

Chairman's Statement

A distinctive, customer focused culture

During the 2020 financial year, we witnessed one of the most difficult economic, market and business environments in our lifetimes with a profound human impact. Our disciplined business model, strong culture and customer-focused approach have served us well in this environment. We entered the Covid-19 crisis in a strong position and are navigating it well, as the group has shown immense adaptability and deployed contingency plans very effectively and quickly.

The board's role during this period of elevated pressure has been to guide, challenge and support the executive team on key decisions, to ensure that the group emerges from the crisis in the strongest possible position. I am very impressed to see how well and cohesively our colleagues have worked together, allowing the group to continue to support customers and clients at this time when they need us most.

Close Brothers has delivered a resilient performance over this unprecedented period. The Banking division has maintained a strong market position notwithstanding higher impairment charges; Close Brothers Asset Management has maintained strong net inflows as we continue to attract client assets and new hires; and Winterflood has delivered a very strong trading performance as it navigated extraordinary market movements, making the most of exceptionally high volumes.

As a result, although adjusted operating profit reduced by 47%, the group delivered a solid return on opening equity of 8.0% (2019: 15.7%).

In April 2020, the board announced that it had decided to cancel its 2020 interim dividend recognising the significant challenges faced by businesses and individuals and consistent with our purpose of helping the people and businesses of Britain. This decision was not taken lightly given the group's long history of uninterrupted dividend payments.

Following a resilient financial and operational performance in the second half, the board is now proposing a 40.0p dividend in respect of the full financial year. This reflects the board's confidence in the group's business model and strong financial position, notwithstanding the current uncertain environment.

While dividend decisions in the 2020 financial year have reflected the unprecedented uncertainty caused by Covid-19, our aim remains to return to a long-term policy of progressive and sustainable dividend growth in future. Dividend decisions will continue to balance returns to shareholders with maintaining a strong financial position, flexibility to grow and invest, and the ability to meet our responsibilities to all stakeholders.

Strategic Discipline and Operational Readiness

The group's disciplined business model and our vast experience and expertise have allowed us to deliver consistent service and strong returns in a wide range of market conditions over many years. It has also ensured that the group entered this period of uncertainty in a position of strength, with a prudently underwritten loan book and a strong capital, liquidity and funding position.

While the scale and nature of the current crisis could not have been anticipated, in 2019 the board and the management team spent a significant amount of time on contingency planning, including the development of playbooks and simulation exercises for the lending businesses, with the aim to ensure that the business was well prepared in the event of a widespread downturn in the UK economy. These plans have played a key role in ensuring we were operationally prepared for the challenges posed to our organisation during the Covid-19 pandemic.

From the start of the crisis, the safety and wellbeing of our colleagues and their families have been of the highest importance to us and by the time the outbreak was at its peak, the majority of our people had successfully been set up to work from home. I have been really pleased to see how speed of response and operational resilience have allowed the group to continue operating and serving customers and clients effectively throughout the period.

The impact of Covid-19 on all our stakeholders is at the forefront of the directors' minds. The board has held additional meetings since the beginning of UK lockdown in March to focus on the group's response. The frequency of meetings increased to a weekly basis at the peak of the lockdown, and the directors received regular updates on developments relating to individual stakeholder groups. You can read more about the main areas considered by the board during the pandemic on page 18.

Strong Culture and Relentless Customer Focus

Our purpose is to help the people and businesses of Britain thrive over the long term, and this is underpinned by a strong culture and relentless customer focus. This is as important as ever, as we help our customers and clients navigate the current environment, and as the economy recovers, they will look to us for continued support.

The board considers the group's purpose, culture and values as fundamental to its long-term success and recent events have shown how deeply they are embedded in our organisation.

This is an unprecedented and uncertain environment so there will be challenges ahead of us. However, there will also be opportunities and I am confident the group will be able to make the most of these, building on our strong relationships and capitalising on the consistent application of our model throughout our history.

CEO Succession and Board Changes

In September 2019, Preben Prebensen decided to step down as chief executive and move on to the next stage of his career. Following an extensive search process undertaken by the board, considering both internal and external candidates, Adrian Sainsbury was selected to succeed Preben as chief executive, with effect from the end of the board's meeting held on 21 September 2020.

On behalf of the board, I would like to thank Preben for his outstanding leadership and very significant contribution over the last 11 years. He has overseen the transformation of the group over this period and leaves it in an excellent position operationally and financially, with a strong executive team.

Adrian's deep knowledge and experience, strong leadership and exceptional commercial expertise make him ideally placed to lead the group through the next stage of its development. His appointment provides continuity in the group's leadership team and business model, ensuring that we continue delivering for our people, customers and clients and our shareholders in the years to come.

We were also pleased to welcome Sally Williams as an independent non-executive director on 1 January 2020. Sally brings to the board extensive knowledge in the areas of risk, compliance and governance from over 30 years' experience in the financial services sector and her appointment further strengthens the range of skills and experiences represented.

After more than nine years' dedicated service on the board, Geoffrey Howe has decided not to seek reappointment at this year's Annual General Meeting. I would like to thank Geoffrey for his enormous contribution and his invaluable judgement and wise counsel. The search to identify a successor to Geoffrey is well-advanced.

Diversity and inclusion continue to be an important focus for the board's succession planning. It is also important that we maintain its depth and the appropriate range of skills and experience, while ensuring continuity in the stewardship of the group and its business model. In line with the recommendations of the Parker Review, the board will aim to have at least one director of colour by 2024.



Michael N. Biggs Chairman

Stakeholder Engagement

The board is strongly committed to maintaining active engagement with stakeholder groups, ensuring their priorities and considerations are reflected in the group's decision-making. This year we have introduced a number of new disclosures setting out how the board has had regard to all stakeholders' interests while complying with the directors' obligation to promote the success of Close Brothers in line with section 172 of the Companies Act. These can be found on pages 20-23 of this report.

One recent example of the board's engagement with stakeholders has been the triennial review of the remuneration policy this year, for which we consulted widely with our largest shareholders. Full details of the revised Directors' Remuneration Policy, which will be submitted to shareholders for consideration at the company's AGM later in 2020, can be found on page 87 in the Directors' Remuneration Report.

Creating Value Responsibly for all our Stakeholders

I firmly believe that in order to create long-term value, we also have a responsibility to help address the social, economic and environmental changes facing our business, employees and customers.

Sustainability matters appear regularly on the board and management's agenda and we have continued to make good progress on a range of key developments and initiatives during the last year.

To help us measure and drive our progress towards our sustainable goals, we have set a number of targets and I am pleased to report that we have met or exceeded our targets for gender diversity, customer satisfaction, charitable donations, and emissions. We are now introducing more ambitious targets, which have been aligned to the United Nations Sustainable Development Goals and are also now linked to executive pay through risk management objectives within our executives' long-term incentive plan.

I am particularly pleased that we continue to make progress on our diversity and inclusion agenda, including exceeding our initial gender diversity targets, and this year becoming signatories to the Race at Work Charter.

Climate risk is now embedded within the risk governance framework at all levels of the organisation with a review of processes, procedures and policies underway to ensure appropriate consideration of climate-related risks and opportunities.

Our People

Our people are key in driving the group's long-term success and I would like to thank them for their admirable dedication and commitment to the organisation, even in the face of the most challenging circumstances. Thanks to their professionalism and expertise, I am confident that, together, we will continue delivering on our purpose to help the people and businesses of Britain thrive, over the long term.

Michael N. Biggs
Chairman

22 September 2020