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Press Release

Scheduled Trading Update

20 May 2022

Embargoed for release until 7.00 am BST on 20 May 2022.

Close Brothers Group plc ("the group" or "Close Brothers") today issues its scheduled trading update relating to the third quarter of its 2022 financial year. All statements in this release relate to the period from 1 February 2022 to 30 April 2022 ("the quarter") unless otherwise indicated.

Adrian Sainsbury, Chief Executive Officer

"We have performed well in the quarter, with continued good momentum across our lending businesses and robust demand in our core markets. We continue to support our customers and clients and maintain our strategic discipline against a backdrop of rising inflation and heightened uncertainty. We are confident that our proven and resilient business model will allow us to continue delivering on our long-term track record of growth and profitability."

Group and divisional performance

The group performed well in the quarter with continued loan book growth in the Banking division at strong margins. Client assets reduced in Close Brothers Asset Management ("CBAM"), reflecting negative market movements and Winterflood saw an improvement in trading income.

Our Common Equity Tier 1 ("CET1") ratio was 14.9% at 30 April 2022 (31 January 2022: 15.1%), well above the applicable minimum regulatory requirement[1].

In **Banking**, the loan book increased 1.8% in the quarter to £8.8 billion (31 January 2022: £8.6 billion, 31 July 2021: £8.4 billion), corresponding to 3.7% growth year-to-date. This was driven by continued good new business volumes in Commercial and Motor Finance, and in Property, loan book growth resumed, reflecting increased drawdowns from our strong pipeline.

The annualised year-to-date net interest margin was strong at 7.8% (H1 2022: 7.9%), reflecting our continued focus on pricing discipline and a reduction in our cost of funds.

The impact of interest rate floors of 1% in certain businesses will gradually fall away given recent rises in interest rates. Once the UK base rate is above 1%, we expect no further impact from these floors.

Whilst we are not yet seeing a direct impact of the deteriorating economic conditions, in particular rising inflation, on our customers, the year-to-date bad debt ratio increased marginally to 1.2% (0.5% excluding Novitas), which reflects the recognition of higher IFRS 9 provisions to take into account the cautious outlook for the external environment[2] (H1 2022: 1.1%, 0.2% excluding Novitas). We continue to closely monitor the performance of the book and incorporate updated macroeconomic scenarios.

We continue to progress our strategic investment programmes, including our Internal Ratings Based ("IRB") application and have received confirmation from the Prudential Regulation Authority ("PRA") that our application has successfully transitioned to Phase 2.

CBAM achieved year-to-date annualised net inflows of 5% (H1 2022: 8%) and has a strong pipeline of new business. In the quarter, managed assets decreased to £15.4 billion (31 January 2022: £15.8 billion) and total client assets decreased to £16.7 billion (31 January 2022: £17.2 billion), reflecting negative market movements.

Winterflood's trading income improved in the quarter, although trading conditions remain volatile. The team's experience and focus on managing risk resulted in only one loss day in the quarter despite extreme market volatility.

Outlook

Against a backdrop of rising inflation and heightened uncertainty, our proven and resilient model, strong financial position and deep expertise leave us well positioned to continue to support our customers and clients. We remain committed to delivering against our strategy to protect, grow and sustain the business.

Footnotes

1 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 capital ratio would be 14.0%. The applicable minimum regulatory requirement, excluding any applicable PRA buffer was 7.6% at 30 April 2022.

2 Since the Half Year 2022 results, we have updated the macroeconomic scenarios and the weightings assigned to them. At 30 April 2022, there was a 40% weighting to the baseline scenario, 20% to the upside and 40% to the downside scenarios (31 January 2022: 40% baseline, 30% upside, 30% downside). Moody's unemployment forecast for 2022 under the baseline scenario is 4.3%, 4.0% under the upside scenario and ranges between 4.6% and 5.3% in the downside scenarios. Moody's inflation forecast for 2022 under the baseline scenario is 7.5%, 7.2% for the upside scenario and ranges between 8.3% and 11.0% in the downside scenarios.

Enquiries

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About Close Brothers

Close Brothers is a leading UK merchant banking group providing lending, deposit taking, wealth management services and securities trading. We employ over 3,700 people, principally in the UK. Close Brothers Group plc is listed on the London Stock Exchange and is a member of the FTSE 250.

Cautionary Statement

Certain statements included within this announcement may constitute “forward-looking statements” in respect of the group’s operations, performance, prospects and/or financial condition. 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. 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. This announcement does not constitute or form part of any offer or invitation to sell, or any solicitation of any offer to subscribe for or purchase any shares or other securities in the company or any of its group members, nor does it constitute a recommendation regarding the shares or other securities of the company or any of its group members. Past performance cannot be relied upon as a guide to future performance and persons needing advice should consult an independent financial adviser or other professional. Statements in this announcement reflect the knowledge and information available at the time of its preparation. Liability arising from anything in this announcement shall be governed by English law. Nothing in this announcement shall exclude any liability under applicable laws that cannot be excluded in accordance with such laws.