

Banking Division Investor presentation

30 May 2013

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- 1. Introduction – Preben Prebensen, Group Chief Executive**
 2. Overview – Stephen Hodges, Managing Director & Bank Chief Executive
 3. Financial track record – Mike Morgan, Bank Finance Director
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Banking division

Long track record of financial strength

- **Differentiated lending model**
 - **Specialist**, expertise based lending
 - Predominantly **secured**
 - **Small ticket, short-term**
 - **Relationship driven**

- **Conservatively funded and capitalised**

- **Consistently strong returns through the cycle**
 - 10 year average return on net loan book 3.6%

- **Long track record of profitability**

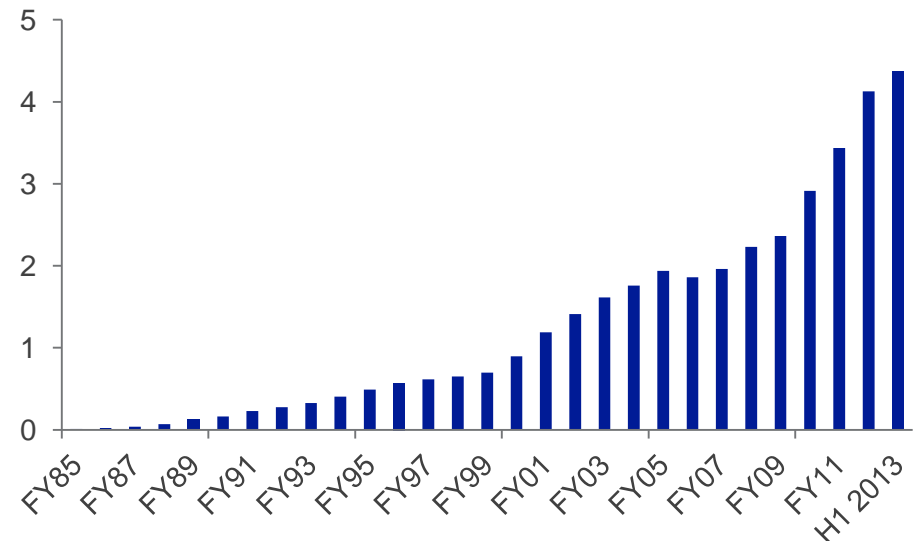
- Strategic priority is to **maintain distinctive, specialist**, lending model
 - Continue to **see good opportunities for growth**

Key financial drivers

	NIM	Bad debt ratio	RoE	Loan book growth
10 year ave	9.2%	1.6%	19%	11%

Loan book

£ billion



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Contents of presentation

Key objective to demonstrate.....

What are our key differentiators?

What underpins our strong financial performance through the cycle?

How does our approach to funding and lending differ from our competitors?

Why are we well positioned for growth?

.....through our 5 strategic pillars

- 1. Customer focus**
- 2. Operational excellence**
- 3. Consistent lending principles**
- 4. Conservative funding and liquidity**
- 5. Sustainable growth**

Specialist lender to SMEs and individuals

Award-winning specialist finance solutions

- **£4.5 billion¹ loan book**, of which £2.6 billion to SMEs
- **Differentiated distribution** – both **direct** and **intermediated** relationships with SMEs and retail customers
- **1,700 staff across 44 locations** in the UK and Ireland
- **63,000 corporate and retail deposit customers²**



Green Lessor of the Year



Notes:

¹ As at 30 April 2013

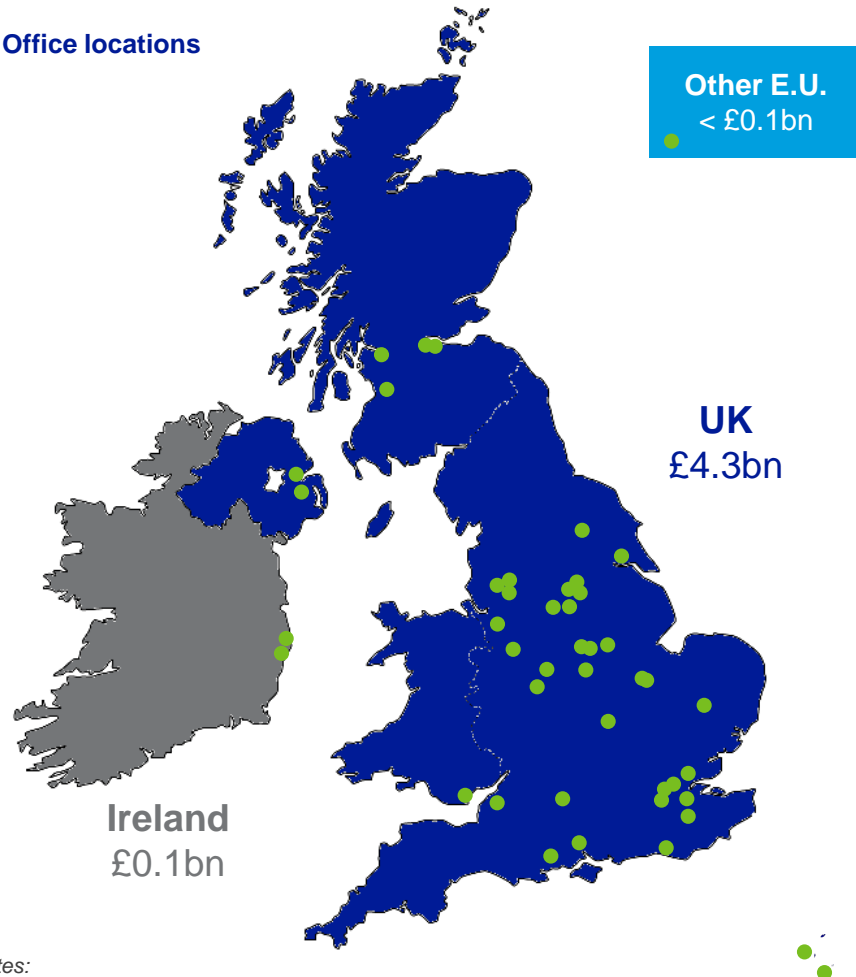
² As at 31 January 2013

UK lending on specialised asset types

Well-established footprint across diverse range of assets

Wide geographic reach

● Office locations

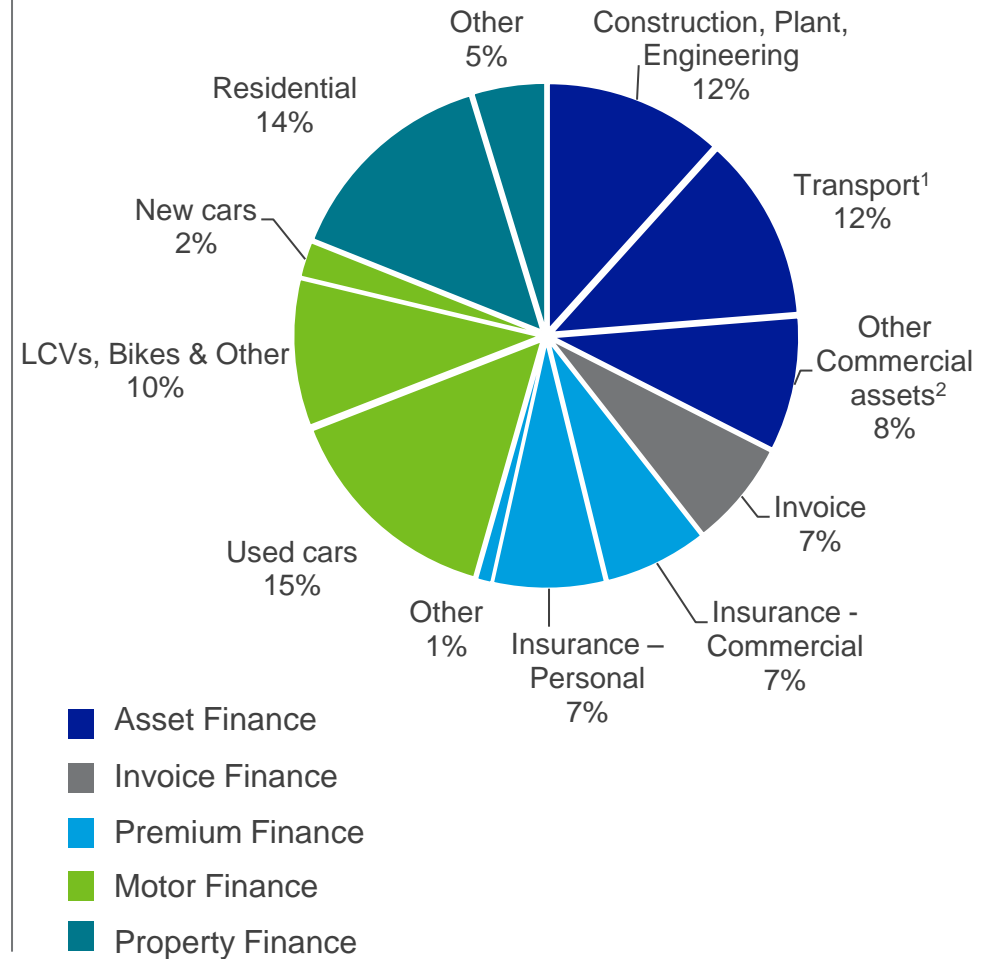


Notes:

¹ Transport includes commercial vehicles and similar assets

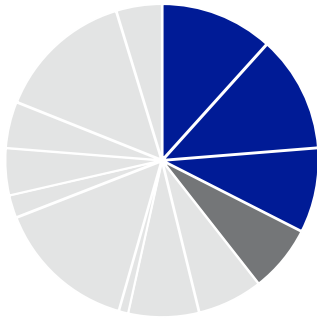
² Other commercial assets includes print, aviation & marine, office, IT and medical equipment

Loan book by asset type at 31 Jan 2013

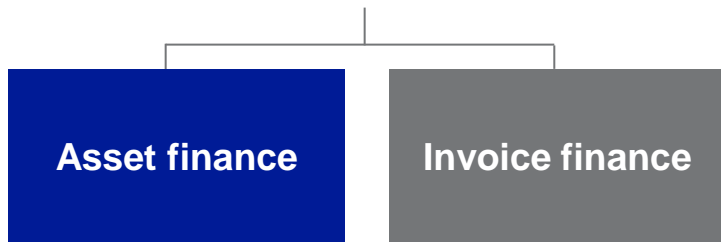


5 specialist lending areas

Different market and asset specialism

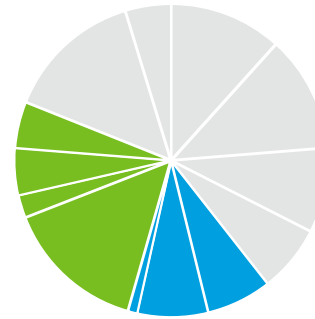


Commercial = 39%

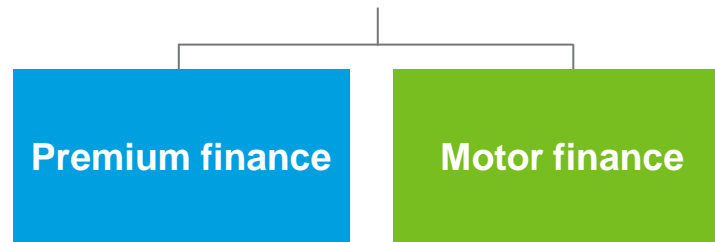


Asset finance
Hire purchase, leasing and refinancing solutions for a diverse range of assets

Invoice finance
Invoice discounting and debt factoring



Retail = 42%

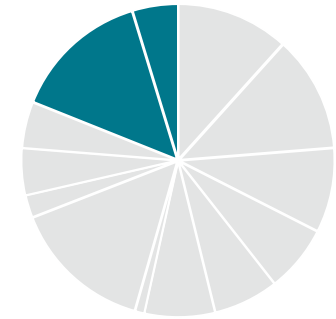


Premium finance

Finance for personal & commercial insurance premiums

Motor finance

Point of sale finance for predominantly used cars, motorcycles and LCVs



Property = 19%



Property finance

Short-term financing for property development and bridging loans

Note:
¹ Loan book split above as at 31 January 2013

Distinctive lending model

Core attributes that differentiate our secured lending model



Local distribution and strong relationships

Core attributes of our differentiated distribution model and strong relationships

	Retail	Commercial	Property
Staff	700 staff of which >200 sales	700 staff of which 250 sales	70 staff of which c.25 sales
Locations	20 offices	21 offices	3 offices
Distribution	8,800 motor dealers and 2,100 insurance brokers	Direct and indirect lending via 1,100 intermediaries	Direct lending
Customers	1.8 million individuals 280,000 SMEs	23,000 SMEs	800 developers
Longevity of relationships	Many intermediary relationships over 10 years	Around 25% of our customers have been with us > 5 yrs	Many customer relationships acquired over 10 years ago
Repeat business	70%¹	65%-80%	65%

Note:

¹ Reflects repeat business for Premium finance only, and minimum dealer retention rate for Motor finance
All figures at 31 January 2013

Distribution is key to access demand

5 million SMEs all with different financing requirements

Close Brothers

44 locations in UK & Ireland

500 sales people

1,100 Asset
finance
brokers

8,800
Motor
dealers

2,100
Insurance
brokers

5 million SMEs and individual users of specialised, secured finance in the UK

Providing value through service quality

Core attributes of our differentiated customer proposition

Commitment to customer through the cycle

- **25 year history of continuous lending**
- **Consistent provider of residential property development finance** in early 90s and recent credit crunch
- **End-to-end relationships** – supporting our customers through good and bad times

Speed of decision-making

- **Unique, high-touch model** facilitates market-leading response times
- Property loans <£0.5 million approved **within 24 hours**
- **Motor e-click loan approval < 20 minutes**

Market, customer and asset specialists

- **Specialist sales teams with expert knowledge** of our assets, markets and customers
- Many of our Property sales people **hand-picked from the industry**
- **Experts in the car retail market for over 20 years**

Flexible solutions

- **Local autonomy to apply lending criteria** within well-defined risk appetite
- Tailored **bespoke finance** packages

We win business because of speed or service

Experienced people

Average experience of management team > 20 years

- **Experienced senior management group**
- **Depth of knowledge and expertise**
 - **Commercial and Retail leadership teams industry experience > 25 years**
 - **Senior Property management team industry experience > 20 years**
- **Embedded culture of valuing people, rewarding and recognising talent**
- **Remain committed to retention of talent**

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Strong financial attributes of model

Consistent, high quality, recurring earnings

Core financial strengths (H1 2013)

- **Safe, controlled loan book growth**

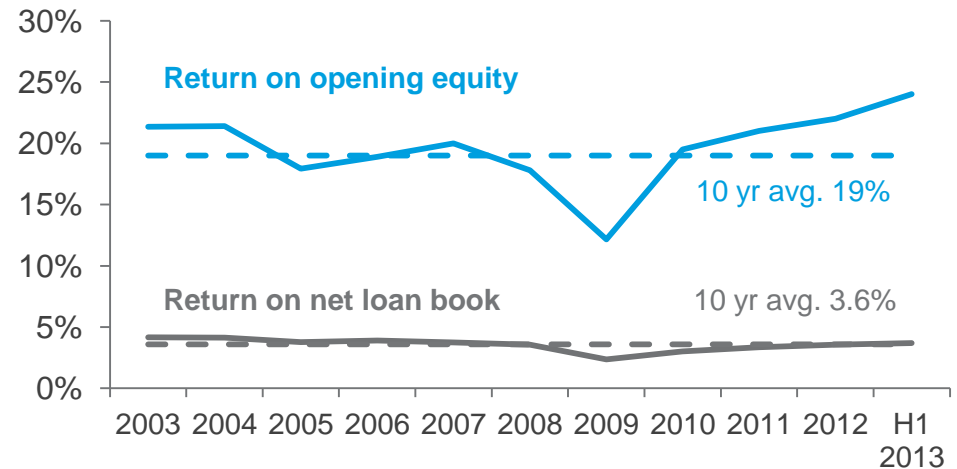
- **Strong margins**
 - 8.9% NIM

- **Strong credit quality**
 - 1.2% bad debt ratio

- **Limited operating leverage**
 - Tightly controlled costs

- **High returns**
 - 24% RoE
 - 3.7% return on net loan book

Strong returns through the cycle



Example of financial returns

For every £100,000 we lend:

£8,900 = 8.9% income after funding costs¹

£(4,000) = 4.0% total expenses

£4,900 = 4.9% profit before bad debt

£(1,200) = 1.2% bad debt

£3,700 = **3.7% pre-tax return on loan book**

Note:

¹ Net interest and fee income only; excludes Treasury and other non-lending income

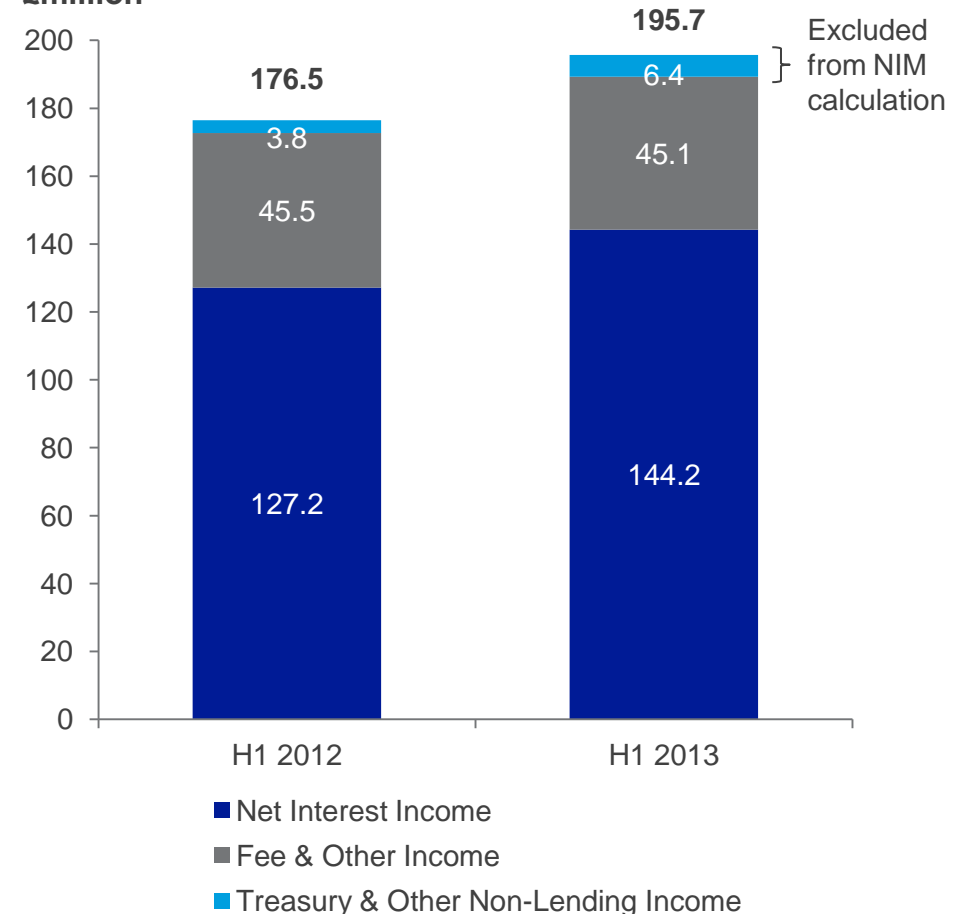
Strong income generation...

High touch high service model underpins NIM performance

- **Strong margin levels** maintained through cycle
 - End-to-end, local relationships
 - Speed of decision making
 - Commitment to customers through the cycle
- **Net interest income** represents **76% of lending income**
 - Principally spread on loans
 - Stable proportion over last 3 years
- **Fee and other income** represent **24% of lending income**
 - **Fees** including settlement and default fees
 - **Operating lease** revenue
- **Majority of all income via customer lending**
 - Minimal income from **Treasury as cost centre**

Components of income

£million

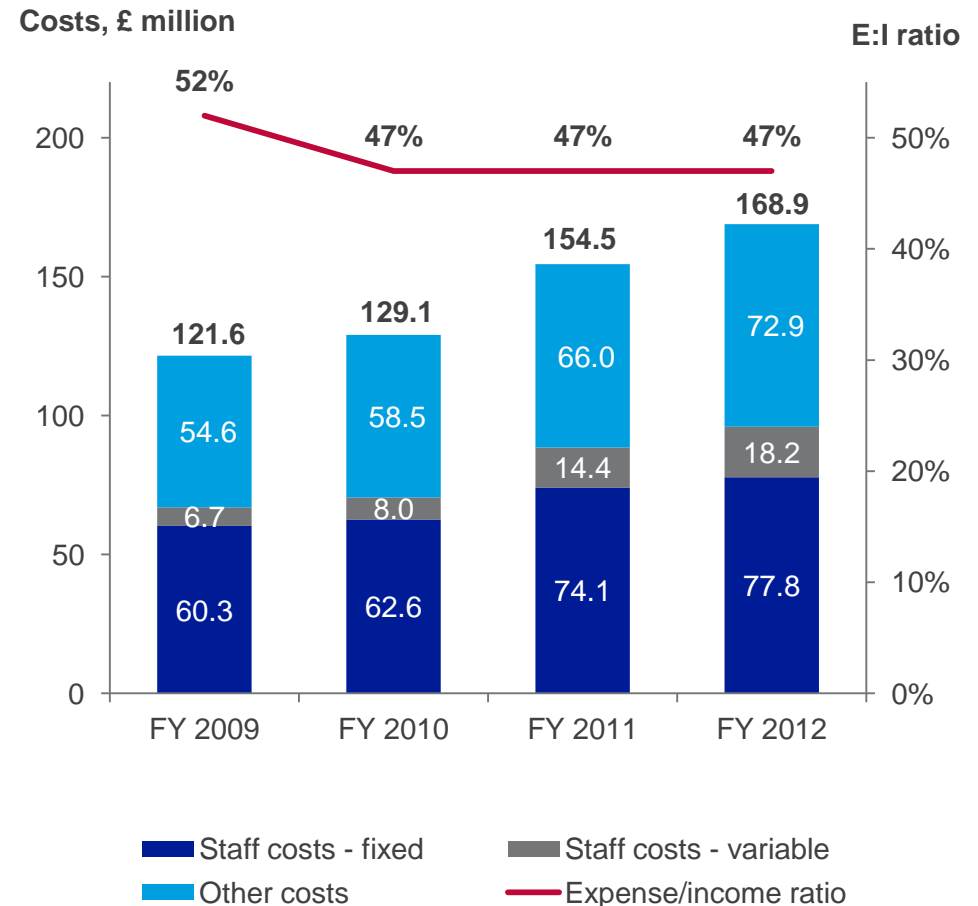


...and controlled cost management

Prioritise spend to best support customers and growth

- High-touch, **people-intensive model**
 - **Staff costs c.55 – 60%** of total costs
 - **Compensation ratio stable** at 27% compares favourably with peers – **not high variable compensation culture**
- **Other costs** principally relate to depreciation, property and legal & professional
- **Significant investment to support a growing business**
 - **Building** frontline capability & capacity – c.30% (350 people) headcount increase since 2009¹
 - **Investing** in infrastructure (General Ledger, CRMI, IT infrastructure)
 - **Enhancing** Management & Control functions
- **Expense/income ratio to remain broadly in line** with **current level** as investment continues

Adjusted operating expenses



Note:
¹ To 31 January 2013

Differentiated by consistent financial strength

Retain financial attributes through the cycle



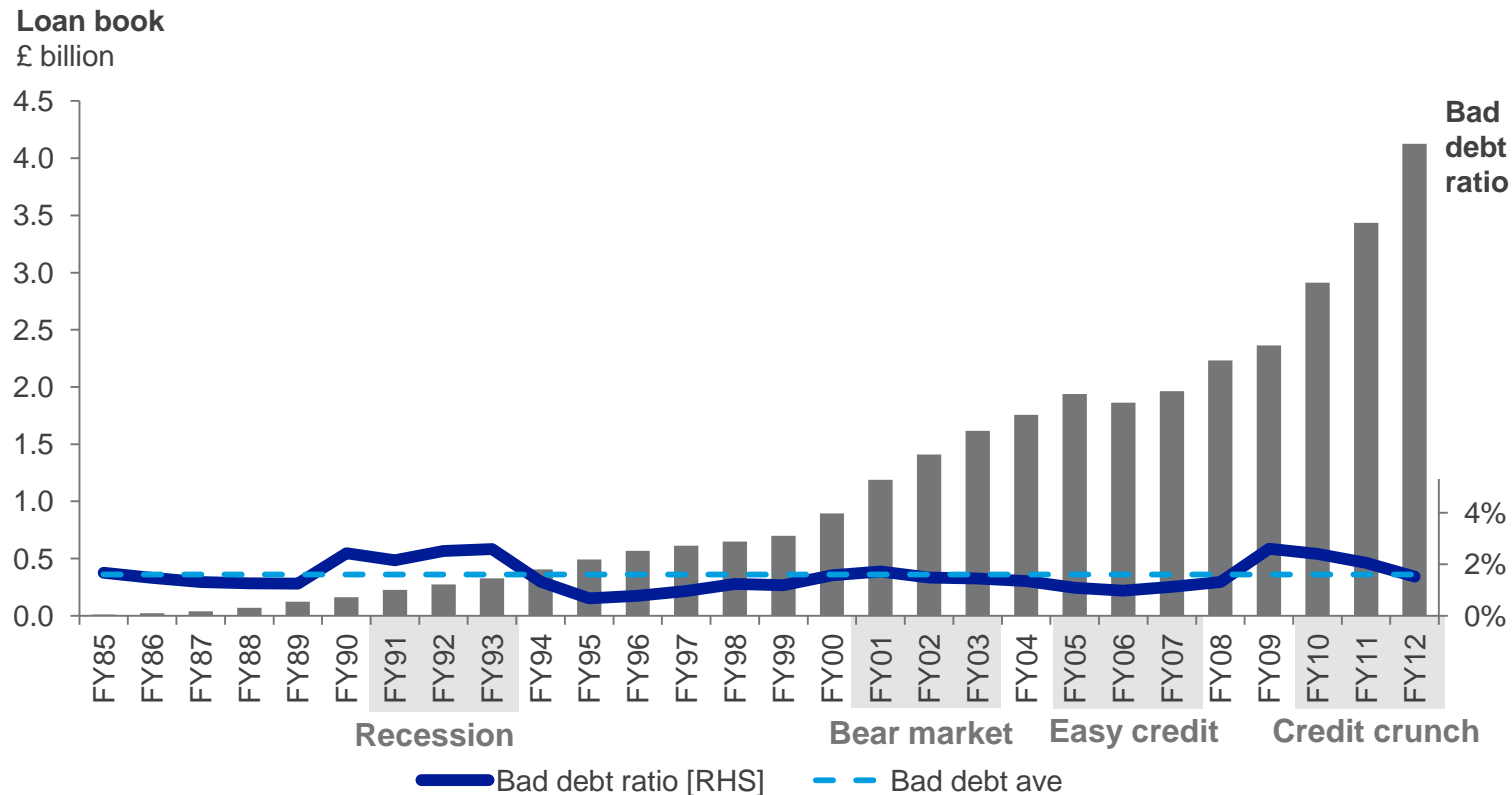
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Disciplined approach to lending...

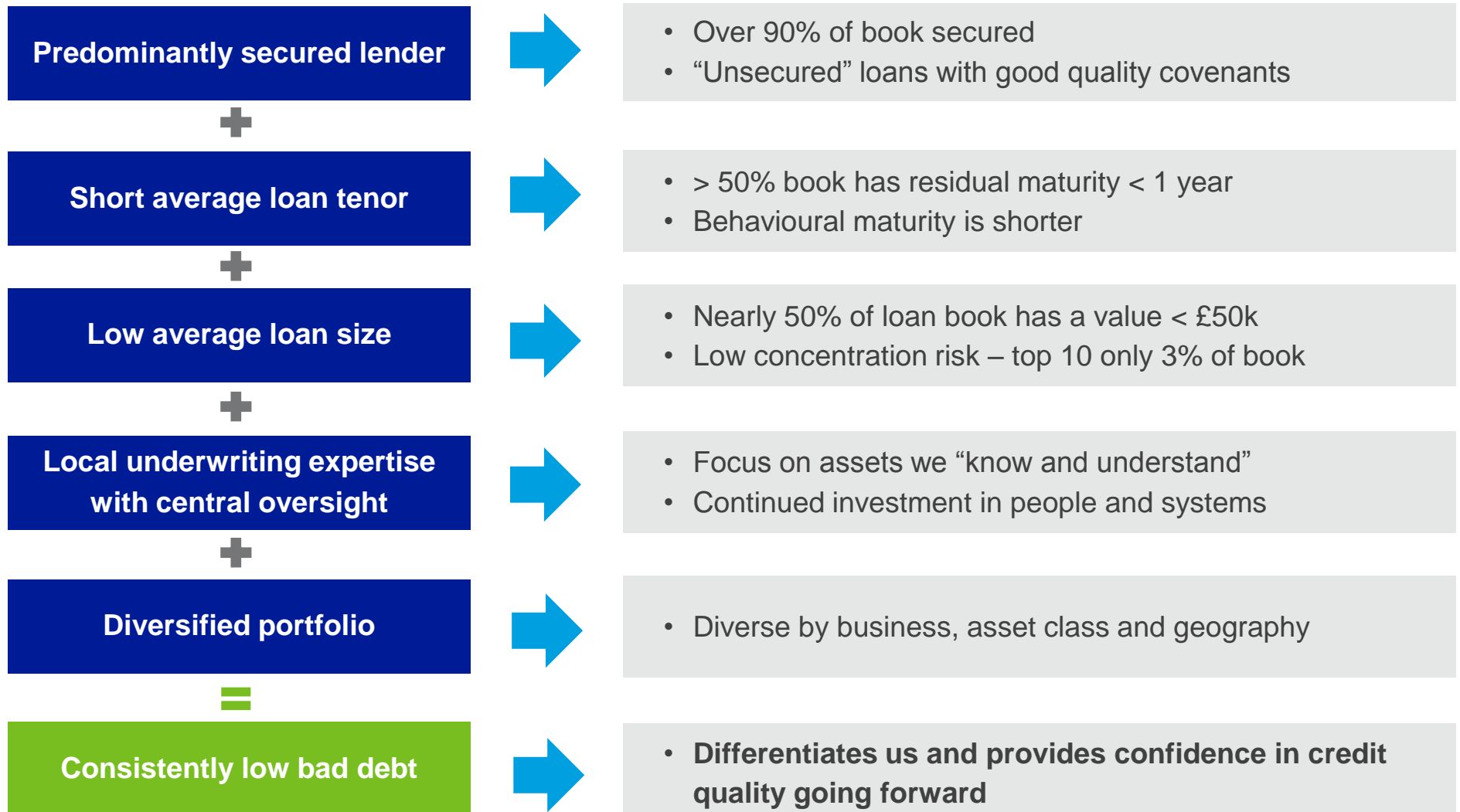
27 year range of 0.7%-2.6% covering a variety of market conditions

- **Long term sustainable growth** underpinned by consistent lending principles
- **Business models minimise credit risk** from external events
- **Loan losses have never exceeded 2.6%** in a single year



....upheld by solid lending principles

Lending without compromising loan book profile or quality



Business models minimise credit risk

Strong underwriting, recovery and repossession expertise unique for each business

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

Motor finance	<ul style="list-style-type: none"> • Pro-active approach to collections (60% loans 1 payment in arrears return to performing) • Low bad debts – expertise in recovery and resale • Individually underwrite over 90% of loans
Premium finance	<ul style="list-style-type: none"> • 3 layers of protection – insurer, broker, borrower • Stable cancellation and recovery rates over long term: Low bad debts
Asset finance	<ul style="list-style-type: none"> • Depth of knowledge with “route to exit” • Repossessions often resold to existing clients
Invoice finance	<ul style="list-style-type: none"> • Prudent advance limits – average drawing 50% of approved debtors • Additional security from guarantees, warranties, indemnities and debtor insurance
Property	<ul style="list-style-type: none"> • Credit discipline maintained throughout recent period of strong growth

Notes

¹ Motor finance is based on the retail price of the vehicle financed. Premium finance LTV based on net loan advanced relative to insurance premium at time of agreement.

² Approximations at 31 January 2013.

³ Typical loan maturity for new business on a behavioural basis.

Consistent lending principles

Disciplined approach creates sustainable growth through the economic cycle

Maintain disciplined lending criteria



Protect our distinctive business model



Deliver high-quality, recurring earnings

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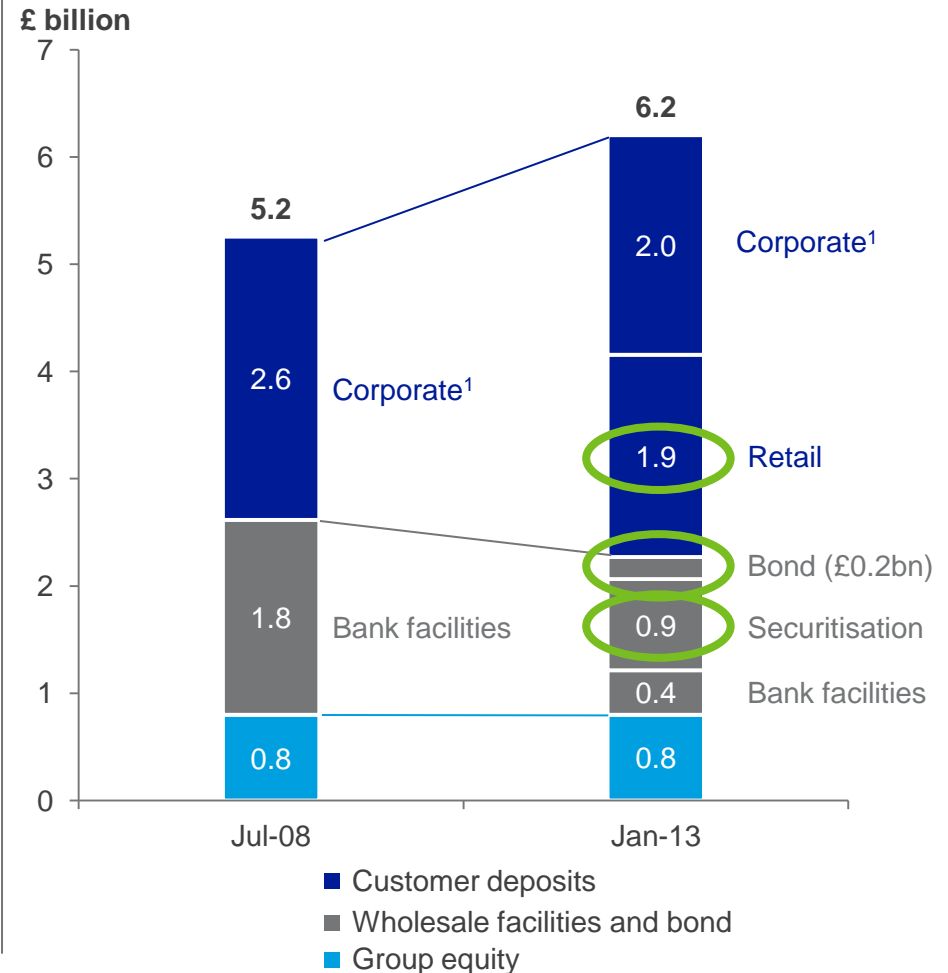
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Conservative funding and prudent liquidity

Diversification and term funding

- **Funding capacity increased £1.0 billion** to support growing loan book
- **New sources of funding accessed:**
 - Close Brothers Savings £1.9 billion²
 - Secured funding £0.9 billion
 - Capital markets £0.2 billion
- **Term funding increased by £1.3 billion to £3.1 billion**
 - Covered 72% of loan book at 31 Jan 2013
- **Focus on high quality liquidity**
 - £1.1 billion high quality liquidity at 31 Jan 2013
 - More efficient balance sheet management

Close Brothers Group funding profile



Notes:

¹ Includes local authority and pension funds

² Reflects net retail deposits raised at 31 Jan 2013

Well positioned to fund future growth

Flexibility to access multiple sources of funding going forward

Take advantage of changing funding markets

- **Fluctuations in cost and supply** – availability ebbs and flows

Further utilisation of existing sources of funding

- Customer deposits – retail and corporate elastic markets
- Bank facilities, securitisations, syndicated facilities

Additional sources of funding open to us

- **Wholesale:** public or private securitisation, Senior and Retail Bonds, Funding for Lending
- **Retail:** Widening product range and distribution channels for deposit raising

Will not compromise core principles

- **Continue to borrow long, lend short**
- **Diversity** of funding
- Sufficient levels of **high quality liquidity**

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The current credit environment

Remains favourable with no significant change in trend in FY 2013

Super-cycle growth over last 3 years

- **Significant dislocation in credit supply** created market opportunity

Growth rate moderated in FY 2013 to date reflecting:

1) Modest changes in credit supply

- **Patchy competition**
- **Markets still fragmented**

2) Fluctuations in credit demand

- Continued **uncertainty in UK economy** causing some SMEs to delay investment
- **Cash becoming a competitor**

Continued good opportunities for growth

Growth potential in existing markets

Experience of winning and retaining business

Significant room for growth in existing markets

- **Opportunities for penetration in existing core markets**
 - **Good demand for specialist, tailored, innovative finance solutions**
 - **Estimated c.5 million SMEs in UK¹**
- **Opportunities to increase market share**
 - **Small player in niche businesses**
 - **£1.4bn asset finance loan book of a £22 billion UK market²**
- **Capture growth through continued investment in our people and distribution model**
- **Benefit from recovery in UK economy**
 - **Dislocation between growth in supply and demand**

Notes:

¹ Department for Business Innovation & Skill, estimated at start of 2012

² Source: Finance & Leasing Association

...and in adjacent areas

Through exploring adjacent areas and extensions of product lines

Exploring product extensions which share attributes with core businesses:

- Supporting fast growing, small businesses with **long-term growth potential**
- **Business Development Committee**
- **Controlled pilots** and exploring **new routes to market**

Examples:

Key Accounts in Motor finance

- Team of 20 people targeting **larger and franchised motor dealerships** including Suzuki

Leasing in Asset finance

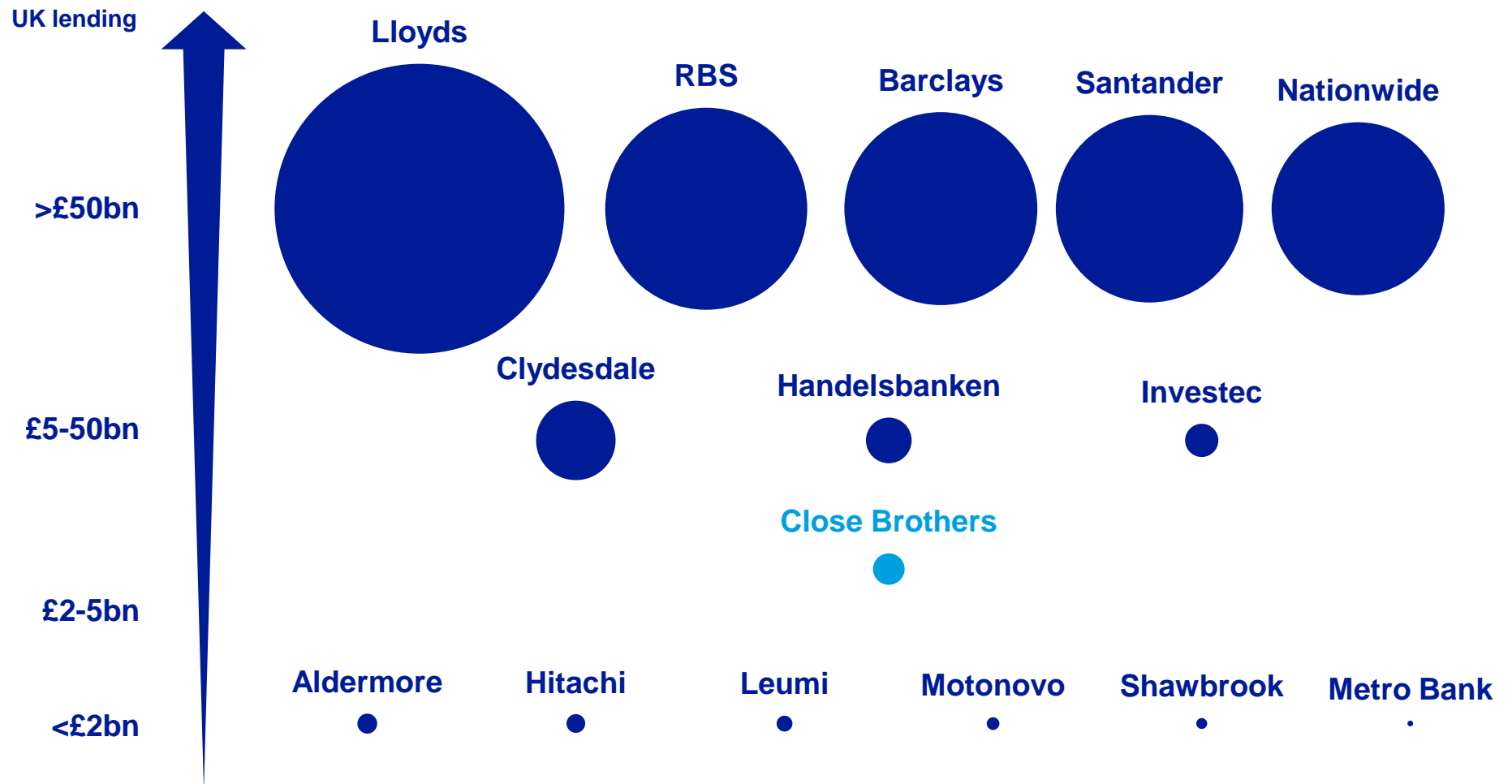
- **Specialist sales team** providing bespoke leasing solutions
- **High levels of repeat business** in excess of 70%

Housing Association in Property

- Adjacent market with **attractive returns given strength of covenant**

Opportunity for growth in UK market

Small, specialised, secured lender with differentiated model



Note:
Calculated on publicly available data and therefore financial years vary
Source: Company Annual Reports & Accounts, Bank of England FLS data, and company press releases

We remain well positioned for growth

Confident for foreseeable future

- **Core attributes make our model difficult to replicate**
 - Strong, local, well-established **distribution network**
 - Experienced, **specialist people**
 - **Service** and **speed** are pivotal
- **Confident in continued good growth opportunities**
 - **Strong model** and **market position** will remain unchanged
 - Continue to **benefit from dislocation** between supply and demand
- **Distinctive model** underpins long track record of **sustainable growth** and **returns**

Q&A

Appendix

Motor finance

- Motor finance for **new and used cars, motorbikes and light commercial vehicles**
 - Predominantly hire purchase agreements for second hand cars
- Part of Close Brothers Group since 1991
- **Intermediated lending through 8,800 regional dealerships**
 - Range from small independents, to large multi-franchised dealerships and manufacturers
- Lending to **190k individuals** and **23k SME borrowers**
- **Small average loan size of £5k**
- **18 offices across UK** with **>400 employees**
- Loan book of **£1.2 billion** at 31 Jan 2013

Premium finance

- **Pioneered in the UK** by Close Brothers in 1977
- **Personal** and **Commercial** insurance premium finance for individuals and SMEs
- **Intermediated lending through 2,100 insurance brokers**
- **c.300 employees**, of which 20% front-office
- Typical loan maturity of 10 months
- **Low average loan size of £600**
- Loan book of **£0.7 billion** at 31 Jan 2013

Asset finance

- **Founded in 1987** by a team of finance specialists
- **Flexible funding options, and tailor-making finance solutions** including **hire purchase, leasing and refinancing**
- **Diverse range of assets** including commercial vehicles, construction and manufacturing equipment and light aircraft
- **End-to-end relationships with 22,000 SMEs**
 - Introduced through 1,100 brokers
- **c.500 employees**
 - Including 200 experienced sales/front line
- **Small average loan size of £34k with conservative LTV of 80%-90%**
- Loan book of **£1.4 billion** at 31 Jan 2013

Invoice finance

- **Invoice discounting and debt factoring for over 1,000 SMEs**
- Part of Close Brothers Group since 1982
- **c.200 employees**, of which 30% front-office
- **Integrated technology via iDeal software**
- **Low average loan size of £270k**
- **Short term financing typically 2-3 months**
- Loan book of **£0.3 billion** at 31 Jan 2013

Property

Specialist team, lending consistently to the market

Close Property finance

- Been part of **Close Brothers Group** for nearly **40 years**
- **Short term, residential refurbishment and development**
- Other products include **pre-let commercial development, investment term loans, bridging loans**
- Typically £500k-£5m for development loans, and £500k- £10m for investment loans
 - Leading provider < £5m
- **Typical LTV 50%-60%** on gross development value
- **Typical loan maturity 6-18 months**
- c.70 staff across offices in **London** and **Edinburgh**

Geographic bias to London and the South East

