Close Brothers
Modern Merchant Banking

Half Year Results 2019

12 March 2019

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Agenda

1. **Introduction – Preben Prebensen, Group Chief Executive**
2. Financial review – Mike Morgan, Group Finance Director
3. Business update – Preben Prebensen, Group Chief Executive
4. Q&A

Introduction

Solid first half results

Solid financial performance with strong returns

- **Group AOP** of **£139 million**
- **Strong RoE** at **16.1%** and **increase** in **CET1 ratio** to **13.0%**
- **5% interim dividend** growth to **22p**

All divisions demonstrating resilience in current market conditions

- **Continued loan book growth** in Banking with **stable net interest margin** and **low bad debt**
- **Good net inflows at 7%** (annualised) in Asset Management
- **Winterflood** delivered **solid profitability** in difficult market conditions

Continued focus on the long term

- Continued growth in line with our **prudent and disciplined model**
- **Investing** in the long term and **through the cycle**
- **Supporting our customers and clients** in all market conditions

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Key performance indicators

Solid operating performance supporting strong returns

Adjusted EPS[1]	**69.8p**	• Adjusted EPS reduced 3% reflecting lower profit in the period
Return on opening equity	**16.1%**	• Generated strong return on opening equity
CET1 capital ratio	**13.0%**	• Maintained strong CET1 capital ratio
Leverage ratio	**11.2%**	• Very strong leverage ratio
Interim dividend per share	**22.0p**	• 5% increase in interim dividend in line with our progressive dividend policy

Loan growth	**6.3% YoY**[2]	• 2.0% growth in H1 19 maintaining the discipline of our model
Net interest margin	**8.1%**	• Strong net interest margin reflecting continued pricing discipline
Bad debt ratio	**0.6%**	• Continued strong credit performance

Annualised net inflow rate	**7%**	• Continued underlying growth in Asset Management

Loss days	**1**	• Winterflood continued to trade profitably, with only one loss day

Notes:
1 Basic EPS (continuing operations) of 68.1p and Basic EPS (continuing and discontinued operations) 68.9p.
2 The calculation of year on year loan book growth uses an opening loan book of £6.9 billion excluding the retail point of sale finance business under IAS 39, and in accordance with the requirements of IFRS 9 has not been restated.

Segmental performance

Diverse businesses drive overall solid performance

£ million	H1 2019	H1 2018	change
Banking	131.1	130.1	1%
Commercial	47.3	39.7	19%
Retail	36.8	44.4	(17%)
Property	47.0	46.0	2%
Asset Management	10.8	11.4	(5%)
Securities	9.3	14.7	(37%)
Group	(12.4)	(12.3)	1%
Adjusted operating profit	**138.8**	**143.9**	**(4%)**

- **Higher profits** from **higher volumes** and **strong margins** across both Asset Finance and Invoice and Speciality Finance
- Lower profits reflect **lower margin** and **continued investment** across both Premium Finance and Motor Finance
- **Good net inflows**, but lower profit reflecting **weaker market conditions** in the first half
- Solid profitability but **reduction in trading volumes**

Income statement

Higher income and continued investment

Continuing operations[1] £ million	H1 2019	H1 2018[1]	change
Adjusted operating income	**407.4**	**402.5**	**1%**
Adjusted operating expenses	(246.7)	(235.8)	5%
Impairment losses	(21.9)	(22.8)	(4%)
Adjusted operating profit[2]	**138.8**	**143.9**	**(4%)**
Operating profit before tax	135.6	140.2	(3%)
Effective tax rate	25%	25%	
Profit/(loss) from discontinued operations	1.2	(1.2)	
Profit attributable to shareholders	**103.5**	**104.0**	

- **Income growth** driven by Banking
- Cost increase due to **growth and investment** in the Banking division
- **Strong credit performance** across our businesses
- **Solid performance** demonstrates **resilience** in current market conditions

Notes:
1 Results from continuing operations exclude unsecured retail point of sale finance business, which was sold on 1 January 2019, and has been classified as a discontinued operation in the group's income statement for the 2018 and 2019 half year periods.
2 Adjusted operating profit excludes £3.2 million (2018: £3.7 million) of amortisation of intangible assets on acquisition, and profit from discontinued operations of £1.2 million (2018: loss of £1.2 million) net of tax.

Strong and transparent balance sheet

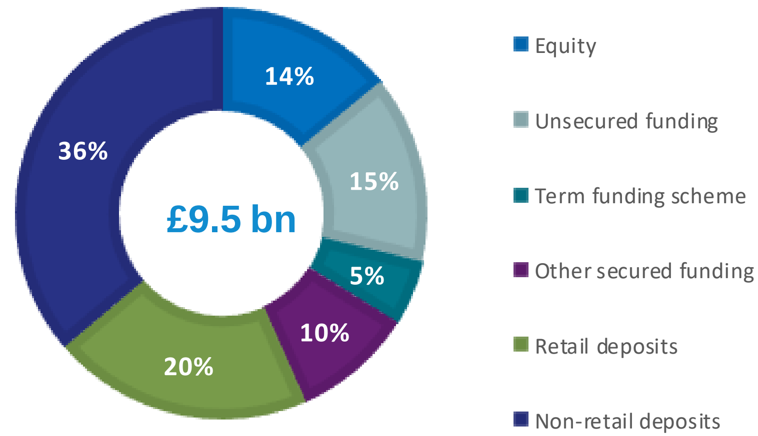
Diverse funding and prudent liquidity

Total funding **£9.5 billion**	• **Average maturity** of loan book funding at **22 months**
Loan book **£7.4 billion**	• **Average maturity** of the loan book at **14 months**
Treasury assets **£1.2 billion**	• **£0.8bn** with the Bank of England

- **Prudent level of funding,** covering loan book by **128%**
- Maintained the principle to **"Borrow long, lend short"**
- **Maintain prudent liquidity** position while optimising level and mix of treasury assets

Diverse funding base

£ billion



- Access to **diverse funding sources** supported by **strong and stable credit rating**[1]
- **Limited use of TFS** at 5% of total funding
- Continue to **optimise cost of funds** through disciplined deposit pricing and renewal of facilities
- **New deposit platform** creates opportunity to further expand and diversify our funding base

Note: 1 Moody's rates Close Brothers Group ("CBG") A3/P2 and Close Brothers Limited ("CBL") Aa3/P1, with stable outlook. Fitch rates both CBG and CBL A/F1 with stable outlook.

Capital

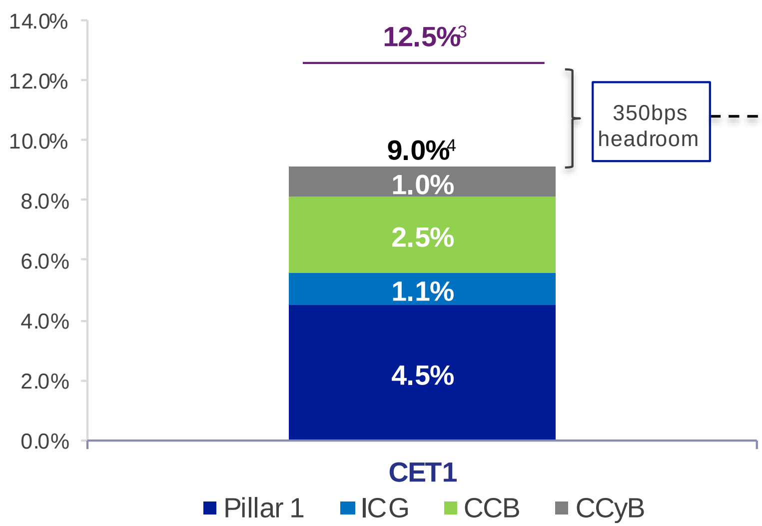
Maintain significant headroom to capital requirements

Capital overview[1]

	1 August 2018	31 January 2019
CET1 capital ratio	12.7%	13.0%
Total capital ratio	15.0%	15.2%
Leverage ratio[2]	10.6%	11.2%
CET1 capital (£m)	1,082.2	1,131.2
RWAs (£m)	8,542.6	8,698.0

- **Increased CET1 capital ratio** reflects continued **profitability** and **slower loan book growth** at this stage in the cycle
- **Strong leverage ratio**
- **Continued growth** in CET1 capital base
- **2% growth in RWAs** reflects loan book growth and other balance sheet movements

Fully loaded capital position



- **Good headroom** to minimum capital requirements
- Progressing towards **AIRB application**
  - Application currently expected by the end of 2019

Notes:
1 Numbers and ratios include transitional relief.
2 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.
3 Ratio presented including the fully loaded impact of IFRS 9.
4 Rounding results in a casting variance of 0.1%.

Banking

Profit growth alongside ongoing investment

Continuing operations[1] £ million	H1 2019	H1 2018	change
Operating income	**303.1**	**290.9**	**4%**
Adjusted operating expenses	(150.1)	(138.0)	9%
Impairment losses	(21.9)	(22.8)	(4%)
Adjusted operating profit	**131.1**	**130.1**	**1%**

	H1 2019	H1 2018
Net interest margin[2]	8.1%	8.2%
Expense/income ratio	49.5%	47.4%
Bad debt ratio[3]	0.6%	0.6%
Return on net loan book[4]	3.5%	3.7%

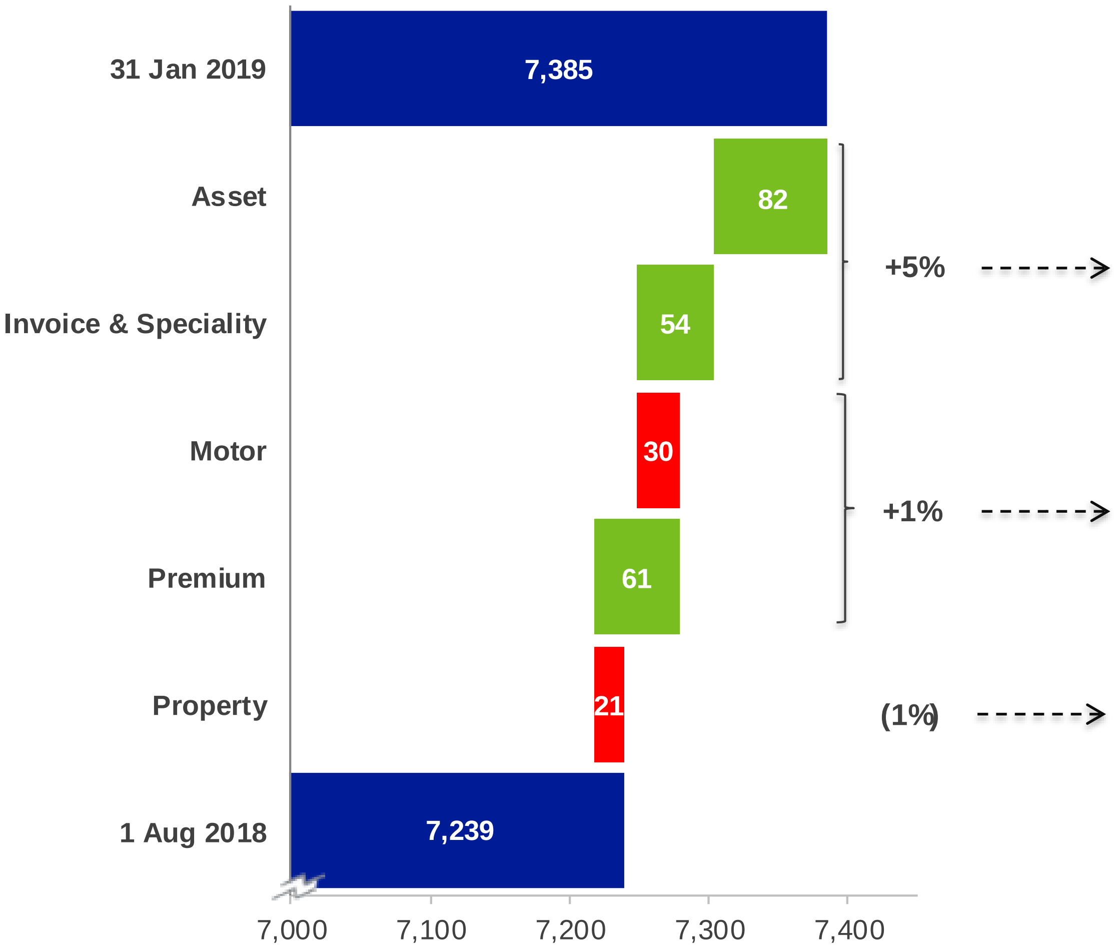
- **Income growth** principally driven by Commercial
- **Higher costs** reflect **growth and investment**
  - **Over half** of the increase related to spend on **infrastructure** and **strategic initiatives**
  - **BAU** cost growth **in line** with income
- **Broadly stable net interest margin** reflects continued pricing discipline
- Increase in E/I ratio reflects **incremental investment,** with compensation ratio stable at 28%
- **Continued strong** return on net loan book

Notes:
1 Results from continuing operations exclude unsecured retail point of sale finance business, which was sold on 1 January 2019, and has been classified as a discontinued operation in the group's income statement for the 2018 and 2019 half year periods.
2 Net interest, fees and operating lease income divided by average net loan book and operating leases.
3 Impairment losses divided by average net loan book and operating leases.
4 Adjusted operating profit divided by average net loan book and operating leases.

Banking

Diverse portfolio supports continued loan book growth

Loan book growth by segment (£ million)



2% loan book growth maintaining disciplined approach to lending

- **Strong growth** in **Commercial**, with 5% growth in **Asset Finance** and 6% growth in **Invoice and Speciality Finance**
  - **Growth in core businesses** and increased contribution from **Novitas**

- Continued **strong growth** in **Premium Finance of 6%**
- **2% contraction** in **Motor Finance** reflecting disciplined application of our model in current market

- Continued **solid demand** for residential property development
  - **Loan book flat** in H1 reflecting timing of **larger repayments** in the period

Banking

Performance reflects diversity of business portfolio

	Net interest margin	Bad debt	Expense / income	% of loan book
Commercial	8.3% 2018 8.0%	0.5% 2018 0.4%	56% 2018 59%	39%
Retail	8.4% 2018 8.7%	1.0% 2018 1.0%	56% 2018 50%	37%
Property	7.1% 2018 7.8%	0.1% 2018 0.5%	26% 2018 23%	24%
Banking division	**8.1%** **2018 8.2%**	**0.6%** **2018 0.6%**	**50%** **2018 47%**	

Commercial

- **Commercial NIM increased to 8.3%** due to growth in higher margin products
- Bad debt remains low with continued **low arrears** and **strong collections**
- E/I reduced due to **strong income growth**

Retail

- NIM reflects **growth in lower margin** Irish motor book and commercial loans in Premium Finance
- E/I ratio reflects **significant investment** across both businesses

Property

- Property **NIM reduced** reflecting lower fee income and higher cost of funds
- Continued **strong credit performance,** with no material provisions in the period

Asset Management

Good net inflows in more challenging markets

£ million	H1 2019	H1 2018	change
Operating income	**58.5**	**56.0**	**4%**
Investment management	39.6	35.8	11%
Advice and other services	18.7	20.0	(7%)
Other income	0.2	0.2	-
Adjusted operating expenses	(47.7)	(44.6)	7%
Adjusted operating profit	**10.8**	**11.4**	**(5%)**
Operating margin	18%	20%	
Revenue margin[1]	96bps	97bps	

- Higher income reflecting **growth in managed assets** in the prior year
- Growth in expenses reflect **ongoing investment** in front office **staff** and **research** capability

£ million	H1 2019	FY 2018	change
Total managed assets	10.3	10.4	(1%)
Total client assets	12.0	12.2	(2%)
Annualised net inflows as % of opening managed assets	7%	12%	

- **Good net flows** at **7%** of opening managed assets
  - **Managed assets** down 1% to £10.3 billion due to **negative market movements**

Note: 1 Income on client assets divided by average total client assets.

Securities

Continued solid profitability in difficult market conditions

£ million	H1 2019	H1 2018	change
Operating income	**45.8**	**55.6**	**(18%)**
Operating expenses	(36.5)	(40.9)	(11%)
Operating profit	**9.3**	**14.7**	**(37%)**
Average bargains per day	54k	70k	(24%)
Operating margin	20%	26%	
Loss days	1	0	

- **Reduced income**, reflecting **lower trading volumes** in difficult and volatile equity market
- **Reduction in expenses** reflecting **lower variable** costs
- **24% decline in trading volumes** reflecting supressed investor risk appetite
- **Single loss day** reflecting **solid profitability,** despite the challenging market environment

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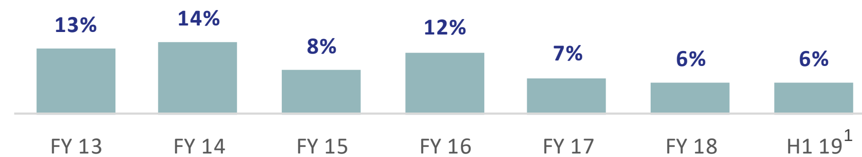
Overview

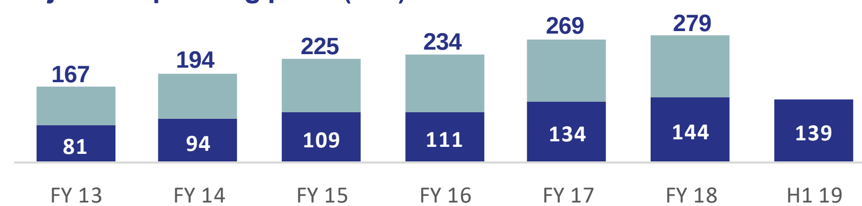
Consistent strategy focused on the long term

- Maintaining **model discipline**
  - Stable NIM, bad debts and **moderating growth** at current stage of the cycle
- Continue to grow the business in line with our **disciplined and prudent business model**
  - Continued loan book growth, trading profitability and net inflows
- Strong profitability and returns provide flexibility to **invest through the cycle**
  - While continuing to deliver **resilient AOP and strong RoE**
- Supporting **customers and clients** and delivering **good returns to shareholders** through the cycle
- **Continued dividend growth** in line with progressive dividend policy

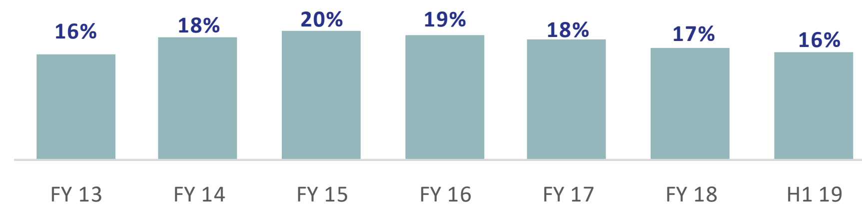
Loan book growth



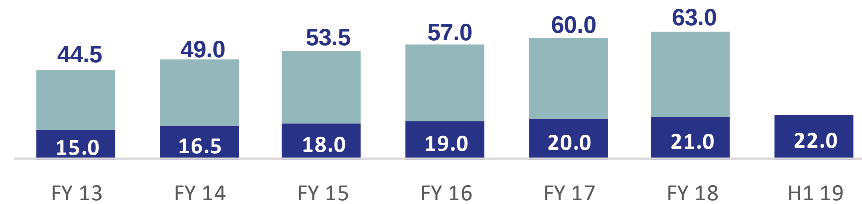
Adjusted operating profit (£'m)



Return on opening equity



Dividend per share (pence)

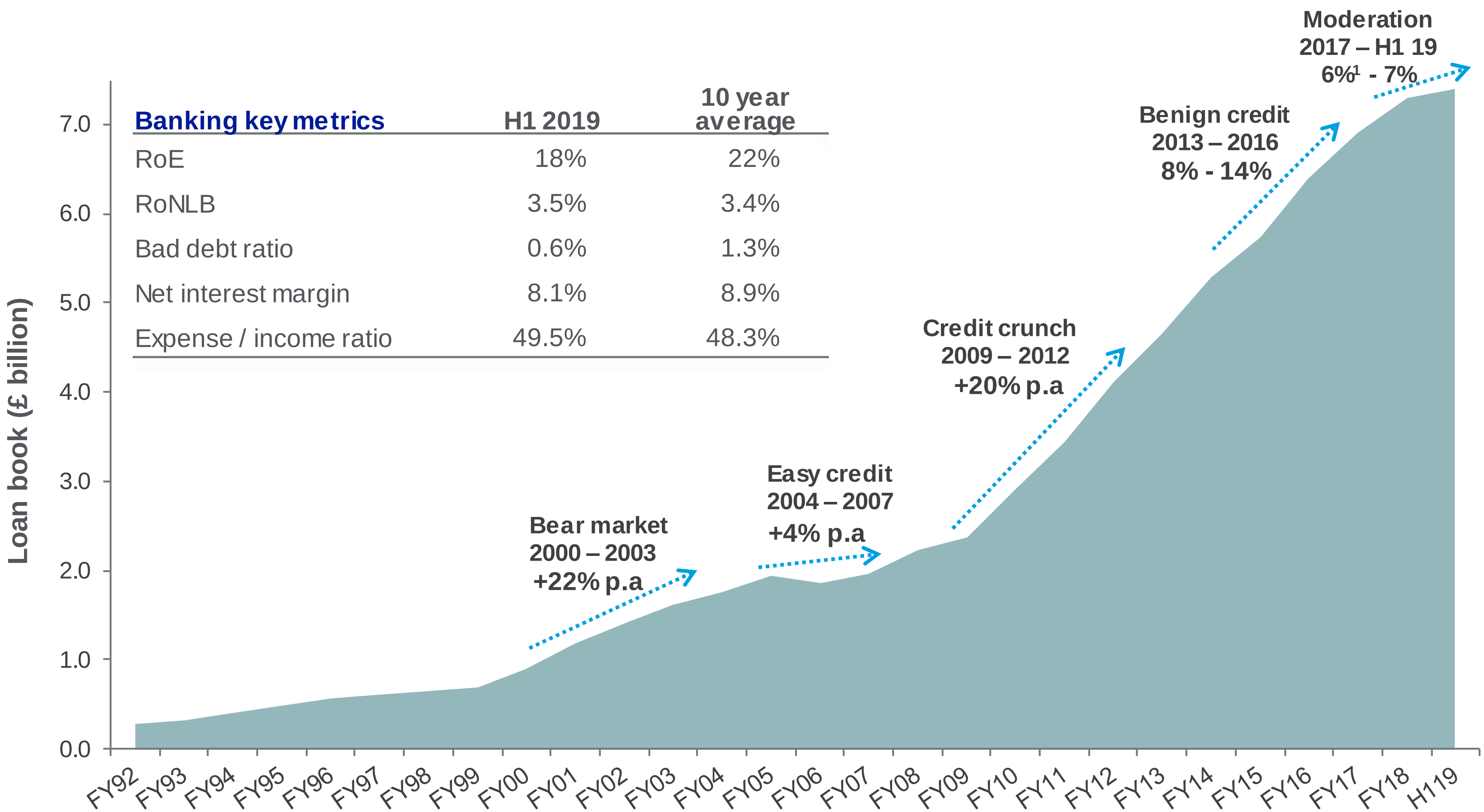


Note: 1 Loan book growth for 12 months ended 31 January 2019.

Banking track record

Long history of profitable growth through the cycle

Banking key metrics	H1 2019	10 year average
RoE	18%	22%
RoNLB	3.5%	3.4%
Bad debt ratio	0.6%	1.3%
Net interest margin	8.1%	8.9%
Expense / income ratio	49.5%	48.3%



Note: 1 Loan book growth for 12 months ended 31 January 2019 of 6%.

Banking

Continued growth while maintaining model discipline

Commercial

- **Growth** in **Asset Finance** reflecting diversity and specialism
- Continued **growth** in core **Invoice Finance** client base
- Increasing contribution from **Novitas**
  - Expansion into litigation finance

Retail

- **Disciplined lending** in competitive Motor Finance market
- **Premium Finance** continues to win new broker accounts
  - Benefiting from recent investment

Property

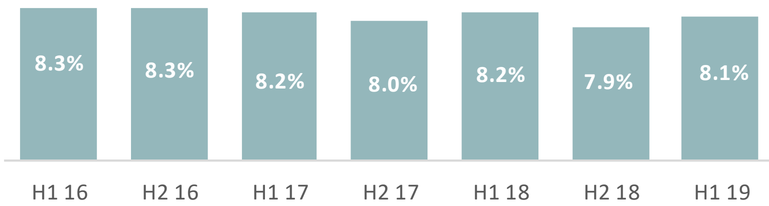
- Continued **good demand** for residential property development finance
  - Focus on new build family housing
- **Ongoing expansion** to high-quality regional locations

Banking

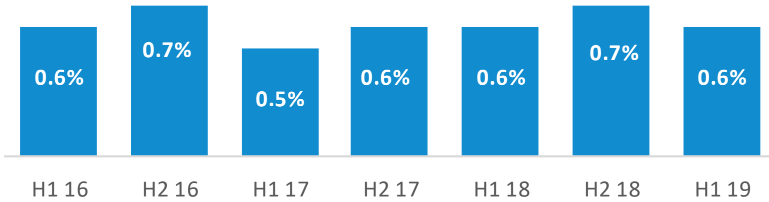
Disciplined application of our model

- Specialist, expert knowledge
- Strong relationships
- Quality of service
- Consistent, conservative underwriting
- Prudent LTVs and short maturities
- Local underwriting with central oversight

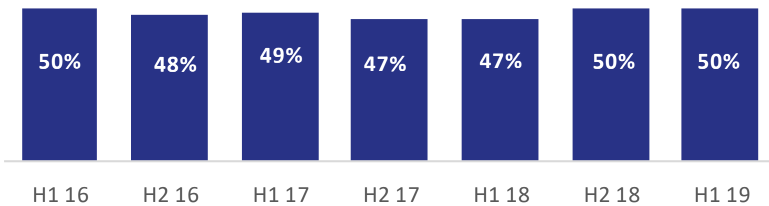
Net interest margin



Bad debt ratio



Expense / income ratio



Investing for the long-term

Strategic investment initiatives

New deposit platform

- New technology **platform for customer deposits**
  - Platform successfully implemented in H1 19
- **Further increases resilience and flexibility of funding**
  - Access to fast growing online channel
  - Additional retail savings products
  - Improved customer experience

Motor transformation

- **Multi-year investment programme** to improve dealer and customer proposition
  - Progressing with investment
- **Better service** to dealers and customers with **increased efficiency**
  - Optimise underwriting and customer onboarding
  - Strengthened sales capability
  - Improved dealer experience

AIRB

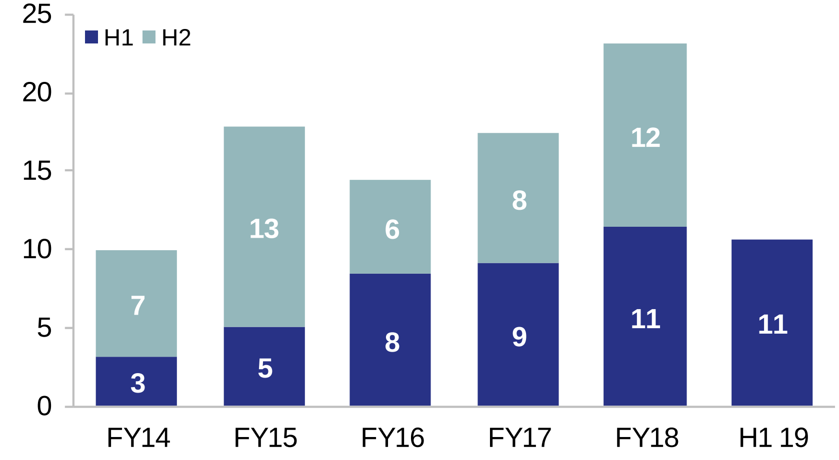
- **Multi-year investment** to transfer to the IRB approach
  - Formal application to PRA by end of 2019
- **Enhance credit risk management** and **optimise capital efficiency**
  - Improved transparency of risk profile and performance
  - Better credit risk management and decisioning
  - Risk weightings that better reflect the risk profile of our lending

Asset Management

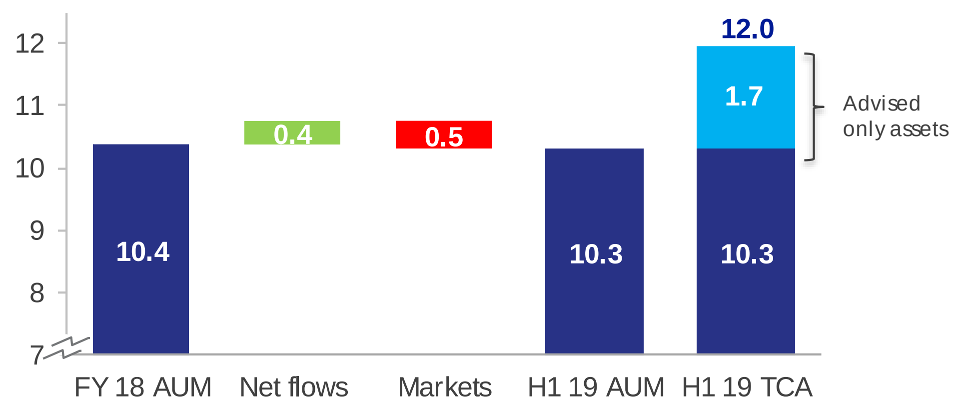
Significant long-term potential

- Driving **continued organic growth** via increase in front office staff and attractive product offering
- Continued **strong net inflows at 7%** (annualised) **in H1**
  - Despite uncertain and challenging market conditions
- **£10.3 billion managed assets** and **£12.0 billion total client assets**
  - Increasing proportion of integrated offering
- **Ongoing investment** in technology platform to deliver operating efficiencies
- **Attractive growth potential for long term**
  - Integrated wealth management proposition
  - Institutional quality investment engine
  - Extending our distribution via multi-channel approach
  - Robust and scalable technology

Adjusted operating profit (£ million)



Movement in client assets (£ billion)

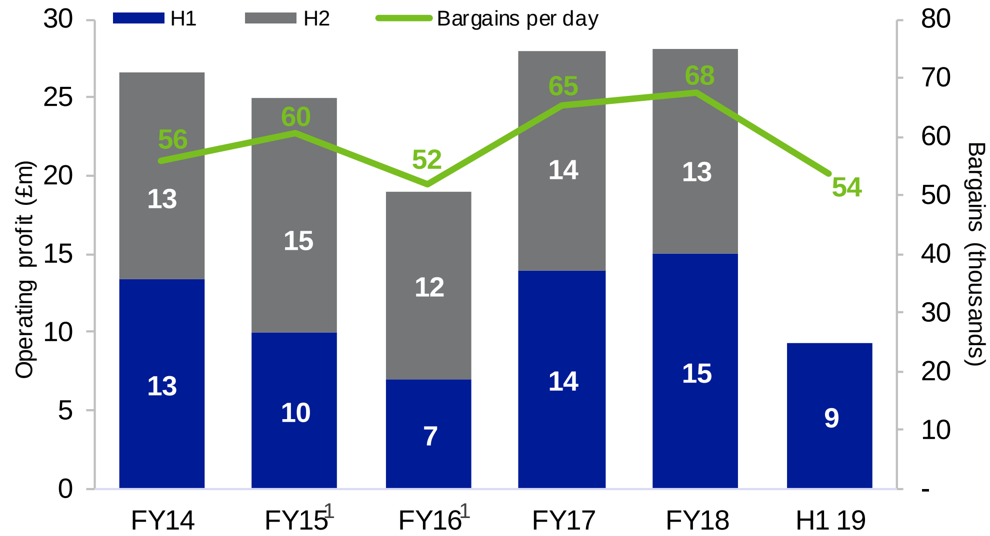


Winterflood

Solid profitability in difficult trading conditions

- **AOP** at **£9.3 million despite significant** reduction in trading activity and daily volumes
- Remain focused on **maximising daily trading opportunities**, whilst providing continuous liquidity in all market conditions
- Maintained **market leading position**
- **One loss day** in a turbulent period
  - Demonstrates **strict risk management** and the **expertise** of our traders
- Continued focus on **high quality execution services** to retail intermediaries and institutions

Operating profit



Loss days	FY14	FY15[1]	FY16[1]	FY17	FY18	H1 19
	4	14	17	1	0	1

Note: 1 Operating profit includes profit on disposal of Euroclear shares of £3.5 million in 2015 and £1.9 million in 2016.

Outlook and conclusions

Remain well positioned for the full year

- Proven and **resilient model** allows us to continue to **support our customers** and deliver **good returns to our shareholders** in a wide range of market conditions

- **Banking remains well positioned,** benefiting from the diversity of our business portfolio and strong customer focus
  - Committed to maintaining **discipline of our model**
  - Continue to **invest** in our business **for the long-term**

- Focus on **long-term growth** of **Asset Management**

- **Winterflood** continues to maintain its market-leading position, **maximising trading opportunities** in all market conditions

- Overall, delivered **solid performance** in first half and **remain well positioned** for the full year ahead

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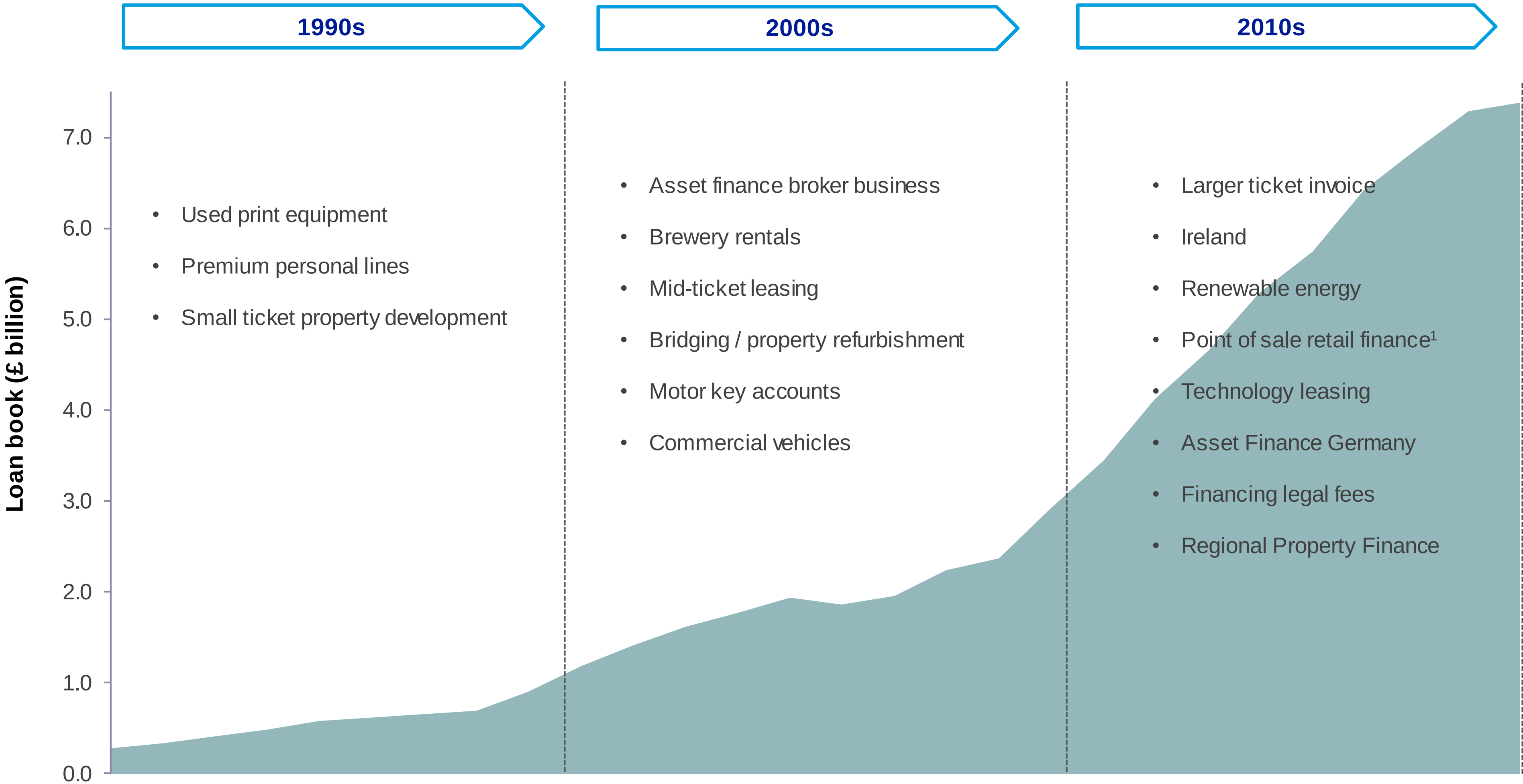
Interim Results H1 2019

Appendix

12 March 2019

New growth initiatives

Long history of extending the model in adjacent markets



Note: 1 Point of sale retail finance business sold on 1 January 2019.

Banking

Loan book and lending statistics by business

	Loan book at 31 January 2019 (£m)	H1 19 loan book growth	Typical LTV[1]	Average loan size[2]	Typical loan maturity[3]	Number of customers
Asset Finance[4]	1,911	5%	85 – 90%	£45k	3 – 5 years	27k
Invoice and Speciality Finance[4]	973	6%	75% – 80%	£400k	2 – 3 months	2.3k
Motor Finance	1,693	(2%)	80 – 85%	£6k	3 – 4 years	261k
Premium Finance	1,009	6%	90 – 95%	£600	10 months	2.4m
Property Finance	1,800	(1%)	50 - 60%	£1.4m	9 – 18 months	760

Notes: 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.
1 Typical LTV on new business. Motor Finance LTV is the average LTV in the UK, based on the retail price of the vehicle financed. Premium Finance LTV is based on the premium advanced.
2 Approximations at 31 January 2019.
3 Typical loan maturity for new business on a contractual basis, except Invoice Finance which is on a behavioural basis. Motor Finance is the average maturity of new business in the UK.
4 The Asset Ireland loan book has been reclassified in the period from Asset Finance to Invoice and Speciality Finance, to align with where this business is managed. Both 31 January 2019 and comparative 1 August 2018 opening loan book figures have been restated accordingly.

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LENDING | DEPOSITS | WEALTH MANAGEMENT | SECURITIES

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