

## Investor Relations FAQs on FCA's announcement regarding the motor finance market

### Q. Can you provide an overview of the FCA's announcement on 11 January 2024?

On 11 January 2024, the FCA announced it is using 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 follows the FOS publication of its first two decisions upholding customer complaints relating to discretionary commission arrangements ("DCAs") against two other lenders in the market.

### Q. Can you outline the next steps?

The FCA aims to communicate a decision on next steps by the end of September 2024.

We are working closely with the Finance & Leasing Association and will take matters forward with the FCA, as they progress the work they have announced.

### Q. What is the impact for Close Brothers?

There is significant uncertainty about the outcome of the FCA's review, and at this early stage, the timing, scope and quantum of any potential financial impact on the group, if any, cannot be reliably estimated at present.

The group has a strong capital, funding and liquidity position. At 31 January 2024, our capital ratios provided significant headroom over the applicable requirements. Our leverage ratio, which is a measure of capital strength not affected by risk weightings, remained strong. Our conservative approach to funding is based on the principle of "borrow long, lend short" and we hold liquidity levels comfortably ahead of both internal risk appetite and regulatory requirements.

Our inherent financial strength is reflected in our [credit ratings](#).

As announced on 15 February 2024, given the significant uncertainty regarding the outcome of the FCA's review of historical motor finance commissions arrangements and any potential financial impact as a result, the Board recognises the need to plan for a range of possible outcomes from the review. It is a long-standing priority of the group to maintain a strong balance sheet and prudent approach to managing its financial resources. To that end, the Board considers it prudent for the group to further strengthen its capital position, while supporting our customers and business franchise.

Therefore, the group will not pay any dividends on its ordinary shares for the current financial year, and the reinstatement of dividends in 2025 financial year and beyond will be reviewed once the FCA has concluded its process and any financial consequences for the group have been assessed.

### Q. How have your commission models in the motor finance market evolved over time?

Close Brothers Motor Finance ("CBMF") has operated in the motor finance market for a number of years, during which we have sought to comply with the relevant regulatory requirements.

#### **Pre-2016\* - Upward Difference in Charges ("DIC") model**

CBMF operated an Upwards Difference in Charges Model. This allowed the dealer or broker full discretion over the customer rate and the commission earned on point-of-sale finance, subject to a hard cap on the amount of commission. Under the DIC model, commission, if any, was paid as a percentage of the total interest paid by the customer.

#### **From 2016 to January 2021\* – Downward Scaled Commission ("DSM") model**

CBMF introduced a Downward Scaled Commission model, which capped both the interest charged to the customer and commission paid to the dealer or broker. This meant that CBMF set the headline rate for the customer and the dealers could only reduce this by decreasing their level of commission. Under the DSM model, commission, if any, was paid as a percentage of the loan size.

**From January 2021 onwards\* - Risk Adjusted Pricing Model**

CBMF introduced a Risk Adjusted Pricing Model which set the rate for the customer and adjusted the rate according to the customer risk profile. Dealer discretion was removed entirely. Under the Risk Adjusted Pricing Model, commission, if any, is paid as a fixed percentage of the loan size.

All historical models included a “hard cap” on the commission amount paid to the broker or dealer. Commission disclosures were also reviewed and enhanced over time.

*\* For simplicity, dates shown above assume transition when substantially complete.*

**Q. Have you taken any provisions in relation to this?**

We included a contingent liability disclosure note in the Half Year 2023 and Full Year 2023 results materials, in line with accounting standards.

As outlined in the Half Year 2024 results on 19 March 2024, based on the status at the half year and in accordance with the relevant accounting standards, the Board has concluded that no legal or constructive obligation exists and it is currently not required or appropriate to recognise a provision in relation to this matter. The FCA has indicated there could be a range of outcomes, with one potential outcome being an industry-wide consumer redress scheme. The estimated impact of any redress scheme, if required, is highly dependent on a number of factors including, for example, the time period covered; the DCA models impacted (the group operated a number of different models during the period under review); appropriate reference commission rates set for any redress; and response rates to any redress scheme. As such, at this early stage, the timing, scope and quantum of the potential financial impact on the group, if any, cannot be reliably estimated at present. In addition, it is not practicable at this stage to estimate any potential financial impact arising from this issue.

**Q. Why are you stopping the dividend?**

As announced on 15 February 2024, given the significant uncertainty regarding the outcome of the FCA’s review of historical motor finance commissions arrangements and any potential financial impact as a result, the Board recognises the need to plan for a range of possible outcomes from the review. It is a long-standing priority of the group to maintain a strong balance sheet and prudent approach to managing its financial resources. To that end, the Board considers it prudent for the group to further strengthen its capital position, while supporting our customers and business franchise.

Therefore, the group will not pay any dividends on its ordinary shares for the current financial year, and the reinstatement of dividends in the 2025 financial year and beyond will be reviewed once the FCA has concluded its process and any financial consequences for the group have been assessed.

We have a long-term progressive dividend track record and the decision to not pay any dividends for this financial year was not made lightly.

**Q. When are you restarting the dividend?**

The reinstatement of dividends in the 2025 financial year and beyond will be reviewed once the FCA has concluded its process and any financial consequences for the group have been assessed.

### **Q. What is the size of your Motor Finance loan book?**

Information regarding our historical loan book is publicly available in our published accounts, which can be found on our Investor Relations website.

At 31 January 2024, the Motor Finance net loan book stood at £1,984.0m (this included Channel Islands and Republic of Ireland lending).

### **Q. Key facts about our Motor Finance business**

Our Motor Finance business provides several products at point of sale in a dealership, or online via a broker, which allow consumers to buy vehicles from over 4,200 retailers in the UK.

At 31 January 2024, the Motor Finance net loan book stood at £1,984.0m (this included Channel Islands and Republic of Ireland lending), with an average loan size of c.£7,000 and typical loan maturity of 4 years (at 31 July 2023).

While the net interest margin (“NIM”) at the Motor Finance level has not been disclosed, the Retail business, which also includes our Premium Finance business, reported a NIM of 8.7% for the first six months to 31 January 2024.

### **Useful links**

[FCA announcement on 11 January 2024 – FCA to undertake work in the motor finance market](#)

[Close Brothers Motor Finance: Vehicle finance discretionary commission complaints – information for customers](#)

[Results, reports and presentations | Close Brothers Group](#)

[Trading update and dividend announcement 15.02.24.pdf \(closebrothers.com\)](#)

[CBG HY24 Results 19.03.24.pdf \(closebrothers.com\)](#)