

# UK Motor Finance

## Lloyds warns of further material provisions

We note the announcement by Lloyds Banking Group this morning that it may need to take material extra provisions for motor finance commissions remediation in light of the FCA's proposed redress scheme, which is currently undergoing consultation, in addition to the £1.15bn it has set aside already.

This represents a significant change in stance from Lloyds' management team given that it has stated on multiple occasions post the handing down of the Supreme Court ruling on 1 August 2025 that it did not feel that material extra provisions would be required.

That said, we have previously highlighted [\[here\]](#) the significant gap between the c.£11bn of total cost the FCA has suggested its redress scheme will cost the industry and the c.£2bn of provisions the industry has set aside, which would suggest significant further provisions may be required by industry participants.

We have also noted that a large proportion of the exposure is likely to reside outside of the banking industry with the OEM Captives, that have so far set little money aside. However, this would not explain all the difference, in our view.

As Lloyds is the largest bank operating in the UK motor finance industry, its comments are likely to have a ripple effect and it is therefore not surprising to see the share prices of other potentially exposed peers, such as Close Brothers Group, coming under pressure today.

We also note the somewhat caustic response published by FirstRand Bank yesterday to the FCA's proposed redress scheme, which stated that *"the scheme appears to have moved beyond the group's expectations of what can be considered proportionate or reasonable"* and that *"the presumptions of unfairness in the scheme in its current form does not appear to be applying the legal clarity provided by the recent UK Supreme Court"*.

As we have previously stated, we expect the FCA's proposed redress scheme to spark significant industry retaliation, most notably around the cut-off used to determine less severe cases and the use of the FCA's own calculations based on an APR deduction calculate potential harm / customer loss.

Consequently, it is possible the FCA's criteria for assessing this issue could watered down / amended following a period of consultation which is due to conclude on 18 November 2025.

Turning back to Lloyds, we note that the Group is very capital generative (producing c.£4bn per annum of surplus) and so is more than capable of absorbing material further motor finance commission redress provisions, albeit these could impact negatively on the size of any potential future share buyback. We will update our forecasts in due course.

We currently have a HOLD stance on Lloyds' shares with a fair value of 74p (versus a current screen price of 84p), which notably includes a very conservative 5% haircut for tail risk associated with motor finance commissions redress.

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Lloyds Banking Group <sup>^</sup>	3	09-Jul-24	Hold
Close Brothers Group <sup>^</sup>	3	21-May-25	Hold

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