Close Brothers

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Press Release

Scheduled Trading Update

21 January 2021

Embargoed for release until 7.00am on 21 January 2021.

Close Brothers Group plc ("the group" or "Close Brothers") today issues its scheduled pre-close trading update ahead of its 2021 half year end. Close Brothers will release its half year results for the six months ending 31 January 2021 on 16 March 2021.

All statements in this release relate to the five months to 31 December 2020 ("the period") unless otherwise indicated.

Adrian Sainsbury, Chief Executive Officer

"We have delivered a strong performance year to date, with the positive trends reported at the end of the first quarter continuing. Our operational capabilities, financial resources and resilient model have enabled us to adapt to the changing environment, which together with the expertise and commitment of our people, have allowed us to continue to support our customers and clients.

Although the external environment remains highly uncertain, with national lockdown restrictions currently in place, our proven model and significant experience leave us well positioned."

Group and divisional performance

The group has delivered a strong performance in the current market conditions, with high new business volumes in the lending businesses, solid net inflows in Asset Management and a very strong trading performance in Winterflood.

Our capital position remained strong, with a Common Equity Tier 1 capital ratio of 14.8% (31 July 2020: 14.1%), significantly above the applicable minimum regulatory requirement[1]. We further strengthened our funding base with a £350 million, 10 year senior unsecured bond issue in December 2020.

In **Banking**, the loan book increased 6.5% to £8.1 billion (31 July 2020: £7.6 billion). The strong demand for loans issued under the UK government support scheme (CBILS)[2] continued, particularly in the Asset Finance business. We have also seen improved levels of utilisation in Invoice Finance and continued elevated new business levels in Motor Finance, although the national lockdown may have an impact on volumes in these businesses. In the Property business, while construction activity has continued, the loan book reduced due to a high level of repayments.

We have remained focused on our pricing and underwriting discipline, with the net interest margin stable on the 2020 financial year at 7.6% (FY 2020: 7.5%).

We continued to focus on strict cost management while progressing our key strategic programmes. This includes the significant work and resources allocated to our project to transition to an Internal Ratings Based approach. As planned, we submitted our formal application to the Prudential Regulation Authority in December 2020.

The performance of the forborne book remains encouraging. Across Commercial and Retail, where concessions principally take the form of payment holidays, 87% of customers (by value) who were granted concessions as a result of Covid-19 had resumed payments at 31 December 2020. In Property, concessions principally take the form of fee-free extensions, where we remain confident in the quality of the underlying borrower and security.

The stable credit performance of the loan book resulted in an annualised bad debt ratio of 0.9% (FY 2020: 2.3%). We remain confident in the quality of our lending, which is predominantly secured, prudently underwritten and diverse. Nevertheless, we will continue to closely monitor the performance of the loan book as the macroeconomic outlook evolves and government support schemes end in the coming months[3].

The **Asset Management** division generated annualised net inflows of 5.4%, despite the reduced face-to-face interaction with clients arising from Covid-19. Managed assets increased to £13.9 billion (31 July 2020: £12.6 billion) and total client assets increased to £15.0 billion (31 July 2020: £13.7 billion), primarily reflecting favourable market movements. We remain committed to maintaining our excellent client service whilst investing in new hires and technology to support the long-term growth potential of the business.

Winterflood delivered a very strong trading performance, benefiting from a further acceleration in market activity in recent months and the expertise of our traders. Average daily bargains stood at 92k in the period (FY 2020: 82k; FY 2019: 56k), with no loss days. As a result, Winterflood's year-to-date operating profit is substantially ahead of the prior year comparative period, and closer to the level achieved in the second half of the 2020 financial year. Winterflood is well positioned to continue trading profitably in a range of conditions, but due to the nature of the business, it remains sensitive to changes in the market environment.

Outlook

We are well positioned to deliver a strong performance across our businesses in the first half of the year and continue to respond well to the challenges and opportunities arising from the current environment.

Notwithstanding this, the impact of further lockdown restrictions across the UK, Brexit and the end of the government support schemes on loan book growth and credit performance in the coming months remains highly uncertain.

Our proven and resilient model and strong balance sheet, combined with our deep experience in navigating a wide range of economic conditions, leave us well placed to continue supporting our colleagues, customers and clients over the long term.

Footnotes

1 In line with the amended Capital Requirements Regulation, effective on 23 December 2020, the CET1 ratio at 31 December 2020 includes a 30bps benefit related to software assets which are exempt from the deduction requirement for intangible assets from CET1. According to a statement published on 30 December 2020, the PRA intends to consult in due course to maintain the earlier position, which if implemented would result in a reversal of this benefit. The group applies IFRS 9 regulatory transitional arrangements which allows banks to add back to their capital base a proportion of the IFRS 9 impairment charges during the transitional period. Our capital ratios are presented on a transitional basis after the application of these arrangements and the Capital Requirements

Regulations qualifying own funds arrangements. Without their application, the CET1 capital ratio would be 13.7%. The applicable minimum regulatory requirement, excluding the Prudential Regulation Authority (PRA) buffer was 7.6% at 31 December 2020.

2 At 31 December 2020, lending under the Coronavirus Business Interruption Loan Scheme (CBILS) and associated schemes totalled £660 million across 3,034 loans. Additionally, at 31 December 2020, over £205 million across 713 loans in our Commercial and Property businesses had been credit approved. The vast majority of lending is via CBILS under which we are accredited to lend up to £1 billion. The UK Government support schemes are due to end on 31 March 2021.

3 Expected credit losses reflect the application of macroeconomic scenarios, which have been updated to include more recent externally sourced scenarios on a monthly basis since the start of the pandemic. At 31 December 2020, weightings remain unchanged with 40% weighted to baseline scenario and 60% to downside scenarios. The modelled impact of macroeconomic scenarios and their respective weightings is overlaid with expert judgment in relation to stage allocation and coverage ratios at the individual portfolio level, incorporating our experience and knowledge of our customers, the sectors in which they operate, and the assets which we finance.

Enquiries

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About Close Brothers

Close Brothers is a leading UK merchant banking group providing lending, deposit taking, wealth management services and securities trading. We employ over 3,500 people, principally in the UK. Close Brothers Group plc is listed on the London Stock Exchange and is a member of the FTSE 250.

Cautionary Statement