Close Brothers

Press Release

Scheduled Trading Update

21 July 2023

Embargoed for release until 7.00 am on 21 July 2023.

Close Brothers Group plc ("the group" or "Close Brothers") today issues its scheduled pre-close trading update ahead of its 2023 financial year end. Close Brothers will release its results for the full year ended 31 July 2023 on 26 September 2023.

All statements in this release relate to the 11 months to 30 June 2023 unless otherwise indicated.

Adrian Sainsbury, Chief Executive Officer, said:

"We have performed well in the second half of the financial year, maintaining the loan book growth momentum, strong net interest margin and stable credit performance in Banking reported at Q3. Close Brothers Asset Management continued to attract client assets and delivered a strong net inflow rate, although Winterflood's performance remains impacted by subdued trading activity.

We are seeing good demand in our Banking business and are making the most of the opportunities, notwithstanding the uncertain external environment. We continue to support our customers and clients, maintaining our consistent approach to lending throughout the cycle. Our financial strength and proven business model leave us well placed and I am pleased with our progress towards resuming the group's track record of earnings growth and returns since the first half."

Divisional performance

In **Banking**, the loan book increased 3.7% year-to-date to £9.4 billion[1] (6.8% excluding Novitas and the Irish Motor Finance business). This reflected continued demand in the Commercial businesses and strong growth in Property Finance driven by increased drawdowns and a slowdown in repayments. Marginal growth in the UK Motor Finance and Premium Finance loan books has been more than offset by the run-off of the Irish Motor Finance business.

The annualised year-to-date net interest margin remained strong at 7.7% (7.5% excluding Novitas) (FY 2022: 7.8%, 7.5% excluding Novitas), reflecting our pricing discipline.

We remain focused on cost control, although we experienced increased pressure from the inflationary environment, particularly in the second half of the financial year and we continued to invest in strategic programmes.

The annualised year-to-date bad debt ratio was 2.3% (Q3 2023: 2.6%). This incorporates the significant provisions taken against Novitas in the first half of the 2023 financial year, which we believe adequately reflect the remaining risk of credit losses for the Novitas loan book.

Our credit performance has remained stable since the first half, with an annualised year-to-date bad debt ratio of 0.9% excluding Novitas (Q3 2023: 0.9%)[2]. We continue to monitor closely the evolving impacts of higher inflation and 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.

Close Brothers Asset Management delivered year-to-date annualised net inflows of 9% (FY 2022: 5%, Q3 2023: 9%), notwithstanding market uncertainty throughout the period. Our hiring strategy is proving successful, with the new portfolio managers contributing significantly to the overall inflow rate, and we continue to invest to support the long-term growth potential of the business. Since the Q3 trading update, both managed assets and total client assets have remained stable at £16.1 billion and £17.0 billion respectively, as negative market movements largely offset net inflows.

Winterflood's performance continued to be impacted by the cyclical trends and weak retail investor activity previously highlighted, generating operating profit of c.£3 million in the financial year-to-date. Nevertheless, the team's experience and focus on managing risk resulted in only one loss day year-to-date. Winterflood has a long track record of trading profitably in a range of market conditions and remains well positioned to benefit when investor confidence recovers.

Strong capital, funding and liquidity positions

We maintained our strong balance sheet and the prudent management of our financial resources. Our Common Equity Tier 1 ("CET1") ratio was 13.7% at 30 June 2023 (30 April 2023: 14.0%), significantly above the applicable minimum regulatory requirement[3]. Our funding base was strengthened by the successful issuance of a £250 million senior unsecured bond in June 2023 and we maintained our prudent liquidity position, with the liquidity coverage ratio substantially above regulatory requirements.

Outlook

Following a challenging first half, we have performed well in the second part of the financial year so far. Although the external environment remains uncertain, we are making the most of opportunities and our business is performing as we would expect at this stage in the cycle. Our proven model and financial strength leave us well placed to resume our track record of earnings growth and returns by focusing on disciplined growth, cost efficiency and capital optimisation.

Footnotes

1 The loan book is presented including operating lease assets.

2 At 30 June 2023, 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 July 2022). Moody's June unemployment forecast for Q4 2023 under the baseline scenario is 4.3%, 3.9% under the upside scenario and ranges between 4.7% and 5.4% in the downside scenarios. Moody's June inflation forecast for Q4 2023 under the baseline scenario is 5.2%, 4.8% for the upside scenario and ranges between 3.8% and 1.5% in the downside scenarios. Moody's June forecast for the Bank of England base rate for Q4 2023 is 5.0% in the baseline scenario, 5.2% in the upside scenario and ranges from 4.7% to 3.8% in the downside scenarios.

3 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 capital ratio would be 13.4%. The applicable minimum regulatory requirement, excluding any applicable PRA buffer, was 8.5% at 30 June 2023. The CET1 ratio at 30 June 2023 has been calculated in accordance with UK CRR Article 26 regarding the deduction of foreseeable dividends from CET1 capital. The CET1 ratio for 31 July 2023 may be impacted by any dividend declared by the Board.

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 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 member 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.

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