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This announcement contains inside information

Press Release

Scheduled Trading Update and Update on Novitas Loans

20 January 2023

Embargoed for release until 7.00 am on 20 January 2023.

Close Brothers Group plc ("the group" or "Close Brothers") today issues its scheduled pre-close trading update ahead of its 2023 half year end, as well as an update in respect of Novitas Loans ("Novitas"). Close Brothers will release its half year results for the six months ending 31 January 2023 on 14 March 2023.

All statements in this release relate to the five months to 31 December 2022 ("the period") unless otherwise stated.

Adrian Sainsbury, Chief Executive Officer

"We have delivered a resilient performance so far this financial year, despite the uncertain market backdrop. We saw good demand and strong margins in Banking and delivered healthy net inflows in CBAM, though trading activity remained subdued at Winterflood.

While our underlying credit performance remains strong, as we accelerate our efforts to resolve the issues surrounding the Novitas loan book, we will be increasing further provisions in the H1 2023 financial statements to a level that will adequately cover the remaining risk of credit losses for the current Novitas loan book. The financial strength of the group leaves us well placed to absorb the anticipated additional provisions and to continue to deliver on our long-term track record of disciplined growth and returns to shareholders".

Performance in the five months to 31 December 2022

We have maintained our strong capital, funding and liquidity position, in line with our prudent and conservative approach. Our Common Equity Tier 1 ("CET1") ratio was 14.4% at 31 December 2022 (31 July 2022: 14.6%), significantly above the applicable minimum regulatory requirement of 8.5%[1] and also above the group's CET1 capital ratio target range of 12-13%.

In **Banking**, the loan book increased 1.5% in the period to £9.23 billion (31 July 2022: £9.10 billion)[2] as we have seen a pick-up in overall demand since the Q1 2023 trading update. This was primarily driven by continued demand in the Commercial businesses, as well as an increase in the Premium and Property Finance books, partly offset by a moderation in business volumes in Motor Finance compared to the prior financial year.

The annualised year-to-date net interest margin remained strong, as we continued to focus on our pricing discipline in the higher interest rate environment.

Our focus on rigorous management of costs remains unchanged, whilst we continue to be mindful of inflationary pressures.

Excluding Novitas, the annualised year-to-date bad debt ratio increased to 1.1% (FY 2022: 0.5%, Q1 2023: 1.0%), primarily reflecting the recognition of further provisions to take into account worsening macroeconomic variables and outlook[3]. Including Novitas, the annualised year-to-date bad debt ratio increased to 1.7% (FY 2022: 1.2%, Q1 2023: 1.2%), reflecting an additional £24.8 million provision. The group anticipates the recognition of further provisions against this loan book will be required in the H1 2023 financial statements, as set out in the separate update on Novitas below.

Close Brothers Asset Management ("CBAM") has continued to attract client assets and delivered year-to-date annualised net inflows of 6% (FY 2022: 5%), despite the impact of challenging market conditions on investor sentiment. In the period, managed assets decreased to £15.2 billion (31 July 2022: £15.3 billion) and total client assets decreased to £16.3 billion (31 July 2022: £16.6 billion), reflecting negative market movements.

As highlighted at the Q1 2023 trading update, **Winterflood's** performance has been adversely impacted by the continued market-wide slowdown in trading activity in higher margin sectors. As a result, operating profit in the period was £1.7 million. Notwithstanding the challenging trading conditions in the period, the team's experience and focus on managing risk resulted in only one loss day.

Update on Novitas Loans

We acquired Novitas Loans, a provider of finance for the legal sector, in 2017. As previously announced, following a strategic review, in July 2021 the group decided to cease permanently the approval of lending to new customers across all of the products offered by Novitas and withdraw from the legal services financing market.

Since that time, the Novitas loan book has been in run-off, and the business has continued to work with solicitors and insurers, with a focus on supporting existing customers and managing the existing book to ensure good customer outcomes, where it is within Novitas' ability to do so. The group has been reviewing its assumptions for the case failure and recovery rates in this business to reflect experienced credit performance and ongoing dialogue with customers' insurers.

The group has initiated formal legal action against one of the After the Event ("ATE") insurers regarding the potential recoverability of funds in relation to failed cases and is considering its position in respect of other insurers. As a result, an increased provision to reflect the expectation of a longer time frame to recovery for related loans was included in the £24.8 million of provisions taken in the first five months of the 2023 financial year.

In addition, Novitas is reviewing its options with respect to certain cases being funded which now have limited prospects of successfully progressing through the courts. Subject to the outcome of this review, the group anticipates that it will recognise an additional provision in the H1 2023 financial statements against the Novitas loan book of up to £90 million[4]. The higher end of this range assumes a material increase in the Probability of Default ("PD") and Loss Given Default ("LGD") assumptions and that no further interest is receivable on the relevant loans. We expect net income related to Novitas will reduce from c.£36 million in FY 2022 to c.£8 million by FY 2024. This will be partially mitigated by lower impairment charges in future years. These assumptions will be reviewed as part of the group's half year results process.

The impact of the anticipated increased provision would be equivalent to a reduction of up to c.80bps in the CET1 capital ratio on a pro-forma basis at 31 December 2022. The financial strength of the group leaves us well placed to absorb this and to continue to deliver on our long-term track record of disciplined growth and returns to shareholders. Despite the additional anticipated charge in relation to Novitas, we remain committed to paying a progressive and sustainable dividend, in line with the group's dividend policy.

While we will continue to review provisioning levels in light of future developments, including the experienced credit performance of the book and the outcome of the group's initiated legal action, we believe the anticipated additional provisions to be recognised in H1 2023 will adequately cover the remaining risk of credit losses for the current Novitas loan book. The group remains focused on maximising the recovery of remaining loan balances, either through successful outcome of cases or recourse to the customers' ATE insurers, whilst complying with its regulatory obligations and always focusing on ensuring good customer outcomes.

The group will provide a detailed update at its half year results on 14 March 2023.

Outlook

We are confident that our proven and resilient model leaves us well positioned to navigate the economic uncertainty, as we continue supporting our customers and clients and delivering on our long track record of profitability and disciplined growth.

Footnotes

1 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 13.9% (31 July 2022: 13.8%). The applicable minimum regulatory requirement, excluding any applicable PRA buffer, was 8.5% at 31 December 2022.

2 The loan book is presented including operating lease assets.

3 At 31 December 2022, 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 December unemployment forecast for 2023 under the baseline scenario is 4.2%, 3.8% under the upside scenario and ranges between 4.6% and 6.0% in the downside scenarios. Moody's December inflation forecast for 2023 under the baseline scenario is 7.3%, 6.9% for the upside scenario and ranges between 5.8% and 2.9% in the downside scenarios. Moody's December forecast for the Bank of England base rate for 2023 is 4.4% in the baseline scenario, 4.3% under the upside scenario and ranges from 4.8% to 5.4% in the downside scenarios.

4 At 31 July 2022, Novitas had a net loan book of £159.4 million, net of an aggregate impairment provision of £113.3 million, representing coverage of 42% across the book as a whole. Year-to-date, £24.8 million of impairment provision charges were recognised in relation to the Novitas loan book. Assuming the anticipated additional impairment provision of up to c.£90 million is recognised in the group's H1 2023 financial statements, this would result in an aggregate impairment provision, net of write offs, of up to £183 million. On a pro-forma basis at 31 December 2022, this would represent a coverage of up to c.75% with a net loan book of c.£60 million.

Inside Information

This announcement contains inside information for the purposes of Article 7 of the Market Abuse Regulation (EU) 596/2014 as it forms part of UK domestic law by virtue of the European Union (Withdrawal) Act 2018. For the purposes of Article 2 of the UK version of the Commission Implementing Regulation (EU) 2016/1055, this announcement is made by Penny Thomas, Company Secretary for Close Brothers Group plc.

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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.