Close Brothers

Press Release

Scheduled Trading Update

21 November 2024

Embargoed for release until 7.00 am on 21 November 2024.

Close Brothers Group plc ("the group" or "Close Brothers") today issues its scheduled trading update relating to the first quarter of its 2025 financial year from 1 August 2024 to 31 October 2024.

Mike Morgan, Group Finance Director, said:

"The group delivered a robust performance in the first quarter. In our Banking division, customer demand remained healthy, alongside a strong net interest margin and a resilient credit quality. Whilst Winterflood continued to experience unfavourable market conditions, it remains well positioned to benefit when investor appetite returns."

"We are confident in our underlying business, supported by our strong balance sheet and liquidity position, and remain committed to driving it forward. Notwithstanding the significant uncertainty resulting from the FCA's review of historical motor finance commission arrangements and the recent Court of Appeal judgment, our focus is on protecting our valuable franchise. Our core Banking business model remains as relevant as ever as we continue to offer excellent and specialist service to our customers, while maintaining our pricing and underwriting discipline."

Performance in the three months to 31 October 2024

In **Banking**, the loan book increased 0.6% in the quarter to £10.2 billion (31 July 2024: £10.1 billion). We saw continued demand from our customers, which was partly offset by the actions taken to selectively grow the loan book as we optimise risk weighted assets. We delivered good growth in our Commercial businesses, which was partly offset by a modest increase in the level of repayments in Property. New business volumes were lower in Retail, primarily driven by the temporary pause in new lending in our UK motor finance business following the Court of Appeal ("the Court") judgment in respect of the Hopcraft case in October 2024. We have now resumed writing new business for a significant portion of our UK motor finance book.

The annualised year-to-date net interest margin was strong at 7.3%, reflecting our ongoing focus on pricing discipline and optimising funding costs in the higher interest rate environment. We remain well positioned to sustain the net interest margin delivered in the second half of the 2024 financial year of 7.2%.

Our focus on costs and improving future efficiency continues. We have continued to make progress on the cost management actions previously outlined and are on track to deliver annualised savings of c.£20 million, reaching the full run rate by the end of the 2025 financial year.

The annualised year-to-date bad debt ratio remained below our long-term average of 1.2%, reflecting the resilient underlying credit quality of our lending[1]. We remain confident in the quality of our loan book, which is predominantly secured, prudently underwritten, diverse, and supported by the deep expertise of our people.

Close Brothers Asset Management ("CBAM") delivered solid year-to-date annualised net inflows of 4% (FY 2024: 8%). In the quarter, managed assets increased slightly to £19.5 billion (31 July

2024: £19.3 billion) and total assets increased to £20.6 billion (31 July 2024: £20.4 billion). As outlined in the Full Year 2024 results, following a comprehensive strategic review, the group announced that it had entered into an agreement to sell CBAM to funds managed by Oaktree Capital Management, L.P. The transaction is expected to complete in early 2025 calendar year and CBAM will be classified as 'discontinued operations' in the group's consolidated income statement going forward[2].

Winterflood's performance continued to be impacted by unfavourable market conditions, resulting in an operating loss of £0.7 million in the first quarter (Q1 2024: operating loss of £2.5 million).

The **Group (central functions)**[3] reported net expenses of £14.2 million in the quarter (Q4 2024: £12.7 million; Q1 2024: £9.5 million). We continue to expect Group (central functions) net expenses to be in line with the guidance provided at the FY 2024 results, primarily reflecting an elevated level of professional fees and expenses associated with the FCA's review of historical motor finance commission arrangements.

Strong balance sheet

Our funding base remained stable at £13.0 billion (31 July 2024: £13.0 billion) this quarter. We adhere to a conservative "borrow long, lend short" funding strategy, with the average maturity of funding allocated to the loan book three months longer than the average loan book maturity as at 31 October 2024 (31 July 2024: 4 months). We maintained our prudent liquidity position, with a 12-month average liquidity coverage ratio ("LCR") of 964%, substantially above regulatory requirements, as at 31 October 2024. The group's funding and liquidity positions have remained stable since the publication of the Court judgment.

Our Common Equity Tier 1 ("CET1") capital and Total Capital ratios were 13.2% and 16.9%, respectively, at 31 October 2024 (31 July 2024: 12.8% and 16.6%). The increase in the quarter was primarily driven by retained profit and a reduction in risk weighted assets[4].

The group has a number of actions in progress to further strengthen its capital position. These include the agreed sale of CBAM announced in September 2024, which is expected to increase the group's CET1 capital ratio by approximately 100 basis points, a potential significant risk transfer of motor finance loans, selective loan book growth and cost actions. As outlined in our Full Year 2024 results, we have completed preparations for a significant risk transfer of assets in Motor Finance. We continue to analyse any adjustments to the timing and structure of a potential transaction in light of the recent Court judgment. With the benefit from these management actions and continued capital generation, we remain confident that the group's CET1 capital ratio will be between 14% and 15% at the end of the 2025 financial year (excluding any potential redress or provision related to the FCA's review of historical motor finance commission arrangements or the Court judgment).

In addition, the group continues to evaluate a range of other potential management actions previously outlined to further optimise risk weighted assets, including potential risk transfer of other portfolios, a continuous review of our businesses and portfolios and other tactical actions.

Outlook

We are encouraged by the robust performance delivered in the first quarter. At this stage, we are maintaining our previously communicated guidance for the 2025 financial year. However, we anticipate there may be some financial impact from measures taken in response to the Court judgment, including potential further increases in professional and legal fees and associated operational costs.

Our priority remains to protect our valuable business franchise while we navigate the current period of uncertainty.

CEO leave of absence

Further to the group's announcement on 16 September 2024, Adrian Sainsbury remains on medical leave of absence from the business. The group intends to continue the existing temporary cover arrangements during this period with Mike Morgan, Group Finance Director, supported by Mike Biggs, Chairman, and members of the senior management team.

Developments since the Court of Appeal's motor commissions judgment

On 25 October 2024, the Court published its judgment which upheld the motor commission appeals brought against Close Brothers Limited ("CBL") and FirstRand Bank Limited. It remains our position that the group disagrees with the Court's findings and that the judgment raises important issues of law and general public importance that should be determined by the Supreme Court. The group intends to submit an application for permission to appeal the Court's decision directly to the Supreme Court imminently. Given the judgment's broader relevance and potential impact on the group, we intend to request that the Supreme Court considers our application for permission on an expedited basis. The group considers that it meets the relevant criteria required for the Supreme Court to grant permission but that will be a matter for the Supreme Court to determine.

The range of outcomes and potential financial impact on the group remain uncertain. Subject to the Supreme Court appeal, the overall cost to the group of this development in the law, the FCA's ongoing review of motor finance commissions, any customer complaints and claims and related costs and liabilities will depend on a range of factors. These include the application of the Court's ruling and the outcome of the Supreme Court appeal, the number of claims and complaints received, the facts and circumstances of each individual claim, any extension to the complaints pause initiated by the FCA and the level of compensation, if any, due to affected customers. Our accounting assessment in relation to these matters remains under review.

As previously announced, we temporarily paused UK motor finance lending on 25 October. Since 2 November, we have restarted a significant portion of this business and expect full resumption in the very near future. We are updating our documentation and processes to ensure disclosure of commission amounts on finance agreements and obtain full customer consent for all necessary issues, including credit broker commissions, before customers enter into credit agreements. We have also implemented necessary measures to verify credit brokers' compliance with these new requirements.

While the potential future applicability of the judgment to other intermediated lending businesses remains unclear, we are reviewing documentation and processes and continue to collaborate with brokers and other intermediaries to update disclosures and procedures where appropriate.

The group operates various distribution models across our business. In Retail, most of our Motor and Premium Finance businesses are intermediated. In Commercial and Property Finance, we operate predominantly direct through our own sales teams.

Footnotes

1 At 31 October 2024, there was a 30% weighting to the strong upside, 32.5% weighting to the baseline, 20% weighting to the mild downside, 10.5% weighting to the moderate downside and 7% weighting to the protracted downside (unchanged from 31 July 2024). Moody's October unemployment forecast for Q4 2024 under the baseline scenario is 4.4%, 4.1% under the upside scenario and ranges between 4.6% and 4.9% in the downside scenarios. Moody's October inflation forecast for Q4 2024 under the baseline scenario is 2.4%, 2.5% for the upside scenario and ranges between 1.5% and 1.9% in the downside scenarios. Moody's October forecast for the Bank of England base rate for Q4 2024 is 4.9% in the baseline scenario, 4.9% in the upside scenario and ranges from 4.7% to 4.8% in the downside scenarios.

2 On 19 September 2024, the group announced the agreed sale of CBAM to funds managed by Oaktree Capital Management, L.P. The business is expected to fulfil the requirements of IFRS 5 and be classified as 'discontinued operations' in the group's income statement. The profit from discontinued operations is expected to include the estimated gain on disposal (which we anticipate will not be taxable). The transaction is conditional upon receipt of certain customary regulatory approvals.

3 Group consists of central functions (such as finance, legal and compliance, risk and human resources) as well as the non-trading head office company and consolidation adjustments and is set out in order that the information presented reconciles to the consolidated income statement.

4 The group's capital ratios are presented on a transitional basis after the application of IFRS 9 transitional arrangements which allows banks to add back to their capital base a proportion of the IFRS 9 impairment charges during the transitional period. Without their application, the CET1 and Total capital ratios would be 13.1% and 16.9%, respectively. The applicable minimum CET1 and Total capital ratio regulatory requirements, excluding any applicable PRA buffer, were 9.7% and 13.7% at 31 October 2024. The group's capital ratios are unaudited and include Q1 2025 unverified profits net of foreseeable dividends and charges.

Enquiries

Sophie Gillingham	Close Brothers Group plc	020 3857 6574
Camila Sugimura	Close Brothers Group plc	020 3857 6577
Kimberley Taylor	Close Brothers Group plc	020 3857 6233
Ingrid Diaz	Close Brothers Group plc	020 3857 6088
Sam Cartwright	H/Advisors Maitland	07827 254561

About Close Brothers

Close Brothers is a leading UK merchant banking group providing lending, deposit taking, wealth management services and securities trading. We employ approximately 4,000 people, principally in the United Kingdom and Ireland. Close Brothers Group plc is listed on the London Stock Exchange and is a constituent of the FTSE 250.

Cautionary Statement

Certain statements included or incorporated by reference within this announcement may constitute "forward-looking statements" in respect of the group's operations, performance, prospects and/or financial condition. All statements other than statements of historical fact are, or may be deemed to be, forward-looking statements. Forward-looking statements are sometimes, but not always, identified by their use of a date in the future or such words as "anticipates", "aims", "due", "could", "may", "will", "should", "expects", "believes", "intends", *“plans”, “potential”, “targets”, “goal” or “estimates”. By their nature, forward-looking statements involve a number of risks, uncertainties and assumptions and actual results or events may differ materially from those expressed or implied by those statements. There are also a number of factors that could cause actual future operations, performance, financial conditions, results or developments to differ materially from the plans, goals and expectations expressed or implied by these forward-looking statements and forecasts. These factors include, but are not limited to, those contained in the group’s annual report (available at: https://www.closebrothers.com/investor-relations). Accordingly, no assurance can be given that any particular expectation will be met and reliance should not be placed on any forward-looking statement. Additionally, forward-looking statements regarding past trends or activities should not be taken as a representation that such trends or activities will continue in the future.*

Except as may be required by law or regulation, no responsibility or obligation is accepted to update or revise any forward-looking statement resulting from new information, future events or otherwise. Nothing in this announcement should be construed as a profit forecast. Past performance cannot be relied upon as a guide to future performance and persons needing advice should consult an independent financial adviser.

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