Our Strategy

Protect

Keeping it safe

Maintaining and enhancing the key strengths of our business model

Our key strengths differentiate our proven and resilient business model and have contributed to our long-term track record over many years, positioning us well to deliver growth, profitability and returns to shareholders.

Our high levels of personal service and specialism are key points of differentiation. Our people have deep knowledge of the industry sectors and asset classes we cover, leading to lending decisions informed by experts and faster access to funds when our customers need them most.

We run our business prudently, maintaining a strong funding, liquidity and capital position. Our loan book is predominantly secured or structurally protected, with a focus on maintaining strong credit quality. We adopt a consistent and disciplined approach, as we maintain pricing and prudent underwriting in our lending.

We ensure that we are operating efficiently and are using technology that appropriately supports our relationship-based model, enabling us to deliver for each of our stakeholders.

Whilst we constantly focus on the strict management of costs, it is essential that we invest in protecting the key attributes of our model, maintain regulatory compliance and continually enhance our operational and cyber resilience. Our investments and cost base support the generation of our strong margins, enabling our operational and financial resilience, while also supporting our ability to maximise opportunities as they arise.

Our strategic objectives

- Maintaining a strong capital, funding and liquidity position.
- Consistently applying our prudent business model through our disciplined approach to underwriting and pricing.
- Balancing investment needs and cost discipline.
- Maintaining regulatory compliance, whilst enhancing operational and cyber resilience.

Progress during 2023

- Strengthened our funding base with growth in customer deposits and the issuance of a five-year senior unsecured £250 million note.
- Continued to support our customers and lend through the cycle on responsible terms, adhering to our disciplined approach to underwriting and pricing, whilst maintaining a strong margin.
- Advanced our ongoing investment programmes, whilst intensifying our focus on cost discipline and efficiency and progressing strategic cost management initiatives.
- Accelerated our efforts to resolve the issues relating to Novitas, following our decision to withdraw from the legal services financing market in July 2021.
- Undertook work across the business to prepare for the implementation of the Financial Conduct Authority's ("FCA") Consumer Duty, for example by enhancing frameworks to incorporate new requirements and completing enhanced product reviews.
- Submitted additional documentation to the Prudential Regulation Authority ("PRA") as part of our Internal Ratings Based ("IRB") application, with positive engagement continuing.
- Further enhanced our operational and cyber resilience, whilst undertaking a continuous cycle of improvements.

Future priorities

- Retaining our strong capital, funding and liquidity position.
- Continuing to focus on pricing and prudent underwriting whilst lending through the cycle.
- Progressing further our strategic cost management initiatives and evaluating additional opportunities for efficiency, with a view to achieving positive operating leverage over the medium term.
- Continuing preparations for a transition to the IRB approach, although the timetable remains under the direction of the PRA.
- Complying with regulatory changes, whilst further strengthening our operational and cyber resilience.
- Continuing to embed our compliance with Consumer Duty requirements and implementing Consumer Duty changes for books of business not open to new customers.
- Monitoring and mitigating external threats, including the heightened uncertainty in the economic and geopolitical environment and competition from both established and emerging players.

Protecting our business: Accelerating our efforts to resolve the issues surrounding Novitas

The decision to wind down Novitas, a provider of finance for the legal sector we acquired in 2017, and to withdraw from the legal services financing market, followed a strategic review in July 2021. This concluded that the overall risk profile of the business was no longer compatible with our long-term strategy and risk appetite. Some of the key attributes of our model, such as in-house lending expertise, a strong track record of performance and underlying security of the loans, had proven not to be evident in Novitas. We also seek to act in the best interests of our customers, with a focus on ensuring good outcomes where it is within Novitas' ability to do so.

During 2023, we have recognised a charge in relation to Novitas of £116.8 million, with £114.6 million recognised in the first half of 2023, which we believe adequately reflects the remaining risk of credit losses for the Novitas loan book. We have accelerated our efforts to resolve the issues surrounding this business, including the initiation of formal legal action against one of the After the Event ("ATE") insurers. Novitas has also entered into a settlement with another smaller ATE insurer.

Our actions taken to accelerate the resolution of issues surrounding Novitas seek to protect the core strengths of our business and support our existing customers to ensure good outcomes.

Further disclosure on the impact of Novitas can be found in note 10.

Our Strategy

Grow

Delivering disciplined growth

Maximising opportunities in existing and new markets

Our focus on delivering disciplined growth is critical in enabling us to protect our model, whilst still maximising opportunities and taking the business forward. This focus allows us to prioritise consistent and prudent underwriting criteria and maintain strong returns across our businesses. We do not manage the group to a growth target; rather, loan book growth is an output of the business model.

We continually assess existing and new markets for growth opportunities that fit with our model. We have a long history of delivering disciplined growth and, to support us in building on this track record, we developed our "Model Fit Assessment Framework". This framework supports our review of opportunities, assessing their fit with our model, culture and responsible way of doing business, alongside their suitability from a strategic perspective.

Our strategic objectives

- Maximising opportunities available to us in the current environment and capitalising on cyclical opportunities in each business.
- Extending our product offering and launching initiatives in line with our business model in new and existing markets.

Progress during 2023

- Delivered over £400 million of loan book growth and a strong net interest margin, as we made the most of good demand in our Banking business.
- Execution of deals by our recently hired agricultural equipment and materials handling teams, with a strong pipeline built.
- Hired a new team providing bespoke term loan structures to SMEs requiring growth and investment capital.
- Taken advantage of opportunities in the asset-based lending space, with participation in our first syndication deal and offering larger loan facilities.
- Provided £164 million of funding for battery electric vehicles, towards our £1 billion aim.
- Continued to enhance our proposition for dealers, partners and customers in Motor Finance.
- Made progress expanding our new business capabilities in Premium Finance, including through the use of a customer relationship management platform.
- Successfully piloted a specialist buy-to-let extension to our existing bridging finance customers, which is continuing into 2024.
- Expanded our Savings proposition with the launch of an easy access account and successfully grew our retail customer base.
- Accelerated our growth strategy in CBAM, as we recruited 15 portfolio managers during the year and delivered strong net inflows of 9%, with a significant contribution from new hires.
- Accelerated growth of Winterflood Business Services, with assets under administration of £12.9 billion, exceeding our £10 billion target.

Future priorities

- Continue to capitalise on cyclical and structural growth opportunities in each of our businesses.
- Assess opportunities in new and existing markets, in line with the "Model Fit Assessment Framework".
- Expand further our presence in Ireland, which remains a strategic growth market for the group.
- Provide further funding for battery electric vehicles, as we progress towards our aim of £1 billion by 2027.
- Broaden our sustainability offering to capture demand within the green lending space.
- Grow CBAM further through new hires and selective acquisitions.
- Continue to grow Winterflood Business Services, supported by our solid pipeline of clients.

Growing our business: Taking advantage of opportunities in Invoice and Speciality Finance

Delivering disciplined growth by extending our product offering and participating in our first syndication deal

We have achieved significant growth in our Invoice and Speciality Finance business in recent years, with the loan book exceeding £1 billion for the first time in 2023.

One growth area that we have focused on is the asset-based lending ("ABL") space. During the year, we completed our first syndication deal, participating alongside other banks as part of an ABL facility of £230 million to support a sponsor-backed financial services firm. Syndication deals offer us the potential to partner with other lenders on deals that would ordinarily exceed our maximum lending appetite for both new and existing customers.

We have also expanded our Invoice Finance offering with the hiring of a new team providing bespoke term loan structures to SMEs requiring growth and investment capital. This team closed its first deal earlier this year and has built a healthy pipeline.

Growing our business: Funding battery storage as we support green lending opportunities

Delivering disciplined growth by maximising commercial opportunities as the UK aligns towards a net zero economy

We recently provided an £85 million facility to Conrad Energy to fund 10 battery storage projects.

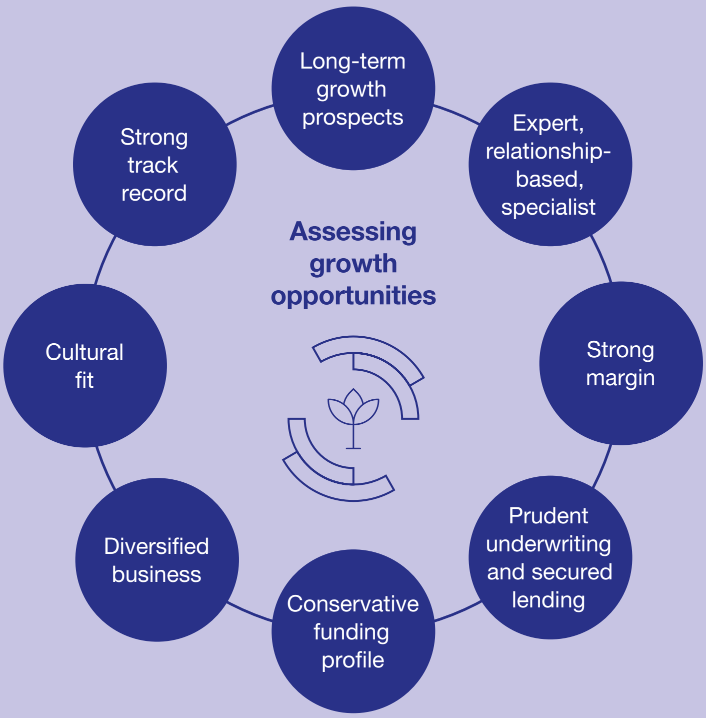
One of these battery storage projects is already operational, with the remaining units being built in various locations over the coming two years in the North West, South West and South East of the United Kingdom. These projects will vary in size from 7MW to 40MW, with the batteries storing the oversupply of energy generated during windy and sunny weather, and releasing capacity when required.

Our specialist energy team has provided finance for over 1,000MW of installed generation capacity to date and we continue to build our expertise in green and transition assets, cementing our reputation for specialist knowledge and financing.

Growing our business

Delivering disciplined growth by ensuring the right fit in line with our "Model Fit Assessment Framework"

The eight criteria are all factors that we consider when assessing growth opportunities. They capture the key strengths of our model, which means that by taking them into account we ensure we are following a disciplined approach to growth and preserving the attributes that generate value for our shareholders.



Our Strategy

Sustain

Doing it responsibly

Securing the long-term future of our business, customers and the world we operate in

Our long-term approach is embedded throughout our organisation and guides all of our decisions, so it is important that we evolve our business to sustain it for the long term.

For our customers, this involves recognising and responding to changes in their behaviour, adapting our business accordingly and improving our digital capabilities and the customer journey to enhance their user experience. We continue to value the importance of long-standing relationships with our customers, which allow us to provide them with exceptional service and the deep industry knowledge and expertise of our people.

For our people, this means maintaining our focus on employee engagement to support the wellbeing and needs of our colleagues. We will continue to promote the ongoing development of our people, as we look to retain talent and support our succession planning, whilst also nurturing an inclusive culture where our people feel valued and respected.

We are also focused on our impact. We create value in our local communities by understanding the needs of SMEs and helping them achieve their ambitions, and by creating equal opportunities for all, regardless of background. We maintain our focus on reducing our environmental impact and responding to the risks and opportunities brought by climate change.

Our strategic objectives

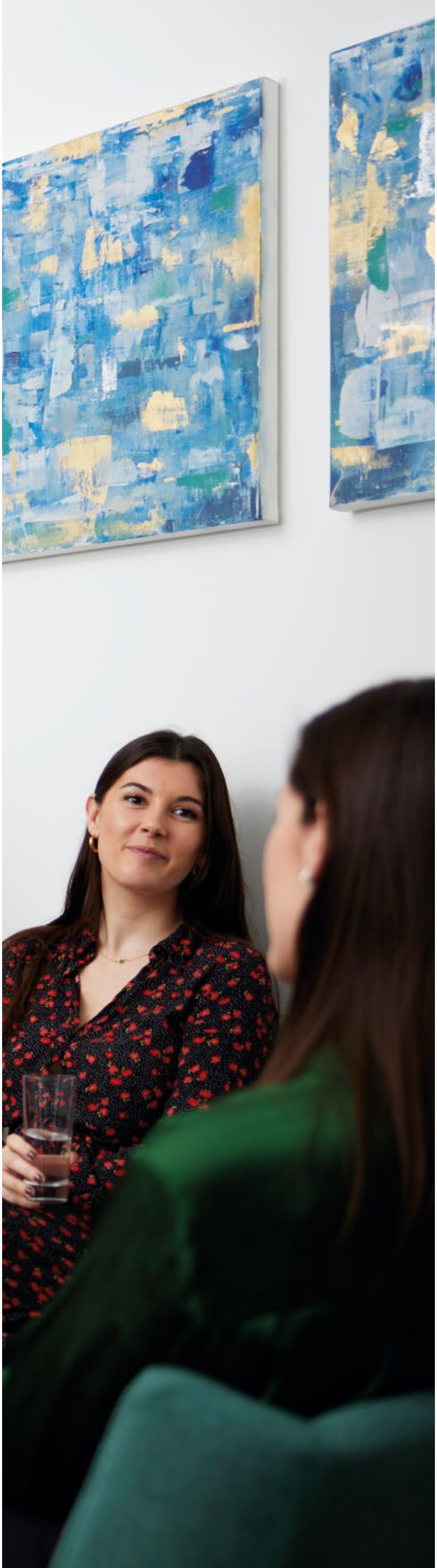
- Promoting an inclusive culture and supporting new ways of working and social mobility.
- Ensuring our business model is sustainable for the long term.
- Reducing our impact on the environment and responding to the threats and opportunities of climate change.
- Promoting financial inclusion, helping borrowers who might be overlooked and enabling savers and investors to access financial markets and advice to plan for their future.
- Supporting our customers, clients and partners in the transition towards more sustainable practices.

Progress during 2023

- Positive scores in our employee opinion survey reflect a strong sense of belonging felt by colleagues.
- Invested in our digital capabilities to support changing customer behaviour, for example through new payment channels in Motor Finance and the use of electronic signing in our Property business.
- Evolved our Savings product offering, with the launch of easy access savings accounts.
- Supported the wellbeing of our employees in the hybrid working environment, with flexible working arrangements and events and initiatives from internal networks, virtual workshops and online fitness classes.
- Continued to support social mobility programmes, hosting 37 interns across the group in partnership with 10,000 Black Interns and upReach.
- Extended our partnership with the University of Sheffield AMRC Training Centre to fund up to a further 20 apprenticeships through the Close Brothers SME Apprentice Programme.
- Had six ASPIRE school leaver trainees on placements in 2023.
- Offered employees access to our financial education website, provided by CBAM.
- Reduced our Scope 1 and 2 emissions by 55% since 2019.
- Set our group-wide climate commitment, becoming signatories to the NZBA and NZAM initiative.

Future priorities

- Retain and attract talent and maximise productivity by engaging, training and developing our people, nurturing an inclusive and diverse culture.
- Expand our expertise in green and transition assets and broaden our sustainability offering as we support the transition to a net zero carbon economy.
- Achieve a net zero company car fleet by 2025 and become operationally net zero through our Scope 1 and 2 emissions by 2030.
- Set intermediate 2030 targets for the most carbon-intensive sectors of our loan book in line with our NZBA commitment.
- Continue to adapt our offering based on horizon scanning and trends in the marketplace, as well as the evolving needs of our customers and clients, while taking into account the feedback they provide.



Sustaining our business: Implementing the FCA's Consumer Duty

Securing the long-term future of our business and driving good customer outcomes in line with the FCA's Consumer Duty

The FCA's Consumer Duty requires firms to act to deliver good outcomes for retail customers, setting a higher standard of consumer protection and further equipping customers to make effective decisions. As an FCA-regulated business, the new Duty covers retail customers across our Asset Finance, Motor Finance and Premium Finance businesses, our Savings business, Close Brothers Asset Management and Winterflood.

The consumer principle incorporates cross-cutting rules, requiring firms to act in good faith towards retail customers; avoid causing foreseeable harm to retail customers; and enable and support retail customers to pursue financial objectives.

These rules are supported by four outcomes, which are focused on key areas of the customer journey – products and services, price and value, consumer understanding, and consumer support.

In response to the new rules, we have implemented a programme with objectives and key deliverables directly aligned to the Consumer Duty requirements. Examples of workstreams include completing fair value assessments and enhanced product reviews, developing enhanced training, enhancing customer communications where necessary, and enhancing our data to ensure we can effectively monitor outcomes. Our focus is now on continuing to embed our compliance with Consumer Duty requirements and implementing Consumer Duty changes for books of business not open to new customers.