Close Brothers

Close Brothers Group plc

Business Update 2026

Edited transcript *

Tuesday 17th March 2026

Mike Morgan, Group Chief Executive

Good morning and welcome to our Business Update presentation. I am Mike Morgan, Group Chief Executive, and I'm delighted to be joined by Fiona McCarthy, Group CFO, Matt Roper, Chief Executive of Commercial, Ian Cowie, Chief Executive of Retail, and Phil Hooper, Chief Executive of Property.

The purpose of today's presentation is to provide further detail on the group's current strategy, and our path back to double digit returns by 2028, and rising thereafter. I will start with a brief introduction covering our strategic priorities, with particular focus on our transformation and cost savings activity. Then we will look at each of our three businesses in detail.

Matt will provide an update on the Commercial division, focusing on the differentiation and market opportunity for his business. Ian will present the Retail division, and the strategic reset that is underway for both the Premium and Motor Finance businesses. And Phil will share more detail on the Property business, and how we are expanding our product offering to tap into additional demand.

Finally, Fiona will discuss the financial outlook for the group, including further detail on our ongoing cost initiatives and targets. This will be followed by plenty of time for Q&A at the end of the presentations.

Close Brothers has a long and successful history as a diversified specialist banking group. But over time, the growth of the business and a federated structure created complexity, and complexity diluted returns. Over the past year we have been very deliberate in reversing that — simplifying the group, sharpening our focus, and concentrating on the areas where we have real competitive strength. What that means is a clearer, more coherent Close Brothers, with a strategy built around discipline and sustainable returns.

Today we are a simpler group, focused exclusively on specialist lending through our three divisions: Commercial, Retail, and Property.

The UK banking market is more competitive than ever, but it's also more polarised. At one end are large, scale-driven banks; at the other, digital challengers focused on speed and standardisation. Close Brothers sits deliberately in a different place. We focus on specialist sectors where we have real expertise, and where we can differentiate through the service and relationships we provide to our customers.

That differentiation is the result of careful choices about where we operate and how we serve our customers, supporting SMEs, property professionals and individuals in parts of the economy that are often underserved by larger, more standardised lenders.

* This transcript has been edited to correct minor factual inaccuracies

We currently serve approximately 2 million customers with a loan book of £9.2 billion at the end of January. Last year alone we lent £7 billion into the economy, making a real difference to the businesses and consumers we serve.

While the shape of the group has changed, the fundamentals of our business model have not. We have a clear purpose: to help people and businesses thrive. And the key aspects of our business model have remained unchanged for many years.

These are: Disciplined pricing and underwriting, which remains consistent through the economic cycle; the prudent management of our financial resources, including capital, funding and liquidity; a genuinely customer centric approach, recognising the value of relationships; a conservative risk appetite; the diversification and specialism of our banking businesses; and most importantly our culture, which is characterised by deep expertise, consistent service, and long-term relationships.

The business is currently undergoing a period of significant transformation, with fundamental shifts to our operating model. In effecting this change our guiding principle is to maintain and enhance the key differentiators, which are valued by our customers and clients and are why we win business.

Customers deal with us because they value the relationship-led, expert service we provide, delivered by around 700 front line colleagues. Customers trust us and value our consistency and reliability – we commit to lending through the cycle, and supporting our customers through the difficult times and the good ones. They value the speed and ease with which they can do business with us – this is an area we are continuing to develop and invest in, as the prevalence of digital solutions is increasing the pace of change in the market place.

And they value our genuine customer centricity and deep understanding of their needs, which will come across in some of the video testimonials we look forward to sharing with you today. All of this is reflected in consistently strong customer sentiment scores across our businesses.

It is clear to me that our business rests on very strong foundations, with an excellent customer reputation and clear differentiation. However, since taking on the role as Chief Executive, I have been equally clear that our returns are not where they need to be. A combination of external factors, internal challenges and a rising cost base have intensified the need for fundamental change.

A year ago, I set out clear strategic priorities: simplify, optimise, and grow. The simplify leg of our strategy is largely complete. By selling CBAM, Winterflood and Brewery Rentals, exiting Vehicle Hire and concentrating on our higher value commercial brokers in Premium, we have simplified the group and refocused on our core markets where we can deliver strong returns and grow.

We are now firmly into the Optimise stage, and I will share further details of our transformation and cost savings activities in the following slides. We are equally committed to building on our long track record of growth. In today's presentation you will hear directly from each of our three business CEOs about the opportunities in each of their areas.

Taken together, I am confident that this strategy sets us on a clear path to delivering double digit RoTE by the 2028 financial year, and rising thereafter. Fiona will talk through this in more detail later in the presentation.

But first, I would like to touch on the operational changes and cost savings that we are making as a group. Our ongoing transformation programme is focused on enhancing our competitiveness, resilience and cost efficiency through a fundamental reshaping of our operating model.

Over recent months, we have undertaken a detailed bottom-up exercise to define this new operating model, which will centralise and consolidate our historically federated structure to reduce cost and improve scalability.

We will also significantly increase the use of outsourcing and offshoring, where specialist partners can deliver more efficiently. We already use outsourcing in a number of our technology and customer service operations, and have been working closely with potential partners to expand these services to additional areas.

This is not a transformation programme reliant on a major technology investment and bank-wide systems replacement. It will however mean reshaping our workforce. Overall, we expect to reduce our headcount across both business units and central functions by around 600, resulting in a total headcount of around 2,000 FTEs by the 2028 financial year. While the impact on affected colleagues is regrettable, these changes are necessary to structurally lower our cost base and make us more competitive in a market that has become more digital and more demanding of operational excellence.

And critically, the actions we are taking will protect our differentiators and our distinctive culture with Service, Expertise, and Relationships remaining at the heart of our organisation.

You will recall in September we committed to delivering at least £20 million of annualised cost savings in each of the three years to July 2028. We have now accelerated these plans and expect to deliver around £25m in cost savings this year instead of £20 million, and all of the circa £60 million savings by July 2027.

While this represents a significant amount of change, we are confident that these savings are achievable, and have detailed plans for their implementation over the next 18 months. But our ambition does not stop there, and we are continuing to assess further cost reduction opportunities, including deployment at scale of automation and AI.

We are moving from a historically complex organisation to one that is more coherent, more scalable, and better able to serve customers while improving returns. Our current organisation consists of over 25 specialist lending businesses, each with their own localised operations. We have a high reliance on manual processes, a complex and fragmented IT estate, and predominantly manual underwriting. All of this is supported by around 2,600 employees, across 31 locations in the UK and Ireland.

We plan to further simplify our structure by consolidating the number of businesses and reducing management layers. We will also make increased use of shared services, standardising common operational processes while retaining strong customer focus at the front end.

We will be leveraging partners to accelerate our use of automation, using best-in class expertise and technology, and use AI as a strategic enabler to improve efficiency and enhance customer experience. And we will extend our use of automated underwriting to include smaller credits for Commercial.

What will not change is the differentiated customer proposition built on the expertise of our people, speed of service, and long-term relationships.

Automation and AI are important enablers of our optimisation agenda. They allow us to remove manual processes, improve efficiency and consistency, and support a more scalable operating model — while preserving the judgement and relationships that define our business. This is a practical use of technology, focused on cost reduction, customer experience and, ultimately, improved returns.

We have already begun deploying AI across the business, with early use cases such as complaints management and fraud detection demonstrating strong potential. We are also using it to quality assure and improve the service provided by our outsource partners.

Over the last 6 months we have identified 150 potential use cases and opportunities across our businesses and functions. We will prioritise the deployment of the most value-adding uses with low to medium-complexity, which deliver immediate, tangible benefits while operating safely within our established risk appetite. This ensures we move at pace without introducing unnecessary operational or regulatory risk, and you will hear some further examples from the businesses shortly.

In addition, we have enrolled 160 of our employees on an AI apprenticeship scheme to upskill our workforce and strengthen these capabilities within the business. We are working through the opportunities that AI and Automation present but deployment at scale is not included in the numbers you will see today.

Turning to growth. Through our simplification agenda, we have deliberately repositioned the group to focus on markets where we have strong competitive positions and clear opportunities to generate attractive, sustainable returns.

We have a long track record of growing through the cycle, underpinned by disciplined underwriting, deep customer relationships and specialist expertise. While recent loan book growth has been impacted both by current market conditions and the repositioning of our business, the fundamentals of our markets remain attractive, and all our businesses have capacity to grow.

Looking ahead, we see meaningful opportunity to deliver growth of 5 to 10 per cent per annum through the cycle, driven by a combination of organic expansion in our core franchises and selectively broadening our product offering — all while maintaining our conservative approach to risk.

Before I hand over to the businesses, I want to be very clear about what this all comes back to. Since stepping into the role, I have been explicit that returning Close Brothers to double-digit RoTE by 2028 is my core commitment, and everything you are hearing this morning is designed to support that outcome.

Simplification has been about making hard choices — reshaping the group, reducing complexity, and focusing capital on businesses where we can earn attractive, risk-adjusted returns. Optimisation is about delivery — putting in place a lower-cost, more scalable operating model that creates operating leverage, while maintaining the service, expertise and relationships that define this group. And growth, built on those foundations, is disciplined and value-accretive — deploying capital selectively, through the cycle, in markets we know well.

We have chosen to be in three distinct operating divisions, which we believe can deliver attractive sustainable returns. The aim of this update is to give you greater insight into these businesses and the growth opportunities for the markets in which they operate.

What you will now hear from Matt, Ian and Phil is how each of their businesses is executing the group strategy — through sharper focus, better efficiency and disciplined growth — and together how they underpin my confidence in delivering double-digit RoTE for the group. I will now hand over to Matt to talk about Commercial.

Matt Roper, CEO Commercial

Thanks Mike. Good morning everyone. I'm Matt Roper, CEO of Close Brothers' Commercial division, and I'm really pleased to take you through an overview of the business — the markets we operate in, how we differentiate ourselves, and our medium-term strategy. First, a brief personal introduction. A Chartered Accountant by profession, I've spent almost 20 years in banking, where I've held senior risk roles for Barclays in Africa and the UK, including Global Head of SME Underwriting, and in business leadership for Close Brothers – first as CEO of Invoice & Speciality Finance, and, since August 2023, leading Commercial.

Commercial is a specialist SME and Corporate lending business. We have 800 expert colleagues, 28,000 customers, and a loan book of £4.6bn – in the last financial year, a net interest margin of

6.4%, bad debt of 50bps, and a 60% expense / income ratio, delivered divisional profits of £96m. NIM and bad debt are strong, and we are focused on reducing our costs in order to improve our returns.

Today, we operate the largest Asset Finance and Invoice Finance franchises in the UK and Ireland outside of the clearing banks, with market share of around 4% in Asset Finance, and around 6% in Invoice Finance. We support a wide range of customers, with facilities ranging from £5,000 to over £100m.

Asset Finance supports customers with capital investment, and funds predominantly hard assets. Our distribution model is approximately 2/3 direct, 1/3 intermediated, and our average loan size is around £50,000.

Invoice Finance focuses on working capital — and we deploy one of the widest Asset Based Lending product suites in the market to provide flexible liquidity and cashflow solutions. Although we work with a wide range of intermediaries in Invoice Finance, actual distribution happens almost exclusively through our direct channel. Our average ticket size is around £600,000.

Our track record is strong and consistent: over more than fifteen years we've delivered sustained book growth and profits, both organically and through acquisitions, at margins well above the industry average, with low bad debt – demonstrating that our premium is based on service, rather than risk. We grew particularly rapidly from July 2020 to July 2022, when the book grew from £3bn to over £4.5bn. Capital constraints in financial year 24 forced us to slow lending, and the loss of momentum impacted financial year 25 as well. First half performance this year has been impacted by aggressive competition and seasonality in Invoice Finance; second half performance is typically stronger, and based on new business volumes in February and March, we are confident that the Commercial book will return to growth by the end of the year.

Pre-2020 NIM is somewhat flattered by the inclusion of income from products we no longer sell, such as insurance, and a lending market characterised by low liquidity and low risk appetite. In recent years NIM has been impacted by the sharp rise in interest rates post-Covid, as well as a change in the mix of our loan book as we have started writing larger deals, which are typically better credit quality but attract finer margins. We expect NIM to hold at around 6% in the future.

Bad debt has held steady between 50 and 100bps for many years, apart from in 2020 due to the market disruption caused by Covid.

One of the key drivers of our low bad debt is our core tenet that we are a predominantly secured lender. Our loan book today is as diverse as the UK & Irish economies, with a good spread of fixed and movable assets: equipment, vehicles, agricultural machinery, specialist assets, and everything else you can think of, from dentist's chairs to wind turbines. And in every asset class that we fund, we have experts with deep knowledge and experience.

We manage concentration risk through appropriate asset and sector appetite caps, and ensure that our loan book remains well aligned to UK PLC.

And in supporting UK PLC, we win because we combine product and sector expertise, deep relationships, and high-touch service – and have been doing so for over 40 years. Many of our customer and intermediary relationships go back years, and many were built, or enhanced, during periods of extreme market disruption such as the Global Financial Crisis, during which we supported businesses so strongly that we doubled the size of our loan book.

One of our biggest differentiators is our team. Of the 800 colleagues in Commercial, over 400 are in the front line, and of those, over 180 are in our direct sales force.

Most lenders in the market now rely solely on intermediaries. We value our intermediaries highly — and we have a thriving intermediary business — but our direct channel allows us to build deeper relationships, understand customer needs in more detail, and ultimately generate better margins. Of the £2bn of new business that we write annually, around 60% is sourced by our direct team.

These sales colleagues are experts in the asset classes they work with, as are those working in underwriting, operations, and collections. This expertise is a key reason for our strong Customer Satisfaction Scores, which are consistently >85%.

Our chosen markets are fundamentally attractive. Across the UK and Ireland there are hundreds of thousands of SMEs utilising close to £60 billion of asset and invoice finance to fulfil their financial needs – from day to day working capital to long term strategic investment. Both of these markets have been stable, and have grown steadily, for many years. And the competitive landscape is shifting in ways that play directly to our strengths.

High-street lenders continue to pull back from both Invoice Finance and Asset Finance. They are increasingly steering SMEs towards generic, digital-first journeys, with bespoke solutions reserved only for larger corporate clients.

Fintechs, on the other hand, have slick technology but lack the balance-sheet strength, product breadth and expertise to deal with anything beyond vanilla needs. And importantly, they have never been tested in a credit downturn, so their resilience is unknown.

Our opportunity lies in the space between: the tens of thousands of SMEs looking for an enduring relationship with their lender through the cycle, for expert understanding of their sector, and for professional, dependable service. That’s exactly where Close Brothers has always competed — and won.

To demonstrate the strength of our proposition, and how valuable it is to customers, I’d like to introduce you to the chairman and chief investment officer of one of our largest customers – Twenty20 Capital.

[Case study video]

What Tristan and Jamie describe so eloquently is our customer proposition, and the three timeless foundations on which it is built: relationships, service, and expertise.

Whilst these foundations remain as relevant today as they were 40 years ago, the market is of course evolving — and we are too. The aim is clear: to ensure we remain the lender of choice for UK and Irish businesses, continue to be an aspirational and engaging place for colleagues to build careers, and deliver attractive and sustainable returns for shareholders. However, our costs are too high, so we are focused on reducing our E/I ratio in order to improve returns. We are already seeing the benefit of simplifying the division to sharpen focus and improve efficiency.

Last year we agreed settlements with the remaining insurers of Novitas, and closed out all remaining customer loans. We disposed of Brewery Rentals, and placed Vehicle Hire into run down. These full service, logistics businesses are not aligned to our strategy. And we exited sub-scale products that don’t meet our strategic or returns thresholds, including insurance distribution, block discounting, and certain broker structures.

We are also optimising the division from front to back. We have made significant changes to leadership structures, particularly in Asset Finance; over the last 2 years this has allowed us to remove over 60 roles, equating to over £10m in annual costs. We see further opportunities in these areas.

We are standardising processes for Operations, Underwriting and Collections across the Commercial division, as we do so, we will enhance, rather than compromise, our key differentiators of relationships, service and expertise. We have created a Collections shared service, and are exploring similar solutions for Operations and Underwriting. These changes will give us consistency, efficiency, and scale.

We have invested heavily in technology in recent years. We have fully re-platformed the entire Asset Finance business and in-housed the core banking platform in Invoice Finance. This gives us a modern, adaptable backbone that we are now leveraging to automate processes.

We have credit auto-decisioning live in Asset Finance — currently for certain classes of small-ticket, straightforward transactions. This shortens decision time from hours to minutes, materially improving customer and broker experience, while allowing our underwriters to focus their expertise on more complex cases. Over time, we will expand the scope as the models mature.

In parallel, we are rolling out AI-generated credit proposal drafting, which synthesises internal and external data into a high-quality first-draft credit paper. This significantly reduces manual effort, reducing a 2 day activity to 2 hours, and makes our experts more valuable by allowing them to look beyond the numbers, and focus on understanding our customers deeply.

And we continue to automate other processes, using a combination of workflow improvements, straight-through processing, and targeted AI deployments. Taken together, these initiatives improve customer experience, reduce cost, increase consistency and support scale.

Our growth strategy focuses on the areas where our strengths most clearly intersect with market opportunity.

In Invoice Finance / ABL there is clear opportunity to continue to take market share as big banks retrench. We have strengthened our team with more corporate experience, and built mid-market leveraged finance capability. We have enhanced our credit terms, particularly around cashflow loans and ancillary assets, allowing us to support more customers with appropriate structures. This loan book has grown by around £400m over the last 5 years, and we believe that we can continue to grow it between 5 and 10% per annum.

In Asset Finance we will grow our core, direct business in the UK and Ireland at around 5% annually. Our other key growth engines are specialist areas such as, Energy, Aviation & Marine, and Wholesale Fleet. All of which we expect to grow by 5 to 10% annually.

In 2024 we simplified and relaunched our broker proposition to an exceptionally positive reception, proven by the fact that the loan book is up £50m, more than 20% year-to-date. We expect growth of around 10% per year in this business.

New product development, such as Commercial Mortgages, is a key growth lever as well. This is a market of significant scale, where customers have been asking us for support for some time, and where our relationship-led proposition fits extremely well; our opportunity here is to build a book in the hundreds of millions.

And across both Invoice and Asset Finance, we continue to successfully partner with the British Business Bank to deliver the Growth Guarantee Scheme to our customers; new business of £140m over the last 12 months. We have also recently agreed an Enable facility with the British Business Bank, which frees up capital to support further small business lending.

In summary, Commercial is a resilient, specialist business with leading market positions in both Asset and Invoice Finance. With 40 years of successful growth and delivery behind us, we are now positioning the business for the next decade - with sharper focus, a more scalable operating model, and the technology to underpin disciplined, high-quality growth.

Together, these changes will materially enhance our efficiency, deepen our competitive differentiation, and deliver meaningful improvement in returns, in support of the Bank's goal of double digit RoTE by FY28, with further improvement beyond. Thank you.

Ian Cowie, CEO Retail

Thanks Matt. Good morning everyone, I'm Ian Cowie. I joined Close Brothers a little over two years ago and have responsibility for leading the Retail Division. Prior to joining Close Brothers, I spent 20 years at Natwest, 18 years at RBS and 4.5 years at Shawbrook, three of which as the CEO.

Today, I'll provide an overview of the industry challenges we have navigated over the past couple of years and our place in those markets where we see opportunities to grow our existing relationships and forge new ones. I'll cover the strategic actions underpinning our growth plans, and the progress made on our cost out initiatives.

The Retail business is made up of three distinct franchises: Motor – established in 1988, helps customers in the UK and Ireland purchase vehicles by providing affordable, structured finance. Premium – established in 1977 where we support businesses and consumers to fund their insurance premiums. And Savings where we provide a safe and attractive home for consumer and business deposits.

Geographically, both Motor and Premium operate across the UK and Ireland, and in Motor, there is an additional presence in the Channel Islands. Both operate in an intermediated market and therefore a key part of the business model is to relationship manage these intermediaries, as ultimately, they largely determine the flow of business to us. These may be finance brokers, motor dealerships or insurance brokers.

But our lending is not limited to consumers via dealer and broker channels; we also lend directly to these car dealerships, SME corporate insurance brokers and their clients. Examples might be a Dealer Funding loan to facilitate vehicle stocking, or to fund large one-off insurance payments for Corporates in the UK, to assist with their working capital.

As you can see, the Retail business has a strong growth trajectory through the cycle. The lending businesses are characterised as high-margin, specialist, intermediated franchises. And in the 2025 financial year, the Retail NIM was strong at 8.3% and in line with the long-term trend, with both businesses performing well reflecting consistent pricing controls in a rising rate environment.

Bad debt has consistently held at broadly 1.5% in recent years with prudent and stable underwriting in both businesses.

Our partnership approach is key to how we win and underpins how we differentiate ourselves across these retail markets. As such, our success is built upon these strong relationships with our intermediary partners, and our reputation for being ever present throughout the cycle, in a market where we have an established brand and a strong following.

We share pioneering market and business data to help our partners grow their business and meet customer needs, delivered with a personal touch and expertise they can trust, and a level of consistency which breeds confidence.

And while we've continued to evolve - leveraging new technologies and capabilities to optimise our business - we still understand the value and importance of a personal, face-to-face relationship through our sales and support teams.

For the Motor book, our primary focus is on used cars. Looking at the FLA statistics, in 2025, Close Brothers Motor Finance UK held a 3% market share of the used car finance market. For the Irish Motor business, this was 11.5%, up from 8.5% in 2024.

This chart shows the point-of-sale car market in the UK was slightly larger by value for new cars in 2025. However, one of the reasons we concentrate on the used car market is the transaction volume is estimated to be four times greater because of the churn rate of used cars, and the market is expected to grow by 3% throughout 2026.

Considering broader market conditions and with the imminent announcement of the FCA motor finance commissions review, there is potential for new opportunities should certain lenders choose to withdraw from the market. In recent months we've seen Secure Trust exit the UK and BlackHorse exiting the Channel Islands.

Across Motor, we work with over 3,400 dealers and brokers in the UK and a further 450 in Ireland, ranging from small independent dealerships to multinational finance brokers. Motor finance remains highly competitive, fuelled by strong growth in digital channels. As consumer behaviour and dealer expectations have shifted, we've diversified our origination model, moving from a predominantly dealer route to a mix that now includes brokers and commercial partners.

Traditional dealers remain our core, but around 40% of volumes in the UK and 25% in Ireland now come through non-dealer channels. Hence, our approach: "to be where the consumer chooses finance".

In Premium Finance, we support customers to fund their insurance premiums, for Home, Motor, and Business insurance, typically spread over a 10-month period. Just like Motor Finance, this is a necessary and critical product line that fulfils an important need for consumers and businesses.

The customer base is a combination of consumers and SMEs that either can't afford to pay the premium in one lump sum or choose to spread the payment over an agreed period to ease cash flow or unlock capital investment.

As the premium finance market has evolved, the competitive landscape has remained broadly stable, with only a small number of specialist providers operating at meaningful scale. The market remains characterised by long term contracts and multi-year agreements of which we command a considerable amount.

These arrangements support strong retention and provide stability for lenders, and it's here, in these highly attractive portfolios, that we see strong risk adjusted returns and higher value opportunities.

On the 3rd of February, the FCA released their Market Study Review into Premium Finance. We believe the conclusions reached by the FCA are both helpful to us and to the market and are pleased with the stability it brings to the premium finance landscape - a testament to the valuable role the product and market play for consumers. Importantly, it removes unnecessary distractions and provides a clear runway as we execute our new strategy.

In July 2025, we kicked off the strategic reset of both lending businesses. The approach was built around a number of guiding principles to deliver an executable plan which included: making the businesses simpler and safer; investing in technology, automation and digital to remove unnecessary cost, and; accelerating growth into known and adjacent markets, where we have a strong following.

Across Retail, we're rolling out a new collections and recovery platform to enable customer self-service, using data and AI to proactively identify those needing support, and we'll continue to leverage our established robotics and automation capabilities to optimise our processes. AI has been implemented in our Complaints and Fraud operations, and we are currently evaluating several other potential uses throughout both businesses, which will drive further costs out.

For Motor our focus is on creating the foundations for cost optimisation and sustainable growth. Our cost-reduction agenda is driven by boosting origination efficiency, reducing our physical footprint, and increasing automation across the business.

We are investing in a new origination platform to make us more agile and offer faster response times to customers, whilst also improving the overall customer experience and reducing our cost-to-serve. Once delivered, this will enable us to continue to scale the business without the need to grow the cost base as we automate and digitise processes complemented by the use of outsourcing and offshoring.

Our achievements to date include: Consolidating our operational footprint to five centres of excellence, leading to reduced costs, increased expertise and better team collaboration, and reducing operational costs through offshore partnerships to support in-life customer servicing – last month we outsourced further roles to South Africa.

Motor's growth strategy centres on deepening and diversifying Dealer relationships, strengthening customer retention through enhanced product options such as our dedicated Electric Vehicle proposition, and expanding our reach through commercial partnerships.

We remain firmly committed to this market and, as I mentioned earlier, any changes in the competitive landscape following the outcome of the FCA motor commissions review could present further opportunities for us.

Ireland also plays a crucial role in our growth – the Bluestone acquisition has led to sustained volume increases as we continue to broaden the proposition in line with our UK business, and new business has more than doubled since its acquisition and rebranding in 2023.

In Premium the strategic reset took the form of reducing our reliance on the Personal Lines business where returns have been sub-optimal. The economics of Personal Lines brokers has changed over time and become increasingly unprofitable for ourselves. Incremental rate erosion driven by M&A activity, the rise of large-scale price aggregator websites, and the impact of increasing regulation have all steadily chipped away at margin and driven up costs.

This led us to reassess our approach to parts of the market and concentrate on building out the Commercial Lines business, leveraging the strong relationships already in place by doing more business with existing commercial brokers and expanding our proposition to support their international presence.

This has meant the planned withdrawal from selected Personal Lines relationships and throughout we have worked closely with the Regulator and brokers to ensure any exit and subsequent run off is undertaken in a safe and responsible manner. Withdrawing from a large portion of the Personal Lines market has the dual effect of improving returns and reducing costs as this element of the book runs off. Since December we have exited over half of our planned broker cohort, with their books now in run-off. The remainder are agreed to exit by the end of June this year with their books completing run-off by the end of the 2027 financial year.

We expect customer numbers between regulated consumers and SMEs/Corporates to rebalance at c.50:50, but Commercial Lines will account for the best part of 85% of the volumes going forward.

Premium Finance is a great example of our Simplify/Optimise/Grow strategy in action. Having simplified the business by reducing our reliance on Personal Lines, we are now focused on optimisation and growth.

With a relentless focus on cost, we are modernising core platforms, rationalising the property footprint and offshoring some customer servicing to South Africa. Our office relocation has already delivered significant annualised savings, our first offshoring phase has outperformed expectations, and we have just successfully completed phase two of this programme.

Underpinning our growth ambitions are credible opportunities in existing markets and securing new, strategically important, broker relationships. We've already secured contract extensions with several key partners, and we're continuing to build on our extensive network of relationships.

Our targeted growth plans are accompanied by new propositional offerings and supported by the strengthening of our underwriting through deeper in-house expertise, automated processes, and a broader risk appetite, enabling us to write larger high value and complex risks with greater speed.

And through enhancing our digital capabilities, we enable deeper integration with market leading software houses improving the broker experience with the added benefit of reducing the cost to serve for both ourselves and our brokers.

So over the course of the next 12 months we will have successfully repositioned Premium to focus on the higher returning Commercial lines business, and built strong momentum as we accelerate our growth of the Commercial Lines book through to FY28.

In addition to the lending businesses in Retail we have responsibility for the Group's Savings activities, funding the loan book growth across the group. Our Savings franchise has proved to be hugely resilient during what I would describe as a challenging period and has continued to grow both in terms of customer numbers and balances.

Throughout, we have continued to invest in the platform and the product as we enhance our capabilities across the business, with our focus now on: Developing the customer base through a targeted proposition to support sustainable growth, primarily through Retail deposits; continuing to diversify and access cheaper and more stable funding through developing our product range; enhancing and optimising our digital channels, allowing operational productivity to increase, and thus build a scalable business; and leveraging and growing deposit aggregator relationships to further diversify our funding options.

So, despite increased competition across all deposit markets, we remain well positioned for future strategic opportunities coupled with a positive outlook for market growth.

Before I close, I want to reflect back on the business I joined a couple years ago and look forward to its future. In that time, we've navigated two significant market reviews by the regulator, successfully overseen the restructuring of Motor and Premium's operating model and the seamless transition to offshore roles.

Throughout, we've been ever-present to serve the needs of our customers, dealers, and brokers – and now, despite managing intense regulatory and market disruption, we've built stronger foundations and sharpened our competitive edge.

With established market positions, clear strategic priorities, and investment in digital and efficiency, we're primed to continue to grow through market share gains and extending our proposition, contributing to sustainably stronger returns.

We expect loan book growth to accelerate from 2027 financial year, together with an improved cost income ratio, with both contributing to the Group's improve RoTE trajectory. So, before I hand over to Phil, I wanted you to hear from some of our intermediary partners.

[Case study video]

Phil Hooper, CEO Property

Good Morning all. I'm Phil Hooper, and I head up the Property division. I joined Close Brothers in 2023, having had a long career at NatWest, where I spent the final five years leading their Real Estate Finance division.

Over the next ten minutes, I'll walk you through our business, the markets we operate in, and our medium-term strategy for the Property division.

Across our property lending business, we continue to provide flexible debt finance solutions to our SME customer base through two operating brands: Close Brothers Property Finance and Commercial Acceptances, both strong and recognised brands in property lending.

Through our larger business, Close Brothers Property Finance, we primarily offer residential development finance across the UK and NI for build-to-sell schemes. Additionally, we provide development finance for pre-let commercial schemes, and some residential and commercial investment solutions. Our loan range is broad, from £1 million to £50 million and we have a large customer base of over 500 SME developers who are mainly delivering new build, ground-up housing for owner-occupiers.

Our Commercial Acceptances business is complementary and provides short-term bridging solutions across various property asset classes and residential refurbishment loans. The loan sizes and tenors are much smaller and shorter than in CBPF, but flexibility across finance solutions remains key. Commercial Acceptances mainly operates in and around London.

Unlike most mainstream property lenders we do not provide finance for mortgages, buy-to-let or for operational property assets (including care homes, holiday parks, hotels, and the like).

And as you can see on the slide we delivered robust financial metrics in 2025, with an operating profit of £67m and a cost-income ratio below 30%.

Despite the cyclicality of the sector, our divisional loan book has grown over many years to stand at around £1.8 billion today.   The few dips were driven by market slow down caused by the Covid Pandemic and the more recent economic challenges. Our net interest margin has been steady throughout the period with low levels of bad debt highlighting our balanced and cautious approach to underwriting. We continue to lend within conservative parameters, with the portfolio performing resiliently in a challenging market. The slight uptick in bad debt recently reflects increased individually assessed provisions on a small number of older developments, driven by build cost inflation and a subdued sales market. Our more recent underwriting is performing well.

Our primary focus remains on maintaining our market leading position in our core markets and evolving the business for growth by diversifying our offering.

We believe our ongoing success is down to some key elements which provide our competitive advantage. Firstly. we take a relationship-led approach to everything we do. Not many of our peers can point to 50 years of lending to SME developers, and this longevity has enabled us to build strong, direct relationships with our customers through good times and bad. Over a third of our customers are family-owned businesses who typically place a premium on trust and reliability.

While the market is now dominated by brokers and introducers, we are proud that around 70% of our annual business is from existing customers who prefer to deal directly with us without the need for an intermediary. We understand our customers well and therefore it enables us to respond quickly with lending decisions and move to prompt execution.

We have a very experienced lending team with a deep understanding of the sector. Most of our front-line directors have been with the business over 10 years and the advocacy from our customers remain particularly strong. We have teams located in six regional hubs across both the UK and Northern Ireland. This geographical spread ensures that we possess essential local market knowledge, which is crucial when evaluating lending requests. You can see the diversification of our current loan book from the map of the UK.

In today's increasingly complex environment we remain committed to keeping everything we do as straightforward as possible, and that's really valued by our customers. Our commitment to our customers is that 'we do what we say and we deliver on time'.

To summarise the four key reasons why we win in the marketplace, it would be because we provide quick responses and offer flexibility in our funding solutions; we maintain a reputation for consistent support through the economic cycle; we have deep sector expertise and offer first-class customer service; and finally we are seen as a long-term business partner to our customers supporting them throughout their lifecycle.

Turning to the residential marketplace today, we know that the fundamentals remain in our favour. Consumer demand and affordability remain the key drivers of the residential market. Home ownership is still a key goal for most people across the UK. We know that there has been an ongoing structural undersupply of new homes built over many years, and this is set to continue, maintaining the current pent-up demand.

Affordability metrics are improving. From a peak of 5.25% in 2023 we have seen a gradual reduction of base rate to 3.75% with analysts expecting further cuts expected although more recent global events could well impact short term.

On the back of that, Mortgage liquidity is very strong, and the larger banks are keen to grow their market share by reducing mortgage pricing. Additionally, we have seen a continual relaxation of income multiples, which is also very helpful.

In recent years, many of our larger customers have diversified into wider living sectors, reflecting broader industry trends. Strong rental growth in Purpose-Built Student Accommodation and Build to Rent presents a clear opportunity for us to follow our customers and strengthen our presence in these sub sectors. Overall we believe SME's will continue to play a key role in housing delivery across the UK and we will be there to support them.

We operate in a competitive marketplace which is split into four distinct groups as set out. The larger high street banks are active, however their offerings tend to be characterised by low leverage solutions and time consuming processes & as a consequence they are often perceived as less appealing to the SME community.

Private credit and debt funds have experienced rapid growth within the property finance market. These entities typically pursue strategies that involve taking on higher levels of risk at a higher cost to the borrower, so they do not act as a direct competitor.

Challenger and Specialist Banks are our key competitors. However, our approach and solutions have become industry benchmark, with competitors frequently attempting to emulate our success. However, it is important to recognise that our fifty-year legacy in property finance cannot be replicated overnight by newer entrants to the market. Establishing enduring relationships and a trusted reputation takes considerable time and commitment, and these are qualities we have carefully cultivated over many years.

Whilst we have a market leading position it's important to evolve the business so we can stay ahead of the chasing pack which brings us onto our four key areas for growth.

Firstly, we need to maintain our position in our core Build to Sell market. This will remain the heartbeat of our business. We are however looking to increase the average ticket size of the deals we undertake, noting the opportunity it presents and the financial strength of these larger developers.

Secondly, we have hired a specialist team to support our diversification into ground-up development for PBSA and BtR. We have already built a strong pipeline of business and expect to close several deals this year.

We have been slightly underweight in the regional markets, and to address that, we have undertaken some recruitment where there is an opportunity for us to grow our lending footprint. More recent hires have been in Leeds, Bristol, and Birmingham, complementing our existing hubs in London, Manchester, Edinburgh, and Belfast.

Lastly, innovation and product development are crucial if we want to stay relevant to our customers and deal with changing market trends.

Under our bridging business we have recently launched a new product called CA Revolve which is designed to help our larger property traders to grow their business with a cashflow led solution. its already generated strong interest from both customers and intermediaries.

In our core business we can now provide a structured Revolving Credit Facility to those larger regional housebuilders operating across a number of sites. This type of facility was historically provided by the high street banks who appear less willing to engage in this segment today which creates a market opportunity for Close Brothers.

Despite the slowdown in the UK economy, we believe that these four areas combined with the expertise we have in our business provides the opportunity for medium term growth. We would expect to deliver between 5-10% annual growth over the next few years. The growth will primarily sit outside of our core business as illustrated in this slide.

This diversification will also provide more balance across our loan portfolio. Just to bring some of this to life, I thought it would be helpful to show you two examples of transactions we have already executed in our growth areas.

We closed this late in 2025. This is a structured Revolving Credit facility made available to Fernham Homes, a strong regional housebuilder. We spent time with their management team to understand their 3-5 year business plan and created this bespoke product to support the delivery of it. It provides debt finance for each of their projects but under one umbrella structure rather than structuring and documenting individually, We are already engaging with similar developers across the UK which is why we believe this represents a real growth opportunity for us in the short term.

The second case study is a new ground-up development for purpose-built student accommodation which we are closing this month. It's a well-located, single asset scheme close to a Russell Group University, and where the level of demand from students is expected to be strong. Whilst others can provide this solution, the customer wanted to find a relationship-led organisation to support them over the medium term and chose us over the competition. This deal is financially rewarding but more importantly opens up a new business stream for this customer.

These are two deals that we wouldn't have written a year ago and we are excited about the evolution of our business.

Before I wrap up, I just want to play a video which contains some short clips from our customers, highlighting what it's like to be a customer of the Close Brothers property business.

[Customer video]

To wrap up I'd like to leave you with some key messages. We have not relied on past performance to see us through; instead, we have developed new income streams through product innovation and expansion into complementary property sectors. We have strengthened our capabilities, built a robust pipeline of new business, and converted opportunities into completed transactions, demonstrating our ability to deliver.

We are a high quality, high return property lender which is built on longstanding customer relationships. We are recognised as a market leader in property development and bridging finance with a high-quality loan book. We have a market with a structural growth opportunity over the medium to long term, underpinned by demand outstripping supply. And I am proud to work with such a fantastic group of people who care deeply about the customers we partner with and the growth opportunities in front of us. Thank you.

Fiona McCarthy, Group Chief Finance Officer

Following on from the business updates which you've just heard, I will now outline how the business activities are strengthening our financial position and driving improved returns. I will also take you through our cost initiatives and transformation programme in more detail.

As Mike has highlighted, our simplification journey is largely complete. We are now focused on delivering loan book growth and achieving our cost savings target of circa £60 million. I will also touch on our approach to capital and funding optimisation.

These actions, supported by strong NIM and consistently low bad debt, are collectively repositioning the business and setting us firmly on the path back to double-digit returns.

First, a few words on the simplification actions, which have resulted in a fundamental repositioning of the group and a significant shift in the financial metrics of the business. The refocusing of the group —

including three disposals, winding down Vehicle Hire, repositioning Premium Finance, and the closure of Novitas — will enable us to operate as a much leaner, more efficient organisation, with our resources concentrated on businesses with higher return potential.

They have also resulted in a reduction of around £230 million in the group's cost base, and removed approximately 1,200 of headcount. And the simplification of the group structure enables further streamlining of our operating model, under the transformation programme.

At the full year 2025 results, we set out our 2026 guidance on our usual metrics, alongside some ambitious cost cutting targets. I would now like to extend that to a medium-term outlook with the detail on this slide.

We expect NIM to be slightly below 7%. We continue to target 5–10% loan book growth per annum through the cycle. We also expect to maintain our bad debt ratio below the long-term average of 1.2%, subject to wider market conditions.

The target CET1 ratio remains at 12-13% over the medium term. In parallel, we will reduce our cost base to between £410 to £430 million by the 2028 financial year, driven by the extensive cost reduction activity across the business. As part of this, we are looking to significantly lower our headcount, by nearly a quarter, over the coming 18 months.

As we see continued growth in income and with our planned cost reductions, we are aiming to achieve an expense:income ratio below 60% by the 2028 financial year, down from 65% in 2025, and we expect this to continue to reduce from there.

Our clear current priority is achieving double-digit returns by 2028. However, this is not the end point and we expect to continue reducing costs, growing efficiently, and further increasing our returns beyond 2028.

On cost reduction, we are making really good progress and our detailed transformation work has enabled an acceleration of our cost savings activities. We originally targeted around £20 million of annualised savings for this financial year, but we now expect to deliver around £25 million. This is being driven by initiatives already in flight - simplifying our organisational structure, outsourcing within Retail, repositioning Premium Finance, streamlining Technology & Change, and reducing both supplier costs and third-party advisor spend.

As we move into the 2027 financial year, the shift to our new operating model will unlock a further wave of efficiencies. This includes streamlining the federated structure, creating shared services across Operations and Functions, expanding outsourcing with key partners, and accelerating automation and AI adoption. In total, we now expect to deliver circa £60 million in annualised savings by the end of the 2027 financial year, with an estimated gross FTE reduction of around 600 people.

Beyond that, we've also identified further opportunities - from large-scale AI and automation to deeper organisational redesign - that provide scope for additional cost reductions from 2028 and beyond. Through these actions we are building a stronger operating model to support future scalability, which will enhance our ability to deliver operating leverage and achieve further savings in future years.

This slide provides further detail on how these gross cost reductions translate into overall operating costs for the business. This year, we expect to realise around £22 million of in-year cost benefits, including a £7 million benefit in respect of actions taken in 2025. As a result, we expect a broadly flat cost base at c. £450 million.

Taking into account the circa £60 million of gross cost savings, with some offset from inflationary pressures and investment spend to support business growth, we expect the overall cost base to reduce to between £410 and £430 million by the 2028 financial year. As I noted earlier, we do see opportunities for additional cost reductions in 2028 and beyond, which will help to further improve efficiency and increase returns.

Moving on to look at our funding and liquidity position. We maintain a prudent and diverse funding position, characterised by a conservative maturity profile (“Borrow Long, Lend Short”) and access to a wide range of retail and wholesale funding sources.

You have heard from Ian about the growth in our Savings franchise, and expansion of our product offering for retail deposits in recent years. Since the 2022 financial year, our overall retail deposits have grown from £3.1 billion to £6.3 billion, and now account for 54% of our overall funding as of 31 January 2026. As we continue to grow and diversify our offering, this creates opportunity to further optimise funding cost and maturity.

We are also optimising the balance sheet through normalisation of surplus liquidity from elevated levels held in response to uncertainty related to motor finance commissions, and an ongoing review of our funding mix to optimise cost.

Turning now to our capital position. We have a strong CET1 ratio at 14.3% as at 31 January 2026 reflecting recent capital actions, and this is after absorbing the £300 million provision we have taken in respect of motor finance commissions to date.

This means that we are well placed to absorb a range of potential outcomes from the FCA’s proposed motor finance commission redress scheme, without impact on our prospects for growth and investment.

We will also need to absorb the impact of Basel 3.1 from January 2027, which we now expect to increase our RWAs by less than 10%. Subject to these regulatory impacts, our priority for deployment of capital is to grow the loan book and invest in our transformation. This will drive an increase in RoTE and hence capital generation into future years.

Once we have clarity on the motor commissions redress scheme, we will also look at shareholder distributions, both in terms of returning to payment of an ordinary dividend, which we recognise is a key priority for many of our shareholders, as well as considering distribution of any excess capital through share buybacks. We will provide further detail on the capital outlook and shareholder distributions as soon as we have greater clarity and are in a position to do so.

Over the past two years we’ve created a much stronger and more focused Close Brothers. The actions we’ve taken have reduced complexity, strengthened our fundamentals, and put us on a clearer path to sustainable growth. As we have set out today, we are strongly committed to reducing costs, growing the business, and driving an increase in returns.

In the current financial year, we have concluded our simplification programme and will see the initial benefits of the cost reduction activities currently underway. The 2027 financial year will see the execution of the next phase of our transformation activities, as well as the increasing benefit of our current growth initiatives. And by 2028, we will see the full benefit of these cost savings, which combined with ongoing loan book growth, and continued optimisation of our capital and funding, will take us to a double-digit RoTE, rising thereafter.

And we will have built a more efficient and scalable business, with stronger operating leverage and the ability to drive further growth in returns from there. 2028 is not the end point as we are laying the foundations for long-term growth.

As you have heard today, we have a clear plan which we are committed to and confident in executing. And which leaves us well placed to reduce costs, drive growth, and deliver improved returns for our shareholders. Thank you and now I will hand you back to Mike.

Mike Morgan, Group Chief Executive

Before we close, I want to step back and reflect on what you have heard today. Across Commercial, Retail and Property, you have seen three strong, differentiated businesses, each operating in attractive specialist markets, each with clear plans to grow responsibly through the cycle, and each playing a meaningful role in supporting the UK economy.

You have also heard how we are reshaping the group — simplifying what we do, lowering our cost base, and building a more scalable, resilient operating model. We are focusing the group on areas where we have genuine competitive strength and can earn attractive, risk-adjusted returns.

Our transformation programme is well underway, with a clear line of sight to material cost savings, improved efficiency and stronger operating leverage, while protecting the service, expertise and relationships that define Close Brothers. This will deliver a lower-cost, more scalable operating model that improves returns whilst preserving our culture and customer proposition.

We will deploy capital in markets we know well to generate disciplined growth through the cycle. Taken together, this gives us a clear and credible path forward. We are building a more resilient and stronger business, creating a platform for long-term growth and improving returns.

My core commitment remains unchanged: to return Close Brothers to double-digit RoTE by 2028, and rising thereafter. The actions you have heard about today — across strategy, cost reduction, operating model transformation and disciplined growth — are designed to deliver exactly that.

We are confident in our plan, clear on our execution priorities, and focused on delivery. I look forward to updating you on our progress as we continue to rebuild returns and create sustainable value for shareholders.

Thank you for your time today. I will now invite Fiona, Matt, Ian and Phil back to the front and we are very happy to take your questions.

<u>Q&A session</u>

<u>Question 1</u>

Rob Noble, Deutsche Bank

The ROTE double digit by 2028, I don't think consensus is there, but I think a lot of the moving parts are though. What is the difference that you see in your plan versus where consensus currently sits for 2028? And I guess within that as well, the 12 to 13% capital target within that, is that despite your extensive Pillar 2A reduction equal to less than 10% inflation in RWAs, so you're going to run with a higher surplus to regulatory minimum capital requirements. Is that right?

Mike Morgan, Group Chief Executive

I'll just take the second one and I'll pass our first one to you Fiona if I may. On the 12 to 13%, I think we need to have a look at that at the time once the position has been landed. We're clearly working with the regulator at the moment and we believe that there will be a Pillar 2A offset against that. We'll need to see that come through and then we will reflect on where we want to put our capital targets. But as we stand here today, all things being equal, it will be 12 to 13%. In terms of the ROTE, Fiona?

Fiona McCarthy, Group Chief Finance Officer

Thank you, Mike. And maybe just one quick build on the 12 to 13% question as well. As you say Rob, absolutely if we maintain at 12 to 13%, and as Mike says, that we obtain that Pillar 2A relief, that will imply a higher loss absorption capacity between capital ratios to regulatory requirements. As Mike said, we will reassess that at the time.

So in terms of consensus in the ROTE by 2028, a number of moving parts there. I think some of that is around us demonstrating and building confidence in the objectives that we set out around delivery of the cost targets and around the loan book growth, and to see those reflected in consensus. We have articulated, as I've described, the 5 to 10% loan book growth. And I would say that some of the difference in the ROTE for consensus will be about where the analysts are pitching the loan book growth potentially relative to where our plans and ambitions take us by 2028.

Question 2

Ben Toms, RBC

Thanks for taking my questions, I’ve got three, please. So firstly, for Ian, one of your slides looked at savings and deposits and you talked a bit about growth in deposits during the presentation, but actually deposits dropped quite materially in half one. Maybe you could just give us some of the drivers of that drop given that's been a theme for some of the other speciality lenders.

Secondly, Fiona, on cost of risk, your expectation medium term is below the long term average for cost of risk. Is that in relation to mix shift or rates? If you gave some colour on that assumption, that would be great. And then finally, Phil, you talked about in the property book growing your ticket size in Build to Sell, which is the rump of the book. Now we've seen in another division growing ticket size has led to margin erosion, are you confident about hitting stable margin in that business despite the higher ticket sizes? Thank you.

Ian Cowie, CEO Retail

Okay, so the drop in half one is a result of a deliberate drop, obviously, as we've sort of historically managed the book for volume, as you would expect during what's been I think I described as a challenge, challenging period. But more recently, we've looked to manage the volume and value, particularly in relation to the cost of funds. So we've allowed ourselves to drip some of those deposits out. I think Mike and Fiona referred to in the earlier presentation, so it's as simple as that, we are in a very strong position to be able to continue to acquire new deposits. And as I mentioned earlier, we've got an increase in terms of customer numbers and we look to deploy other strategies across the business in relation to product development. So that's where we sit. So very confident of the strong platform we've built over the last few years and then how we deploy that over the coming 12 to 18 months.

Fiona McCarthy, Group Chief Finance Officer

Yes, absolutely, and just building on that Ian, it's been a very conscious decision to reduce deposits in the way that we have. Some of that's matched by the loan book reduction that we've seen, but also that we were just running with very elevated levels of liquidity. So that's a conscious choice. Our deposit acquisition experience has been very positive and very successful there, notwithstanding the headline fall because the book does actually churn pretty quickly so there's still a high level of deposit acquisition in the first half.

And then moving on to your next question, cost of risk, as you say, we are guiding to below the low term average of 1.2% and we're confident in doing so. I think that is around the quality of our book and the secured and structurally protected nature of the book and our continuation at having confidence in that. An extra element there, which a number of the presentations touched on, is just that little bit of mix shift that you're seeing in NIM, where we are just seeing a little bit of headline NIM reduction as we focus on those slightly lower NIM, but higher returns, higher quality business, slightly larger ticket size. That will also support our view around the stability of that cost of risk at below 1.2%.

Phil Hooper, CEO Property

And just on the final point, I think Fiona just summarised it pretty well, so we are offering those bigger tickets at slightly reduced pricing, but actually it's not making much of a change. What customers are willing to pay for is the flexibility that we're offering. So we think we can maintain the position. I think we're forecasting a slight reduction, but nothing material.

Question 3

Elise Yu Ge, KBW

Thank you for taking my questions. Thank you for the presentation, I've got two questions, please. The first is on commercial loans. On slide 20, you talked a bit about the split between your own direct sales and intermediaries, which I understand is 60% to 40%, in terms of the volume. But I'm also wondering what does cost and margin look like in these two different areas of business? How does that compare in terms of cost efficiencies and margin mix? That's my first question.

And then second, I guess similar just on motor finance. You talked about 40% of the UK motor loans from non-dealer channels. I'm just wondering when you are modelling for your £300 million provision, how did you incorporate that into the calculation, that 40% of the book?

Ian Cowie, CEO Retail

I think what we've seen over the last few years is we've sort of increased our focus on the broker market. And what we've seen emerge is a direct to consumer market. So we partner with the likes of Zuto, Car Finance 247, Car Money, which is where the customer effectively goes direct to those players and goes for what we would call a finance first model. So all we're trying to do is make sure whilst obviously the dealerships remain our core, we want to make sure that we continue to look at all options and they remain open for future opportunities. So that's where the focus is so over the last few years, we've partnered with the likes of those and we've seen a good increase in flows through both the broker channel, but also that direct to consumer market. It continues to emerge and we're seeing some of that happen in Ireland as well, but it's less pronounced. That's where we want to be, where the consumer chooses finance, and that's the model that we've focused on over the last few years.

Fiona McCarthy, Group Chief Finance Officer

I'll take the second one. In terms of the question around how the non-dealer channels impact on the Motor Finance Commission's provision, the £300 million, if we reflect on how we've arrived at that it is very much a bottom-up assessment of our position across a range of scenarios, including the FCA's consultation as published. To the extent those channels are relevant to the provision and to the scheme as consulted upon, that has been factored into the provision that we've arrived at. Over to Matt for the question around commercial direct versus intermediaries.

Matt Roper, CEO Commercial

Thank you. So costs in our direct business will be slightly higher, obviously, maintaining a direct sales force of over 180 colleagues is a more expensive model than relying exclusively on intermediaries. And that's one of the drivers, we believe, for the market shift towards intermediary business. But what we see in our direct business is a greater understanding of the customer, ability to serve them more precisely, and deliver bespoke solutions more easily. And ultimately that helps us deliver better margin. In the round, the returns are better in the direct business than in the intermediated business in Commercial and that is why that is such a core part of our strategy. Both are important, but direct is our focus.

Mike Morgan, Group Chief Executive

Any more questions?

Question 4

Sanjena Dadawala, UBS

If we could go back to my cost question from before, so more detail around the split of the savings. How much is staff cost? How much is other elements and what are those elements? And then if you had any comments on the 60% cost income target, which is just going back to where we were pre-2020, so how should we think about that being the steady state versus more to come.

Mike Morgan, Group Chief Executive

I'll kick it off and then ask Fiona to build on that. I think if you look at the £60 million, I don't believe that we're actually disclosing at this stage how that's being broken down between all the various lines, although there is some direction in the slides that Fiona put up. In terms of the cost income ratio, I think both Fiona and I made the clear point that what we're talking about today is really the start of this. We want to push harder, we want to go further and bring that EI ratio down. And in doing that, that will in turn push the returns up above and into double digit and go further. So, the ambition is there to move further than what you've seen on the slide today. But Fiona, do you want to talk a little bit more about this £60 million.

Fiona McCarthy, Group Chief Finance Officer

Thanks Sanjena. So as Mike's touched upon, we haven't specifically disclosed the split of the £60 million between staff and non-staff costs. I would point to a couple of things. Firstly is the 600 heads that we have articulated so naturally that supports a significant proportion of the £60 million being in relation to in relation to staff costs.

However, we are very focussed on non-staff costs as well. A couple of call outs there: The first is on legal and professional fees, which is something that we've talked about in the past. We know that those were heightened, including advisory costs associated with Motor Finance Commissions, so that's absolutely an area that we're targeting and that we believe we can achieve positive reductions in. The other is around third party management and third party costs. As we stand today, we have quite an extended supplier chain and we are definitely looking to focus on that, consolidate that supplier chain, which will enable efficiencies of scale and more power around the negotiating table there, as well as looking at supply and demand levers for third party management costs. So we're focused across the piece, but both are material components.

Sanjena Dadawala, UBS

Can I just follow up on the cost slide. For beyond FY28, it suggests absolute costs down. Could you confirm is that what we are saying?

Fiona McCarthy, Group Chief Finance Officer

It’s a good question, thanks Sanjena. So what we are saying on that slide is that we believe that there are further cost saving opportunities over and above the £60 million and we are naturally very focused on achieving the £60 million, but concurrently looking at what those further opportunities might be. We haven't shared any guidance or quantification of those and we haven't guided as to whether they would deliver an absolute cost reduction or just look to mitigate further growth and inflationary costs. But at the right point will be able to provide more guidance on that.

Mike Morgan, Group Chief Executive

I think we have a webcast question.

Question 5

Moderator

Thank you. I've got a couple of questions from Gary Greenwood from Shore Capital. Question one is, why don't you do buy-to-let in property, is that a missed opportunity? The second question is the FCA seem comfortable the premium finance market is operating more sensibly post consumer duty and that a price cap is not required. How confident are you that there won't be any pre consumer duty legacy conduct redress here?

Mike Morgan, Group Chief Executive

I'll start on both those. On buy-to-let, you're absolutely right it’s not a market we are in. We do offer relatively short-term loans in our commercial acceptance business, where we may have a developer refurbish a property and then want to let that out for a relatively short period of time. But it's not something that we have formally translated into a buy-to-let business.

The attributes of a buy-to-let business are in some ways quite different to those businesses that we've got now in terms of the length of the tenor of the contract, that would be quite different to the kind of loans that we have at the moment. You heard us say today that the average tenor of the loans that we have is about 18 months so it would be quite a significant change there. So at this stage, we have no plans as we stand here today to move into that buy-to-let market but we will always keep a watching brief on opportunities that are out there. Do you want to build on that at all Phil from your perspective?

Phil Hooper, CEO Property

It's a very saturated market and the level of returns would be quite marginal for us. As we stand today, we think there is better opportunity in some of the growth areas that I've set out rather than moving into that space.

Mike Morgan, Group Chief Executive

In terms of your second question on the FCA and the premium market study piece. As Ian said, we welcomed the study when it came out, we thought it was helpful for the industry and it reinforced the importance of that product. We're obviously in a situation with motor commissions at the moment, that is concerning, but the FCA insurance team have given a very clear view that they think it's a decent product so we just have to work with that and work within the framework where we are. Ian, do you want to build on that?

Ian Cowie, CEO Retail

As you said Mike, the market study report by the FCA is very clear. We've got a very clear plan and we intend to execute to that plan. And that plan is primarily focused on growing the commercial lines book where we see the returns as more attractive so we're just going to continue to get on with it.

Mike Morgan, Group Chief Executive

No other questions? Can I just thank everyone for coming along today, I really appreciate it, I appreciate the questions. Can I thank the team as well for the presentations and also probably most importantly, can I thank everyone for putting this together? It's taken a lot of work and hopefully it's been very helpful to all of you. Thank you very much indeed.