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Close Brothers Group PLC
12 February 2025

This announcement contains inside information

Update in relation to motor commissions and performance in the six months to 31 January 2025

12 February 2025

Close Brothers Group plc ("the group" or "Close Brothers") today issues an update in relation to motor commissions and the group's financial performance in the six months to 31 January 2025.

All statements in this release relate to the six months to 31 January 2025 ("the period") unless otherwise stated.

Update on provisioning assessment in relation to motor commissions

In light of recent developments in relation to motor commissions, the group has been reviewing its accounting assessment of these matters, as previously stated. As a result, the group anticipates that it will recognise a provision in the H1 2025 financial statements in relation to motor commissions of up to £165 million. This includes estimates for certain potential operational and legal costs, as well as estimates for potential remediation for affected customers. The estimated provision is based on probability weighted scenarios using various assumptions. These include, for example, commission models, rates and time periods in scope of any regulatory redress scheme, as well as response and uphold rates.

The estimated provision is the outcome of a thorough assessment, representing the group's current evaluation based on available information and recent developments. There remains significant uncertainty as to the range of outcomes from the motor commissions appeals and the FCA's ongoing review of motor commissions and, therefore, the ultimate cost to the group could be materially higher or lower than the estimated provision.

The group's CET1 capital ratio stood at 13.5% at 31 December 2024. The anticipated provision is expected to reduce this by up to c.150bps on a pro-forma basis to 12.0%, significantly above our applicable regulatory requirement of 9.7%.

We have made significant progress on our capital actions previously outlined. These include the agreed sale of Close Brothers Asset Management announced in September 2024, which is expected to complete in the coming weeks and to increase the group's CET1 capital ratio by approximately 100 basis points. We have also implemented selective loan book growth actions and progressed the delivery of additional cost management initiatives.

Taking into account the estimated provision and the benefit from management actions, we expect the group's CET1 capital ratio will increase to c.13% by the end of the 2025 financial year.

We have completed preparations for a significant risk transfer of assets in Motor Finance and continue to analyse any adjustments to the timing and structure of a potential transaction in light of the Court of Appeal judgment and our ongoing appeal to the Supreme Court. The group continues to evaluate a range of additional potential management actions 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.

The group's financial strength and ongoing organic capital generation, coupled with the benefits of management actions to build capital, leave us well placed to absorb the impact of the estimated provision.

Update on financial performance

The group delivered a robust performance in the six months to 31 January 2025 and we remain committed to driving our strong underlying business forward. In Banking, we continue to support our customers while maintaining strong margins and a resilient credit performance. The loan book declined slightly to c.£9.8 billion driven by seasonality and as we continue to lend selectively to optimise risk weighted assets. As a result, we expect to report Adjusted operating profit ("AOP") in Banking of approximately £104 million in the period (excluding the estimated provision in relation to motor commissions and other adjusting items). While Winterflood remains well placed for a recovery in investor confidence, its performance continued to be impacted by unfavourable market conditions, resulting in an expected operating loss of approximately £1 million in the period. Overall group AOP is expected to be approximately £75 million, after Group (central functions) net expenses of approximately £28 million and excluding CBAM's AOP.

The group maintained a strong capital, funding and liquidity position. Our CET1 capital and Total Capital ratios were 13.5% and 17.4%, respectively, at 31 December 2024 (31 October 2024: 13.2% and 16.9%). Our funding base remained broadly stable at £12.9 billion (31 October 2024: £13.0 billion) at 31 December 2024. We adhere to a conservative "borrow long, lend short" funding strategy, with the average maturity of funding allocated to the loan book of circa three months longer than the average loan book maturity as at 31 December 2024 (31 October 2024: three months). We maintained our prudent liquidity position, with a 12-month average liquidity coverage ratio ("LCR") of 957%, substantially above regulatory requirements, as at 31 December 2024.

The group will release its half year results for the six months ending 31 January 2025 on 18 March 2025. In the second half of the financial year, as previously outlined, we anticipate there may be some financial impact from measures taken in response to the Court of Appeal judgment, including potential further increases in professional and legal fees and associated operational costs, as well as the impact of changes implemented by the motor finance business to ensure compliance with the new legal requirements on business volumes and income.

Additional information and notes

The financial information included in this statement is unaudited and remains subject to review as part of the interim audit process.

Overview of developments in relation to motor commissions

On 11 January 2024, the Financial Conduct Authority ("FCA") announced a review into historical motor finance discretionary commission arrangements ("DCAs"). This review was prompted by high numbers of complaints from customers across the market and followed the Financial Ombudsman Service's ("FOS") publication, also on 11 January 2024, of its first two decisions upholding customer complaints relating to DCAs against two other lenders in the market.

On 25 October 2024, the Court of Appeal published its judgment in respect of *Hopcraft v Close Brothers Limited* ("CBL") upholding the motor commissions appeal brought against CBL. This case, initially determined in CBL's favour, was heard in early July 2024 alongside two other claims against another lender. The group disagrees with the Court of Appeal's findings and, on 11 December 2024, obtained permission to appeal to the Supreme Court. The other lender has also obtained permission to appeal and all cases will be heard at a hearing scheduled for 1 to 3 April 2025 ("The motor commissions appeals"). As has been reported, a number of interested parties have applied to intervene in the motor commissions appeals, including HM Treasury, the FCA, the Finance & Leasing Association ("FLA"), the National Franchise Dealers Association ("NFDA") and Consumer Voice Limited (represented by Courmacs Legal Ltd). The Supreme Court has not yet made a decision with respect to these applications.

The FCA has confirmed that it aims to set out next steps regarding its DCA review in May 2025, taking into account the outcome of the judicial review of one of FOS' January 2024 decisions (the judicial review was determined in December 2024, but the applicant has been granted permission to appeal that decision) and subject to the Supreme Court process in relation to the motor commissions appeals.

Capital ratios - basis of preparation

The group's capital ratios are unaudited and include unverified profits for the five months to 31 December 2024, net of foreseeable charges. 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 13.5% and 17.3%, respectively as at 31 December 2024. The applicable minimum CET1 and Total capital ratio regulatory requirements, excluding any applicable PRA buffer, were 9.7% and 13.7% at 31 December 2024.

Sale of Close Brothers Asset Management ("CBAM")

On 19 September 2024, the group announced the agreed sale of CBAM to funds managed by Oaktree Capital Management, L.P. The transaction is expected to complete in the coming weeks. The upfront proceeds from the agreed sale would increase the group's CET1 capital ratio by approximately 100 basis points on a pro forma basis. This calculation is based on a net asset value of £121.8 million at 31 July 2024, a tangible net asset value of £66.1 million, and assumes an immediate reduction in credit risk weighted assets ("RWAs") associated with the CBAM business. It does not include any immediate reduction in operational risk RWAs and excludes any capital impact in respect of the contingent deferred consideration. This estimate is subject to change before completion. The business is expected to fulfil the requirements of IFRS 5 and be classified as 'discontinued operations' in the group's H1 2025 income statement. The estimated gain on disposal (which we anticipate will not be taxable) is expected to be recognised in the H2 2025 financial statements.

Further information

[FAQ - Hopcraft | Close Brothers Group]

Inside information

This announcement contains information which is deemed by the Company to constitute inside information within the meaning of the UK version of the European Union's Market Abuse Regulation ((EU) No. 596/2014). Upon the publication of this announcement via the Regulatory Information Service, the inside information is now considered to be in the public domain. The person responsible for arranging the release of this information on behalf of the Company is Sarah Peazer-Davies, Group General Counsel and Company Secretary.

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 approximately 4,000 people, principally in the United Kingdom and Ireland. Close Brothers Group plc is listed on the London Stock Exchange.

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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