



Close Brothers Group plc

Preliminary Results 2025

Edited transcript *

Tuesday 30th September 2025

Mike Morgan, Group Chief Executive

Good morning, and welcome to the presentation of Close Brothers' 2025 Preliminary results.

I'll begin with an overview of the year. After that, I will hand over to Fiona McCarthy, our Group CFO, who will walk you through our financial performance, and then I'll return to update you on our strategic priorities, and wrap-up the presentation. We'll be happy to take your questions afterwards, both via the telephone conference line and over the webcast. You can submit your questions either during or after the presentation.

This year has shown that change is possible, and that we can move at pace. We've strengthened our capital position, reshaped the portfolio, and addressed legacy issues. Our performance demonstrates the resilience of our business model and the impact of these actions. We're also encouraged by the growth opportunities across our chosen markets, which I'll touch on shortly.

We significantly strengthened our capital position, with over £400 million of CET1 capital generated or preserved since March 2024. At 31 July 2025, we achieved a CET1 capital ratio of 13.8%, or 14.3% following the sale of Winterflood. This is after taking account of the impact of the motor commissions provision, and the actions taken to simplify the Group and address legacy matters.

We've already delivered £25 million of annualised savings by the end of FY25, ahead of the initial guidance. Today, we're announcing that we will deliver at least c.20 million of additional annualised savings in each of the next three years, a total of £60 million.

We have also simplified the Group through the sale of Close Brothers Asset Management, Winterflood and Brewery Rentals. And we've repositioned our Premium Finance business towards commercial lines, where returns are more attractive.

As part of this agenda, I can announce today that we are exiting our Vehicle Hire business, a loss-making business that is not aligned with our core specialist lending expertise. Together with the impact of declining asset values, this has resulted in an asset impairment charge of £30 million.

We have concluded legacy matters regarding Novitas through securing settlements with insurers at a small premium, allowing us to draw a line under the issue and move forward with the exit of this business.

Our wide-ranging review of the business has also required us to take other challenging, but necessary, actions. We are implementing a proactive customer redress programme in Motor Finance, where we have identified historical deficiencies in certain operational processes, in relation to the early settlement

* This transcript has been edited to correct minor factual inaccuracies

of loans. This has resulted in a provision of £33 million, separate to the broader sector-wide redress scheme being considered by the FCA. Since identification of the issue, we have acted quickly to amend the relevant processes and are fully committed to ensuring affected customers are appropriately compensated.

In terms of the Motor Finance provision, Fiona will take you through this in more detail, but in summary the provision has been reassessed in light of all available information including recent developments, and remains unchanged. We welcome the positive outcome of the Supreme Court judgment, which provided much-needed clarity to the industry, and now await the outcome of the FCA consultation on the design and scope of an industry-wide redress scheme.

The actions we have taken in the year, created a sharper, more focused portfolio of specialist banking businesses, well positioned to deliver growth and stronger returns.

Let me take a step back and show you how the group has been evolving. This timeline illustrates our transition from a diversified merchant bank to today's more focused specialist bank. And where we are heading next. First, the fundamental strengths of our business model, which haven't changed. They include our consistent lending criteria, with disciplined underwriting and pricing applied through the cycle; a customer-centric approach, built on longstanding relationships, with straightforward products and services. And prudent management of our financial resources.

Second, the more recent phase where we've essentially been resetting the business to drive stronger returns, even while navigating the uncertainty around motor commissions. Recent events meant we had to protect this valuable franchise. We built and preserved a significant amount of capital through the management actions announced in March 2024. We have also taken decisive actions to address legacy issues, reduce costs and reshape our portfolio. While these actions clearly have a near-term impact on our financial performance, they put us firmly on the right path for our next phase, towards stronger returns.

And finally, looking ahead to the next phase. With our simplification agenda largely complete, our attention now turns to driving efficiency (which we termed as 'Optimise') and capturing growth (which we termed as 'Grow'). There is more we can do. And I will talk shortly about our plans to deliver a step change in profitability. In parallel, we are evaluating opportunities to optimise capital, funding and liquidity.

We see attractive growth opportunities across our businesses. We intend to use our market presence, brand reputation and specialist expertise to win in the segments where we can truly differentiate and become the specialist lender of choice for SMEs in the UK and Ireland.

Having walked through our journey so far, let's look at what this means for the story of the group going forward. First, we operate in strong positions within attractive and large target markets. The SME lending markets in the UK and Ireland remain underserved and underpenetrated. That gives us clear opportunities to grow.

Second, we are now a focused specialist bank, serving a valuable customer franchise. Our customers need specialist expertise and strong customer relationships, and our trusted brand and high-touch service model allow us to differentiate and win. Third, we recognise that returns are not yet where they should be. That is why we have clear, disciplined strategic priorities: Simplify, Optimise and Grow.

I'll come back later to give you more detail on each of these priorities, but the key point is that we now have a simpler, more focused portfolio and a leadership team focused on delivery. We are well positioned to reduce costs, drive growth in our chosen markets and improve returns. I am confident that together these actions set a clear path back to double-digit RoTE by the 2028 financial year, rising thereafter.

Thank you. I will now hand over to Fiona to cover our financial performance in 2025 financial year.

Fiona McCarthy, Group Chief Finance Officer

Thank you Mike, and good morning everyone. I'll be taking you through the financials this morning.

Before I go into more detail, I would like to highlight that the financial information is being presented on a continuing operations basis. The headline numbers exclude Close Brothers Asset Management and Winterflood, which have been classified as 'discontinued operations' in the group's income statement for the 2024 and 2025 financial years. They also exclude Close Brewery Rentals Limited and Close Brothers Vehicle Hire, which have been treated as adjusting items.

We reported adjusted operating profit of £144 million in the 2025 financial year, reflecting the impact of actions taken to strengthen our capital position and simplify the business, and a return on average tangible equity of 7.1%.

This equated to an operating loss before tax of £122 million. This was mainly driven by the £267 million of adjusting items, which includes the £165 million provision in relation to motor finance commissions. It also includes operating losses before tax from the group's rentals businesses and a provision for a proactive customer remediation scheme in relation to early settlement of loans in Motor Finance, and some additional cost items. I will go into more detail on the adjusting items later.

Notwithstanding the loss, we've maintained strong capital, funding and liquidity positions, ending the period with a CET1 capital ratio of 13.8%, which is 14.3% on a pro forma basis including the expected benefit from the sale of Winterflood.

In Banking, we delivered £198 million of adjusted operating profit, reflecting a resilient underlying business performance and our continued focus on cost. The operating loss in Group (central functions) increased to £54 million, slightly below guidance.

The loan book reduced 4% primarily due to loan book moderation measures in the earlier part of the year. The net interest margin was strong at 7.2% and credit quality remained resilient, with a bad debt ratio of 1.0%.

As of 31 July, we have achieved annualised cost savings of £25 million against an initial target of £20 million. I will come on to talk about costs in more detail later.

Turning now to the provision in relation to motor finance commissions. In early August the Supreme Court delivered its judgment in respect of Hopcraft. We welcomed the outcome of the Supreme Court's judgment, but uncertainty remains until the FCA confirms the design and scope of an industry-wide redress scheme. An update from the FCA on its consultation is currently expected in early October.

In the first half, we booked a provision charge of £165 million in respect of motor finance commissions. We have reassessed this provision in light of recent developments, and it remains unchanged at £165 million, I would note that this is a best estimate based on all currently available information, and the ultimate cost to the group could be materially higher or lower.

The operating loss for the year has been significantly impacted by adjusting items. Firstly, we have the provision charge related to motor commissions of £165 million, which I've just covered and is unchanged from the first half. It covers estimated operational and legal costs and potential remediation for affected customers.

There are a number of other additional adjusting items: Firstly, as Mike mentioned, we have decided to exit our Vehicle Hire business, which has been loss making in a challenging market environment. Together with the impact of declining asset values, this has resulted in an impairment charge of £30 million. The total operating loss of £43 million in the financial year also includes an £11 million underlying loss and a £2.5 million impairment on intangible assets. The business will be wound down over 3 to 5 years.

Secondly, we are also implementing a proactive customer remediation programme in Motor Finance, where we have identified historical deficiencies in certain operational processes in relation to the early settlement of loans. This has resulted in a separate provision of £33 million in the 2025 financial year.

We also have incurred £18.7 million of costs for complaints handling and other operational and legal costs in relation to motor commissions. This included increased resourcing to manage complaints and legal expenses, notably those related to the Supreme Court appeal, as well as the unwinding of the time value discount in relation to the motor finance commissions provision. This was lower than the guidance provided at the half year 2025 results of c.£22 million as we successfully deployed automation and artificial intelligence to enhance accuracy and speed in complaints handling. In the 2026 financial year we expect these costs to be in the single digit millions.

In addition, the Brewery Rentals Business, which was sold in July (with completion occurring after the end of the financial year), reported an operating loss before tax of £4.1 million. We also incurred £2.3 million of restructuring costs, which mainly relate to redundancy and associated costs, in line with our guidance of £2-3 million. And finally, we recognised £0.2 million of amortisation of intangible assets on acquisition.

Turning now to the income statement. Covering the performance on an adjusted basis: Adjusted operating income reduced 2%, driven by a marginal decline in Banking income as the loan book reduced and lower group net interest income. Adjusted operating expenses rose 3% as cost savings were offset by higher group expenses, mostly driven by legal and professional fees related to motor finance commissions. These amounted to c. £10 million.

Credit performance was resilient and impairment charges decreased 6% to £92 million, which reflected an impairment credit in relation to Novitas. Overall, adjusted operating profit was down 14% to £144 million. Profit after tax from discontinued operations, which includes CBAM and Winterflood, was £49 million.

The Group will not pay a final dividend for the 2025 financial year. As previously stated, the decision to reinstate dividends will be reviewed once there is further clarity on motor finance commissions.

Now, highlighting the key metrics from across the Banking division, on a continuing basis (and excluding the Brewery Rentals and Vehicle Hire businesses). We saw a small decrease in income, mainly driven by loan book moderation measures as well as the run-off of the legacy Republic of Ireland Motor Finance business.

The loan book declined 4% year-on-year to £9.5 billion, driven by the temporary pause in UK motor lending, loan book moderation measures and lower activity in some of our markets in the second half. The net interest margin remained strong at 7.2%, although it was down 20bps reflecting continued pressure on new business margins and changes in lending mix.

Expenses increased 1%, as cost savings were broadly offset by wage inflation and spend on technology and expansion of capabilities across the business.

Overall, adjusted operating profit reduced 7% to £198 million, with a statutory operating loss of £68 million for the full year, largely reflecting the £267 million of adjusting items.

Now, looking at each of the businesses in turn. Firstly, Commercial. Income was broadly flat on the prior year notwithstanding a 2% loan book reduction to £4.7 billion and NIM marginally lower at 6.6% as the FY25 average loan book was 2% higher. Expenses decreased by 1% mainly driven by the benefits of cost savings initiatives, including workforce rationalisation in Asset Finance, partially offset by higher IT spend and depreciation. And the bad debt ratio decreased to 0.4% driven by an impairment credit from Novitas. Adjusted operating profit increased 16% to £112 million, largely driven by higher income in Novitas. Excluding Novitas, adjusted operating profit was broadly flat at £96 million.

Moving onto Retail. Income was down 6%, due to lower loan books in both Motor and Premium finance. The net interest margin decreased to 8.3%, driven by reduced fee income in Motor Finance and a competitive rate environment. Expenses increased 3%, primarily driven by Motor due to growth in the Irish business and inflationary pressures, partially offset by a modest reduction in Premium from lower property, technology and volume related costs. The bad debt ratio decreased marginally to 1.5%.

And adjusted operating profit reduced 50% to £19 million, reflecting the lower income in both businesses as well as higher costs in Motor Finance. The strategic repositioning announced in July will focus the growth of our Premium Finance business towards commercial lines insurance premium finance where we see the strongest risk-adjusted returns and long-term growth potential, reducing our emphasis on personal lines insurance premium finance.

Finally in Property. Income was down 2%, reflecting a year-on-year loan book reduction of 5% to £1.9 billion. The NIM also decreased to 6.9%, This primarily reflected lower interest yield, driven by the lower Bank of England rate, lower fee yield due to increasing facility utilisation, and changes in the lending mix, with larger loans accounting for a greater share of new business.

Expenses were down 3%, driven by lower staff costs. And the bad debt ratio increased to 1.5%, reflecting increased individual provisions on a small number of developments, driven by build cost inflation, slower unit sales and lower realised values. Adjusted operating profit was £67 million.

Moving to the loan book. Overall, the loan book reduced 4% to £9.5 billion. This was driven by the temporary pause in UK motor lending and loan book moderation measures, as well as lower activity in some of our markets in the second half. Notwithstanding this decline, customer demand remained robust and business was turned away in the first half due to the loan book moderation.

The Commercial book reduced 2% to £4.7 billion. Asset Finance was down £98 million due to lower volumes and large terminations in the Industrial Equipment Division. Invoice and Speciality Finance decreased 1% over the year, including a £62 million reduction in net loans related to Novitas following the settlement of long-standing litigation in this business. Excluding Novitas, the Invoice Finance loan book was up 4%.

The Retail loan book declined 5%. Notwithstanding continued robust underlying demand, the Motor Finance loan book decreased 1% reflecting loan book moderation measures and a temporary pause in UK motor lending. The Premium book declined 14%, reflecting the competitive market environment and reduced demand for Premium Finance from some of our broker partners.

And the Property loan book decreased by 5%, due to higher repayments and lower drawdowns, as well as lower balances in Commercial Acceptances, reflecting a more challenging economic environment which is particularly impacting the SME developer market.

While the last financial year has been impacted by loan book moderation measures, we see continuing demand in our markets. We have repositioned the business to focus on segments where we see mid to high single-digit growth potential through the cycle, leaving us well positioned to benefit as the economy and demand recover.

Turning to our net interest margin, which remained strong overall at 7.2% as we maintained our focus on pricing discipline. On an underlying basis, which excludes the year-on-year increase in Novitas income, and favourable movements in derivatives, the NIM reduced approximately 30 basis points to 7.1%. This reflected continued pressure on new business margins from elevated SME funding costs in a higher rate environment, together with the impact of the resulting changes in lending mix, with larger, lower NIM loans accounting for a greater share of new business.

As Mike has highlighted, one of our key priorities is improving returns. Whilst we will continue to manage for overall risk-adjusted returns, we remain committed to maintaining a strong NIM. Looking forward, we expect the net interest margin to be slightly lower than 7%, reflecting loan book mix impacts.

Moving onto costs, where we've made good progress whilst recognising there is much more to be done. Since March 2024, we have delivered £25 million of annualised cost savings through streamlining of our technology, suppliers and property, and workforce, which generated a £15 million year on year P&L benefit in the 2025 financial year.

Overall adjusted operating expenses increased 3%. This was primarily driven by increased legal and professional fees reported in the "Group" segment. In the 2026 financial year, these legal and professional fees are expected to reduce.

In Banking, adjusted operating expenses increased 1%, as cost savings were broadly offset by wage inflation and spend on technology and expansion of capabilities across the business. In the 2026 financial year, Banking adjusted operating expenses are expected to be slightly higher, reflecting wage inflation and investment spend, largely offset by cost savings.

The group is committed to maintaining cost savings momentum to deliver a step change in operating profitability. We will deliver at least c.£20 million of additional annualised savings per annum at group level, in each of the next three years. Mike will come back later on to talk about future costs in more detail.

Turning now to our resilient credit performance. The bad debt ratio was stable at 1.0% and remained comfortably below our long-term average of 1.2%, as we recognised £92 million of impairment charges. This included an impairment credit in relation to Novitas and a reduction in Retail driven by more favourable macroeconomic impacts, partly offset by an increase in Property due to an increase in individually assessed provisions.

Looking forward, we continue to closely monitor the evolving impacts of inflation and the cost of living pressures on our customers. We remain confident in the quality of our loan book, which is predominantly secured or structurally protected, prudently underwritten and diverse, and supported by the deep expertise of our people. In FY26, we expect our bad debt ratio to remain below our long-term average of 1.2%.

Moving onto our balance sheet, where we continued to follow our prudent approach to managing financial resources. We maintained a strong balance sheet, with total funding of £12.7 billion. We consciously held a higher level of liquidity with £2.8 billion of Treasury assets, and a Liquidity Coverage Ratio at 1,012%. We have maintained strong access to funding markets and have raised £300 million through a Motor Finance funding securitisation.

Our funding base is diverse, across wholesale markets and a mix of retail and non-retail deposits. In line with our strategy, we continued to actively grow our customer deposit base in the year, with retail deposits up 20% to £6.8 billion. We are continuing to benefit from diversification of our Savings product offering. We launched Easy Access in 2023 and balances at 31 July 2025 stood at over £800 million. In line with our conservative approach, our deposits are predominantly term, with only 13% of deposits available on demand. Our average cost of funding reduced marginally to 5.4%.

And our credit ratings remain robust, they continue to reflect our inherent financial strength and consistent risk appetite, notwithstanding the current uncertainty around the FCA review of motor finance commissions.

Finally, turning to our strong capital position. In March 2024, we announced a series of management actions aimed at strengthening the Group's available CET1 capital by the end of the 2025 financial year.

The CET1 capital ratio increased from 12.8% to 13.8%, mainly driven by the sale of CBAM, other profits attributable to shareholders, and a reduction in loan book RWAs. This was partly offset by the provision in relation to motor finance commissions, the early settlement provision in Motor Finance, the post-tax loss in the group's Vehicle Hire business, and AT1 coupon payments.

In addition, the sale of Winterflood, is expected to increase the group's CET1 capital ratio by c.55 basis points on a pro-forma basis, from 13.8% to c.14.3%. The leverage ratio also increased to 12.9%.

In January 2025, the PRA announced a one-year delay to Basel 3.1 implementation pushing the effective date to 1 January 2027. We continue to estimate that the implementation will result in an increase of up to 10% in the group's RWAs.

The group expects to receive a full offset in Pillar 2A requirements at total capital level. As such, we expect the UK implementation of Basel 3.1 to have a less significant impact on the group's overall capital headroom position than initially anticipated.

In the near-term, we expect to maintain our CET1 capital ratio above the top end of our medium-term target range of 12% to 13%, based on our current assessment of the provision in respect of motor finance commissions.

In conclusion, I want to reiterate that our underlying performance remains resilient, our financial position remains strong, and we have a clear focus and commitment on driving strong, sustainable, risk adjusted returns. Thank you, and I'll now hand back over to Mike.

Mike Morgan, Group Chief Executive

Thank you, Fiona. I'd now like to turn to our strategic priorities again and give you an update on the progress we've made since we first set them out when I took on the role of CEO.

Let me start with Simplification. This was about creating a sharper, more focused portfolio of specialist lending businesses. To do this, we applied three simple tests to each of our portfolios. First, is the business aligned with our business model and does it therefore fit with the fundamental strengths which differentiate us? Second, does it offer the right returns and support the group's overall ambitions on returns? And third, does it operate in markets that are attractive for future growth, where we either have, or can build, a strong position and the ability to scale?

With those tests in mind, we carefully evaluated our portfolio to maximise future returns. The outcome was clear: we sold CBAM, Winterflood and our Brewery Rentals businesses, and repositioned our Premium Finance business towards commercial lines. These portfolio actions reduced our cost base by c.£230 million, enabling us to further streamline our operating model and central costs going forward.

Today, we're also announcing the decision to wind-down our Vehicle Hire business. It has been loss-making in a challenging market environment and has no strategic fit with the rest of the group. This decision and the decline in asset values led to an impairment charge of £30 million.

Our simplification agenda is largely complete. And we can now focus on optimising the business and delivering growth.

Turning now to our optimisation agenda, a key focus as we drive efficiency and improve returns. I will personally oversee the planning and execution of these cost initiatives, and we have mobilised senior leaders across the group to ensure execution at pace and alignment at every level.

We have already delivered £25 million of annualised cost savings by the end of FY25 through streamlining of headcount, property and suppliers, and are committed to maintaining this momentum to deliver a step change in operating profitability. We will deliver at least c.£20 million of additional annualised savings per annum in each of the next three years, totalling £60 million overall.

These savings will come from further consolidation and rationalisation of centrally provided functions, outsourcing and offshoring, and simplifying our technology. This includes automation and the use of AI. As a result, we expect group adjusted expenses to be within the £410-430 million range by the 2028 financial year.

We've already identified c.£20 million of annualised savings, expected by the end of FY26. These will come from lower legal and professional fees linked to motor commissions, and optimising the cost base of our Premium Finance business after its recent strategic repositioning. We're also continuing to optimise headcount and property. As a result, we expect group adjusted expenses to be within the £440-460 million range.

Turning to our Growth agenda. We're sharpening our focus as a specialist bank to reinvest where we see the greatest potential. We are confident in the growth opportunity across our chosen markets. In the earlier part of the year, to preserve capital, we had to turn away attractive new business that met our credit and pricing requirements. This, however, demonstrates the continuing demand in our core markets.

Accordingly, we are taking steps to capture this. In Commercial, we're building on our strong market positions, as the UK's largest independent provider of both Asset and Invoice Finance and deep sector expertise. We see clear opportunities to grow mature businesses like Invoice Finance and Energy, while scaling newer areas such as commercial mortgages and agriculture.

In Retail, we're expanding Motor Finance through growth in Ireland and deeper partnerships with brokers and dealers. In Premium Finance, we're targeting new broker relationships and insurer partnerships, with a renewed focus on commercial lines and strategic accounts. And in Savings, we're enhancing our digital offering and broadening our retail reach, while continuing to support a diverse funding base.

In Property, despite a tougher Build-to-Sell environment, structural demand for housing remains strong. And we're well placed to respond. We're broadening our offering into Build-to-Rent and purpose-built student accommodation, and moving into larger Build-to-Sell loans, where we see long-term opportunity and attractive returns.

Taken together, across Commercial, Retail and Property, we have repositioned the business to focus on markets where we see mid to high single digit growth potential, through the cycle. This leaves us well placed to benefit as the economy and demand recover. With our strong market positions, reputation and specialist expertise, we're confident in our ability to win in the segments where we can truly differentiate. And become the specialist lender of choice for SMEs in the UK and Ireland.

Bringing all three strategic priorities together, we now have a clear pathway to double-digit RoTE, rising thereafter. The bridge here shows how we move from today's RoTE to our medium-term ambition.

First, simplification. The actions we've already taken are partially reflected in today's reported returns. Further improvement, however, will come from our reshaped, more focused and higher returning portfolio. Second, optimisation. The cost reduction programme we've launched will deliver material savings, improving profitability. Third, growth. We have repositioned the business to focus on segments where we see mid to high single digit growth potential, through the cycle. This leaves us well positioned to benefit as the economy and demand recover. In parallel, there is additional value to unlock through optimisation of capital, funding and liquidity.

We'll provide a full update on our pathway to rising RoTE once there's clarity on the outcome of the FCA's consultation and its impact on the group, likely early next year, or sooner if clarity comes earlier.

That brings me to the end of today's presentation. We've taken decisive actions to protect our core business and have a strong capital position. We're moving at pace, even while navigating the motor commissions uncertainty. We've resolved legacy issues, reshaped the portfolio, and simplified the group. We have a clear strategy and pathway to rebuild returns over the next three years. Our focus is on execution, supported by a leadership team with the right experience to deliver.

Thank you. And I'll now be happy to take any questions you may have.

Q&A session

Question 1

Benjamin Toms, RBC

Good morning, both. Thank you for taking my question. The first one's in relation to your GBP33 million provision, the proactive remediation in motor finance from early settlement to loans. I don't want to oversimplify the issue, but it sounds like someone somewhere was doing a calc wrong over a material period of time. How confident are you the issue is now contained both from a motor finance perspective? Can you also confirm that you've checked you're doing the calc right in other product lines? How far back were customers impacted by the issue? Could there be a regulatory fine from this?

And then secondly, if we just take a step back and we think about an underlying basis, X all of the noise, do you expect PBT to be up '26 over '25? And to what extent is management's remuneration now linked to hitting that double-digit RoTE in 2028? Thank you.

Mike Morgan, Group Chief Executive

Okay. Thanks, Ben. I'll take the first question on the GBP33 million. So this is an issue that we identified in motor. It relates to the early settlement of motor loans. And what has happened over a period of time is that in instances where customers in settling a loan have overpaid, that overpayment has not in all cases been returned to customers.

And we've fixed the processes that sit around that, that process is peculiar to motor finance and so I'm content it's contained within there. Clearly, it's not good and I'm not pleased around this, Ben. But we have dealt with it. It goes back for quite a long period of time, predating this management team. But what we have here is a large number of

relatively low amounts going back over a period of time. And that's what this issue is. In terms of going forward, I'll ask Fiona to comment specifically on '26.

Fiona McCarthy, Group Chief Finance Officer

Thank you, Mike. Good morning, Ben. So, Ben, we're not providing specific profit or AOP guidance for '26. I guess I'd encourage you to look at the guidance provided more broadly. But what I would call out, or just remind a couple of points, we put an announcement out about premium repositioning into commercial lines back in July. And the fact that we were therefore exiting or modifying our presence in the personal lines business and called out that, that would result in a run-off of the loan book there. That's circa 3% of our loan book and 4% of income. So we do expect that to run-off over time, that would impact FY '26. The other element I'd call out is Novitas. So you'll see from our results that AOP in Novitas in FY '25 was GBP16 million. That was partly a reflection of the settlement premium that Mike talked about earlier for the successful exit with the insurers, but also from income resulting from the unwind that we've seen in recent years, the unwind of the

provision coming through. So both of those elements will provide a drag impact on FY '26 profitability, notwithstanding the growth that we've articulated and the cost savings that we've also outlined.

Benjamin Toms, RBC

Thank you. Just to follow up, how incentivised is the management now to hit that double-digit RoTE target in '28?

Mike Morgan, Group Chief Executive

I mean, management's remuneration is aligned in large part to a number of metrics, of which that is one of those. So that clearly getting returns up is critical to us, and so the obvious answer to that is that remuneration is aligned with that.

Question 2

Gary Greenwood, Shore Capital

Thanks for taking my questions. The first one was on the costs, and I'm just trying to sort of unpick what you previously said to what you're saying today. So, I think you'd see previously said on the premium finance that you're looking to take out 20 million in costs there, and there'd be a one-off cost of GBP15 million to deliver that. So, I'm just trying to tie that into the numbers that you've given today, the GBP60 million, and I think you've talked about GBP5 million to GBP10 million of below the line costs in 2026.

And then I guess also linked to that, just thinking about below the line costs, you've called out a couple today, but if you could just give us a feel for sort of overall what you think below the line charges are going to be in 2026? And then sort of whether there's going to be any tail sort of going through future years?

And then the second question really was on reputation. And I guess, obviously being through the mill over the last sort of 18 months or so, you've had to obviously sort of turn down business in the first half, as you've highlighted. I just want to understand sort of, how you sort of feel that's impacted the business from a reputational perspective? And what you need to do to sort of win back confidence with customers and brokers. Thanks.

Mike Morgan, Group Chief Executive

Thank you, Gary. Let me take the second one on reputation first of all, then I'll ask Fiona to pick up on the more specifics. I mean, there is no doubt that over the last 18 months, the events that we have seen in the market have really shaken the organization quite significantly. Our plan was to put out capital targets of how we could build, and build GBP400 million. And I'm pleased to say that we have built that GBP400 million buffer. And if you actually look where we stand today, we have a CET1 ratio of 13.8%, or after Winterfloods, 14.3% against a 9% required level. So we've built up a very healthy buffer there.

Probably the most disappointing aspect for me in all of this, Gary, has been the necessity to moderate loan book growth. And as we outlined at the half year, we have held back around about GBP700 million of lending, which is deeply disappointing. It was generally to new customers rather than new existing, but nevertheless, it was disappointing. And of course, you have to bear in mind that following the Hopcraft judgment in October last year, we actually pulled out of motor finance for 10 days and then restarted again. I'm glad to say that the volumes now are back up to and actually ahead of where we were beforehand, so we can see that the demand is coming back. But nevertheless, it is disappointing not to support our customers.

The reality for us though going forward is we're now in businesses, having moved out of Vehicle Hire and moved out of Brewery Rental, we're in businesses which are core to what we want to do and we believe that we can get growth of between 5% to 10% throughout the cycle there. The SME market is underserved in the UK and there is real opportunity for the products and the services we provide. Remember as well Gary that typically Close Brothers would lend GBP7 billion a year. We have a relatively short tenor on the loan book so in the last year we have lend GBP7 billion. So there is a huge demand for what we do and I'm very confident that going forward with this more focused, sharper portfolio we will see that demand return and we can grow. So that's my point on reputation. In terms of the specifics on the costs, do you want to pick that one up Fiona?

Fiona McCarthy, Group Chief Finance Officer

Thanks, Mike. Good morning, Gary. So yes just taking those in turn, as you mentioned in July, we outlined the premium repositioning and that we would save costs of GBP20 million over five years and so absolutely Gary that GBP20 million over five years, the appropriate proportion of that is embedded in the GBP20 annualised savings per annum over three years that we've articulated.

So that is one component of the GBP60 million there. In terms of the costs to achieve, we called out a lifetime cost to achieve that GBP20 million of GBP15 million of costs, that wasn't entirely an FY '26 cost item and some of that Gary will flow through as an adjusting item in restructuring, some of it is just part of our core investment portfolio as an enabler to those cost savings in premiums. So effectively, both the cost saving and the cost to achieve are included in what we've articulated today both at the GBP20 million per annum and the GBP5 million to GBP10 million that we've called out for restructuring costs in FY '26.

Then if I turn to the second part of your question outlining what we believe the FY '26 adjusting items will be, per the guidance we talk about single-digit millions of motor commission's costs, that compares to the GBP18.7 million for FY'25 that you see reported and on restructuring we've called out the GBP5 million to GBP10 million which is in support of the GBP20 million per annum of cost savings. We do have the Vehicle Hire business below the line now and that would continue, as we run that business down, its results and performance would continue to flow through adjusting.

And what I would say there though is that the GBP30 million impairment that we have taken for Vehicle Hire, that we believe that to be an appropriate and realistic best estimate of the loss that we will need to incur on this business and in addition we are in control and will manage that run down, we have significant experience here, we've sold over 1,500 vehicles in FY '25, so we are well versed in how to exit vehicles in this market and run that business down, and we will do so and manage that to optimise commercial value.

Gary Greenwood, Shore Capital

So, there's still going to be, if a tail ends with below charges, beyond 2026, and that will be sort of the recent charges, plus presumably a sort of a smaller loss from that vehicle hire run down, excluding the impairment charge, is that the right way to think about it?

Fiona McCarthy, Group Chief Finance Officer

Yes, so just to take those in turn, absolutely, in terms of the cost out programme, we would expect to continue to see restructuring costs flowing through beyond FY '26, at this point, I'm not pointing to any further losses coming through on the vehicle hire business, as I said, based on what we know and see now, we believe that the impairment sufficiently deals with that, but we will run that business down over the next five years and manage that carefully to optimise value.

Question 3

Sanjena Dadawala, UBS

Good morning. Thank you for taking my questions, two please. First, a bit more on the cost optimisation programme, including the phasing, so GBP20 million of phase per annum over FY '26 to '28, but then putting it against the GBP440 million to GBP460 million guided for FY '26, from the GBP445 delivered in '25, so just there's potentially front-loaded investment spend in this year, and or more cost inflation, and then we get net savings going up to get to the GBP410, GBP430, for FY '28, so if you could talk a bit more about that.

And then secondly, some more detail around how the net loan book builds back up, given that there is a focus on segments with higher growth potential, but headwinds from premium finance repositioning, and potentially some lower demand near-term, since the outlook for net loans will be important to determine the income trajectory and key to delivery of double-digit RoTE? Thanks.

Mike Morgan, Group Chief Executive

Okay. Let me just touch on that second point further on the net loan. I think I touched on some of those points in the earlier answer I gave, but I do think that with this focus on the sectors that we are, we believe are strategically aligned with our objectives, and we can get returns from those and create scale

in those, we do feel there is good demand there, and as I say, we believe we can see over the cycle, 5% to 10% growth. Now it's fair to say and you're quite right to point out, Sanjena, that there is some pressure around the SME segment right now, we're seeing interest rates that are higher for longer, inflation remains stubborn, so costs are clearly increasing. We've got the impact of employers' NI coming through from last September. We've got the minimum wage floating through. And of course now, we also have the budget coming through in late November.

And what SMEs need is certainty. You can't plan if you don't have certainty. And if you're going to invest, you need to be able to plan. And so that's critical for them. And so right now, we are seeing a little bit of negative sentiment in that area. And of course, the media is pulling that out. So whilst we'll, over the longer term and through the cycle, we'll sort of see 5% to 10% growth, clearly that would be lower in the more immediate term. That would be my response on the loan book.

In terms of the optimisation, I'll let Fiona talk through the points in a bit more detail, but I'd just like to just sort of talk about it at a high level for a second. When I came into the role in January, we talked about these three strategic priorities which I've just run through in my presentation. Simplification, optimisation - and optimisation is all around cost reduction and creating a scalable platform. As I said in my speech, this is something I will personally take responsibility for. We have brought a transformation manager in to work directly for me.

The individual has many years' experience at that market and it's something we are taking very, very seriously indeed. And that will be fundamental along with the growth to get us to the return on tangible equity of double-digit. There are a number of ways we can take that cost out, just to give a little bit of flavour. Looking at consolidation of functions, looking at outsourcing and offshoring, looking at simplification and rationalisation of technology, looking at the further rationalisation of property portfolio. And I think what we're seeing quite significantly over the last year is the benefits

that AI can bring. And one of the areas, where we have benefited through motor commissions is the level of AI being employed in parts of our organisation. Now, so by way of example, if you look at the motor complaints that come in, 99% of those are dealt with through AI. So you'll get an unstructured letter coming through and that can be translated into structured data and then dealt with. So, AI is going to be fundamental going forward. So that gives you a sense of the flavour of what we'll be doing. But in terms of the specific numbers, Fiona, would you like to just talk to that?

Fiona McCarthy, Group Chief Finance Officer

Yeah, absolutely. So I think what the, as Mike said, the Supreme Court judgment is very welcome and very helpful. In terms of the provision modelling, what that effectively achieves is that it narrows down the range of possibilities and effectively removes one of the sort of more outlier worst case scenarios that we included in the previous modelling based on that, the Hopcraft judgment being upheld, which naturally it wasn't. It was overturned by the Supreme Court.

So we have effectively gone back to basics and reassessed based on all available facts and information, what realistic and credible scenarios now are. And having done that work, and that does actually support our existing provision of GBP165 million, but we have arrived at that in quite a different way. And as I said, with a narrower range than we previously had.

In terms of worst case, we're not sharing sort of ranges or worst case outcomes here, but what I would say is that the GBP165 million is our best estimate based on probability-weighted scenarios, including a range of outcomes.

Question 4

Private investor

You referred to the build-to-sell market on Slide 26 on property finance. Please clarify the Group's market share and ambition in this niche market.

Mike Morgan, Group Chief Executive

We have quite a dominant position for one of the smaller banks, but it's not a market share, that figure that we would disclose publicly. So, I'm afraid we wouldn't give that information out.

Okay. If there are no more questions, thank you very much for taking part today and have a good week.