Close Brothers

Close Brothers Group plc
10 Crown Place
London EC2A 4FT

T +44 (0)20 7655 3100
E enquiries@closebrothers.com
W www.closebrothers.com

Registered in England No. 520241

Press Release

Scheduled Trading Update

21 May 2021

Embargoed for release until 7.00am on 21 May 2021.

Close Brothers Group plc ("the group" or "Close Brothers") today issues its scheduled trading update relating to the third quarter from 1 February 2021 to 30 April 2021 ("the quarter").

Adrian Sainsbury, Chief Executive Officer

"We continued to perform strongly in the third quarter, in line with the trends reported in the first half of the year. There are positive signs of economic recovery, but uncertainty remains. I am confident that our proven and resilient model, together with the expertise of our people, leave us well placed to continue supporting our customers and clients and to make the most of opportunities going forward.

I am very proud of our continuing efforts to make a positive impact over the long term. We have established a new partnership with the Social Mobility Foundation to help us build our programme of support for those not afforded the same opportunities as others, particularly as the country recovers from Covid-19. We remain mindful of the threat of climate change and are supportive of the 2050 net zero goals of the Paris Agreement. I look forward to talking further about our responsible approach at our upcoming Investor Event on 15 June 2021."

Group and divisional performance

The group has continued to perform strongly in the third quarter with high new business volumes in the lending business, solid net inflows in Asset Management and a very strong trading performance in Winterflood.

Our capital position remained strong, with a Common Equity Tier 1 ("CET1") capital ratio of 15.5% (31 January 2021: 15.3%), significantly above the applicable minimum regulatory requirement[1].

In **Banking**, the loan book increased 3.2% in the quarter and 7.7% year-to-date to £8.2 billion (31 January 2021: £8.0 billion; 31 July 2020: £7.6 billion). We continued to see strong demand for loans issued under the Coronavirus Business Interruption Loan Scheme (CBILS)[2] prior to the application deadline on 31 March 2021, particularly in the Asset Finance business. In Invoice Finance, levels of utilisation improved with the progressive reopening of the economy. We have seen continued high levels of new business volumes in Motor Finance and the Property business loan book has remained broadly stable.

The annualised net interest margin was broadly stable on the first half[3], as we maintained our pricing discipline.

We remain focused on the strict management of costs while progressing our key strategic programmes.

The annualised bad debt ratio reduced slightly on the first half, reflecting a stable credit performance and modest releases of judgmental management overlays in the Retail and Property businesses to reflect improvements in the macroeconomic outlook.

The performance of the forborne book remains encouraging. At 30 April 2021, the total balance of loans classified as forborne and subject to Covid-19 concessions reduced to £1.0 billion (31 January 2021: £1.1 billion), driven by an increase in the proportion of customers resuming repayments or no longer being considered forborne.

While we remain confident in the quality of our lending, which is predominantly secured, prudently underwritten and diverse, our impairment provisions continue to reflect the uncertain external environment and the fact that the full impact of Covid-19 has yet to be reflected in experienced credit performance. We will continue to closely monitor the performance of the loan book as the macroeconomic outlook evolves and government support schemes end in the coming months[4].

The **Asset Management** division generated annualised net inflows of 6% (31 January 2021: 4%), despite the continued impact of reduced face-to-face interaction with clients arising from Covid-19. Including favourable market movements, managed assets increased to £14.8 billion (31 January 2021: £13.8 billion) and total client assets increased to £16.0 billion (31 January 2021: £14.9 billion). We remain committed to maintaining our excellent client service whilst investing in new hires and technology to support the long-term growth potential of the business.

Winterflood delivered a very strong trading performance, benefiting from continued elevated market activity and the expertise of our traders. Average daily bargains stood at 120k in the quarter (31 January 2021: 97k; 31 July 2020: 82k), with no loss days. As a result, Winterflood's year-to-date operating profit is ahead of the level achieved in the whole of the 2020 financial year. Winterflood remains well positioned to continue trading profitably in a range of conditions, but due to the nature of the business, it remains sensitive to changes in the market environment.

Outlook

We continue to respond well to the challenges and opportunities arising from the current environment. Although there has been some improvement in the broader economic outlook, the impact of Covid-19 on customers remains uncertain. Our proven and resilient model and strong balance sheet, combined with our deep experience in navigating a wide range of economic conditions, leave us well placed to continue supporting our colleagues, customers and clients over the long term.

Footnotes

1 The group applies IFRS 9 regulatory transitional arrangements which allows banks to add back to their capital base a proportion of the IFRS 9 impairment charges during the transitional period. Our capital ratios are presented on a transitional basis after the application of these arrangements and the UK onshored provisions of the Capital Requirements Regulation ("CRR") qualifying own funds arrangements. Without their application, the CET1 ratio would be 14.3%. In line with the amended CRR, effective on 23 December 2020, the CET1 capital ratio at 30 April 2021 includes a c.40bps benefit related to software assets which are exempt from the deduction requirement for intangible assets from CET1. The PRA launched a consultation on 12 February 2021 including a proposal to revert to the earlier position, which if implemented would result in a future reversal of this benefit and reduction of the CET1 capital ratio. The applicable minimum regulatory requirement, excluding any Prudential Regulation Authority (PRA) buffer was 7.6% at 30 April 2021.

2 At 30 April 2021, lending under the Coronavirus Business Interruption Loan Scheme (CBILS) and associated schemes totalled £966 million across 4,851 loans, with the vast majority of lending via CBILS. Additionally, at 30 April 2021, £202 million across 896 loans in our Commercial and Property businesses had been credit approved and can be drawn down three months post approval date for term loans and six months for asset finance agreements. The UK Government support schemes for

SMEs ended on 31 March 2021, and have been replaced by the new Recovery Loan Scheme, under which we are also accredited to lend, launched on 6 April 2021 and will run until 31 December 2021.

3 The reported net interest margin in the first half of 2021 was 7.7%. Excluding the impact of certain items such as modification gains and losses arising from the onset of Covid-19 and adjusting for day count, the average monthly net interest margin in the first half of 2021 was 7.5%.

4 Expected credit losses reflect the application of macroeconomic scenarios, which have been updated to include more recent externally sourced scenarios on a monthly basis since the start of the pandemic. At 30 April 2021, weightings remained unchanged with 10% weighted to the upside scenario, 40% to the baseline scenario and 50% to downside scenarios. The modelled impact of macroeconomic scenarios and their respective weightings is overlaid with expert judgment in relation to stage allocation and coverage ratios at the individual portfolio level, incorporating our experience and knowledge of our customers, the sectors in which they operate, and the assets that we finance.

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
Andy Donald	Maitland	07738 346 460

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