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# Press Release

**Scheduled Trading Update**

22 May 2020

Close Brothers Group plc ("the group" or "Close Brothers") today issues its trading update relating to the third quarter from 1 February 2020 to 30 April 2020 ("the quarter") and the impact of Covid-19 on its businesses and operations.

## Highlights

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| **Q3 2020 performance** | • Close Brothers' Q3 2020 performance reflects the forward-looking recognition of impairment charges under IFRS 9 as at 30 April to incorporate the impact of Covid-19, partially offset by a strong performance in Winterflood<br>• In **Banking**, the loan book reduced by 1.2% to £7.53 billion in the third quarter (31 January 2020: £7.62 billion) and the net interest margin decreased slightly to 7.7% year-to-date (H1 2020: 7.8%), reflecting the impact of Covid-19 on new business levels and lower fee income, particularly in April<br>• The bad debt charge was £86.7 million in the third quarter (H1 2020: £36.7 million), with a bad debt ratio of 2.1% year-to-date (H1 2020: 0.9%), reflecting the application of expert judgement to determine the appropriate staging of the loan portfolio, to the incorporation of updated macroeconomic scenario assumptions, and to the review of provision coverage at the individual portfolio level<br>• **Asset Management** continued to achieve good annualised net inflows of 10% year-to-date (H1 2020: 12%), while managed assets were impacted by negative market movements, reducing to £11.8 billion (31 January 2020: £12.7 billion)<br>• **Winterflood** experienced a substantial increase in trading volumes since the COVID-19 outbreak recording third quarter daily average volumes almost double those in the first half |
| **Strong financial and operational position** | • We have a resilient business model with diverse businesses, a strong net interest margin and a predominantly secured and prudently underwritten loan book<br>• The group maintains a strong capital, funding and liquidity position<br>• Our Common Equity Tier 1 capital ratio of 13.9% (31 January 2020: 13.4%) provides 580bps headroom above the minimum requirement<br>• Strong operational resilience has allowed us to successfully continue to operate effectively |
| **Outlook** | • We have a long track record of navigating a range of economic conditions, with a strong financial and operational position, and we remain committed to supporting our colleagues, customers and clients throughout this challenging period<br>• While the effects of Covid-19 on the UK economic outlook remain highly uncertain, we are confident that our prudent and disciplined business model, and the deep expertise of our people, leave us well prepared to respond to the challenges and opportunities ahead |

## Preben Prebensen, Chief Executive Officer

*"Our purpose is to help the people and businesses of Britain thrive over the long term, and I am pleased that in this challenging period our colleagues have continued to focus on helping our customers and clients and would like to thank them for their dedicated service.*

*Our prudent and resilient business model has served us well in challenging times over many years, and we have successfully adapted to the unique circumstances we face in this environment and have continued operating effectively. Our loan book is predominantly secured and conservatively underwritten, with a deep expertise and relationship driven approach present throughout our lending, trading and investment management businesses. We have a strong capital, funding and liquidity position and are well placed, both operationally and financially, to navigate this rapidly evolving environment.*

*While it remains too early to know the full impact that Covid-19 will have on the UK economy, we are confident that our tried and tested business model and the deep experience of our people leave us well prepared to respond to the challenges and opportunities ahead, protect our colleagues, and continue supporting our customers and clients."*

## COVID-19

While Covid-19 has had a significant impact upon consumers, businesses and the economy, our strong operational resilience has allowed the group to continue to operate effectively during this time.

The safety and wellbeing of our colleagues is of the utmost importance to us, and we have supported them through flexible working arrangements, seeking regular feedback and making adjustments so that they can conduct their roles safely. The vast majority of our staff have successfully been set up to work from home, and our robust systems and technology have enabled them to continue to perform their roles with minimal disruption and to serve our customers and clients effectively.

We have a long history of supporting individuals and SMEs across the UK, and have introduced a range of forbearance and other measures to support customers and clients who find themselves in difficulty. Our Commercial and Property businesses account for the vast majority of the value of our forborne loans, and we remain in close contact with customers who have been granted forbearance to discuss their position and tailor the most appropriate financing solution for them. To maximise our assistance for small businesses we are participating in the support schemes introduced by the UK government and are accredited to lend under the Coronavirus Business Interruption Loan Scheme[1].

## Strong capital, funding and liquidity

Close Brothers has entered this period of economic uncertainty with a strong capital and liquidity position and is prudently funded.

The group's Common Equity Tier 1 capital ratio increased by 50 bps to 13.9% in the third quarter (31 January 2020: 13.4%) and is 580bps above the current minimum regulatory requirement of 8.1%. The impact of higher impairment charges was largely offset by the capital add-back under transitional IFRS 9 arrangements with a reduction in risk weighted assets, due to lower volume of new loans, further contributing to an increase in the group's CET1 capital ratio. The leverage ratio remained very strong at 11.0% (31 January 2020: 11.3%).

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 prudent and diverse, drawing on a wide range of wholesale and deposit markets. As at 30 April 2020, the group's total funding was £10.0 billion (31 January 2020: £9.8 billion), with £5.7 billion (31 January 2020: £5.6 billion) of customer deposits.

We have further increased our liquid assets in the period. As at 30 April 2020, the group had £1.5 billion of treasury assets (31 January 2020: £1.3 billion), of which over £1.2 billion (31 January 2020: £0.9 billion) was held with central banks. Our strong liquidity position remained comfortably ahead of both our internal risk appetite and regulatory requirements, with an average liquidity coverage ratio in the first nine months of 754%.

## 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 full year 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.

At the time of the decision to cancel the 2020 interim dividend payment the group also decided to make a £1 million donation to NHS Charities Together, in support of the vital role NHS frontline and support staff have in combating Covid-19, and to match fund donations from employees to this charity. Additionally, the Executive Directors, together with a number of Non-Executive members of the Board and members of the Group Executive Committee, have made the personal decision to donate an element of their salary or fee to NHS Charities Together.

## Group and divisional performance

The group's financial performance in the third quarter reflects the impact of the forward-looking recognition of impairment charges under IFRS 9 as at 30 April 2020 to incorporate the impact of Covid-19, partially offset by a strong performance in Winterflood.

In the **Banking** division, we have focused on supporting our customers and continuing to lend under our consistent and prudent credit terms. The loan book reduced slightly in the quarter, decreasing 1.2% to £7.53 billion (31 January 2020: £7.62 billion) reflecting the impact of the pandemic on new business levels, particularly in April.

The Commercial loan book experienced a slight decline overall, reflecting modest new business levels in Asset Finance and progressively lower utilisation levels in Invoice Finance. In Retail, the UK lockdown has resulted in the temporary closure of motor dealerships with a reduction in new business for Motor Finance while dealers adapt to trading remotely. Premium Finance continues to see solid demand for insurance finance, particularly for commercial lines. Property has experienced fewer drawdowns on lending facilities during the current reduction in construction activity, but the pipeline for new developments remains robust.

We continue to focus on disciplined pricing, but lower activity levels and fee income in April due to the impact of Covid-19 resulted in a slight reduction in the net interest margin to 7.7% year-to-date (H1 2020: 7.8%).

While we continued to invest in our key strategic programmes to protect, improve and extend our business model, given the current conditions we are carefully reviewing the timing and prioritisation of investment spend and continue to focus on cost discipline.

The bad debt charge mainly related to the forward-looking recognition of impairment charges under IFRS 9 as at 30 April 2020 to incorporate the impact of Covid-19, resulting in an increased charge of £86.7 million in the quarter (H1 2020: £36.7 million), with a bad debt ratio of 2.1% year-to-date (H1 2020: 0.9%).

This increase predominantly reflects the application of expert judgement to determine the appropriate allocation of loan balances between stages 1 and 2, to the incorporation of updated macroeconomic scenario assumptions[2], and to the review of provision coverage at the individual portfolio level. Provisions for expected credit losses increased in all businesses, with the largest increase in Commercial.

The charge incurred in the period represents a forward-looking estimate of credit losses under IFRS 9, based on information available at 30 April 2020 and taking into account the expert judgement of our businesses. We will continue to refine our assumptions as revised economic forecasts become available and visibility on the performance of the loan book evolves.

While there is considerable uncertainty on how the current environment will impact credit losses across the market, we remain confident in the quality of our loan book, which is predominantly secured, prudently underwritten and diverse[3], and supported by the deep expertise of our people, many of whom have experience through previous downturns.

The **Asset Management** division delivered a resilient performance in the period and continued to achieve good new business levels with an annualised net inflow rate of 10% year-to-date (H1 2020: 12%). Managed assets were impacted by negative market movements, consistent with experience across the wealth management sector, reducing to £11.8 billion at 30 April 2020 (31 January 2020: £12.7 billion) and total client assets decreased to £13.0 billion (31 January 2020: £14.0 billion).

**Winterflood** has experienced a substantial increase in trading volumes since the Covid-19 outbreak, recording third quarter average daily volumes almost double those in the first half. The strong performance highlights the expertise and experience of our traders as they navigate extraordinary market movements. However, as a daily trading business, performance will continue to reflect the challenges and opportunities presented by the current market environment.

## Outlook

We have a long track record of navigating a range of economic conditions, with a strong financial and operational position, and we remain committed to supporting our colleagues, customers and clients throughout this challenging period.

While the effects of Covid-19 on the UK economic outlook remain highly uncertain, we are confident that our prudent and disciplined business model, and the deep expertise of our people, leave us well prepared to respond to the challenges and opportunities ahead.

## Footnotes

**1 Close Brothers' participation in the UK Government support schemes:** Our Invoice Finance, Asset Finance and Brewery Rentals businesses are accredited to lend under the Coronavirus Business Interruption Loan Scheme ("CBILS"). We have applied for accreditation for Invoice Finance to lend under the Coronavirus Large Business Interruption Loan Scheme ("CLBILS") for larger companies and are reviewing the opportunity for each of our other businesses. Our CBILS accredited businesses are eligible to utilise the government's Bounce Back Loan scheme for small business loans, and we have applied and await approval for accreditation to lend within this scheme. We have not made use of the Coronavirus Job Retention Scheme as none of our employees have been furloughed.

**2 Macro scenario and weightings:** Expected credit losses reflect the application of macroeconomic scenarios and weightings, updated in April to include substantially more conservative economic scenarios from Moody's and an increase in weightings toward downside scenarios (as at 30 April 2020 40% weighted to baseline scenario and 60% to downside scenarios; previously 5% upside, 40% baseline and 55% downside scenarios). Moody's GDP forecast for Q2 2020 under the baseline scenario is -4.2% and ranges between -9.3% and -14.4% 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. These weightings will be reviewed as updated macroeconomic forecasts become available.

**3 Sectoral concentration of the loan book as at 30 April 2020:** The group's largest single sector exposure is to Residential Property Development (c.20%) through its Property business. The Property business is focused on residential developments and our credit criteria are deliberately conservative to include no pre-planning and vacant land and a maximum Loan-to-Value of 60% for developments, with average loan size of £1.4 million. Transport (excluding the Motor Finance business), Manufacturing and Construction comprise c.10% each. Motor Finance (23%) and Premium Personal Lines (7%) comprise exposure to consumers. Sector exposure to Retail, Hospitality, Leisure, Air Transport, Oil and Gas, are minimal.

## 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.*