Close Brothers

Press Release

Scheduled Q3 2024 Trading Update

22 May 2024

Embargoed for release until 7.00 am on 22 May 2024.

Close Brothers Group plc ("the group" or "Close Brothers") today issues its scheduled trading update relating to the third quarter of its 2024 financial year. All statements in this release relate to the period from 1 February 2024 to 30 April 2024 ("the quarter") unless otherwise stated.

Adrian Sainsbury, Chief Executive Officer, said:

"Performance in the third quarter reflected continued loan book growth, strong margins and resilient credit quality in Banking. Notwithstanding moderation in some of our businesses, due to seasonality and selective loan book actions we identified at the Half-Year 2024 results, we are encouraged by the ongoing strength in overall customer demand and continue to focus on providing excellent service to our customers. CBAM delivered strong net inflows and Winterflood's performance benefited from marginally improved market conditions in the quarter.

While we are working through a period of uncertainty, we are committed to executing our strategy and protecting our valuable franchise. We are making good progress against the actions previously outlined to further strengthen our capital position and are focused on positioning the group to resume our track record of earnings growth and attractive returns."

Group and divisional performance

In **Banking**, the loan book increased 1.5% in the quarter and 5.4% year-to-date (6.4% excluding Novitas and the legacy Irish Motor Finance business in run-off) to £10.0 billion (31 July 2023: £9.5 billion, 31 January 2024: £9.9 billion). This mainly reflected strong customer demand in Property and continued growth in the UK Motor Finance and Invoice Finance loan books. This was partly offset by moderation from the selective loan book actions outlined at the Half-Year 2024 results, as well as a seasonal reduction in Premium Finance and a stabilisation in Asset Finance, following a period of strong growth. In the Republic of Ireland, the recently acquired Motor Finance business is performing well and continues to make good progress in re-establishing its presence in the market, with new business volumes growing steadily.

The annualised year-to-date net interest margin ("NIM") was 7.4% (H1 2024: 7.5%). This reflected continued pricing dynamics from a higher interest rate environment, as well as lower fees. We are well positioned to maintain a strong net interest margin and expect NIM to remain broadly stable for the remainder of the year.

We continue to expect c.8-10% growth in Banking costs in the 2024 financial year, excluding costs related to the recently acquired Irish Motor Finance business (expected to be c.£7 million in the 2024 financial year). As outlined at the Half-Year 2024 Results, we expect to incur c.£10 million of costs associated with the handling of complaints in the Motor Finance business regarding historical discretionary commission arrangements in the 2024 financial year.

The annualised year-to-date bad debt ratio was 0.9% (H1 2024: 0.9%)[1] and we expect the bad debt ratio for the 2024 financial year to be below our long-term average of 1.2%[2], based on current market conditions. Whilst we have not seen a significant impact on credit performance, we continue to monitor closely the evolving impacts of inflation and cost of living on our customers. 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.

Following discussions with the FCA in relation to its market wide review of Borrowers in Financial Difficulty ("BiFD"), which assessed forbearance and related practices, the group is currently conducting a Past Business Review of customer forbearance related to its motor finance lending. The review is expected to conclude by the end of the 2024 financial year, with any subsequent potential customer compensation to follow. We currently estimate the total impact from the review and any subsequent potential customer compensation to be single-digit millions.

Close Brothers Asset Management ("CBAM") delivered strong year-to-date annualised net inflows of 9% (H1 2024: 9%) and continued to attract new client assets, further building on its track record of growth. In the quarter, managed assets increased to £18.5 billion (31 January 2024: £17.7 billion) and total assets increased to £19.6 billion (31 January 2024: £18.5 billion), driven by net inflows and positive market movements.

Whilst **Winterflood's** performance continued to be impacted by weakness in investor appetite, trading conditions marginally improved in the quarter, resulting in an operating profit of £1.7 million in the third quarter (H1 2024: £2.6 million operating loss; Q3 2023: £1.2 million operating profit).

The **Group (central functions)**[3] reported net expenses of £11.6 million in the quarter (H1 2024: net expenses of £21.0 million, Q3 2023: £6.4 million). The group expects to incur a higher level of group (central functions) net expenses for the remainder of the 2024 financial year, primarily reflecting an increase in professional fees and expenses associated with the FCA's review of historical motor finance commission arrangements.

We maintained our strong balance sheet and prudent approach to managing our financial resources, with our conservative approach to funding based on the principle of "borrow long, lend short". Our diverse funding base increased to £13.1 billion (31 January 2024: £12.7 billion), with customer deposits growing 6% in the quarter to £8.8 billion. Our liquidity coverage ratio was substantially above regulatory requirements.

Our Common Equity Tier 1 ("CET1") capital and Total Capital ratios were 12.9% and 16.6%, respectively, at 30 April 2024 (31 January 2024: 13.0% and 16.9%)[4]. The decrease in the quarter was primarily driven by growth in the loan book more than offsetting retained profit. We have made good progress preparing to implement the RWA optimisation actions outlined at the Half-Year results. The Board remains confident that the identified actions will position the group well to withstand a range of scenarios and potential outcomes of the FCA's review of historical motor finance commission arrangements.

Outlook

In Banking, we remain encouraged by the ongoing strength of customer demand and are committed to maintaining our pricing discipline, whilst progressing our cost management initiatives.

In CBAM, following a period of strong growth, our priority is to consolidate our position and maximise opportunities to accelerate our profitability through providing excellent service, building on the strength of our client relationships, and in our Bespoke business by shifting our focus to only selective hiring of bespoke investment managers.

Winterflood remains well placed to retain our market-leading position and benefit when investor appetite returns.

Financial Calendar

As previously announced, the group has discontinued the issuance of pre-close trading updates in order to align more closely with prevailing market and industry practice.

The group is provisionally rescheduling the release of its preliminary results for the 2024 financial year to 19 September 2024 (from 24 September 2024).

Footnotes

1 At 30 April 2024, there was a 32.5% weighting to the baseline scenario, 30.0% to the upside and 37.5% to the downside scenarios (unchanged from 31 January 2024). Moody's March unemployment forecast (maintained for April month-end) for Q4 2024 under the baseline scenario is 4.5%, 4.1% under the upside scenario and ranges between 5.0% and 6.9% in the downside scenarios. Moody's April inflation forecast for Q4 2024 under the baseline scenario is 2.6%, 2.7% for the upside scenario and ranges between -0.4% and 0.8% in the downside scenarios. Moody's April forecast for the Bank of England base rate for Q4 2024 is 4.6% in the baseline scenario, 4.7% in the upside scenario and ranges from 2.9% to 4.1% in the downside scenarios.

2 Long-term bad debt ratio of 1.2% based on the average bad debt ratio for FY08-H124, excluding Novitas.

3 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.

4 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 12.8% and 16.5%, respectively. The applicable CET1 and Total capital ratio requirements, excluding any applicable PRA buffer, were 9.6% and 13.7% at 30 April 2024 following the group's recent PRA supervisory review and evaluation process. The group's capital ratios are unaudited and include both verified and unverified profits net of foreseeable charges.

Enquiries

Sophie Gillingham	Close Brothers Group plc	020 3857 6574
Camila Sugimura	Close Brothers Group plc	020 3857 6577
Kimberley Taylor	Close Brothers Group plc	020 3857 6233
Ingrid Diaz	Close Brothers Group plc	020 3857 6088
Sam Cartwright	H/Advisors Maitland	07827 254561

About Close Brothers

Close Brothers is a leading UK merchant banking group providing lending, deposit taking, wealth management services and securities trading. We employ approximately 4,000 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.

Cautionary Statement

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.

Except as may be required by law or regulation, 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 announcement should be construed as a profit forecast. Past performance cannot be relied upon as a guide to future performance and persons needing advice should consult an independent financial adviser.

This announcement does not constitute or form part of any offer or invitation to sell, or any solicitation of any offer to subscribe for or purchase any shares or other securities in the company or any of its group members, 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 or other securities of the company or any of its group members. Statements in this announcement reflect the knowledge and information available at the time of its preparation. Liability arising from anything in this announcement shall be governed by English law. Nothing in this announcement shall exclude any liability under applicable laws that cannot be excluded in accordance with such laws.