# Close Brothers

## Press Release

**Scheduled Trading Update**

24 May 2023

Embargoed for release until 7.00 am on 24 May 2023.

Close Brothers Group plc ("the group" or "Close Brothers") today issues its scheduled trading update relating to the third quarter of its 2023 financial year. All statements in this release relate to the period from 1 February 2023 to 30 April 2023 ("the quarter") unless otherwise indicated.

### Adrian Sainsbury, Chief Executive Officer

*"We performed well in the third quarter, with loan book growth accelerating, a strong net interest margin and stable credit performance in Banking. The Asset Management division delivered increased net inflows, although trading activity remained subdued in Winterflood.*

*We are seeing good demand in our Banking business and the consistent application of our model, combined with our strong financial position, enables us to continue supporting our customers and clients. Following a difficult first half, we are well placed to make the most of opportunities in the current environment."*

### Divisional performance

In **Banking**, the loan book increased 2.0% in the quarter to £9.2 billion[1], corresponding to year-to-date growth of 1.3% (3.9% excluding Novitas and the Irish Motor Finance business). This was driven primarily by continued strong new business volumes in Commercial, as well as increased drawdowns and a slowdown in repayments in Property Finance. The Retail book declined primarily as the run-off of the Irish Motor Finance business more than offset a stable UK Motor loan book.

The annualised year-to-date net interest margin remained strong at 7.8% (7.6% excluding Novitas) (FY 2022: 7.8%, 7.5% excluding Novitas), reflecting both pricing discipline on new lending and actions taken to optimise the group's liability mix and funding costs in a rising rate environment.

While we continued to see pressure from the current inflationary environment, we remain focused on cost discipline and efficiency.

The annualised year-to-date bad debt ratio was 2.6% (H1 2023: 3.6%) reflecting the significant provisions taken against Novitas in the first half of the 2023 financial year. As announced previously, we believe these provisions adequately reflect the remaining risk of credit losses for the Novitas loan book.

Excluding Novitas, the annualised year-to-date bad debt ratio was 0.9% (H1 2023: 1.1%), reflecting a broadly stable credit and arrears performance in the quarter[2]. We continue to monitor closely the evolving impacts of rising inflation and cost of living on our customers and 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** delivered strong year-to-date annualised net inflows of 9% (H1 2023: 6%), notwithstanding market uncertainty, with a significant contribution from new hires. We continue to invest in our hiring strategy and have a strong pipeline of new business. Managed assets increased to £16.1 billion (31 January 2023: £15.7 billion) and total client assets increased to £17.0 billion (31 January 2023: £16.9 billion).

The cyclical trends reported in the first half have continued to impact **Winterflood's** performance, with retail investor appetite remaining subdued. Nevertheless, the team's experience and focus on managing risk resulted in no loss days in the quarter. Winterflood has a long track record of trading profitably in a range of market conditions and remains well positioned to take advantage when investor confidence recovers.

## Strong capital, funding and liquidity positions

We maintained our strong balance sheet and the prudent management of our financial resources. Our Common Equity Tier 1 ("CET1") ratio was 14.0% at 30 April 2023 (31 January 2023: 14.0%), significantly above the applicable minimum regulatory requirement[3]. Our conservative approach to funding is based on the principle of "borrow long, lend short", with the average maturity of funding allocated to the loan book exceeding the average loan book maturity by four months (up from two months at 31 January 2023). Our diverse funding base was stable at £11.9 billion and we grew customer deposits to £7.4 billion in the quarter, reflecting the strength of our Savings proposition. Retail deposits make up approximately half of our deposit base and are predominantly term or notice accounts, with the majority protected by the Financial Services Compensation Scheme[4]. We maintained our prudent liquidity position, with our liquidity coverage ratio substantially above regulatory requirements at 1,067% (12-month average to 30 April 2023). Our credit ratings remained strong, reflecting the group's financial resources and consistent risk appetite[5].

## Outlook

Although we remain mindful of the impact of rising inflation and interest rates on our customers and wider financial market conditions, our proven model and financial strength mean we are well placed to make the most of opportunities over the remainder of the financial year.

As outlined at the Half Year 2023 results, we are committed to resuming our track record of earnings growth and returns by focusing on disciplined growth, cost efficiency and capital optimisation.

## Footnotes

1 The loan book is presented including operating lease assets.

2 At 30 April 2023, there was a 32.5% weighting to the baseline scenario, 30.0% to the upside and 37.5% to the downside scenarios (unchanged from 31 July 2022). Moody's April unemployment forecast for Q4 2023 under the baseline scenario is 4.3%, 3.9% under the upside scenario and ranges between 4.7% and 6.6% in the downside scenarios. Moody's April inflation forecast for Q4 2023 under the baseline scenario is 4.5%, 4.2% for the upside scenario and ranges between 3.0% and -0.6% in the downside scenarios. Moody's April forecast for the Bank of England base rate for Q4 2023 is 4.5% in the baseline scenario, 4.7% in the upside scenario and ranges from 4.1% to 2.6% in the downside scenarios.

3 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 13.7%. The applicable minimum regulatory requirement, excluding any applicable PRA buffer, was 8.5% at 30 April 2023.

4 Retail deposits protected by the Financial Services Compensation Scheme ("FSCS") include third party platform and Self-Invested Personal Pensions ("SIPP") deposits. Approximately 80% of the group's retail deposits, as measured in April 2023 are insured by FSCS.

5 At 30 April 2023, Moody's Investor Services rated Close Brothers Group as "A2/P1" and Close Brothers Limited as "Aa3/P1", with a "stable" outlook for both and Fitch Ratings rated both Close Brothers Group and Close Brothers Limited as ''A-/F2'', with a "negative" outlook.

## 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 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.*