

## Press Release

### Scheduled Trading Update

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19 November 2020

Embargoed for release until 7.00am on 19 November 2020.

Close Brothers Group plc (“the group” or “Close Brothers”) today issues its scheduled trading update relating to the first quarter from 1 August 2020 to 31 October 2020 (“the quarter”).

#### **Adrian Sainsbury, Chief Executive Officer**

*“The group has performed well in the first quarter, with strong new business volumes in Banking, reflecting increased customer activity, continued net inflows in the Asset Management division and elevated trading volumes in Winterflood. Our operational capabilities and financial resources have enabled us to continue to build on the positive momentum seen in the last months of the 2020 financial year.*

*Although the external environment remains highly uncertain, we continued to adapt well to these challenging and rapidly changing conditions. Our resilient model and the deep expertise of our people position us well to continue maximising support to our customers and clients, consistent with our purpose of helping the people and businesses of Britain thrive over the long term.”*

#### **Group and divisional performance**

The group delivered a strong performance in the quarter reflecting high levels of new business volumes in the lending businesses, continued net inflows in the Asset Management division and elevated trading volumes in Winterflood.

We maintained a strong capital position with a Common Equity Tier 1 capital ratio of 14.2% at 31 October 2020 (31 July 2020: 14.1%), 620bps above the applicable minimum regulatory requirement<sup>1</sup>.

In **Banking**, the loan book increased 5.6% in the quarter to £8.0 billion (31 July 2020: £7.6 billion), reflecting continued high levels of customer activity. We have seen strong demand for SME business loans issued under the UK government support scheme (CBILS)<sup>2</sup>, which is due to end on 31 January 2021, particularly in our Asset Finance business. We also saw a modest recovery in utilisation levels in our Invoice Finance business and continued high new business volumes in Motor Finance.

The net interest margin remained stable on the 2020 financial year at 7.5%, as we continued to focus on our pricing and underwriting discipline.

We continued to progress with a number of key strategic programmes, to protect, improve and extend our business model. Notwithstanding our rigorous focus on cost management, operating expenses are expected to remain elevated as we continue to invest and incur related depreciation charges.

While it is still too early to know the full impact of Covid-19, performance of the forbore loan book so far has been encouraging, and we take comfort from the predominantly secured nature of our loans. In Commercial and Retail, where concessions principally take the form of payment holidays, 86% of

customers (by value) who were granted concessions as a result of Covid-19 had resumed payments at 31 October 2020. In Property, concessions principally take the form of fee-free extensions, where we remain confident in the quality of the underlying borrower and security.

The continued stable credit performance of the book and the stabilisation of economic forecasts since the 2020 financial year end resulted in modest provisions in the quarter. Nevertheless, the external environment remains highly uncertain and we will continue to closely monitor the performance of the book, apply our expert judgment to staging and coverage levels and incorporate updated macroeconomic scenarios<sup>3</sup> as they become available.

The **Asset Management** division continued to focus on maintaining excellent service for our clients in the current operational environment and remains committed to investing in new hires and technology. The division generated annualised net inflows of 7% despite the impact of reduced face-to-face interaction with clients since the onset of Covid-19. Managed assets increased to £12.8 billion (31 July 2020: £12.6 billion) and total client assets increased to £13.8 billion (31 July 2020: £13.7 billion).

**Winterflood** continued to benefit from high levels of market activity, with average daily bargains remaining elevated at 83k, although below the level seen in the second half of the 2020 financial year at 108k, and no loss days in the quarter. The division is 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 have delivered a strong performance in the first quarter with all of our businesses performing well in the current environment. However, the impact of Covid-19, the additional restrictions in the UK, Brexit, and the end of the government support schemes on loan book growth and credit performance is still highly 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 respond to the challenges and opportunities ahead and to continue supporting our colleagues, customers and clients over the long term.

## Footnotes

1 The applicable minimum regulatory requirement, excluding the Prudential Regulation Authority (PRA) buffer was 8.0% at 31 October 2020. 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 Capital Requirements Regulations qualifying own funds arrangements. Without their application, the CET1 capital ratio would be 13.2%.

2 At 31 October 2020, lending under CBILS and associated schemes totalled £485 million across 2,170 loans. Additionally, at 31 October 2020, over £180 million across almost 700 loans in our Commercial and Property businesses had been credit approved and were awaiting drawdown. The vast majority of lending is via the Coronavirus Business Interruption Loan Scheme (CBILS) under which we are accredited to lend up to £1 billion, with less than £2.5 million lent under the Bounce Back Loan Scheme (BBLs) scheme.

3 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 31 October 2020, weightings remain unchanged with 40% weighted to baseline scenario and 60% 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 which we finance.

## 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 3,500 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.*