Close Brothers divests asset management division to Oaktree in strategic £200m deal

Close Brothers has agreed to sell its wealth management division for up to £200m in a bid to bolster its capital position amid costs arising from a City watchdog review into unfair car loans. The FTSE 250 merchant bank announced that the sale of Close Brothers Asset Management (CBAM) to funds managed by Oaktree Capital Management is expected to be finalised in early 2025, subject to regulatory approvals, as reported by City AM.

The bank plans to retain all upfront cash proceeds from the transaction, totalling around £172m, to "strengthen the group's capital base and improve its position to navigate the current uncertain environment", according to a statement. Mike Biggs, the bank's chair, said the deal "represents competitive value for our shareholders, allowing us to simplify the group and focus on our core lending business".

The bank also noted that this move marks "significant progress" towards plans unveiled in March to boost its finances by around £400m in response to a Financial Conduct Authority (FCA) review into whether customers were overcharged via now-banned discretionary commission arrangements on car loans. Close Brothers' shares have fallen by about a third since the FCA announced the probe in January.

Analysts suggest the review could leave the auto lending industry liable for up to £16bn in compensation fees, with Close Brothers considered the most exposed bank in relative terms.

Close Brothers has cancelled its 2024 dividend and put its 2025 dividend under review due to potential fallout, as announced in February. The bank stated on Thursday that the decision not to pay a dividend for 2024 allowed it to retain approximately £100m of common equity tier 1 capital.

The financial results for Close Brothers’ 2024 fiscal year, released on Thursday, revealed a statutory pre-tax operating profit of £142m for the year ending 31 July 2024. This is an increase of 27 per cent from 2023 when the bank allocated £114.6m for bad loans linked to its now-defunct legal funding specialist Novitas.

Excluding the provisions for Novitas, the bank’s profit was £218.6m last year. However, when Novitas is excluded, Close Brothers’ 2024 operating profit fell by 22 per cent to £170.8m on an adjusted basis.

The lender, which has been in operation for 146 years, highlighted £28.6m of adjusting items. These include expenses related to handling complaints and other operational costs associated with the FCA’s motor finance review, as well as a separate industry-wide investigation into borrowers facing financial difficulties.

Close Brothers estimated its operational costs for the motor finance probe to be between £10m and £15m in the 2025 fiscal year.

Furthermore, the bank expects group net expenses to range between £55m and £60m in 2025. This is primarily due to “elevated” professional fees and other costs related to the potential impact of the review and a decrease in income as interest rates fall.

RBC has projected that Close Brothers could face a bill of up to £350m, nearly half of its current market capitalisation. Lloyds, the owner of the UK’s largest auto lender, Black Horse, set aside a £450m provision for the review in February.

The FCA is scheduled to announce its next steps on the motor finance review in May 2025. RBC anticipates that Close Brothers will make a total provision of £250m between 2025 and 2026.

This news follows Close Brothers' announcement on Monday that CEO Adrian Sainsbury has taken a "temporary medical leave of absence" from the company. Group finance director Mike Morgan has taken over Sainsbury's primary responsibilities.

Close Brothers' shares saw an increase of as much as 5.2 per cent in early trading on Thursday.

"In our view, Close Brothers' shares remain beaten up and, therefore, whether you are looking at historical or sector-relative valuations, they screen as cheap," stated Benjamin Toms, an analyst at RBC Capital Markets, in a note.

"The bad news around the FCA's review of motor finance is now well embedded into consensus and net interest margin and loan growth assumptions are sensible."