

Chairman's Statement

The right model to navigate the uncertain environment and support our customers



Michael Biggs,
Chairman

As we reflect on the past year, it is undeniable that we faced substantial challenges. The group's financial performance was impacted by increased provisions in relation to Novitas, and our businesses and customers continued to navigate a difficult UK economic landscape. These have tested our model and demonstrated its remarkable resilience. This resilience is a testament to the strength of our culture, one that encompasses consistent service, deep expertise, long-term customer relationships, teamwork, integrity and prudence.

We were all very disappointed with the developments relating to Novitas and the deviation it represents from our business model and culture. The strategic review of that business and the actions taken to resolve the situation sought to protect the core strengths of our business and to support our existing customers to ensure good outcomes. The board and the management team are confident this was the right course of action, with no read-across to other books in the group's portfolio. Moving forward from Novitas, the group's financial strength leaves us well placed to continue delivering on our strategic priorities.

Excluding Novitas, our lending businesses have delivered good loan book growth, particularly in the second half of the year, with encouraging momentum in new business volumes. Close Brothers Asset Management achieved impressive net inflows of 9% which highlight the success of its growth strategy. Winterflood's performance continued to be impacted by reduced trading activity as retail investor sentiment remains impacted by heightened market volatility.

As a result, adjusted operating profit decreased to £113.5 million (2022: £234.8 million), with a return on average tangible equity of 5.9% (2022: 12.2%). In light of the group's underlying business performance this year and to reflect the board's continued confidence in the business model, we are pleased to recommend a final dividend of 45.0p per share. If approved at the Annual General Meeting, this will take the full-year dividend to 67.5p per share (2022: 66.0p per share).

The Right Model to Navigate the Uncertain Environment and Support Our Customers

We continued to support almost three million customers, including over 360,000 small and medium-sized enterprises ("SMEs"), as we focused on lending consistently and at responsible terms through this period of uncertainty. Maintaining the model's continuity remains a priority for the board. While the headwinds faced by the UK economy will continue to put pressure on our customers in the near future, we believe we have the right business model as well as the experience to navigate the current environment.

I am pleased to see the progress made on the delivery of our strategic growth initiatives and their significant contribution is reflected in the loan book growth achieved this year. We have previously set an initial green finance ambition to provide £1 billion of funding for battery electric vehicles by 2027 and have lent £164 million in the first year. The recently hired specialist teams in the Commercial business are also performing well. The impressive growth in assets under administration ("AuA") of 79% at Winterflood Business Services and the acceleration of our hiring strategy at Close Brothers Asset Management are other examples of the management team's strong focus on delivering disciplined growth. They also highlight the group's capability and track record in expanding our product offering into adjacent markets that fit with our business model.

The board is encouraged by such growth opportunities and is confident that the group's strong capital position gives us flexibility to deliver both growth and attractive capital distributions to our shareholders, including our commitment to paying a progressive dividend.

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Our Commitment: Preserving Our Strong Culture and Employee Engagement

Close Brothers' culture is the bedrock of our long-term success. The unwavering dedication and expertise of our team, coupled with strong relationships and unrelenting commitment to providing exceptional service, represent the essence of our model.

We remain focused on ensuring that our colleagues remain engaged, motivated and equipped with the necessary resources to excel. From training and development programmes to open lines of communication, we have worked tirelessly to ensure our people are supported and heard, especially in light of the impact that the pandemic continues to have on our colleagues, as well as the pressures arising from the cost of living crisis.

We recently conducted our latest employee opinion survey ("EOS") and I was delighted to see that the levels of employee engagement remained high at 86%. We are committed to fostering a culture that attracts and retains talent, whilst also growing and building the expertise of our people, with 97% of colleagues saying that they believe they have the skills and knowledge to do their job well. We also insist on trustworthy behaviour and always acting with integrity and "doing the right thing" internally and externally, with 97% of colleagues feeling that their colleagues act with integrity. These are really strong numbers and demonstrate that the group's culture and values remain deeply embedded in the organisation. You can read more about the EOS highlights on pages 30 and 31 of this report.

Board Changes

We were pleased to welcome Kari Hale to the board as a non-executive director on 28 June 2023. Kari brings considerable audit and commercial expertise and has a deep understanding of the audit and governance environment in which our group operates. His skills and expertise will be a strong complement to the existing board. On appointment to the board, Kari became a member of the board's Risk and Audit Committees.

At the conclusion of the AGM in November 2022 Tracey Graham became chair of the Remuneration Committee and Patricia Halliday became chair of the Risk Committee. Oliver Corbett will not be standing for re-election at the AGM in November 2023, having completed nine years' service on our board. On behalf of the board, I would like to express my sincere thanks to Oliver for his long and dutiful service to the group.

Supporting Our Customers in the Transition to a Low Carbon Economy

The group's sustainability agenda remains a key area of focus. Our ongoing work to identify the risks and opportunities of climate change to our business model remains a top priority for the board and the management team. As a signatory to the Net Zero Banking Alliance ("NZBA"), we have committed to lowering our operational and financed emissions by 2050 and will be publishing further details of our transition plan in due course. As businesses in the UK develop and deliver their own transition plans to adopt cleaner technologies, we are ready to support them by providing financing solutions.

We have made improvements to the data quality of our financed emissions disclosures, which will support the setting of our initial wave of intermediate net zero targets as part of our commitment to NZBA. CBAM has also made strong progress, becoming a signatory to the Net Zero Asset Managers initiative ("NZAM"). You can read more about our climate disclosures on pages 40 to 54 of this report.

Finally, I want to express my deepest gratitude to our colleagues, shareholders and all stakeholders who have stood by us this year. Your trust and support are the cornerstones of our success. Thank you for your unwavering support. Together, I am confident that we will continue to deliver on our purpose.

Michael N. Biggs
Chairman

26 September 2023

