Close Brothers Group plc

Half Year Results 2025

Edited transcript*

Tuesday 18th March 2025

Mike Morgan, Group Chief Executive

Good morning, and welcome to the presentation of Close Brothers 2025 Half Year Results. It's an honour to present these results for the first time as the CEO, following my appointment in January.

I'll begin with an overview of the first six months of the financial year, then I'll provide an update on my priorities and recent developments in Motor Finance. After that, I will hand over to Fiona McCarthy, our Group CFO. She has been with us for almost six years and has done an excellent job overseeing the group's financial planning and analysis function before her recent appointment. She'll walk you through our financial performance, and then I'll return to update you on the businesses and wrap up on today's presentation.

We'll be happy to take questions afterwards, both via the telephone conference line and over the webcast. You can submit your questions either during or after the presentation.

Our performance in Half One reflects the strength and resilience of our business model. In Banking, we delivered robust underlying profit, continuing to support our customers while maintaining strong margins and resilient credit quality. We have made significant progress on our cost management initiatives, which are now expected to deliver £25 million of annualised savings by the end of this financial year, up from £20 million previously quoted.

We also successfully completed the strategic sale of CBAM, which is estimated to benefit our CET1 capital ratio by around 120 basis points. The capital actions we outlined previously have largely been implemented, generating or preserving approximately £360 million of CET1 capital over the last 12 months. This reflects our commitment to resilience, ensuring we can navigate the current environment with confidence.

At the same time, we are challenging ourselves and making the right strategic choices so that we are well placed to generate strong growth and sustainable returns.

We have taken decisive actions to navigate today's volatile environment, staying focused on protecting the strengths of our business model, strengths I firmly believe in and have served us and our customers so well over the years.

* This transcript has been edited to correct minor factual inaccuracies.

I want to take a moment to highlight the key attributes that underpin our model and the discipline behind them. Our approach puts customers at the centre of everything we do. This is reflected in the strong customer satisfaction scores across the bank. The consistency of our lending criteria gives us confidence in the quality of our loan book. We have a strong balance sheet, further strengthened by the actions we've taken. We manage our financial resources prudently, borrowing long and lending short. We have a diversified portfolio of banking businesses, well aligned with the UK government's growth agenda. Finally, our culture is our greatest asset. It combines our core values, service, expertise and relationships, with our ways of working, teamwork, integrity and prudence.

At our core, we are here to serve our customers, delivering excellent service, providing specialist expertise and building strong, lasting relationships. We help over 2.5 million customers, including around 360,000 SMEs, by offering additional borrowing capacity they need to acquire essential assets for their personal lives or small businesses. These attributes are the driving force behind everything we do, and that will not change.

That said, I recognise that the returns we generate today are not where they need to be, and this must change. That is why I am committed to challenging ourselves and our businesses to drive meaningful improvements. We must build on our foundations, but we must also be prepared to make strategic choices for the long-term success. My priorities are focusing on greater simplification, improving operational efficiency and driving sustainable growth to ensure we resume the delivery of higher levels of returns.

Looking at each of these priorities in turn. Firstly, on simplification. The sale of CBAM has simplified the group and allows us to sharpen our focus on our ongoing business. We are also actively evaluating our lending mix and portfolios to ensure we maximise returns. What I mean by that is that we need to ensure that we are operating in markets that offer strong, sustainable risk-adjusted returns and growth opportunities. As you know, Close Brothers operates across 25 business lines, and we are reviewing each and every one of these to ensure they are aligned with this sharpened focus.

Secondly, on operational efficiency. While we have made progress on cost savings, we must do more. Our efficiency metrics need to improve, and I am determined to drive a step change in operational efficiency and cost reduction across both Banking and central functions. Fiona will provide more details on this later but, in summary, this includes simplifying and modernising our technology platforms, leveraging of offshore capabilities and transforming the cost structure of centrally provided services.

Finally, on growth. A more efficient, focused group will allow us to reinvest in the areas with the greatest growth potential. And looking ahead, I see many opportunities across our markets, for example, expanding our property offering into other residential asset classes such as Build to Rent and student accommodation, growing our Motor Finance business in Ireland and capitalising on the increasing demand for energy deals, agricultural lending and materials handling in Commercial.

As I've said, we will remain committed to markets that offer attractive and sustainable risk-adjusted returns. Alongside a stronger capital position, these priorities will create a more efficient and resilient business, one that delivers greater value for shareholders and continues to support customers as we have through many cycles.

While this operational review is ongoing, I look forward to sharing further updates in the months to come. Our goal is clear: once the Motor Finance commissions uncertainty is resolved, this group will be well positioned to generate strong and sustainable returns.

In March 2024, we announced a number of management actions to strengthen the group's available CET1 capital by £400 million by the end of the 2025 financial year. These actions are now largely implemented and, as a result, approximately £360 million of CET1 capital has been generated or preserved.

The first step was the difficult decision to cancel the 2024 dividend, which preserved around £100 million of capital. We have since generated an additional £50 million of CET1 capital in the first half of this year. Given the continued significant uncertainty around motor commissions, the group will not pay an interim dividend in respect of the first half of this financial year. We have been lending more selectively and have mitigated risk-weighted asset growth by around £700 million, equivalent to around £90 million of CET1 capital preservation.

A key milestone in the delivery of our capital plan was the sale of CBAM to Oaktree, which completed successfully last month. The sale is expected to increase our CET1 capital by around £120 million in Half Two. As a result, our pro-forma CET1 capital ratio was 13.4% at the 31st of January, significantly above our minimum regulatory requirement of 9.7%.

In the near term, we expect to maintain our CET1 capital ratio around the top end of our medium-term target range of 12% to 13%. This level of capital allows us to balance growth with resilience. We will resume selective loan book growth subject to demand. At the same time, we continue to evaluate additional potential risk-weighted asset optimisation opportunities to maintain resilience and flexibility. These include a potential risk transfer of assets in Motor Finance and other portfolios, a continuous review of our businesses and portfolios and other tactical actions, as well as potential earnings retention.

Now moving on to an update on Motor Finance commissions. By way of recap, we are currently appealing the Court of Appeal's decision in the Hopcraft case to the Supreme Court. We disagree with the Court's findings and the appeal hearing is scheduled for early April. On the 11th of March, the FCA announced that it is not planning an announcement in May on the next steps of its ongoing review, as previously expected. Instead, it will confirm within six weeks of the Supreme Court's decision if it will be proposing a redress scheme and, if so, how it will take this forward.

As announced in February, in light of recent developments in relation to motor commissions, the group has reviewed its accounting assessment of these matters and as a result, we have recognised a £165 million provision in the first half. Fiona will provide an overview of the methodology behind this provision, which is our best estimate, based on available information and recent developments.

As mentioned earlier, our capital position has been further strengthened by the management actions taken, and we're well positioned to absorb the impact of this provision and navigate the current environment confidently. Clearly, there is significant uncertainty around the potential outcomes of both the Supreme Court appeals and the FCA's ongoing review. However, we are not letting this distract us. We are focused on advancing our strong core business and positioning the group to deliver strong and sustainable returns.

Thank you. I will now hand over to Fiona to cover our financial performance for Half One.

Fiona McCarthy, Group Chief Finance Officer

Thank you, Mike, and good morning, everyone. For those I haven't met yet, I'm Fiona McCarthy, and I was appointed Group Chief Finance Officer in January. I'll be taking you through the financials today.

We have delivered a robust performance in the first half with adjusted operating profit reducing 15% to £75 million and a return on tangible equity of 7.4%. We reported an operating loss before tax of £103 million, mainly driven by the £165 million provision in relation to motor commissions. Notwithstanding this provision, we've maintained strong capital, funding and liquidity positions, ending the period with a pro-forma CET1 capital ratio of 13.4%.

In Banking, we delivered £104 million of profit, reflecting our focus on cost efficiency and a robust underlying business. The loan book reduced 3% in the first half, driven by both seasonality and selective lending, as we optimised risk-weighted assets. The net interest margin was strong at 7.3% and credit quality remained resilient, with a bad debt ratio of 1%.

Winterflood continued to navigate unfavourable market conditions, although Winterflood Business Services grew assets under administration to £17.5 billion.

Mike has already provided an update in relation to Motor Finance commissions and the timeline of events. Now I'll cover the provision and the methodology we used for determining this.

Clearly, there is significant uncertainty as to the range of outcomes from both the Supreme Court appeals and the FCA's ongoing review of motor commissions. The provision is based on probability-weighted scenarios derived using various assumptions. These include the commission models, rates and time periods in scope of any regulatory redress scheme, as well as response and uphold rates. It includes estimates for certain potential operational and legal costs per case, as well as estimates for potential remediation for affected customers.

The provision is the outcome of a thorough assessment and represents the group's best estimate based on available information and recent developments. However, given the uncertainty, the ultimate cost to the group could be materially higher or lower than the amount we have provided.

Nevertheless, we are well placed to absorb the impact of the provision. It reduced our CET1 capital ratio by circa 150 basis points to 12.2% at 31st of January 2025. However, on a pro-forma basis, reflecting the sale of CBAM, the CET1 capital ratio was 13.4%, significantly above our applicable regulatory requirements.

Now looking at the temporary impacts of motor commissions on our cost base and where they are reported across the group. Two adjusting items sit within Banking. Firstly, the complaints handling and other operational and legal fees, which have impacted both the second half of last year and the current year and are expected to be around £22 million for FY25. Secondly, there is a £165 million provision we have taken in the first half. Winterflood is unaffected. Then in our group central functions, we have elevated expenses from professional and advisory fees, which were £5 million in the first half and are expected to be circa £10 million for the full year.

So, when looking at the main components of the group's total cost base, we have a number of heightened costs related to motor commissions, which are largely temporary and are expected to fall away once the uncertainty has cleared. Overall, we estimate the total impact on operating expenses for the 2025 financial year will be around £200 million, recognised across both the group central functions and as adjusting items in the Banking division.

Then for the remaining costs, or BAU costs, our cost management initiatives are expected to deliver circa £25 million of savings in Banking by the end of FY25, and I will cover these in more detail shortly. However, we recognise there is more to be done and so we have initiated

a review to drive a step change in our operational efficiency and cost reduction across both Banking and our central functions.

Turning now to the income statement, excluding the discontinued CBAM operations. We had £178 million of adjusting items in the first half, which I'll run through on the next slide. And so overall, we delivered an operating loss before tax of £103 million.

Covering the performance on an adjusted basis. Income reduced 1% with a marginal decline in Banking and lower group interest income more than offsetting higher income in Winterflood. Expenses rose 1% as lower costs in both Banking and Winterflood were more than offset by higher group expenses. Impairment charges increased 15% to £48 million, which corresponds to a bad debt ratio of 1%. And as a result, adjusted operating profit was down 15% to £75 million.

Banking reported robust profit of £104 million, as higher impairment charges and a slight reduction in income more than offset lower costs. Winterflood delivered an operating loss of £0.8 million as the business continued to navigate a challenging market environment. We also saw an increase in group net expenses to £28 million, mainly from the higher professional advisory fees associated with the impact of the FCA's ongoing review and the Supreme Court appeals. And we expect group net expenses to be between £55 million and £60 million overall in the year.

Now taking each of the adjusted items in turn. Firstly, we have the provision related to motor commissions of £165 million, which we've covered already.

Secondly, we incurred £8.4 million of costs on complaints handling and other operational and legal costs in relation to motor commissions, which has mainly been driven by increased resourcing to manage complaints and legal expenses. We've increased our full year guidance here from £10 million to £15 million up to circa £22 million, including the Supreme Court appeal costs.

Thirdly, we recognised £4 million of impairment of intangible assets relating to the carrying value of goodwill and software in the Vehicle Hire and Brewery Rentals businesses.

Fourthly, we incurred £0.4 million of restructuring costs, which mainly relate to redundancy and associated costs. And we now expect to incur £2 million to £3 million of restructuring costs in FY25, down from our previous estimate of £5 million to £10 million, as we continue to implement cost management actions to improve future efficiency.

And finally, there was £0.1 million of amortisation of intangibles on acquisition.

It's also worth highlighting that whilst the mix of adjusting items has changed, we are still expecting the overall position to remain broadly stable on our previous guidance, when excluding the motor provision.

Now highlighting the key metrics from across the Banking division, excluding Novitas. We saw a marginal decrease in income, mainly due to the impact of the temporary pause in UK Motor Finance lending on business volumes. The loan book declined 1% year-on-year, reflecting our selective lending and seasonality. And the net interest margin remained strong at 7.2%, although it was down 30 basis points, reflecting margin pressures on new business volumes due to higher funding costs for SMEs in the current rate environment. Expenses reduced 1%, reflecting our focus on cost efficiency and the bad debt ratio increased slightly to 1%, although our credit quality was resilient overall. Overall, adjusted operating profit reduced 9% to £102 million, with a statutory operating loss of £74 million for the first half.

Now looking at each of the businesses in turn. Firstly, Commercial. Excluding Novitas, income was down 3%, notwithstanding a stable loan book of £5 billion, as the NIM reduced to 6.3%. This reduction reflected lower utilisation in some of our businesses, reduced service fee income and continued pressure on new business margins in the higher interest rate environment. Expenses remained stable as we benefited from lower investment spend and the bad debt ratio increased marginally to 0.6%, driven by provisions against certain individual exposures. Adjusted operating profit reduced 16% to £43 million, with statutory operating profit at £41 million.

Moving on to Retail. Income was down 2%, reflecting a year-on-year decrease in the loan book of 5% and the temporary pause in UK motor lending. The NIM was stable at 8.7% as we maintained our pricing discipline. Expenses were down 2%, driven by lower investment spend and progress made on our cost management initiatives. The bad debt ratio increased marginally, reflecting the impacts of macroeconomic forecast updates. And adjusted operating profit reduced 12% to £17 million, with a statutory operating loss of £157 million, reflecting the motor provision.

Finally, in Property, income was up 6%, reflecting year-on-year loan book growth of 5% to £1.9 billion, although the NIM decreased to 7.1%, reflecting loan book mix. Expenses were down 1%, driven by lower staff costs and the bad debt ratio increased to 0.9%, largely reflecting single name provisions. Adjusted operating profit and statutory profit were both £42 million.

Moving to the loan book. We saw a decline of 3% in the first half on a reported basis and of 2% when excluding the businesses in run-off. The reduction in the loan book was driven by seasonality and selective lending, as we optimised risk-weighted assets and further strengthened our capital position. Notwithstanding this decline, customer demand remained robust, with approximately £3.5 billion of new business underwritten in the first half.

Excluding Novitas, the Commercial book reduced 2% to £5 billion. Asset Finance was down 1%, although we saw strong growth in our transport and material handling portfolios. And Invoice Finance reduced 2%, driven by the usual seasonal decline in the first half of the year, although utilisation levels were up on the prior year period.

Excluding the legacy Irish Motor Finance book, Retail declined 5% with reductions in both Motor and Premium. The Motor book was down 3%, largely due to the temporary pause in new lending following the Hopcraft judgment, as changes were implemented by the business to ensure compliance with the current legal requirements, along with measures taken to selectively lend. The Premium book declined 7%, reflecting the seasonal decline typically seen in the first half and the competitive market environment. And Property marginally reduced 1% with higher levels of repayment more than offsetting drawdowns.

Looking forward, we will resume selective loan book growth, subject to demand, and expect modest growth in the second half, with the loan book at 31st of July 25 expected to be broadly flat year-on-year.

Turning to our net interest margin, which remains strong overall at 7.3%. We have seen a reduction of 20 basis points on a reported basis, and on an underlying basis, which excludes the year-on-year increase in Novitas income and favourable movements in derivatives, the NIM reduced approximately 35 basis points. This was driven by margin pressures on new business as a result of increased funding costs for SMEs in the higher rate environment.

We expect the key drivers for the second half NIM performance to be competitive pressure on new business margins, the evolving mix of the loan book with growth in larger, lower-margin

loans that have attractive returns, and the lower day count in H2. As a result, we expect the net interest margin in this financial year to be around 7%, slightly below the exit rate at the end of the first half of 7.1%.

As Mike has highlighted, one of our key priorities is improving returns. Whilst we will continue to manage for overall risk-adjusted returns, we remain committed to maintaining a strong NIM. We don't expect NIM to materially change from the circa 7% level we are guiding to for this financial year.

Moving on to costs in the Banking division, where we've made good progress but recognise there is more to be done. We saw a 1% reduction as we generated approximately £6 million of savings from lower BAU staff costs and incurred lower investment spend compared to the elevated level in the prior year. This was partly offset by wage inflation and costs incurred on technology and expanding capabilities across the business, including in Motor Finance Ireland.

For the 2025 financial year, Banking adjusted operating expenses are expected to increase by approximately 1%. We expect to generate further savings from our cost initiatives and incur lower investment spend than the prior year. However, this will be offset by higher staff costs and inflation, as well as spend on technology and expanding capabilities across our business, including in Motor Finance Ireland.

Our cost management initiatives are progressing well, and we are now expecting these to generate an additional circa £5 million of annualised cost savings by the end of the 2025 financial year, of which circa £17 million should be recognised in the FY25 P&L. This increases the total annualised savings to approximately £25 million, with the full benefit in FY26.

Looking more closely at the cost initiatives in the Banking division. We initiated our technology transformation programme back in 2023, and the second phase is now ongoing. This is focused on simplifying and modernising our application estate and making increased use of outsourcing partners. As part of this, our migration to the Cloud is underway, as we look to lower costs and increase flexibility. We've reduced our technology headcount by around 30% since FY23, have removed 120 IT applications and decommissioned 26% of servers from our technology estate.

Within suppliers and property, initiatives are focused on rationalising our supply chain, reducing our suppliers and consumption of services and reducing our property footprint. We've exited two of our London offices, resulting in the removal of approximately 800 desks. Consolidation is also underway elsewhere across the UK, and we expect to reduce the Banking property footprint by around one-third by the end of this financial year. We've improved commercial outcomes with our strategic partners, rationalising our supplier base and are continuing to prudently use offshore services.

Then on the people side, we have continued to make good progress on streamlining our workforce through the consolidation of roles and management of vacancies.

And we are committed to executing further cost initiatives to deliver a step change in operational efficiency. Potential levers under review include further consolidation and rationalisation of centrally provided functions, as well as further selective outsourcing and offshoring. We're also considering additional technology simplification and rationalisation, alongside targeted investment in new technologies to augment our business model.

Turning now to our resilient credit performance. The bad debt ratio was 1% and remained comfortably below our long-term average, as we recognised £48 million of impairment

charges. This primarily reflected the ongoing review of provisions and coverage across our loan portfolios, including single name provisions in Property, as well as the impacts of macroeconomic forecast updates in Motor. In addition, this compared to a relatively low charge in the prior year period, which included specific model refinements.

We continue to closely monitor the evolving impacts of inflation and the cost of living on our customers, but have not seen a significant impact on credit performance at this stage. We remain confident in our loan book, which is predominantly secured or structurally protected, prudently underwritten and diverse. In FY25, we expect our bad debt ratio to remain below our long-term average of 1.2%.

And now on to Winterflood, where the challenging market environment continued to impact investor appetite. Income was up 1% to £35 million, with growth in Winterflood Business Services more than offsetting the decline in trading income. Costs were down 4% to £35 million, reflecting lower operational expenses following a cost review undertaken last financial year and the absence of dual running property costs incurred in the prior year. Overall, we reduced the operating loss by more than two-thirds to £0.8 million.

Moving on to our balance sheet, where we continue to follow our prudent approach to managing financial resources. We maintained a strong balance sheet, with total funding of £12.7 billion. We borrow long and we lend short. And we hold £2.4 billion of liquidity, with our liquidity coverage ratio at 953%. Our funding base is diverse across wholesale markets and a mix of retail and non-retail deposits.

In line with our strategy, we continued to actively grow our customer deposit base in the first half, with retail deposits up 12% to £6.4 billion. We continue to leverage the benefits from the previous investment in our deposit platform, which has provided scalability and enabled us to diversify our product offering. We launched Easy Access in 2023 and balances at 31st of January stood at over £800 million.

In line with our conservative approach, our deposits are predominantly term, with only 13% of deposits available on demand. Our average cost of funding was maintained at 5.5% as interest rates were broadly stable at a higher level. And our credit ratings continue to reflect our inherent financial strength and consistent risk appetite, notwithstanding the current uncertainty.

Finally, turning to our capital position. Our CET1 capital ratio was 12.2%, with the reduction in the first half largely driven by the provision taken in relation to motor commissions. It also reflects the decrease in RWAs, which has been driven primarily by the reduction in the loan book.

We maintained significant headroom of circa 250 bps above our applicable CET1 requirement of 9.7%. And on a pro-forma basis, our CET1 capital ratio stood at 13.4% following the sale of CBAM, providing approximately 370 basis points of headroom above our applicable requirement.

Our leverage ratio reduced to 11.7%.

On Basel 3.1, the implementation date has been postponed to 1st of January 2027. We continue to expect the rules to have a less significant impact on our capital headroom position than previously anticipated. Whilst implementation is expected to increase RWAs by up to 10%, the PRA is proposing to apply an SME lending adjustment as part of Pillar 2a, to ensure overall capital requirements for SME lending do not increase.

In the near term, we expect to maintain our CET1 capital ratio around the top end of our medium-term target range of 12% to 13% to balance growth and resilience.

So overall, I'm pleased with the robust performance delivered by our underlying business in the first half. Whilst naturally, I echo Mike's comments around recognising that returns are not where we need them to be. Our focus and commitment is on driving strong, sustainable risk-adjusted returns.

Thank you. And I'll now hand back over to Mike.

Mike Morgan

Thank you, Fiona. I'll now provide a brief update on each of our businesses and cover some highlights from the year.

In our Commercial businesses, we saw positive sentiment in the early part of Half One. However, overall, SME businesses have been impacted in the period by ongoing market uncertainty and tax changes to be introduced following the UK budget.

In Asset Finance, the marketplace has remained competitive, with borrower appetite varying across sectors. Higher borrowing costs also led to some softening in demand. For Invoice Finance, there have been some changes in the competitive landscape, and our strong service and offering has enabled us to win new clients. Despite the challenges in the market backdrop and the actions to lend selectively to preserve capital, average monthly new business volumes in Commercial have remained stable compared to the second half of 2024. We continue to write good levels of new business under the UK government's Growth Guarantee Scheme. Our Broker and Professional Solutions business is receiving positive broker feedback on its newly launched proposition.

Looking ahead, we see a number of growth opportunities for our Commercial businesses. Our specialist and relationship-driven business model is well aligned with the UK government's growth agenda, which places a significant emphasis on supporting SMEs. We will continue to play our part in supporting the doers and the makers of this country.

Turning to our Retail businesses now. In Motor Finance, while performance has been impacted by the temporary pause in lending, our focus on providing excellent service to our clients and partners has remained unchanged. The Motor team has done an outstanding job implementing the necessary changes to ensure compliance with the new requirements. Within a week of the Court of Appeal judgment, we had restarted a significant portion of the business, with all our lending channels live from January 2025. In Premium Finance, we operate in a mature market and may have some softening in demand in the competitive environment. Despite the challenging market backdrop, average monthly new business volumes in Retail have remained broadly stable.

We also see good growth opportunities across Retail going forward. In Motor, we've integrated a new technology, Decision in Principle, with one of our partners, opening up new routes to market. We're also focusing on further growing the Irish Motor Finance business. And in Premium, we continue to enhance our proposition to best meet the needs of our customers and support our broker partners.

And now on to Property, where the first half has presented challenges for SME developers, with interest rates remaining elevated, customer affordability under pressure and limited housing delivery. Despite this, we delivered a solid performance as supported by our relationship-led proposition and excellent customer service. We saw high repayment levels,

more than offsetting drawdowns, and our undrawn pipeline has reduced to around £720 million, reflecting current market conditions. However, there are encouraging signs, with positive government rhetoric on housebuilding and sustained strong structural demand for housing in the UK.

We are progressing a number of growth opportunities as we continue to support SME developers and expand our presence in regional markets. We're also bringing in expertise to expand our product range into other residential asset classes such as Build to Rent.

Performance at Winterflood has continued to reflect the continuation of challenging market conditions. Whilst macroeconomic and geopolitical uncertainties exist, Winterflood remains well positioned to benefit when investor appetite returns. Nevertheless, we remain focused on diversifying revenue streams and exploring growth opportunities.

Turning to Winterflood Business Services, which has continued to see good momentum. It remains focused on strengthening client relationships and investing in its award-winning technology to build scale and enhance its offering. Assets under administration increased to £17.5 billion and income grew 22% to £9.5 million. WBS has a robust pipeline of clients to support further growth, and we are on track to grow AuAs to over £20 billion by the 2026 financial year.

We also continue to make good progress with the Winterflood Retail Access Platform or "WRAP", which enables retail investors to participate in capital market transactions. Since inception, WRAP has raised over £100 million from retail investors and has been mandated on 34 transactions.

That brings me to the end of today's presentation. I've given you a clear sense of the group's strength and resilience. We have a strong Banking business that continues to see customer demand and deliver robust underlying profit. We've largely implemented the capital actions we committed to one year ago, generating or preserving £360 million of CET1 capital. This reflects our commitment to maintaining a strong capital base and navigating the current environment with confidence.

Looking ahead, we see many opportunities across our markets and are actively evaluating ways to drive growth within our Banking businesses. At the same time, we are focused on driving meaningful improvements to returns, challenging ourselves and our businesses to focus on simplification, improving operational efficiency and achieving sustainable growth.

As I mentioned earlier, our goal is very clear: once the uncertainty around Motor Finance commissions is resolved, the group will be well positioned to generate strong and sustainable returns. With an experienced leadership team and our relentless commitment to supporting our customers, I am confident in our ability to navigate the road ahead.

Thank you, and I'll now be happy to take questions.

Q&A session

Question 1

Benjamin Toms, RBC

Morning both, and thank you for taking my questions. Probably unsurprising, first one's on Motor Finance. We had the regulator come out last week and say that it's the firm's responsibility to determine whether customers have lost out. It feels to me like a new material data point, but your provision of £165 million remained unchanged. Can you just talk a little bit through whether last week's announcement is reflected in your weighted average scenario modelling? And also touch on how a bank like Close Brothers might go about determining a customer's loss if they've not kept records of that customer, in line with the regulator's recommendation?

And then secondly, on margin, your Half One rate was 7.3%. Your full year guidance is 7%. Very broadly, am I right in saying that implies a Half Two exit rate of 6.7%? If that's right, should we expect the margin to bottom out at that level before growing once the bank turns back on the lending machine, when there's more certainty around Motor Finance?

Mike Morgan

Okay. So look, I'll start off with the first point on the motor commissions matter. And Fiona, maybe you want to pick up on the net interest margin.

I think your point around the announcement last week was helpful from the FCA, and it did give some idea of how they are thinking about dealing with this once we get through the Supreme Court. The reality of the situation, though, Ben, is it very much does depend on the Supreme Court. There is considerable uncertainty at the moment and until we get clarity from that, it was not exactly clear how the FCA scheme would work in practice. And certainly, when we start talking about loss for customers, that has not been defined as yet. So, the reality of the situation is until we get greater clarity, we're not able to comment on that.

What I would say is that the £165 million provision was based on weighted probability assessment, as you will be aware. And that takes into account a number of scenarios and applies weights to them. I'm very comfortable based on the facts, the circumstances and all the available information that we have right now that that is the right number for us.

What we have also pointed out, though, is because of the uncertainty, it could potentially be higher, it could potentially be lower. But we will really need to wait and see where we land following the Supreme Court ruling, which, of course, is taking place in early April. So I think that's my answer in terms of the first one. Fiona, do you want to pick up the NIM one?

Fiona McCarthy

Absolutely. So Ben, yes, as you say, 7.3% reported for the first half and guiding 7% for the full year. We've talked about a number of the drivers for the compression in NIM. In terms of your point around H2 and H2 exit rate, unfortunately, there's a couple of slightly technical points impacting the calculation of the margin, which is simply speaking that the H1 NIM, there are more days in the first half of the year, 184 compared to 181 in the second half. That inflates

the H1 NIM and somewhat compresses the second half and the full year. There is also an impact with what we've seen in terms of our loan book shape. So, a relatively flat loan book for most of the first half, dipping off towards the end of the second half and then growth in the second half of the year. What that means in terms of the way that we look at and calculate our NIM on a relatively simple two-point average, that that also has an impact of inflating in H1 and somewhat deflating H2.

So that's probably a slightly long way of saying, my guidance to you would be in terms of exit rate for FY25, it's around 7%, potentially slightly lower, but not in line with the 6.7% that you indicated.

Mike Morgan

Maybe I can just build on that and give a sort of philosophical view around NIM, because a strong NIM is important to us. It always has been important to us, and it is a core component of our business model.

Clearly, as we've said throughout this presentation, we want to increase returns. NIM is one factor. Costs and bad debt are other factors as well. And we have 25 businesses across the Bank, all have different NIMs and different returns. So, as we see those progress and move forward, we will see movements in NIM. And what we're seeing at the moment is that some of the larger ticket businesses, and I think about Energy and Property there, they would tend to have lower NIMs but higher risk-adjusted returns. So good business, and we would want to continue doing that. But that may move the NIM on.

Fiona talked about some of the other reasons as well that we've seen movements in NIM. But fundamentally, there's no change in my mind. We want to maintain a strong NIM. But in a sense, it will be the strategic choices that we make that will see that move.

<u>Question 2</u>

Sanjena Dadawala, UBS

Good morning, thank you for taking my questions. Two, please. The first is kind of build on what you were just talking about on the focus on risk-adjusted returns rather than just net interest margin. So, and you mentioned one of the portfolios, but more broadly, what does it mean in terms of lending prices? Which areas can deliver risk-adjusted returns and return on equity as high as Retail lending, because presumably Retail lending is down and may not grow as much, I don't know. And then with that focus, should we expect some offset to the NIM being lower than previously expected from a lower bad debt ratio? Market expectations currently are already 0.9% to 1% below the long-term average.

And then my second question is on costs. It is encouraging to see a higher cost savings target. I'm trying to understand that in the context of lower expected restructuring spend, £2- 3 million in 25 on top of £3 million in 24. So, like low proportion of cost to achieve. So is some of the cost savings related to letting go of businesses at the conclusion of the operational review?

Mike Morgan

Okay. I'll take the point on risk-adjusted returns and maybe you can pick up the other two. I mean, as we've said, we have three main objectives. First of all, we want to simplify the business. We want to optimise the business, and we want to grow the business. The risk-adjusted returns is clearly at the heart of sharpening our focus on the business, making sure that we get the returns that we want. We want to operate in markets that offer strong and sustainable returns.

The point I was really drawing on is that as we've grown as an organisation, we are doing larger deals now, which would typically have a lower NIM than we might have seen historically. However, we would expect better credit quality and better risk-adjusted returns, and that will be something we assess as we go through our 25 business lines. So, I think that would be the main point I would pull out on the returns.

In terms of the bad debt and the costs, Fiona?

Fiona McCarthy

Yes. So thanks, Sanjena. So as Mike said, in terms of our go-forward bad debt ratio, that will be partly informed by the review that we're undertaking across the 25 businesses and the choices that we make there. We are very confident in our credit performance and the resilience of our book. We're not providing any guidance for the full year other than that we expect to be below our long-term average of 1.2%, but we're comfortable with our performance and the 1% ratio in the first half.

Shall we move on to the next one – cost savings? So Sanjena, we've guided, as you said, to restructuring costs for FY25 of £2 million to £3 million. That guidance was previously £5 million to £10 million. A couple of reasons there. One is that actually we've been able to execute our cost saving initiatives more efficiently and effectively than we potentially guided within the £5 million to £10 million. So that's one reason for the cost being lower. And the second reason is that we have paused a couple of potential cost saving initiatives, partly in the Retail businesses, as you can imagine, with all of the activity going on around motor commissions. Those options remain available to us, we're just not executing those within FY25 and therefore, not within our restructuring guidance.

Mike Morgan

As I've said, as part of the optimise piece, we want to run a more efficient and effective organisation and serve customers in a way that allows us to win and compete in the markets that we're in. And that's why I've announced that we'll be doing a review of and a step change in our approach to efficiency. So this work will continue over the next few months and what I would hope to do is share a little bit more with you at our full year-end of the work packages we are doing and the investment that we will be making in order to achieve that.

<u>Question 3</u>

Corinne Cunningham, Autonomous

We've got two questions from the webcast that have come through from Corinne Cunningham at Autonomous.

The first question is, can you please provide guidance as to the factors that will reduce capital from the current level to the circa 13% guidance?

The second question is, can you please quantify the scale of capital actions from here, i.e., compared to the £400 million optionality that was announced last year, what does that figure look like today?

Mike Morgan

Okay. I'll pick those up and feel free to build on them. I mean we've, I think if we go back to square one, we said this time last year, we would deliver £400 million of savings. And if you recall, where those were split into the four buckets, and we've talked through those in part as part of the presentation here. That gets us to 13.4%, and that is after taking the £165 million provision. And I think as we said, with a regulatory requirement of 9.7%, that gives us plenty of headroom there. So, what we want to do is selectively grow the loan book, and that is subject to demand, so as that comes through, we will look to use a little bit of capital there.

Now the guidance we've given is that we'll be at the top of the 12% to 13% range. So, we may well be slightly north of 13%. But it will really be, the main factor there will be if we start to lend a little bit more. I think you'll recall that in last year, we highlighted the fact that we'd actually withheld lending of £570 million. And I talked again today about how, in total, that's around £700 million of risk weighted asset lending that we have not undertaken, but was on our price and on our terms. So very disappointing, and we want to be able to restart that again. So that will be a factor that will affect the capital ratio, but it will be at the top end as far as I can sort of take a view on.

In terms of the actions. If you look through what we have done, there was the dividend point that we talked about, the selective lending that we've withheld the capital, sorry, the Close Brothers Asset Management sale, which was another 120 basis points and a further 50 basis points of retained profit in the first half of this year. We have previously talked about a significant risk transfer of our Motor portfolio. That is still there. I mean, clearly, we are not going to do that unless we require that capital, but it still sits on the stocks and is ready to go.

We can also look at other opportunities, whether those be sort of government schemes that are available for us. We can look at transactions around portfolios. There is ongoing work around those in the background, but we will unlikely to initiate those until we are actually required. But it all comes back to where we land following the Supreme Court appeal and where that judgment lands and what that means.

<u>Question 4</u>

Private investor

We've got another question from the webcast, which is from a private investor who has asked, what is the worst-case outcome scenario that you have modelled for Motor Finance claims? And what is the worst-case impact on CET ratios?

Mike Morgan

Okay. Well, we've done a probability-weighted scenario, and this is where we look at a whole host of scenarios from worst case through to the most optimistic cases, and we apply probability weights to those based on our knowledge and understanding, the facts and circumstances as they exist. And we have arrived at a provision of £165 million.

We believe that is the most appropriate provision right now. Clearly, as we said, it could be materially higher, it could be materially lower, but that's not information that we would disclose.

Question 5

Benjamin Toms, RBC

I hope you don't mind having another couple since you've got time. But first one is, just we've had the sale of CBAM now. Maybe you could just provide us with an updated colour on Winterflood and strategically how this now sits in the new group? Is it a keeper?

And then secondly, just in respect to Novitas, can you provide us an update on where you are up to in settling with the respective insurers? Are we any closer to an answer here in respect to that?

Mike Morgan

Okay. Well, let me pick up the CBAM question and the implications for Winterflood. I mean Winterflood is a fantastic business that over the years has paid many dividends through to the group. It's got an excellent leadership team and an excellent reputation right across the City. We've not put capital in, and it's always given us good returns.

But that said, Ben, as you point out, the environment is challenging for Winterflood, particularly around the AIM and the Small Cap market. And you'll have seen there's been an awful lot of, sort of, media articles around the AIM market, around Smaller Cap. And it's clearly an area that the UK government is focusing on with Edinburgh Reforms, pension reforms and various other things like that. I also think lower interest rates would help.

On the other side, despite the trading side having challenges, the Winterflood Business Services is performing particularly well at the moment. I mean we now have £17.5 billion of assets under administration, and we're on track to deliver the £20 billion that we have said we'll do in the past. So the reality is it's a good business when the ingredients are right, it will perform well. But I'm not going to be drawn on where we sit with it. It's a great business.

Do you want to pick up on the Novitas position?

Fiona McCarthy

Absolutely. Yes. So, I guess the first thing to say there, Ben, is that we're very comfortable with where we are on provisioning and the level of provision that we have in the Novitas space. As you know, we're pursuing legal action against one insurer. And in September 24, we issued legal proceedings against the second insurer. We are focused on maximising recovery and the various avenues that we will follow to achieve that, but not really anything further to share above that at this stage.

Mike Morgan

Okay. Well, thank you. I think we're now out of time. So many thanks for coming on the webcast this morning. Thank you for your questions and I look forward to updating you again as we go forward. Thank you.