Chairman's Statement

We have remained focused on safeguarding our valuable franchise and its core strengths

Michael N. Biggs
Chairman

"The board's overarching priority is to protect our valuable franchise. Given the uncertainty surrounding the FCA's review, our primary focus has been to work closely with the management team on developing and overseeing the implementation of a robust capital plan to protect the group, leaving it well positioned for a range of possible outcomes."

The 2024 financial year tested Close Brothers like never before, marked by the significant uncertainty introduced as a result of the FCA's review of historical motor finance commission arrangements announced in January.

The UK economy experienced a gradual recovery, with growth stabilisation and easing of inflation from elevated levels in the preceding year supporting a modest improvement in sentiment. However, the period was not without its challenges and political uncertainties, which resulted in SME businesses and consumers continuing to exercise a higher degree of caution in their investment and borrowing decisions.

Throughout this period, we have remained focused on safeguarding our valuable franchise and its core strengths.

Our financial performance demonstrates the resilience of our business and the strength of our team. In the 2024 financial year our lending business continued to deliver growth, albeit at a reduced pace due to the measures taken to moderate capital consumption. We maintained a strong net interest margin and stable credit quality, while continuing to focus on the delivery of a more efficient business. Our core Banking business model remains as relevant as ever as we continue to offer excellent and specialist service to our customers, while maintaining our pricing and underwriting discipline. In our market-facing divisions, CBAM continued to attract client assets and generate market-leading net inflows. However, short-term trading conditions remained challenging for Winterflood, resulting in a loss in the period.

Decisive Leadership in Uncertain Times

The board's overarching priority is to protect our valuable franchise. Given the uncertainty surrounding the FCA's review, our primary focus has been to work closely with the management team on developing and overseeing the implementation of a robust capital plan to protect the group. Our approach aligns with the group's long-standing commitment to maintaining a strong balance sheet and exercising prudence in the management of financial resources.

This challenging environment demanded a decisive and strong leadership and difficult decisions had to be made amidst uncertainty. This included the suspension of dividend payments for the 2024 financial year, which was an important step towards strengthening the group's capital position. The board is acutely aware of the paramount importance of the group's dividend to our shareholders. The reinstatement of dividends in 2025 and beyond will be reviewed once the FCA has concluded its process and any financial consequences for the group have been assessed.

As announced in March 2024, the board has identified a series of actions which, combined with the decision not to pay a dividend in the 2024 financial year, have the potential to strengthen the group's CET1 capital by approximately £400 million. We have made significant progress on the delivery of these actions. These include a combination of selective loan book growth to optimise risk weighted assets and significant risk transfer of assets, as well as other potential management actions such as a continued review of our businesses, including the sale of portfolios.

While it is regrettable that we must temporarily moderate our lending activities to preserve capital at this juncture in the cycle, we are approaching this necessity with utmost care and strategic consideration. Our commitment to serving our customers remains unwavering, as we recognise the critical importance of protecting our valuable franchise.

We have mobilised further cost management initiatives expected to generate annualised savings of c.£20 million by the end of the 2025 financial year, as previously outlined, to partially offset the adverse impact from the capital actions identified on the group's profitability. The board recognises the importance of further cost management initiatives and believes that the group could emerge from these times as a more efficient organisation.

Following a comprehensive strategic review, the board is pleased to announce the agreed sale of CBAM to Oaktree. The transaction is expected to increase the group's common equity tier 1 capital by approximately 100 basis points, enhancing our position to navigate the current uncertain environment. The board has unanimously approved the transaction and believes that the agreed sale represents competitive value for our shareholders, allowing us to simplify the group and focus on our core lending business.

The uncertainties arising from the FCA's review of historical motor finance commission arrangements will inevitably be with us for some months to come. Whilst the board cannot change the environment that the group finds itself in, it is taking a series of clear, proactive steps to ensure the group is well positioned to take advantage of future opportunities.

Preserving Our Strong Culture and Employee Engagement

While our customers are, without question, a critical part of the group's long-term success, Close Brothers' culture is equally fundamental. The expertise of our people and a relentless focus on delivering excellent customer service is the cornerstone of our business model. Recognising this, we have made it a priority to preserve this vital pillar of our organisation. Our latest employee opinion survey ("EOS") was conducted in February 2024 to monitor overall engagement alongside colleague sentiment around inclusion, speaking up and treating customers and clients fairly. The board was pleased to see that we have retained high levels of employee engagement at 83% (2023: 86%), evidencing that our culture remains as resilient as ever, even in the face of adversity. Despite the challenges that we have faced, we have witnessed remarkable displays of teamwork, innovation and dedication from our colleagues.

You can read more about our people on pages 49 to 52 of this report.

Board Changes

Oliver Corbett and Peter Duffy resigned as directors of the board in November 2023 and February 2024, respectively. On behalf of the board, I would like to express my sincere gratitude to each of Oliver and Peter for their unwavering commitment to the group and their valued expertise and perspectives. Following Oliver's resignation, Kari Hale has been appointed as chair of the Audit Committee and as whistleblowing champion.

The board is committed to diversity at all levels while ensuring that its composition is consistent with the skills, experience and expertise required at a particular point in time. Our board is composed of 44% female directors which includes one director from a minority ethnic background. With this, we have met our own gender and ethnicity targets and I am pleased that we align with the recommendations of each of the FTSE Women Leaders and Parker Reviews in terms of composition of the board. While we do not currently meet the FCA Listing Rule requirement to have one of the senior board positions occupied by a female, we remain committed to ensuring that our board is able to meet the needs of all relevant stakeholders. The board recognises that the FCA Listing Rule requirement will be a consideration for future appointments to these roles.

Further information on the composition of the board and its diversity can be found on pages 122 to 126.

Playing Our Part in Addressing the Threat of Climate Change

This year, we have maintained our focus on the group's sustainability agenda. As a group supporting many sectors of the UK economy through our lending products and investment services, we recognise the important role we play in supporting our customers and clients transitioning to a low carbon economy.

We continue to play our part in addressing the threat of climate change from three angles: reducing our own emissions; realigning our financed emissions; and enabling the deployment of cleaner technologies through our green growth lending strategy.

In September 2022 we joined the Net Zero Banking Alliance ("NZBA") and, in March 2024, we published our first sector-based intermediate 2030 reduction ambition for transport assets, the largest carbon-intensive sector in our loan book. Furthermore, we committed to 18% of CBAM's assets under management being in line with net zero by 2050 as part of our initial target disclosure for the Net Zero Asset Managers ("NZAM") initiative. I am also pleased with the progress made on our green growth lending strategy. In September 2022, we set ourselves our first green growth ambition to provide funding for at least £1 billion of battery electric vehicles ("BEVs") by 2027. In the first two years, we have funded £316 million of BEVs.

You can read more about our climate disclosures on pages 35 to 47 of this report.

Gratitude and Commitment

Finally, I would like to take this opportunity to express my deepest gratitude to our colleagues, the board and our wider stakeholders for their hard work and dedication throughout this challenging period. Together, I am confident that we will emerge as a stronger organisation and will be well placed to continue to deliver on our purpose.

Michael N. Biggs
Chairman

19 September 2024