

Press Release

Scheduled Trading Update

22 July 2020

Embargoed for release until 7.00am on 22 July 2020.

Close Brothers Group plc (“the group” or “Close Brothers”) today issues its scheduled pre-close trading update ahead of its 2020 financial year end. Close Brothers will release its results for the full year ending 31 July 2020 on 22 September 2020.

All statements in this release relate to the 11 months to 30 June 2020 unless otherwise indicated.

Highlights

- The group delivered a resilient performance overall, reflecting our strong customer proposition and the diversity of our business
- In **Banking**, the loan book decreased 2.3% to £7.48 billion in the period (31 July 2019: £7.65 billion), reflecting lower new business volumes although we have seen increased client activity in June following the easing of lockdown restrictions
- While we remain focused on our pricing and underwriting discipline, income in the period continued to be impacted by a reduction in fee income driven by lower activity levels and forbearance, particularly in recent months, with an annualised net interest margin of 7.6% (2019: 7.9%)
- Credit provisions continue to reflect the ongoing uncertainty in the external environment and the forward-looking recognition of impairment charges under IFRS 9. We have recognised a further £43m of impairment since the third quarter, resulting in a year-to-date charge of £167 million as at 30 June 2020, and an annualised bad debt ratio of 2.3% (2019: 0.6%)
- The **Asset Management** division generated strong net inflows of 10% year-to-date as we continue to attract client assets and new hires despite the challenging market conditions
- **Winterflood** delivered a very strong performance, benefiting from significantly higher trading volumes since the Covid-19 outbreak. Performance in the second half of the financial year-to-date was materially ahead of the first half, resulting in average year-to-date daily bargains of 82k, 46% higher than last year (2019: 56k)
- The group maintains a strong capital, funding and liquidity position. Our Common Equity Tier 1 capital ratio of 14.2% (31 July 2019: 13.0%) provides 620bps headroom above the minimum requirement
- As announced on 22 June 2020, with effect from 21 September 2020, Adrian Sainsbury will take over as Chief Executive Officer. His appointment provides continuity in the group’s leadership team and business model

Preben Prebensen, Chief Executive Officer

“Despite these challenging and unprecedented times, the group has again proven resilient and we are confident that we will end the financial year in a strong financial and operational position. Our colleagues have continued to respond admirably, enabling us to help our customers and clients during this period.”

“While early indications of a return to activity following the easing of lock down restrictions are encouraging, it remains too early to know the full impact of Covid-19 on the UK economy. Nevertheless, our proven and prudent business model and long track record of navigating a wide range of economic cycles position us well to respond to the challenges and opportunities ahead and to continue supporting our colleagues, customers and clients over the long term.”

Business update

Our strong operational resilience has enabled us to continue to serve our customers and clients effectively throughout this challenging period. A number of our staff have now returned to work on-site or begun to meet customers in person where it is safe to do so, but the majority remain successfully working from home.

We have granted a broad range of forbearance and other measures, including payment holidays in our Commercial and Retail businesses and fee-free term extensions in our Property business, to support customers and clients who find themselves in difficulty. Our Commercial and Property businesses continue to account for the vast majority of our forbore loan balances.

While it is too early to tell the full impact of Covid-19 on customers' ability to recommence payments once their forbearance period comes to an end, we remain in close contact with them to discuss their position and tailor the most appropriate financing solutions.

Our accreditation to lend under the support schemes introduced by the UK government¹ allows us to maximise our support for small businesses. We have seen good demand for loans under the Coronavirus Business Interruption Loan Scheme ("CBILS"), with over 600 of these loans approved within our Invoice Finance and Asset Finance and Leasing businesses, and a strong pipeline of applications.

Strong capital, funding and liquidity

The group maintains a strong capital and liquidity position and is prudently funded.

The group's Common Equity Tier 1 capital ratio increased to 14.2% at 30 June 2020 (31 July 2019: 13.0%) and is 620bps above the current minimum regulatory requirement of 8.0%. The impact of higher impairment charges was largely offset by capital generation in the first half of the financial year, the capital add-back under transitional IFRS 9 arrangements², and a reduction in risk weighted assets from lower volumes of new loans.

As at 30 June 2020, the group's total funding was £10.1 billion (31 July 2019: £9.9 billion), with £5.8 billion (31 July 2019: £5.6 billion) of customer deposits. Our conservative approach to funding is based on the principle of "borrow long, lend short", with a spread of maturities over the medium and longer term, comfortably ahead of a shorter average loan book maturity. It is also diverse, drawing on a wide range of wholesale and deposit markets.

Our strong liquidity position remained comfortably ahead of both our internal risk appetite and regulatory requirements, with an average liquidity coverage ratio in the 11 months of 807%.

Dividend

As previously announced on 2 April 2020, the Board decided to cancel the payment of the 2020 interim dividend, recognising the significant challenges currently faced by businesses and individuals and consistent with our purpose of helping the people and businesses of Britain. The Board will consider the payment of a dividend in respect of the financial year to 31 July 2020 in September, taking into account the group's performance and prevailing conditions at the time.

Group and divisional performance

The group delivered a resilient performance overall, reflecting our strong customer proposition and the diversity of our business. While higher impairment charges have impacted the Banking division, Winterflood has benefited from higher trading volumes since the Covid-19 outbreak and the Asset Management division achieved strong net inflows.

In **Banking**, the loan book decreased 2.3% to £7.48 billion (31 July 2019: £7.65 billion), reflecting lower new business volumes, although we have seen early signs of an increase in client activity in June following the easing of lockdown restrictions, including the re-opening of motor dealerships and construction sites, as well as good demand for our CBILS offering particularly in the Asset Finance businesses.

While we remain focused on our pricing and underwriting discipline, income in the period continued to be impacted by a reduction in fee income driven by lower activity levels and forbearance, particularly in recent months, with an annualised net interest margin of 7.6% (2019: 7.9%).

We remain committed to investing in our key strategic programmes to protect, improve and extend our business model. Given the current environment, we will continue to review and prioritise investment spend while maintaining our focus on cost discipline.

Credit provisions continue to reflect the ongoing uncertainty in the external environment and the forward-looking recognition of impairment charges under IFRS 9. We have recognised a further £43m of impairment since the third quarter, reflecting the evolution of the allocation of the loan book between stages as well as the incorporation of updated macroeconomic scenarios³. This resulted in a year-to-date charge of £167 million as at 30 June 2020, and an annualised bad debt ratio of 2.3% (2019: 0.6%).

Our approach to provisioning continues to reflect the application of our expert judgement to determine the appropriate allocation of loan balances between stages, to incorporating macroeconomic weightings, and to provision coverage at the individual portfolio level.

We will continue to refine our assumptions as revised economic forecasts become available and visibility on the performance of the loan book evolves.

While the impact of Covid-19 has led to higher credit provisions year-to-date, we remain confident in the quality of our loan book, which is predominantly secured, prudently underwritten and diverse, and supported by the deep expertise of our people.

The **Asset Management** division continued to focus on maintaining excellent service for their clients in the current operational environment and remains committed to investing in new hires and technology to support the long-term growth potential of the business. The division generated strong net inflows of 10% year-to-date with managed assets of £12.5 billion (31 July 2019: £11.7 billion) at the end of the period benefiting from positive market movements since the third quarter. Total client assets increased to £13.7 billion at 30 June 2020 (31 July 2019: £13.3 billion).

Winterflood delivered a very strong performance, benefiting from significantly higher trading volumes since the Covid-19 outbreak. Performance in the second half of the financial year to date was materially ahead of the first half, resulting in average year-to-date daily bargains of 82k, 46% higher than last year (2019: 56k). 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

Despite these challenging and unprecedented times, the group has again proven resilient and we are confident that we will end the financial year in a solid financial and operational position .

While early indications of a return to activity following the easing of lockdown restrictions are encouraging, the effects of Covid-19 on the UK economy remain highly uncertain. Nevertheless, our proven business model and long track record of navigating a wide range of economic cycles 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 Close Brothers' participation in the UK Government support schemes: our Invoice Finance, Asset Finance, Brewery Rentals and Property businesses are accredited to lend under CBILS. Our Invoice Finance business is accredited to lend under the Coronavirus Large Business Interruption Loan Scheme ("CLBILS") for larger companies. Our Asset Finance business is accredited to lend under the Bounce Back Loan scheme for small business loans. We have not made use of the Coronavirus Job Retention Scheme as none of our employees have been furloughed.

2 The group applies IFRS9 regulatory transitional arrangements which allows banks to add back to their capital base a proportion of the impact of IFRS 9 adoption on their impairment provisions during the transitional period. Our capital ratio is presented under these arrangements and without their application, the CET1 capital ratio would be 13.2%. Further relief measures recently announced by the regulators in light of Covid-19 will be applied to the group's capital ratios on 1 August 2020.

3 Expected credit losses reflect the application of macroeconomic scenarios and weightings, updated in June 2020, to include more recent and conservative externally sourced scenarios. Weightings remain unchanged with 40% weighted to baseline scenario and 60% to downside scenarios as at 30 June 2020. GDP forecast for full year 2020 under the baseline scenario is -8.3% and ranges between -9.2% and -11.1% in the 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 3,000 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.