

Historical motor finance commission arrangements

Overview of developments in relation to motor finance commissions

On 11 January 2024, the Financial Conduct Authority (“FCA”) announced that it would use its powers under section 166 of the Financial Services and Markets Act 2000 to review historical motor finance commission arrangements and sales at several firms, following high numbers of complaints from customers. The review followed the Financial Ombudsman Service’s (“FOS”) publication of its first two decisions upholding customer complaints relating to discretionary commission arrangements (“DCAs”) against two other lenders in the market.

On 25 October 2024, the Court of Appeal published its judgment in respect of Hopcraft v Close Brothers Limited (“CBL”) (“Hopcraft”) upholding the appeal brought against CBL. This case, which had initially been determined in CBL’s favour, was heard in early July 2024 alongside two other claims against FirstRand Bank Limited (“FirstRand”).

CBL obtained permission from the Supreme Court of England and Wales (the “Supreme Court”) to appeal the Court of Appeal’s judgment against CBL in respect of the Hopcraft motor finance commissions case (the “Appeal”). The Appeal was heard by the Supreme Court between 1 April 2025 and 3 April 2025.

On 1 August 2025, the Supreme Court gave its judgment, in which CBL successfully overturned the Court of Appeal’s judgment in respect of the Hopcraft case. The Supreme Court determined that motor dealers (acting as a credit broker) do not owe fiduciary duties to their customers. As a result, the Supreme Court dismissed the Hopcrafts’ claims against CBL entirely. The Supreme Court reached the same conclusion on these issues in relation to the two FirstRand cases (“Wrench” and “Johnson”).

On the issue in Johnson relating to unfairness under s.140A of the Consumer Credit Act 1974, the Supreme Court made clear that the test for unfairness is highly fact sensitive and takes into account a broad range of factors. On the facts of Johnson, the Supreme Court upheld the Court of Appeal’s decision that the relationship between Mr Johnson and FirstRand was unfair and required FirstRand to pay Mr Johnson the value of the commission paid to the dealer plus compensatory interest at an appropriate commercial rate.

Close Brothers welcomed the outcome of the Appeal, which provided clarity on important legal and commercial principles. Following the publication of the Supreme Court’s judgment, the FCA announced on 3 August 2025 its intention to launch a public consultation by early October 2025 on an industry-wide redress scheme to compensate motor finance customers who were treated unfairly.

Until the FCA confirms the design and scope of that scheme, there remains uncertainty as to the range of outcomes, and the financial impact to the group.

Provisioning assessment in relation to motor finance commissions

The provision charge in respect of motor finance commissions recognised in the income statement at the half year of £165.0 million has been reassessed in light of all available information and recent developments and remains unchanged. The ultimate cost to the group could be materially higher or lower than the provision taken and remains subject to further clarity from the FCA on the scope and design of a redress scheme. Please refer to Note 16 “Other Assets and Liabilities” for further details on the group’s provisioning assessment of this matter.

Strengthened capital position

In response to the motor commissions uncertainty, we have strengthened our capital position and maintained high levels of liquidity, substantially above regulatory requirements. The group’s Common Equity Tier 1 (“CET1”) capital ratio was 13.8% at 31 July 2025, reflecting significant progress on our capital actions. These measures, which included no payment of the dividend, loan book moderation, cost-saving initiatives, organic capital generation, and the sale of Close Brothers Asset Management (“CBAM”) (announced in September 2024 and completed in February 2025) have been successfully implemented. This resulted in over £400 million of CET1 capital generated or preserved as of 31 July 2025.

In addition, the sale of Winterflood, announced on 25 July 2025, 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%, of which c.30 basis points will be recognised upon completion, and a further c.25 basis points is expected in due course from the reduction in operational risk weighted assets. The transaction is expected to complete in early 2026, subject to regulatory approval.

Impacts of motor finance commissions on the group's financial performance

The group's total operating expenses for this financial year were impacted by £194.0 million in direct and indirect costs associated with the motor finance commissions uncertainty, including the £165.0 million provision charge, which has been recognised as an adjusting item. In addition, the group incurred complaints handling and other operational and legal costs amounting to £18.7 million (also recognised as an adjusting item) and elevated Group (central functions) expenses related to professional and advisory fees of £10.3 million, which are temporary expenses expected to diminish once the uncertainties in relation to motor finance commissions are resolved.

As previously announced, Close Brothers temporarily paused UK motor finance lending on 25 October 2024. Lending resumed on 2 November 2024, with all channels fully operational from January 2025. Underwriting volumes have now returned to pre-pause levels, and used car finance demand remains strong and consistent with levels seen prior to the Court of Appeal judgment.

All relevant new business processes now include updated documentation to ensure customers are informed about broker relationships and commission amounts before signing credit agreements. Additionally, measures are in place to verify that credit brokers comply with these requirements.

Update on claims and complaints

The FCA has extended the time firms have to respond to complaints about motor finance involving both DCAs and non-DCAs until after 4 December 2025. This extension is

part of a broader pause introduced to allow the FCA to complete its review into historical commission arrangements and to avoid inconsistent outcomes across the industry. Consumers now have until 29 July 2026 or 15 months from the firm's final response to escalate complaints to the FOS.

There are a number of complaints against Close Brothers relating to motor finance commission arrangements that have been referred to the FOS for a determination. To date, no final FOS decisions have been made upholding these complaints.

Since the judgment by the Supreme Court on 1 August 2025 and the subsequent announcement by the FCA on 3 August 2025, we have seen a slight reduction in complaints from Claims Management Companies ("CMCs") and Claims Law Firms ("CLFs"), with other channels unchanged. However, we have also seen an increase in enquiries from CMCs and CLFs, highlighting their continued interest in this matter.

We have also taken steps to enhance our operational capabilities to respond to increased complaints volumes and potential changes, such as the implementation of an industry-wide redress scheme. This included increased resourcing to manage complaints and legal expenses. In the 2025 financial year, we have incurred £18.7 million of costs associated with complaints handling and other operational and legal costs in relation to motor finance commissions. We expect these costs will be in the single-digit millions in the 2026 financial year. We continue to monitor the impact on our current handling of these complaints to ensure we have the appropriate resources to respond effectively.