

Chief Executive's Statement

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Adrian Sainsbury
Chief Executive

“Our top priority has been to further strengthen our capital position and protect our valuable franchise, whilst continuing to support our nearly three million customers, including c.350,000 SME businesses, by offering them borrowing capacity to acquire essential assets.”

This year's performance demonstrates the group's resilience. In Banking, we grew our loan book with strong margins and stable underlying credit quality, while progressing our cost actions to improve future efficiency. Close Brothers Asset Management delivered strong net inflows, although Winterflood's performance remained impacted by unfavourable market conditions.

The FCA's review of historical motor finance commission arrangements announced in January introduced significant uncertainty for the group. Against this backdrop, our top priority has been to further strengthen our capital position and protect our valuable franchise, whilst continuing to support our nearly three million customers, including c.350,000 SME businesses, by offering them borrowing capacity to acquire essential assets.

Notwithstanding this uncertainty, we have made significant progress in enhancing our business and customer offering over the year. We have written healthy levels of new business as demand from customers has remained strong; we acquired Close Brothers Motor Finance in Ireland and are re-establishing our presence in this strategic market; and we have made key strategic hires across our business franchise, as we further develop our capabilities. We have also taken this opportunity to review many of our processes and implement ways we can operate more efficiently in the future. This continued focus on protecting and sustaining our franchise means we are well positioned to take advantage of future opportunities.

Financial Performance

Statutory operating profit before tax increased 27% to £142.0 million (2023: £112.0 million). This was primarily driven by the non-recurrence of the significant impairment charges related to Novitas in the prior year. On an adjusted basis, excluding the impact from certain items which do not reflect the underlying performance of our business, the group's operating profit increased 50% to £170.6 million, as the significant decrease in impairment charges and 1% growth in income more than offset a 10% growth in adjusted operating expenses.

In Banking, adjusted operating profit increased materially to £205.4 million, driven by loan book growth of 6%, a strong net interest margin of 7.4%, and a stable credit performance when excluding the non-recurrence of prior year impairment charges related to Novitas. Banking costs increased by 8%, at the lower end of the 8-10% cost growth guidance range outlined previously, driven mainly by inflationary-related increases in staff costs, higher regulatory compliance and assurance expenses and continued investment, partly offset by the progress we have made on our tactical and strategic cost management initiatives.

We have made good progress on the delivery of the cost management initiatives previously announced, such as through our technology transformation programme, vacating our Wimbledon Bridge House office and through the review of our workforce. We recognise that there is more we can achieve in enhancing our future cost efficiency. Our focus remains on delivering annualised cost savings of c.£20 million, with the full benefit expected in the 2026 financial year.

CBAM delivered strong net inflows of 8%, although profit reduced, as income growth was more than offset by costs primarily related to wage inflation and new hires to support future growth.

Winterflood's performance remained impacted by lower trading income resulting from continued weakness in investor appetite and market uncertainty, with an operating loss of £1.7 million after incurring one-off dual-running property costs of c.£3 million. WBS continued to see good momentum, with income rising 17% to £17.3 million and a 21% increase in AuA to £15.6 billion.

Our capital position was strong, with our CET1 capital ratio at 12.8% (31 July 2023: 13.3%), significantly above our applicable requirement of 9.7%. Total funding increased 5% to £13.0 billion (31 July 2023: £12.4 billion), with 36% growth in our retail deposit base, demonstrating the strength of our Savings proposition. We maintained our prudent liquidity position, with our Liquidity Coverage Ratio over 1,000%, substantially exceeding regulatory requirements.

Continued Uncertainty Arising from the FCA's Review of the Motor Finance Industry

With respect to the FCA's review of discretionary commission arrangements in the motor finance market prior to the 2021 ban on these models, on 30 July 2024, the FCA announced that it now aims to set out next steps by the end of May 2025, rather than by September 2024 as previously expected. There remains significant uncertainty for the industry and the group regarding any potential remedial action as a result of the review. Close Brothers Motor Finance ("CBMF") has operated in the motor finance market for over three decades, during which we have sought to comply with the relevant regulatory requirements. There are a range of possible outcomes and we remain focused on further strengthening the group's capital position, with the priority of protecting and sustaining our valuable franchise.

We have a strong long-term dividend track record and the decision taken in February 2024 not to pay a dividend for the 2024 financial year was not made lightly. The reinstatement of dividends in 2025 and beyond will be reviewed once the FCA has concluded its process and any financial consequences for the group have been assessed.

As previously announced, we are implementing management actions which, combined with the decision not to pay a dividend in the 2024 financial year, have the potential to strengthen the group's available CET1 capital by approximately £400 million by the end of the 2025 financial year.

We have made significant progress against these management actions. Whilst the demand from customers has remained strong, we have been selectively growing our loan book to optimise risk weighted assets, alongside working diligently to find alternatives for writing further business with a lower capital consumption. Whilst we have written c.£8 billion of new business in the 2024 financial year, we estimate that at least c.£570 million in additional loans meeting our credit and pricing requirements could have been underwritten in the current environment.

Approximately £220 million of these loans would have been drawn in the year. While this is disappointing, we are confident that we will be well positioned to capture this demand and accelerate the growth of our loan book as soon as feasible. Additionally, we have concluded our work in preparation for a significant risk transfer of assets through motor finance securitisation and are ready to launch a transaction at the optimal time.

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We have continued to deliver against the additional cost management initiatives previously announced. These initiatives aim to generate annualised savings of c.£20 million, reaching the full run rate by the end of the 2025 financial year. We are progressing a range of other potential management actions, as previously outlined, which include potential significant risk transfer of other portfolios through securitisation and a continued review of our business portfolios and other tactical actions.

Following a comprehensive strategic review, we are pleased to announce the agreed sale of CBAM to Oaktree. The transaction is expected to increase the group's common equity tier 1 capital ratio by approximately 100 basis points on a pro forma basis, marking significant progress towards the capital plan we outlined in March 2024. Additionally, the agreed sale represents competitive value for our shareholders and allows us to simplify the group, focusing on our core lending business. CBAM has delivered impressive growth over the past years and has developed into a strong franchise. Under the new ownership, it will benefit from additional resources to accelerate its growth trajectory. I would like to thank our CBAM colleagues for their dedication, professionalism and exceptional service to our clients.

Outlook

We remain committed to executing our strategy and protecting our valuable franchise. We are making significant progress against the initiatives previously outlined to further strengthen our capital position.

The strengths of our model, being our long-term relationships, the deep expertise of our people and our customer-centric approach, leave us well placed to navigate the current uncertainty. We continue to be encouraged by the strength of demand in our Banking business and see good growth prospects for our core business.

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