Close Brothers

Press Release

Scheduled Trading Update

21 May 2025

Embargoed for release until 7.00 am on 21 May 2025.

Close Brothers Group plc ("the group" or "Close Brothers") today issues its scheduled trading update relating to the third quarter of its 2025 financial year. All statements in this release relate to the period from 1 February 2025 to 30 April 2025 ("the quarter") unless otherwise stated.

Mike Morgan, Chief Executive, said:

"The group's performance in the quarter highlights the strength of our business model, as we generated a CET1 capital ratio of 14.0%. The Banking division delivered a resilient performance, Winterflood saw some benefit from heightened market activity, and we maintained our strong funding and liquidity positions."

"We are taking proactive steps to ensure that the group is well positioned to generate strong, sustainable returns once the motor finance commissions uncertainty has been resolved. As outlined in March, my priorities include focusing on simplification of the group, improving operational efficiency, and driving sustainable growth. Alongside a stronger capital position, delivering on these priorities will create a more efficient and resilient business, one that delivers greater value for shareholders and continues to support customers, as we have through many cycles."

Performance in the third quarter

In **Banking**, the loan book decreased 0.9% in the quarter and 3.5% year-to-date to £9.7 billion (31 January 2025: £9.8 billion, 31 July 2024: £10.1 billion), with lower activity in some of our businesses. We saw increased levels of repayments in Property, reduced activity in some of our Asset Finance businesses and a competitive market environment in Premium Finance. This was offset in part by growth in Invoice Finance and a recovery in new business volumes in Motor Finance to levels seen prior to the temporary pause in lending in October 2024. As a result, we now expect the loan book at the end of the 2025 financial year to be broadly flat on the position at 31 January 2025.

The annualised year-to-date net interest margin was 7.1% (H1 2025: 7.3%). In line with the guidance provided at the Half Year 2025 results, we expect the full-year net interest margin to be around 7%.

We continue to advance our cost management initiatives and are on track to deliver annualised savings of c.£25 million by the end of the 2025 financial year. Looking forward, we remain committed to executing further cost savings to drive a step change in operational efficiency and will provide further updates in the months to come.

The annualised year-to-date bad debt ratio remained below our long-term average at 0.9% (H1 2025: 1.0%), reflecting continued resilient underlying credit performance[1]. Notwithstanding the uncertain external environment, we remain confident in the quality of our loan book, which is predominantly secured, prudently underwritten, diverse, and supported by the deep expertise of our people.

Winterflood reported an operating profit in the third quarter of £0.4 million (H1 2025: operating loss of £0.8 million, Q3 2024: operating profit of £1.7 million) as the business benefited from higher levels of market activity in April.

The **Group (central functions)**[2] reported net expenses of £13.9 million in the quarter (H1 2025: £28.4 million, Q3 2024: £11.6 million), as we continue to incur an elevated level of professional fees and expenses associated with the impact on the group of the Financial Conduct Authority's ("FCA's") review of motor finance commission arrangements and the Supreme Court appeals.

Update on developments in relation to motor finance commissions

The Supreme Court appeal in respect of Hopcraft v Close Brothers Limited was heard in early April, alongside two other cases, and we await the outcome[3]. On 11 March 2025, the FCA announced it will confirm within six weeks of the Supreme Court's decision if it will be proposing a redress scheme and, if so, how it will take this forward.

Strong balance sheet

We maintained our prudent approach to managing our financial resources and continued to adopt the conservative "borrow long, lend short" funding strategy, with a spread of maturities over the medium and longer term, ahead of a shorter average loan book maturity. Our diverse funding base increased to £12.9 billion (31 January 2025: £12.7 billion), driven by further growth in our retail customer deposits and our liquidity position remained substantially above regulatory requirements.

Our capital position continued to strengthen, with a Common Equity Tier 1 ("CET1") capital ratio of 14.0% at 30 April 2025 (31 January 2025: 13.4% on a pro-forma basis after the disposal of Close Brothers Asset Management ("CBAM"))[4]. In addition to profit generation, the increase in the quarter was primarily driven by lower loan book risk weighted assets ("RWAs") and a full reduction in operational risk RWAs associated with the CBAM business following approval from the Prudential Regulation Authority ("PRA"), which amounted to a further benefit to CET1 capital ratio of c.25bps. This takes the total capital benefit from the sale of CBAM to £150 million or c.145bps included in the 30 April 2025 ratio, reflecting the significant progress made in implementing the capital actions previously outlined.

Outlook

We are encouraged by the resilient performance we have delivered so far this year, whilst significantly strengthening our capital position. We have updated our loan book growth expectations to reflect the performance year-to-date and now expect our CET1 capital ratio to be above our medium-term target range of 12% to 13% by the end of the financial year. We remain confident in all other guidance outlined at our Half Year 2025 results.

Footnotes

1 At 30 April 2025, there was a 30% weighting to the strong upside, 32.5% weighting to the baseline, 20% weighting to the mild downside, 10.5% weighting to the moderate downside and 7% weighting to the protracted downside (unchanged from 31 January 2025). Moody's April unemployment forecast for Q4 2025 under the baseline scenario is 4.5%, 4.0% under the upside scenario and ranges between 5.0% and 6.9% in the downside scenarios. Moody's April inflation forecast for Q4 2025 under the baseline scenario is 2.9%, 3.0% for the upside scenario and ranges between -0.1% and 1.1% in the downside scenarios. Moody's April forecast for the Bank of England base rate for Q4 2025 is 3.9% in the baseline scenario, 4.0% in the upside scenario and ranges from 2.2% to 3.9% in the downside scenarios.

2 Group consists of central functions (such as finance, legal and compliance, risk and human resources) as well as the non-trading head office company and consolidation adjustments and is set out in order that the information presented reconciles to the consolidated income statement.

3 Supreme Court case number UKSC/2024/0157.

4 Total Capital ratio of 18.0% at 30 April 2025 (31 January 2025: 17.2% on a pro-forma basis after the disposal of CBAM). The group's capital ratios are presented on a transitional basis after the application of IFRS 9 transitional arrangements which allows banks to add back to their capital base a proportion of the IFRS 9 impairment charges during the transitional period. Without their application, the CET1 and Total capital ratios would be 14.0% and 18.0%, respectively. The applicable minimum CET1 and Total capital ratio regulatory requirements, excluding any applicable PRA buffer, were 9.7% and 13.7% at 30 April 2025. The group's capital ratios are unaudited and include Q3 2025 unverified profits net of foreseeable charges.

Enquiries

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About Close Brothers

Close Brothers is a leading UK merchant banking group providing lending, deposit taking and securities trading. We employ approximately 3,000 people, principally in the United Kingdom and Ireland. Close Brothers Group plc is listed on the London Stock Exchange and is a constituent of the FTSE 250.

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Certain statements included or incorporated by reference within this announcement may constitute "forward-looking statements" in respect of the group's operations, performance, prospects and/or financial condition. All statements other than statements of historical fact are, or may be deemed to be, forward-looking statements. Forward-looking statements are sometimes, but not always, identified by their use of a date in the future or such words as "anticipates", "aims", "due", "could", "may", "will", "should", "expects", "believes", "intends", "plans", "potential", "targets", "goal" or "estimates". 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. There are also a number of factors that could cause actual future operations, performance, financial conditions, results or developments to differ materially from the plans, goals and expectations expressed or implied by these forward-looking statements and forecasts. These factors include, but are not limited to, those contained in the group's annual report (available at: https://www.closebrothers.com/investor-relations). 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.

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