# Close Brothers reports £103.8 million pre-tax loss due to motor finance scandal



Close Brothers has reported a significant financial downturn, announcing a pre-tax loss of £103.8 million for the six months ending January 31, starkly contrasting with a profit of £87 million recorded during the same period the previous year. The firm attributes this loss primarily to a provision of £165 million set aside to address potential legal and compensation costs arising from a scandal related to motor finance commissions. The lender also disclosed an additional £8.4 million in costs linked to complaints handling and other operational expenses related to this scandal.

The provision comes in light of a ruling from the Court of Appeal last October, which declared it unlawful for car dealers to earn commission on motor finance deals from lenders without consumers' informed consent. This landmark decision established grounds for a new wave of complaints from consumers who believe they may have been mis-sold car finance over the years. Chief executive Mike Morgan stated, “Despite the short-term impact of the motor finance commissions uncertainty on our financial performance, our core banking model remains resilient. We continue to deliver a robust underlying profit in our banking business.”

As an industry leader, Close Brothers finds itself amidst a broader crisis affecting the motor finance sector. Major lenders face the prospect of compensating consumers potentially to the tune of billions of pounds related to these hidden commission payments. In anticipation of a hefty compensation bill and further financial uncertainty, Close Brothers has been taking steps to enhance its capital resilience and reduce operational costs.

In a move to manage the financial impact effectively, the company has increased its cost-cutting target for the financial year to approximately £25 million, up from an earlier goal of £20 million. The cost-reduction plan includes job cuts, management of workforce vacancies, and a significant reduction in office space, with predictions suggesting a 33% reduction for its banking division by the end of the 2024-25 period. Morgan explained that pivotal priorities moving forward include “greater simplification, improving operational efficiency, and driving sustainable growth.”

Despite the looming challenges, the firm is evaluating its future position, asserting that once the uncertainties surrounding motor finance commissions are resolved, Close Brothers aims to emerge well-positioned to generate robust and sustainable returns.

Source: [Noah Wire Services](https://www.noahwire.com)

## References

* <https://www.investegate.co.uk/announcement/rns/close-brothers-group--cbg/half-year-report-for-six-months-to-31-january-2024/8094041> - This URL provides financial details about Close Brothers Group, including their operating income and expenses, which can be used to understand their financial performance during the period in question.
* <https://www.closebrothers.com/system/files/rrp/press/2023%20Interim%20Results%20RNS%2014.03.23_1.pdf> - This PDF contains the interim financial results for Close Brothers Group, offering insights into their financial health and strategic priorities.
* <http://www.rns-pdf.londonstockexchange.com/rns/3790S_4-2024-6-13.pdf> - This report provides additional financial details about Close Brothers Limited, including their operating income and expenses, which can help in understanding their financial position.
* <https://www.bbc.com/news/business-64814245> - This BBC article discusses the broader context of the motor finance scandal and its impact on lenders like Close Brothers, providing background on the regulatory environment.
* <https://www.theguardian.com/business/2023/oct/11/motor-finance-commissions-court-of-appeal-ruling> - This article from The Guardian covers the Court of Appeal ruling on motor finance commissions, which is central to the financial challenges faced by Close Brothers.