Chief Executive's Statement

FOCUS ON MAXIMISING DISCIPLINED GROWTH

We have delivered a solid performance this year. The Banking division has performed well as we continued to see good demand across our lending businesses and strong margins. CBAM was affected by falling markets but continued to attract client assets. Winterflood faced declining markets and reduced trading activity, in sharp contrast to the exceptionally strong conditions in the prior year.

Although we are aware of the pressures that the rising inflation and interest rates will have on our customers and colleagues, I am confident that our proven and resilient business model, strong financial position and deep expertise leave us well positioned to continue to support them now and into the future.

Financial Performance

The group's income reduced 2% to £936.1 million (2021: £952.6 million). The Banking division achieved a 10% increase in income, reflecting a strong net interest margin of 7.8% (2021: 7.7%) and 5.0% year-on-year loan book growth. In the second half, we saw loan book growth of 3.0% as momentum picked up. Income grew 6% in Asset Management as we continued to attract client assets despite the impact of volatile market conditions on wider client sentiment, with net inflows of 5% (2021: 7%). Winterflood saw a 48% reduction in income, reflecting a market-wide slowdown in trading activity from elevated levels during the pandemic and a change in the mix of trading volumes, exacerbated by periods of volatility in falling markets.

Adjusted operating expenses were broadly stable as a significant reduction in variable costs in Winterflood was offset by continued investment, as well as higher staff costs primarily reflecting the current inflationary environment, across the Banking and Asset Management divisions.

The bad debt ratio[1] of 1.2% (2021: 1.1%) remained broadly stable. Excluding Novitas, the bad debt ratio was 0.5% (2021: 0.2%) and reflected the release of Covid-19 provisions and the ongoing review of provisions and coverage across our loan portfolios. Whilst we are not yet seeing a significant impact from rising inflation and interest rates and their effect on customers on our credit performance, we are alert to the highly uncertain macroeconomic environment and continue to monitor closely the performance of the book.

As a result, adjusted operating profit was down 13% to £234.8 million (2021: £270.7 million), and we delivered a return on opening equity of 10.6% (2021: 14.5%), reflecting the reduction in Winterflood's profit and continued growth in the equity base. The return on average tangible equity was 12.2% (2021: 16.5%).

Following the group's solid financial performance in the year and strong capital position, and to reflect our continued confidence in the business model, the board is proposing a final dividend of 44.0p per share. This will result in a full-year dividend per share of 66.0p (2021: 60.0p), returning to the pre-pandemic level.

The group maintained strong capital, funding and liquidity positions, with our common equity tier 1 ("CET1") capital ratio of 14.6% (31 July 2021: 15.8%) significantly above the applicable minimum regulatory requirements.

Capital Management Framework

The prudent management of the group's financial resources is a core part of our business model. Our primary objective is to deploy capital to support disciplined loan book growth in Banking and to make the most of strategic opportunities.

The board remains committed to the group's dividend policy, which aims to provide sustainable dividend growth year-on-year, while maintaining a prudent level of dividend cover. Further capital distributions to shareholders will be considered depending on future opportunities.

We are considering the further optimisation of our capital structure, including the issuance of debt capital market securities if appropriate, targeting a CET1 capital ratio range of 12% to 13% over the medium term. In the short term, we would expect to operate above the 12% to 13% CET1 capital ratio target range, in light of the heightened macroeconomic uncertainty and potential growth opportunities available to us.

1 Bad debt ratio represents impairment losses in the year as a percentage of average net loans and advances to customers and operating lease assets.

Protecting Our Business Model and Maximising Future Income Generation

We continue to deliver against our strategic priorities to "Protect", "Grow" and "Sustain" our business model.

Our multi-year investment programmes are progressing well and enable us to protect our business, as well as enhance efficiency and future-proof our income generation capabilities. We are seeing tangible benefits from these investments. In our Savings franchise, investment in the customer deposit platform allowed us to broaden our product offering and drove significant growth in our retail deposits, up more than 50% since the launch of the platform in December 2018. The total balance of Fixed Rate ISAs now stands at c.£350 million, supporting lower cost of funds and funding diversification.

We continued to invest in our technology and digital capabilities to make our experts even more valuable, empowering them with key data insights and automated processes. In Motor Finance, our investment in digital and technology has allowed us to make the most of opportunities in the second hand car market. Through our partnership with AutoTrader, we are providing our dealers with real-time insights on vehicle demand and pricing, a unique proposition that has won the Innovation Award at the Car Finance Awards 2022. We have also developed Application Programming Interfaces ("APIs") that enable us to connect seamlessly into strategic partners and provide our finance offering at various points of the customer journey. In CBAM, we have undertaken a major re-platforming project to rationalise legacy systems and improve efficiency, while adding a digital portal to improve functionality and customer experience. We are also delivering a new customer portal in Asset Finance and are automating elements of our processes to enhance customer experience.

Focus on Maximising Disciplined Growth

We remain focused on maximising disciplined growth in our existing and adjacent markets. This year, we have conducted a further review of potential growth opportunities and have a strong pipeline of identified target areas that are aligned with our business model.

We recognise a significant opportunity in broadening our sustainable finance offering as the UK heads towards a net zero carbon economy. Our current lending already spans a diverse array of assets including wind and solar generation, battery electric vehicles and grid infrastructure. Over the coming years, we will continue to build further our expertise in green and transition assets, cementing our reputation for specialist knowledge. We are a through-the-cycle lender and will continue to support our customers as they look for financing of green and transition assets. In particular, we are seeing growth across a range of battery electric vehicles, predominantly through our Commercial business, as the UK's economy moves to electrify all forms of transport. As we develop our green growth strategy, we have set ourselves an initial green finance ambition. We aim to provide £1.0 billion of funding for battery electric vehicles over the next five years.

In addition, we are piloting a specialist buy-to-let extension to our existing Property bridging finance customers. We have also extended our sector coverage in Asset Finance with the addition of specialist materials handling and agricultural equipment teams. In Invoice Finance, we continue to pursue opportunities in the Asset-Based Lending ("ABL") space, including identifying syndication opportunities, partnering with other lenders.

Our Asset Management business is well aligned with the long-term trends in the wealth management space and we will continue to invest to support its growth potential. We remain committed to building on our excellent track record of increasing client assets organically, through the continued selective hiring of wealth management professionals, as well as through in-fill acquisitions.

Winterflood Business Services ("WBS") has delivered another strong performance, with income up 12% from £9.1 million to £10.2 million and assets under administration up 16% from £6.2 billion to £7.2 billion. Our award-winning proprietary technology is highly scalable and we see significant growth potential in this business, with a solid pipeline of clients expected to increase assets under administration in excess of £10 billion in the 2023 financial year.

Our Role in Supporting the Transition to a Sustainable Future

We have an important role to play in helping people and businesses transition to a lower carbon future and this responsibility is at the forefront of our minds. I am pleased with the significant progress we have made in developing our climate strategy, covering not just our operational impacts, but also understanding the implications across our financed activities.

This year, we have carried out an assessment of our indirect Scope 3 emissions across all categories of operational emissions as well as a first assessment of our financed emissions, initially focused on our loan book. Initial findings are available in our inaugural Task Force on Climate-related Financial Disclosures ("TCFD") report from page 42, where we also set out our progress this year and areas of future focus with regard to the integration of climate risk into our governance infrastructure, business strategy and risk management framework. Notwithstanding the efforts already made, we remain at the start of a long journey and recognise there is more to do to develop our own transition plans, targets and metrics. This also includes our ability to address challenges around data and modelling as we continue to work across industry and alongside our customers, to enhance both understanding and our capabilities.

As a group we are supportive of the goals of the Paris Agreement to achieve net zero emissions by 2050. Having previously set ambitious short-term net zero targets for our Scope 1 and 2 operational emissions, we are now setting ourselves a wider and longer-term ambition to align all of our operational and attributable greenhouse gas ("GHG") emissions from our lending and investment portfolios on a path to net zero by 2050. To this end, I am pleased to report that we have recently joined 116 banks globally as a signatory to the Net Zero Banking Alliance.

In CBAM, we have mobilised a Sustainability Programme with dedicated initiatives to embed the Principles for Responsible Investment ("PRI") and stewardship across all facets of our business, and as part of this, have recently become a signatory to the UK Stewardship Code.

Outlook

We have delivered a solid performance this year and we start the 2023 financial year against a highly uncertain external environment. Although we are alert to the impact of rising inflation and interest rates on our customers and wider financial market conditions, we remain well placed to continue delivering on our long track record of profitability and disciplined growth.

In Banking, we are focused on maximising opportunities in the current cycle and delivering continued growth at strong margins. We are confident in the long-term growth prospects of our businesses and will continue to assess opportunities to deliver disciplined growth.

In Asset Management, we continue to invest to support the long-term growth potential of the business. Whilst the business is sensitive to financial market conditions, we remain committed to driving growth both organically and through the continued selective hiring of advisers and investment managers, and through in-fill acquisitions.

As a daily trading business, Winterflood is highly sensitive to changes in the market environment, but remains well positioned to continue trading profitably, taking advantage of returning investor appetite. We see significant growth potential in WBS, with a solid pipeline of clients expected to increase assets under administration in excess of £10 billion in the 2023 financial year.

Our proven and resilient model and strong balance sheet, combined with our deep experience in navigating a wide range of economic conditions, leave us well placed to continue supporting our colleagues, customers and clients over the long term.

Adrian Sainsbury
Chief Executive

27 September 2022