close Brothers*
Invoice Finance
Extending the model
David Thomson
Diversity of our businesses

Three specialist lending segments

- **Commercial**: Asset Finance 29%, Invoice Finance 8%
  - Transport
  - Industrial Equipment
  - Asset Ireland
  - Technology services
  - Specialist Asset Finance

- **Retail**: Premium Finance 13%, Motor Finance 26%
  - Commercial
  - Motor UK
  - Personal
  - Motor Ireland
  - Retail PoS

- **Property**: Property Finance 24%
  - Property Finance
  - Commercial Acceptances

**Note**: Percentage indicates loan book split at 31 July 2017

**What we do NOT do**
- Mortgages
- Buy to Let
- Current accounts
- Overdrafts
- Credit cards
Extending the model – Technology and Product Evolution
Business overview

Invoice Finance

<table>
<thead>
<tr>
<th>Invoice Finance¹</th>
<th>Overview of the business</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Products</strong></td>
<td>• Invoice discounting, factoring and asset-based lending (“ABL”)</td>
</tr>
<tr>
<td><strong>Customers</strong></td>
<td>• Finances SME working capital requirements</td>
</tr>
<tr>
<td><strong>Key segments</strong></td>
<td><strong>Key differentiators</strong></td>
</tr>
<tr>
<td><strong>Staff</strong></td>
<td>• Market-leading IDeal™ software</td>
</tr>
<tr>
<td><strong>Distribution</strong></td>
<td>• Strong client relationships and low attrition</td>
</tr>
<tr>
<td><strong>Geography</strong></td>
<td>• Speed of service and local underwriting</td>
</tr>
<tr>
<td><strong>Average loan size</strong></td>
<td>• Operational excellence</td>
</tr>
<tr>
<td><strong>Typical LTV</strong></td>
<td>– Cash allocation: 1 day</td>
</tr>
</tbody>
</table>

Note 1: Invoice Finance UK, RoI and Germany

- c.1,300 SMEs
- Recruitment, manufacturing, distribution, printing, engineering
- c.200
- • c.47% direct vs c.53% broker
- • c.55 front office staff
- 5 offices across the UK, Ireland, Germany
- £360k
- 80%
Delivering the model

Product evolution

Market leading technology

- **Seamless integration** with over 250 accounting software
- Instant **cash transfers**
- **Easy** to use
- Extracts sales ledger in **real time**
- **Automatic reconciliation**
- **24/7 online** access
- Dedicated **relationship manager**
Product evolution: ABL

Strong demand for larger tickets and ABL

Industry analysis: Loan book by client turnover (£bn)

- Small ticket factoring market has remained static
- Growth focused in the larger ticket segment
- Enhanced ABL and Cash Flow product offering launched in 2017 and now represents 7% of our book

Source: ABFA statistics
Extending the model – Acquisition
Product extension: Novitas Loans

Specialist market

<table>
<thead>
<tr>
<th>Product</th>
<th>Typical loan metrics</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Family</strong></td>
<td></td>
</tr>
<tr>
<td>Funding solicitor fees for</td>
<td>Size: London c.£100k; outside London £25-50k</td>
</tr>
<tr>
<td>divorce and contested probate</td>
<td>Tenor: 12-15 months</td>
</tr>
<tr>
<td>cases</td>
<td></td>
</tr>
<tr>
<td><strong>Civil litigation</strong></td>
<td></td>
</tr>
<tr>
<td>Funding 3rd party disbursements</td>
<td>Clinical negligence Size: £10-30k</td>
</tr>
<tr>
<td></td>
<td>Tenor: 3-4 years</td>
</tr>
<tr>
<td></td>
<td>Personal injury Size: £1k-5k</td>
</tr>
<tr>
<td></td>
<td>Tenor: 1-2 years</td>
</tr>
</tbody>
</table>

**Business overview**

- **Specialist** lender to clients of UK law firms
  - Acquired by Close Brothers in May 2017

- **Good fit** with Close Brothers model
  - Relationship based
  - Niche market
  - Secured, small ticket, short tenor

- **Market leading Novitas brand** retained

- Developing a **dedicated law firm funding proposition**
  - Clear opportunities for cross selling
Key Messages

• Differentiated proposition based on expertise, speed of service and market leading technology highly valued by our clients
  – Ability to deliver complex, bespoke transactions
  – Average client life in excess of 5 years reflects strength of client relationships

• Continue to invest in new initiatives to help drive growth for the long term

• Focus on quality of underwriting and maintaining margins
Premium Finance
Improving the model
Sharon Bishop
Diversity of our businesses
Three specialist lending segments

Commercial
- Asset Finance 29%
  - Transport
  - Industrial Equipment
  - Asset Ireland
  - Technology services
  - Specialist Asset Finance

Retail
- Premium Finance 13%
  - Commercial
  - Personal
  - Retail PoS

Property
- Property Finance 24%
  - Property Finance
  - Commercial Acceptances

What we do
- Mortgages
- Buy to Let
- Current accounts
- Overdrafts
- Credit cards

Note: Percentage indicates loan book split at 31 July 2017
Business overview

Overview of the business

- **Specialist, high margin business** operating in a mature, intermediated market
- **Strong returns** and high quality of earnings
- **Strong broker relationships**
  - Long-term, sticky contracts
- **Three layers of protection**:
  - Insurer (if premium refundable)
  - Broker (if recourse)
  - Borrower

### Key metrics

<table>
<thead>
<tr>
<th></th>
<th>Personal</th>
<th>Commercial</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Average loan size</strong></td>
<td>c.£600</td>
<td>c.£4.5k</td>
</tr>
<tr>
<td><strong>Average loan term</strong></td>
<td>10 months</td>
<td></td>
</tr>
</tbody>
</table>

Note: 1 Average loan size at inception
**Market and Distribution**

Mature intermediated market

**UK insurance market**

- **£34 billion** UK insurance market, of which **£13 billion** is financed by:
  - Insurers
  - Brokers who self fund
  - 3rd party finance providers

**Product lines**

- **Personal lines**
  - Motor and household insurance
  - Typically recourse to the broker
  - Predominantly refundable policies
  - Online is dominant sales channel

- **Commercial lines**
  - Business insurance
  - Typically non-recourse to the broker
  - Often refundable products
  - Offline is dominant sales channel

**Source**: *Net Written Premium data from the Association of British Insurers*

*Note: 1 Market share of £3bn, loan book of £0.9bn*
## What differentiates us

### Distinctive proposition

<table>
<thead>
<tr>
<th>Long term, ‘sticky’ broker relationships</th>
<th>Our People</th>
<th>Investment through the cycle</th>
<th>Technology and process integration</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Average broker relationship is 15 years</td>
<td>• We recruit experts from the insurance and banking industries</td>
<td>• Resources to invest for the long term</td>
<td>• Technology and processes fully integrated with the broker’s sale of insurance</td>
</tr>
<tr>
<td>• Majority of brokers on minimum 3 year contracts, with Premium Finance as single provider of finance</td>
<td>• Average senior account managers tenure is over 10 years</td>
<td>• Big enough to invest; small enough to deliver</td>
<td>• Differential product offerings such data and analytics</td>
</tr>
<tr>
<td>• Major of brokers on minimum 3 year contracts, with Premium Finance as single provider of finance</td>
<td>• Specialist sales trainers</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
## Investing through the cycle

### Improving our proposition

<table>
<thead>
<tr>
<th>Strategic priorities</th>
<th>Benefits delivered</th>
</tr>
</thead>
</table>
| **Service**          | • Major **new broker wins**  
| Enhancing our proposition for brokers and customers | • Faster, **paperless customer sign-up**  
|                      | • **New tools** to support brokers | **15% loan book growth** |
| **Expertise**        | • Enhanced contact centre **technology**  
| Leveraging technology to improve operating efficiency | • Automation projects reduced cost and increased **operating leverage** | **Loan every 3 seconds** |
| **Relationships**    | • **Joint data projects** with brokers  
| Putting our brokers at the heart of what we do | • Longer term contracts  
|                      | • Broker retention rate of over 98% | **98% broker retention** |
Case study
Supporting an online motor broker with pricing

- Cancellations
- Retention
- Income
Summary
Premium Finance

Loan book (£m)

Key Messages

• **Stable, well understood niche market**
  – Multi-year integrated broker relationships

• **Extensive investment** resulting in growth and **improved operating efficiency**
  – New broker wins
  – Increased penetration of existing brokers

• **Strong pipeline** from new broker wins provides near term growth visibility

• **Sticking to the model**, continuing to write good quality, high margin business with strong multi-tiered relationships

![Loan book (£m)](chart)

<table>
<thead>
<tr>
<th>Year</th>
<th>Commercial</th>
<th>Personal</th>
<th>Ireland</th>
</tr>
</thead>
<tbody>
<tr>
<td>FY12</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>FY13</td>
<td>250</td>
<td>250</td>
<td>0</td>
</tr>
<tr>
<td>FY14</td>
<td>250</td>
<td>250</td>
<td>0</td>
</tr>
<tr>
<td>FY15</td>
<td>250</td>
<td>250</td>
<td>0</td>
</tr>
<tr>
<td>FY16</td>
<td>250</td>
<td>250</td>
<td>0</td>
</tr>
<tr>
<td>FY17</td>
<td>250</td>
<td>250</td>
<td>0</td>
</tr>
</tbody>
</table>

[1,000]...[750]...[500]...[250]...[0]
Motor Finance
Protecting the model
James Broadhead
Diversity of our businesses

Three specialist lending segments

Commercial
- Asset Finance 29%
- Transport
- Industrial Equipment
- Asset Ireland
- Technology services
- Specialist Asset Finance

Retail
- Invoice Finance 8%
- Invoice UK
- Invoice Ireland
- Invoice Germany
- Commercial
- Personal
- Retail PoS
- Premium Finance 13%

Property
- Property Finance 24%
- Property Finance
- Commercial Acceptances

What we do NOT do
- Mortgages
- Buy to Let
- Current accounts
- Overdrafts
- Credit cards

Note: Percentage indicates loan book split at 31 July 2017
Motor Finance

Business overview

<table>
<thead>
<tr>
<th>Product</th>
<th>Motor Finance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Product</td>
<td>81% Hire purchase</td>
</tr>
<tr>
<td></td>
<td>14% Personal Contract Purchase</td>
</tr>
<tr>
<td></td>
<td>5% Other</td>
</tr>
<tr>
<td>Vehicle types</td>
<td>73% car, 18% LCV, 3% motorbike, 6% other</td>
</tr>
<tr>
<td>Staff</td>
<td>c.390</td>
</tr>
<tr>
<td>Locations</td>
<td>17 offices across the UK</td>
</tr>
<tr>
<td>Distribution</td>
<td>7,000 regional dealerships</td>
</tr>
<tr>
<td>Loan book size</td>
<td>£1.8 billion</td>
</tr>
<tr>
<td>Average loan size</td>
<td>Ave. outstanding loan: c.£6,500</td>
</tr>
<tr>
<td></td>
<td>Ave. loan at inception: c.£8,500</td>
</tr>
<tr>
<td>Average loan term</td>
<td>2 – 4 years</td>
</tr>
<tr>
<td>Typical LTV</td>
<td>75% - 85%</td>
</tr>
<tr>
<td>Customers</td>
<td>c. 270,000</td>
</tr>
<tr>
<td>Geography</td>
<td>UK and Republic of Ireland</td>
</tr>
</tbody>
</table>

Overview of the business

- **Point of sale finance** distributed via dealerships across the UK
- Distribution relationship with First Auto Finance in Ireland

Key differentiators of our model

- **Local presence** and strong dealer relationships
- **Expert people** with underwriting authority
- **Consistent approach** to lending through the cycle
- Focus on **used cars** where sharpest depreciation has already occurred

Note: Numbers quoted as at 31 July 2017
Motor Finance today
A differentiated business model

Focus on small and mid size dealers

Prudent, manual underwriting

- Vast majority of deals underwritten manually
  - Underwriter expertise and judgement applied to all three aspects

Close Brothers Motor Finance
Motor Finance today
Dealer and customer profile

Customer profile
- Convenience driven
- Loyal to dealer
- Car is an essential asset
- Full time employment
- Good credit history
- Low / middle income

Typical customer profile

Dealer profile
- Stable Expert
  Very Small
- Enthusiastic Learner
  Very Small
- Informed Seller
  Small
- Determined Earner
  Medium
- Seasoned Professional
  Large
Dealer case study

C.H. Render (Flaxton, York)
Product portfolio

Motor Finance

### HP
81% of loan book

- Our core product
- **Average advance:** £8,000
- **Typical LTV:** 75-85%
- **Average age of vehicle at origination:** 5 years
- **Term:** 2 – 4 years
- Loan fully paid off by term end, at which point customer owns vehicle

### PCP
14% of loan book

- Typically newer, higher value cars for higher credit quality customers
- **Average advance:** £14,000
- **Average GMFV**: 85%
- **Average age of vehicle at origination:** 1.7 years
- **Term:** 4 years
- Option to acquire at term end

---

**Illustrative HP used car loan**

- **Note:** Average figures exclude RoI
- **Guaranteed minimum future value**
Credit risk and underwriting

Prudent lending decisions and consistent risk appetite

Conservative underwriting model

- Local, predominantly **manual underwriting**
  - Provides flexibility and early warning intelligence of changing market environment

Consistent risk appetite

- **Low exposure risk** due to low advances and prudent terms
  - PCP customers typically higher credit quality
  - Lower GFVs on PCP than market average
  - Lower LTVs than market average
  - Diesel exposure broadly in line with market

- Comfortable with current level of bad debts
- Maintain profitability and margin through the cycle

---

Note: 1 Based on FLA statistics of UK used car market financed by independent lenders
# Investing through the cycle

Protecting the model

<table>
<thead>
<tr>
<th>Motor Finance investment programme</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dealer Service Proposition</td>
</tr>
<tr>
<td><em>Industry leading dealer solutions to help dealers grow</em></td>
</tr>
<tr>
<td>Sales Operating Model</td>
</tr>
<tr>
<td><em>Using tools and insight for more targeted sales activity</em></td>
</tr>
<tr>
<td>Credit Optimisation</td>
</tr>
<tr>
<td><em>Adopting new technology to support our underwriting</em></td>
</tr>
<tr>
<td>Model Office</td>
</tr>
<tr>
<td><em>Enhancing our branch office capability</em></td>
</tr>
</tbody>
</table>

- We **continue to invest** in the business in a rapidly changing market
  - Increased regulation
  - Changing customer preferences
  - Increased competition
  - Disintermediation

- Multi-year **investment programme** designed to:
  - **Protect** and defend the core business
  - **Improve** dealer and customer interactions
  - Create optionality to **extend** the model
Summary

Key messages

- Differentiated business model
  - Local branch network servicing small independent dealers underserved by big banks
  - Prudent, manual underwriting approach based on a combined view of dealer, asset and customer

- Continued focus on underwriting standards and protection of margin

- Investment through the cycle
  - We invest in our business to protect the model and support its sustainability for the long-term

---

Motor Finance

<table>
<thead>
<tr>
<th>Loan book (£m)</th>
</tr>
</thead>
<tbody>
<tr>
<td>FY12</td>
</tr>
<tr>
<td>---</td>
</tr>
<tr>
<td>0</td>
</tr>
</tbody>
</table>

UK ROI
Property Finance
Service, expertise, relationships
Frank Pennal
Diversity of our businesses

Three specialist lending segments

What we do NOT do

- Mortgages
- Buy to Let
- Current accounts
- Overdrafts
- Credit cards

Asset Finance 29%
- Transport
- Industrial Equipment
- Asset Ireland
- Technology services
- Specialist Asset Finance

Invoice Finance 8%
- Invoice UK
- Invoice Ireland
- Invoice Germany
- Brewery Rentals
- Novitas

Premium Finance 13%
- Commercial
- Personal
- Retail PoS

Motor Finance 26%
- Motor UK
- Motor Ireland

Property Finance 24%
- Property Finance
- Commercial Acceptances

Invoice Finance
- Invoice UK
- Invoice Ireland
- Invoice Germany

Premium Finance
- Commercial
- Personal
- Retail PoS

Motor Finance
- Motor UK
- Motor Ireland

Property Finance
- Property Finance
- Commercial Acceptances

Note: Percentage indicates loan book split at 31 July 2017
# Property Finance

## Business overview

<table>
<thead>
<tr>
<th>Property Finance</th>
<th>Overview of the business</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Products</strong></td>
<td>• 2 distinct brands</td>
</tr>
<tr>
<td>Residential / commercial developments</td>
<td>– Close Brothers Property Finance</td>
</tr>
<tr>
<td>Bridging loans, trading / refurbishment</td>
<td>– Commercial Acceptances</td>
</tr>
<tr>
<td><strong>Headcount</strong></td>
<td>• Speed of service</td>
</tr>
<tr>
<td>c.85</td>
<td>– A quick yes and a quicker no</td>
</tr>
<tr>
<td><strong>Geography</strong></td>
<td>• Highly <strong>specialist teams</strong></td>
</tr>
<tr>
<td>Predominantly London and South East</td>
<td>– Able to talk borrowers’ language</td>
</tr>
<tr>
<td><strong>Distributions</strong></td>
<td>• Reputation as a <strong>conservative</strong>,</td>
</tr>
<tr>
<td>80% direct / 20% broker</td>
<td>through-the-cycle lender</td>
</tr>
<tr>
<td><strong>Loan book size</strong></td>
<td>– Attract “like minded” clients</td>
</tr>
<tr>
<td>£1.6 billion</td>
<td>• <strong>Largest non-clearing bank</strong> lender</td>
</tr>
<tr>
<td><strong>Average loan size</strong></td>
<td>– 20% share of sub £10m sector*</td>
</tr>
<tr>
<td>£1.2 million</td>
<td><strong>Note:</strong> Numbers quoted as at 31 July 2017</td>
</tr>
<tr>
<td><strong>Average loan term</strong></td>
<td></td>
</tr>
<tr>
<td>6 – 18 months</td>
<td><strong>De Montfort University research</strong></td>
</tr>
<tr>
<td><strong>Typical LTV</strong></td>
<td></td>
</tr>
<tr>
<td>50% - 60%</td>
<td></td>
</tr>
<tr>
<td><strong>Customers</strong></td>
<td></td>
</tr>
<tr>
<td>c.800</td>
<td></td>
</tr>
<tr>
<td><strong>Repeat business</strong></td>
<td></td>
</tr>
<tr>
<td>75%</td>
<td></td>
</tr>
</tbody>
</table>

*De Montfort University research*
Strong customer relationships
Quality customers reinforce our brand

Typical Property Finance client
- Penn, Bucks
- 8 houses: loan £3m
- Longstanding branded developer
  - Client of 7 yrs

Typical Commercial Acceptances client
- Walthamstow refurbishment: loan £360k
- Long term client of 18 years
- Only operate in E17 postcode
Extending the model
Regional growth initiative

Manchester City Centre: 14 houses, £3.5m loan

- Expanding into **high quality regional locations** as local economy improves
  - Locations with limited housing supply e.g. Bristol, Manchester, Edinburgh, Glasgow, West Midlands

- **Majority** of regional developments we fund are **family housing** (c.80%)
  - Below the Help to Buy limit

Burton Latimer: 39 houses, £3.7m phased loan

- **Well timed and driving growth** with share of book expected to rise further
  - Offsetting flat London market
  - Planned increase in regional share of property development loan book from 27% in FY14 to 40% in FY17
# Experience and risk management

Sticking to the model

<table>
<thead>
<tr>
<th>Key underwriting criteria</th>
<th>Conservative underwriting criteria</th>
</tr>
</thead>
<tbody>
<tr>
<td>✓</td>
<td>Secured senior debt only</td>
</tr>
<tr>
<td>✓</td>
<td>Professional developers with track record</td>
</tr>
<tr>
<td>✓</td>
<td>Site visit conducted pre-lend</td>
</tr>
<tr>
<td>✓</td>
<td>All loans approved by Credit Committee</td>
</tr>
<tr>
<td>✓</td>
<td>Conservative LTVs (up to 60% of GDV)</td>
</tr>
<tr>
<td>✓</td>
<td>London or high quality regional towns</td>
</tr>
<tr>
<td>✓</td>
<td>Full planning permission required</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Do not do</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>✗</td>
<td>Buy to let or developments marketed solely to investors</td>
</tr>
<tr>
<td>✗</td>
<td>Mezzanine / second charge funding</td>
</tr>
<tr>
<td>✗</td>
<td>Pre-planning deals</td>
</tr>
</tbody>
</table>

- **Conservative underwriting criteria**
  - **Tightened criteria** in 2009 and maintained since
  - Business has delivered a profit every year since founded more than 30 years ago

- **Expertise of people**
  - **Market leading teams** in their niche sectors
    - High average tenure
      - Over 15 years amongst senior sales staff
    - Very **low staff turnover**
      - Only 2 senior departures to other lenders in the past 20 years
  - **Importance of culture**
    - Service excellence and consistent delivery
### Summary

**Property Finance**

#### Key messages

- **Success built on long term relationships** underpinned by conservative underwriting and sector expertise
  - Market leaders in respective businesses
  - Disciplined approach to lending
  - Staff critical

- **Well positioned** for further but more modest growth
  - Good visibility of future pipeline
  - Sustain downside risk and seize opportunities as they arise
  - Priority is maintaining margins and quality of book

- Sticking to the sectors of the property market we know and understand

#### Loan book (£m)

<table>
<thead>
<tr>
<th></th>
<th>FY12</th>
<th>FY13</th>
<th>FY14</th>
<th>FY15</th>
<th>FY16</th>
<th>FY17</th>
</tr>
</thead>
<tbody>
<tr>
<td>CBPF</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>CA</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Year</th>
<th>CBPF</th>
<th>CA</th>
</tr>
</thead>
<tbody>
<tr>
<td>FY12</td>
<td></td>
<td></td>
</tr>
<tr>
<td>FY13</td>
<td></td>
<td></td>
</tr>
<tr>
<td>FY14</td>
<td></td>
<td></td>
</tr>
<tr>
<td>FY15</td>
<td></td>
<td></td>
</tr>
<tr>
<td>FY16</td>
<td></td>
<td></td>
</tr>
<tr>
<td>FY17</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Conclusion

• Distinctive and established business model supports long track record of performance through the cycle

• Experience and expertise supports confidence in credit quality and strong client relationships

• Our business portfolio is diverse, specialised and differentiated
  – Creating resilience and opportunity

• Actively working to protect, improve and extend our business in existing and new markets

• Well positioned to continue lending consistently and profitably in a range of market conditions
Q&A