Chief Executive's Statement

A proven and resilient model

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Adrian Sainsbury Chief Executive

We have delivered strong results in the 2021 financial year, which once again highlight the strengths of our proven and resilient business model.

Covid-19 continued to present challenges for colleagues, customers and clients this year and our priority has been to ensure the group remained in a strong position to support our people and customers while making the most of the opportunities arising as the economy recovers.

We have supported our people throughout these challenging times with a constant focus on their wellbeing. I am truly grateful for our colleagues' hard work and commitment which has allowed us to continue to support our customers and clients. Face-to-face interaction and excellence in customer service remain key features of our relationship-driven model and we are looking forward to increased direct contact as restrictions ease, with the safety of our colleagues, customers and clients remaining our highest priority. We are now in the process of adapting to and implementing future ways of working, taking into account the different needs of customers and our businesses, to suit the diverse nature of our group.

We have supported our customers when they needed us most, with over 130,000 Covid-19 related concessions totalling £2.0 billion offered since the beginning of the pandemic and over £1.1 billion lent under government support schemes. We are pleased to now see most of these customers coming out of forbearance as the economy reopens. At the same time, we have experienced heightened trading volumes in Winterflood, enhanced our Socially Responsible Investment ("SRI") offering in Close Brothers Asset Management ("CBAM") to capture customer interest in that space and made the most of demand in our core banking markets, such as Motor Finance and Asset Finance.

Supply and demand dynamics in our lending markets have been impacted by the unprecedented levels of government support, which have been crucial to small and medium-sized businesses. It is in this context that the impact of the withdrawal of the government schemes on customer and competitor's behaviour has yet to fully play out. While we still cannot know how the next phase of the cycle will take shape, we are operationally and strategically prepared for it. Historically, this is when we have maximised the benefits of the consistent application of our business model and I am confident that we have the right approach and foundations in place to take advantage of opportunities as they arise.

Financial Performance

We delivered a strong performance in evolving market conditions. After exceptional and other adjusting items, statutory operating profit before tax increased 88% to £265.2 million (2020: £140.9 million). Adjusted operating profit increased 88% to £270.7 million (2020: £144.0 million). This is back to pre-pandemic levels, corresponding to a return on opening equity of 14.5% (2020: 8.0%). Our performance benefited from higher income levels and significantly lower impairment charges.

Income grew across all divisions, with overall group income 10% higher than the prior year. The Banking division achieved 10.9% loan book growth, reflecting high new business volumes, while maintaining pricing discipline with a strong net interest margin of 7.7%. Income in Asset Management was up, reflecting an increase in client assets, driven by good net inflows of 7% (2020: 9%) and positive market movements. Although activity has slowed over the last few months, Winterflood delivered an exceptional trading performance, benefiting from elevated volumes for most of the year and the expertise of our traders.

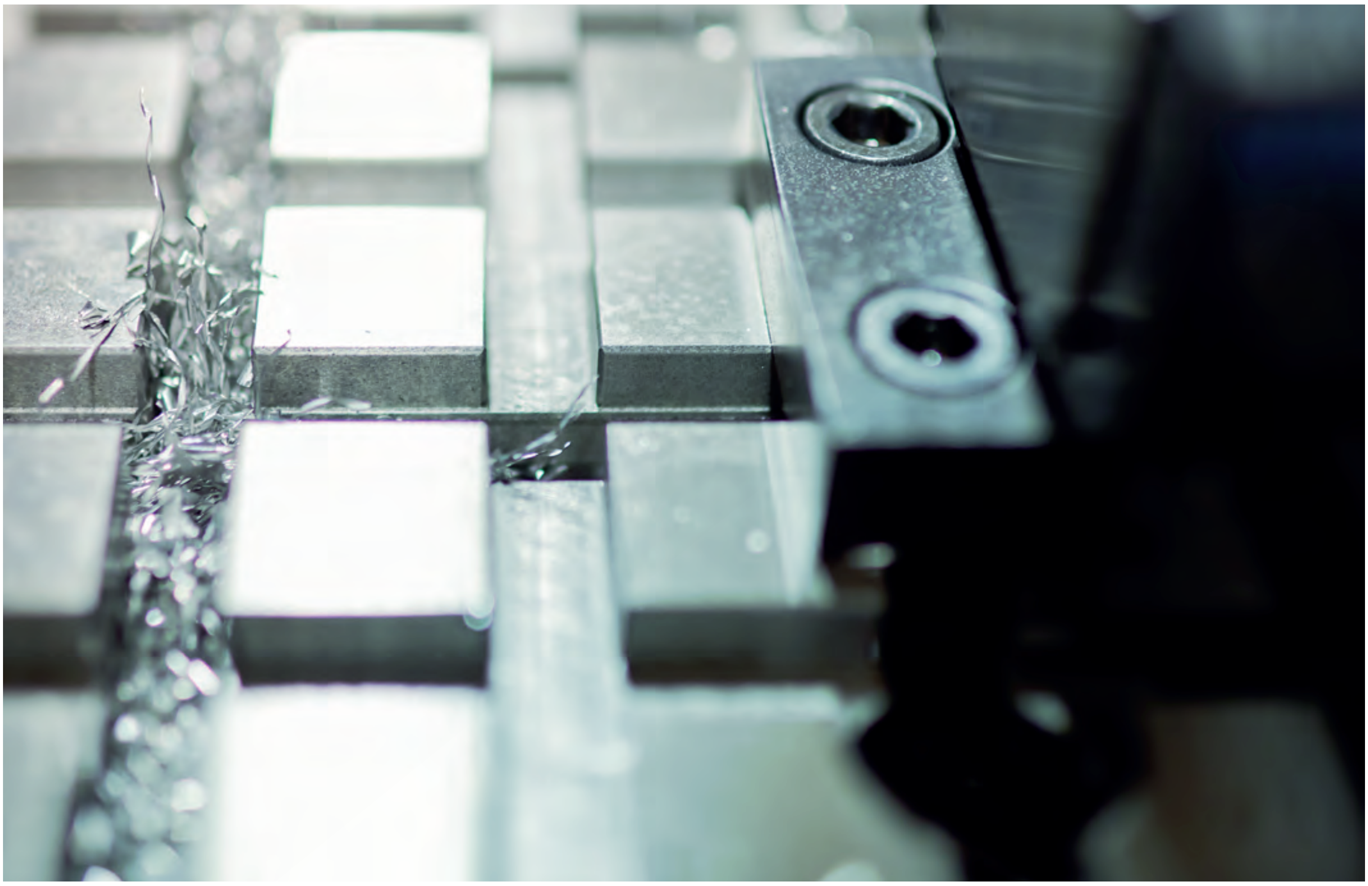
Costs increased 10%, broadly in line with income growth, mainly driven by continued investment and higher compensation as performance improved. In Banking and Asset Management, costs increased, reflecting our continued investment and higher performance-related costs. Winterflood's operating expenses also increased, due to higher variable costs.

We have seen a significant reduction in impairment charges and experienced strong underlying credit performance across the Commercial, Retail and Property businesses, as well as a reduction in Covid-19 provisions. The bad debt ratio of 1.1% (2020: 2.3%) included the impact of a significant increase in credit provisions against the Novitas Loans ("Novitas") loan book within the Commercial business.

We have maintained a strong balance sheet, and a prudent funding and liquidity position. Our common equity tier 1 ratio rose to 15.8% (31 July 2020: 14.1%), significantly ahead of applicable minimum regulatory requirements. We successfully issued a £350 million, 10-year senior unsecured bond in December 2020, and in June 2021 we raised £200 million of subordinated debt in the form of Tier 2 notes, replacing and concurrently repurchasing most of the outstanding securities. Our strong financial resources leave us in a good position to deliver on our strategy.

Following the group's strong performance in the year, and to reflect the continued confidence in our business model and financial position, the board is proposing a final dividend of 42.0p per share, resulting in a full-year dividend per share of 60.0p (2020: 40.0p), an increase of 50%.

Chief Executive's Statement continued



Keeping Our Model Safe While Taking it Forward

Earlier this year, we introduced the evolution of our strategic priorities to "Protect", "Grow" and "Sustain" our business model to continue to deliver on our purpose of helping the people and businesses of Britain thrive over the long term.

At our recent Investor Event we set out how we plan to build on the core strengths of our business and take it forward. The disciplined application of our lending criteria, our focus on service and personal approach, our distinctive culture and our diversified portfolio of businesses have proven their value throughout the crisis.

We continued to invest to protect our business model and maintain our operational and financial resilience. The playbooks and simulations run in prior years benefited our agile response to the changing environment we are in. We have made good progress on our multi-year investment programmes, which included the submission of our initial Internal Ratings Based ("IRB") application to the PRA in December. Our investment projects have also helped us strengthen our customer proposition and drive operational efficiency in Motor and Asset Finance.

As evidenced by our strong performance, we are focused on maximising the growth opportunities in each of our businesses. In the last year we have, for example, extended the product offering in our Savings franchise, launching 35 Day Retail Notice Accounts and Fixed Rate Cash Individual Savings Accounts ("ISAs"), which supported an increase in customer deposits of 12% in the year. In line with our plans to maximise long-term growth potential in the Asset Management business, we have completed the acquisition of PMN Financial Management LLP ("PMN"), an IFA business with c.£300 million of client assets. Winterflood Business Services ("WBS") has continued to grow its assets under administration, now at £6.2 billion.

Alongside continued growth in our existing market niches, we will continue to assess potential new initiatives. I see good opportunities arising in the sustainability sector, building on our position as an active provider of finance for the green energy and renewables sector.

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We have recently taken our investors through our new "Model Fit Assessment Framework". This is a set of criteria we continuously evaluate our businesses and initiatives against to ensure they are aligned with the key attributes that have and will continue to generate long-term value. This framework was used as a key tool in our strategic review of Novitas, which concluded that the overall risk profile of the business is no longer compatible with our long-term strategy and risk appetite, particularly given the recent credit performance of the business. Accordingly, in July 2021, the group decided to cease permanently the approval of lending to new customers across all of the products offered by Novitas and to withdraw from the legal services financing market.

Focus on the Long Term

Our long-term approach defines the way we do business. It is reflected in how we invest for growth and also in how we operate our business and engage with our stakeholders. It is key to ensuring we can sustain and future-proof our business.

We have made good progress on helping to address the social, economic and environmental challenges facing our business, employees and customers. You can read more about "Our Responsibility" in action on pages 22 and 23 of this Annual Report. We have announced several sustainability objectives and I am pleased with the progress we have made against those over the past year. For example, as part of our commitment to further increase our diversity and nurture our inclusive culture, we have broadened our inclusion remit to focus on disability inclusion through joining the Valuable 500 initiative and signing up to the Mental Health at Work commitment.

We are also committed to reducing our impact on the environment and responding to the threats and opportunities of climate change. We are supportive of the Paris Agreement goals on net zero and are targeting becoming operationally net zero through our Scope 1 and Scope 2 carbon emissions by 2030. We have already achieved a 23% reduction for the 2021 financial year, exceeding the targets we set ourselves last year and building on several consecutive years of lowering our operational emissions. Over the coming months, we will undertake an initial assessment of our indirect Scope 3 emissions, to provide us with a deeper understanding of the emissions impact of our supply chain and business activity.

Outlook

Looking ahead, we are encouraged by the improvement in the economic outlook although the trajectory remains uncertain.

In Banking, we are well positioned to maximise opportunities in the current cycle and remain confident in the long-term growth prospects of our businesses. We will continue to assess opportunities for potential new initiatives alongside growth in our existing market niches.

In Asset Management, our business is aligned with the long-term trends in the wealth management space and we remain committed to our growth strategy.

Winterflood has seen a slowing in volumes and moderation of trading performance over the last few months. Winterflood remains well positioned to continue trading profitably in a range of market conditions but, due to the nature of the business, it remains sensitive to changes in the market environment. We remain focused on growing WBS.

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

28 September 2021