

Chief Executive's Statement



Preben Prebensen Chief Executive 2009 to 2020

A proven model for the long term

When I became chief executive in 2009, we were in the middle of a global financial crisis. As I hand over to Adrian Sainsbury, we are managing through the Covid-19 crisis.

In many ways, this crisis is different – not least in its human and societal impact. Close Brothers is different too – it is bigger and stronger, but also simpler and more focused.

But perhaps even more importantly, the fundamental aspects of our business model and our culture are the same, and that is the real strength of Close Brothers.

Since 2009, we have created more than 1,000 jobs across the group and the Banking division has tripled its loan book. Our focus on risk and on regulation has increased sharply. We have invested very significantly in developing our people, in technology and in our operational capability.

Nevertheless, the fundamentals of our business have remained the same. In our Banking division we have always focused on specialist, secured lending. We have always prioritised great service levels and the expertise of our people, which has supported a strong net interest margin and prudent underwriting.

These attributes were important to our successful emergence from the last crisis and are proving equally important to navigating this one. Although results this year have been impacted, we are as confident as ever in the quality of our loan book and our long-term success as a provider of funding to small businesses and individuals through the most difficult conditions.

Back in 2009, Winterflood did very well trading highly volatile markets. And this year, it has shown that expertise again, producing its best results in a decade, in arguably even more difficult conditions.

The Asset Management division has gone through the most change since 2009, emerging as a private client advice and investment management business in the UK. The business has delivered consistently strong net inflows, including this year, and has very good future growth prospects.

I have often been asked to describe the single characteristic that most defines Close Brothers – and that for me is our genuinely long-term approach. That approach defines how we invest in the business, how we invest in our people, our relationships with clients and customers, how we finance the business and how we see ourselves – as custodians of this great company.

The last six months have been among the most challenging of my time here, but I have been exceptionally impressed by the way we have navigated them and so very proud of our people.

I leave the group in very good hands. Adrian and I have worked together for the last seven years. He brings outstanding experience, knowledge and drive and will lead a very talented and experienced management team who I am sure will make the most of the opportunities that lie ahead.

Preben Prebensen
Chief Executive 2009 to 2020



Adrian Sainsbury Chief Executive

I am delighted to be introducing Close Brothers' 2020 annual results; my first as chief executive. It is an honour to be chosen to lead the group as I truly believe this is an extraordinary company that plays an important role in the lives of people and businesses it serves.

On behalf of the Executive Committee, I would like to thank Preben Prebensen for his outstanding leadership during a period of significant growth and development. It has been a privilege to work with Preben and I look forward to building on the excellent position he has established over the past 11 years.

When I joined Close Brothers in 2013, I was impressed by the straightforward and effective business model and by the distinctive culture, which focuses on expertise, service and building strong relationships with customers, clients and partners. This absolute customer focus remains at the heart of our strategy, and our purpose of helping the people and businesses of Britain thrive.

Our business model has been tried and tested over the years and its success is supported by three pillars: the disciplined application of our pricing and underwriting criteria; the prudent management of our financial resources; and the diversity of our businesses. These are the fundamental strengths of our model and my role is to ensure we continue to protect them whilst taking the business forward.

Consistency in the application of our pricing and underwriting criteria is a strategic imperative for us. Our lending is predominantly secured, with conservative loan to value ratios, small loan sizes and short maturities, which allows us to maintain both a strong net interest margin and high-quality credit portfolio throughout the cycle. This means we are well placed to deal with the potential impact of adverse conditions whilst continuing to support our customers.

Prudent management of our financial resources is also crucial to our long-term approach to managing the business. Having strong capital, funding and liquidity positions allow us to grow, invest and comfortably meet regulatory requirements.

The diversity and specialism of our businesses is another key component of our success. Lending in a variety of sectors, locations and asset classes where we have deep expertise, has supported our loan book performance and financial returns in times of challenge, as evidenced in this year's results. Close Brothers Asset Management and Winterflood also provide additional profit streams which further strengthen our performance as a group.

They are also strong examples of the expertise of our people in their specialist fields, which underpins their success in wealth management and trading.

Navigating the Current Crisis

Our immediate priority is to successfully navigate the Covid-19 crisis and to support our people, customers and clients as the economy recovers. We entered the current crisis in a strong position and the group's agility and strong operational resilience have allowed us to respond effectively in a rapidly changing environment.

Looking after the safety of our colleagues and ensuring their continued engagement has always been a priority but this has been more important than ever since the onset of the Covid-19 pandemic. I would like to thank our colleagues for their extraordinary dedication and commitment and for all they have done, and continue to do, to ensure we maximise assistance for customers and clients and remain committed to finding the right financial solutions to help them through these turbulent times.

Chief Executive's Statement continued

Financial Performance

Our 2020 financial performance is a story of two halves. Strong returns in the first half of the year were followed by a period where we felt the impact of Covid-19, an unprecedented turn of events which affected us all.

Overall, the group reported a 47% reduction in adjusted operating profit to £144.0 million (2019: £270.5 million) which still equated to a solid return on opening equity of 8.0% (2019: 15.7%).

Despite higher impairment charges, our lending businesses achieved a resilient performance in the year, with a broadly flat loan book reflecting an increase in customer activity since the easing of lockdown restrictions in June and July. Asset Management maintained strong net inflows of 9% (2019: 9%) and Winterflood delivered an impressive trading and financial performance, highlighting the expertise and experience of our traders as they navigated extraordinary market movements.

The income growth of 6% reflected the strong performance in Winterflood and the Asset Management division, partially offset by lower revenue in Banking. Although we maintained our pricing discipline, the net interest margin declined to 7.5% (2019: 7.9%) reflecting lower activity levels as well as forbearance measures granted to our borrowers.

Costs increased by 8%, with most of the increase in Winterflood, reflecting higher variable costs. They have also increased in the Asset Management division given our continued investment to support the

long-term growth potential of the business. In the Banking division, costs increased marginally as we continued to invest in key strategic programmes while focusing on disciplined cost management.

The uncertain environment led to a sharp increase in the forward-looking impairment provisions under IFRS 9, but we remain confident in the quality of our loan book.

We have maintained a strong balance sheet, with our common equity tier 1 ratio rising to 14.1% (31 July 2019: 13.0%), significantly ahead of regulatory requirements, and a continued prudent funding and liquidity position.

Taking the Model Forward

The impact of Covid-19 has been felt across our businesses and the outlook is still uncertain, but the fundamental strengths of Close Brothers remain unchanged. As a through-the-cycle provider of funding, wealth management and securities trading services to individuals and small businesses, our role remains as important as ever. Our resilient model and the experience and expertise of our people leave us well positioned to respond to opportunities and to continue to support our customers and clients into the future.

Investing to take the model forward will continue to be a priority and it is important that we maintain capacity to take advantage of opportunities as they arise, be that new markets, products or distribution channels. We are committed to investing for the future, maintaining our long-term approach and realising the benefits as our businesses grow and evolve.

Outlook

The group has adapted well to this unprecedented environment, drawing upon our financial and operational resilience and the deep experience of our people.

Although we have seen encouraging signs of increasing economic activity in the UK since the easing of restrictions in June and July, the near-term path to recovery remains highly uncertain.

In the Banking division, we remain focused on maintaining our prudent and disciplined approach while continuing to support our customers through this challenging environment. Asset Management continues to have long-term growth potential and we remain committed to growing our client base organically, and through selective hiring and in-fill acquisitions. Winterflood has shown good momentum through August and September but remains sensitive to changes in the market environment.

Overall, we have a strong balance sheet, high quality loan book and a proven, resilient business model, and are confident that we will emerge from this crisis in a strong position to support our customers and clients through their recovery.

Adrian Sainsbury
Chief Executive

22 September 2020

