Close Brothers
Modern Merchant Banking

CLOSE BROTHERS GROUP PLC
ANNUAL REPORT 2019

TO HELP THE PEOPLE AND
BUSINESSES OF BRITAIN THRIVE
OVER THE LONG TERM

THRIVE...

WE WANT TO HELP YOU TO THRIVE, TO SUPPORT YOU BY DOING THE THINGS THAT WE DO BEST. WE WILL TAKE THE TIME TO LEARN ABOUT YOUR WORLD SO WE KNOW HOW TO HELP IT FLOURISH, BY HELPING YOU NAVIGATE UNCERTAINTY AND SEIZE OPPORTUNITIES, ALLOWING YOU TO UNLOCK YOUR POTENTIAL AND BUILD FOR THE LONG TERM.

At Close Brothers we provide financial support and advice to small businesses and individuals throughout the UK. Our clients are the makers of things, the wealth creators, the investors and the savers. They are playing an important role driving growth in the British economy and we are supporting them as they grow.

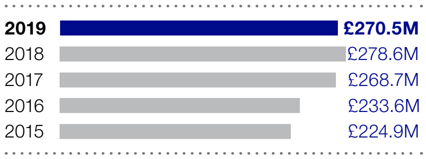
The photography within this Annual Report was photographed on location at our clients' businesses. We would like to thank them for their generous support and cooperation.

Financial Highlights[1]

for the year ending 31 July 2019

ADJUSTED[2] OPERATING PROFIT

£270.5M



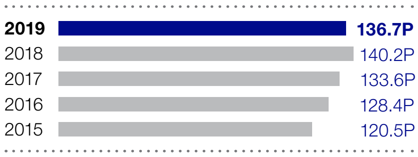
OPERATING PROFIT BEFORE TAX

£264.7M

2018: £271.2M

ADJUSTED[3] BASIC EARNINGS PER SHARE

136.7P



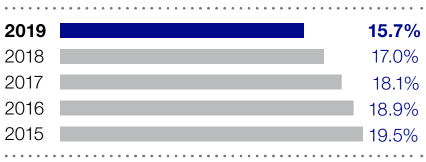
BASIC EARNINGS PER SHARE

133.5P

2018: 136.2P

RETURN ON OPENING EQUITY[4]

15.7%



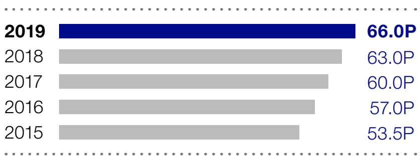
PROFIT ATTRIBUTABLE TO SHAREHOLDERS

£201.6M

2018: £202.3M

ORDINARY DIVIDEND PER SHARE[5]

66.0P



1 Financial highlights with the exception of profit attributable to shareholders presented on the basis of continuing operations, which exclude the unsecured retail point of sale finance business classified as a discontinued operation for the 2018 and 2019 financial years. See page 27 for more details on the basis of presentation.
2 Adjusted operating profit/(loss) is stated before amortisation of intangible assets on acquisition of £5.8 million (2018: £7.4 million) and profit from discontinued operations of £0.8 million (2018: £3.0 million loss).
3 Excludes amortisation of intangible assets on acquisition, discontinued operations and the tax effect of such adjustment.
4 Return on opening equity calculated as adjusted operating profit after tax and non-controlling interests on opening equity less non-controlling interests.
5 Represents the final dividend proposed for the respective years together with the interim dividend declared and paid in those years.

Strategic Report

Governance Report

Financial Statements

Our Businesses

CLOSE BROTHERS IS A LEADING UK MERCHANT BANKING GROUP PROVIDING LENDING, WEALTH MANAGEMENT SERVICES AND SECURITIES TRADING. WE OPERATE PRINCIPALLY IN THE UK AND EMPLOY OVER 3,000 PEOPLE.

BANKING

READ MORE ABOUT BANKING – SEE PAGES 30 TO 33

COMMERCIAL

ADJUSTED OPERATING PROFIT

£86.5M

2018: £76.1M

The Commercial business lends principally to small and medium sized enterprises ("SME"), both through its direct sales force and via broker distribution channels.

The **Asset Finance** business has c.27,000 customers and provides commercial asset financing, hire-purchase and leasing solutions for a diverse range of assets and sectors, including the financing of commercial vehicles, machine tools, contractors' plant, printing equipment, company car fleets, energy production, and aircraft and marine vessels. Our highly specialist sales force operates through 15 offices throughout the UK, Germany and Ireland.

Loan book[1]: **£1.9 billion**

Average loan size: **c.£40,000**

Typical loan maturity[2]: **3-5 years**

The **Invoice and Speciality Finance** business works with c.2,300 small businesses, providing debt factoring, invoice discounting and asset-based lending. It also includes our smaller specialist businesses such as Novitas, a specialist provider of finance for the legal sector, Brewery Rentals, which provides solutions for brewery equipment and container maintenance and vehicle hire, which provides heavy goods and light commercial vehicles on long-term rental contracts.

Loan book[1]: **£1.0 billion**

Average loan size[3]: **c.£400,000**

Typical loan maturity[2,3]: **2-3 months**

RETAIL

ADJUSTED OPERATING PROFIT[4]

£72.5M

2018: £81.1M

The Retail business provides loans to predominantly individuals and small businesses, through a network of intermediaries.

The **Motor Finance** business provides point of sale finance for the acquisition of predominantly used cars, motorcycles and light commercial vehicles. It operates through a network of c.7,000 independent motor dealers and has approximately 260,000 customers in the UK and Ireland.

Loan book: **£1.8 billion**

Average loan size: **c.£7,000**

Typical loan maturity[2]: **3-5 years**

The **Premium Finance** business finances insurance payments for over two million companies and individuals, via a network of c.1,700 insurance brokers, allowing their customers to spread the cost of insurance premiums over a number of instalments.

Loan book: **£1.0 billion**

Average loan size: **c.£500**

Typical loan maturity[2]: **10 months**

PROPERTY

ADJUSTED OPERATING PROFIT

£94.7M

2018: £94.6M

The Property business specialises in short-term residential development finance through **Property Finance**. This business operates in London, the South East and selected regional locations, lending to c.700 professional property developers with a focus on small to medium-sized residential developments.

It also offers refurbishment and bridging loans through **Commercial Acceptances**.

Loan book: **£1.8 billion**

Average loan size: **c.£1.4 million**

Typical loan maturity[2]: **9-18 months**

ASSET MANAGEMENT

READ MORE ABOUT ASSET MANAGEMENT – SEE PAGES 34 AND 35

ASSET MANAGEMENT

ADJUSTED OPERATING PROFIT

£21.8M

2018: £23.1M

Close Brothers Asset Management provides financial advice and investment management services to private clients in the UK. We offer financial planning advice with over 100 professional advisers across the country. We also provide a range of investment management services, including full bespoke management, managed portfolios and funds, distributed both directly via our own advisers and bespoke investment managers, and through third party IFAs.

Total client assets: **£13.3 billion**

Managed assets: **£11.7 billion**

SECURITIES

READ MORE ABOUT SECURITIES – SEE PAGES 36 AND 37

WINTERFLOOD

OPERATING PROFIT

£20.0M

2018: £28.1M

Our Securities division comprises **Winterflood**, a leading UK market maker for retail stockbrokers and institutions. Winterflood deals in c.15,000 securities in the UK and overseas, and trades with over 600 retail stockbrokers, wealth managers, platforms, institutional asset managers and other market counterparties, providing continuous liquidity through our market-leading execution services, supported by our strong proprietary technology. Our traders have extensive experience of executing orders in a range of market conditions, enabling us to trade successfully and profitably over many years.

Average bargains per day: **c.56,000**

Total counterparties: **c.600**

1 Excludes operating lease assets of £4.2 million (2018: £7.0 million) in Asset Finance and £216.2 million (2018: £191.8 million) in Invoice and Speciality Finance.
2 Typical loan maturities for new business on a contractual basis, except Invoice Finance which is on a behavioural basis. The average maturity of new business in the UK is presented for Motor Finance.
3 Loan book statistics include the Invoice Finance business only.
4 Presented as continuing operations excluding the unsecured retail point of sale finance business, which has been classified as a discontinued operation in the group's income statement.

Our Purpose

CLOSE BROTHERS' PURPOSE IS TO HELP THE PEOPLE AND BUSINESSES OF BRITAIN THRIVE OVER THE LONG TERM.

To achieve this, all of our diverse, specialist businesses have a deep industry knowledge so they can understand the challenges and opportunities that our customers and clients face. We support the unique needs of our customers and clients to ensure that they thrive, rather than simply survive, whatever the market conditions.

We believe in putting our customers and clients first, and we have developed a way of describing our approach to ensure that we can always do this; we call it "the why", "the what" and "the how".

The "why" is our purpose, the "what" is our strategy and the "how" is our culture, and these important pillars are at the heart of our organisation.

Our Culture

OUR CULTURE COMBINES EXPERTISE, SERVICE AND RELATIONSHIPS WITH TEAMWORK, INTEGRITY AND PRUDENCE.

Adhering to these attributes ensures that we continue to provide excellent service for our customers and clients over the long term.

We're proud of our people whose expertise, passion and willingness to go the extra mile really set us apart. It's what builds our long-term relationships with clients and customers that stand the test of time.

EXPERTISE

We are committed to fostering a culture that attracts talent, grows and builds the expertise of our employees.

INTEGRITY

We insist on trustworthy behaviour and always acting with integrity – "doing the right thing", internally and externally.

PRUDENCE

We take a prudent, robust and transparent approach to risk management.

TEAMWORK

We promote teamwork in a fair and open environment, where individuals and their contributions are valued and respected.

SERVICE

We care about delivering excellent service and thinking that's both entrepreneurial and disciplined.

RELATIONSHIPS

We take the time to understand and build strong long-term relationships with our clients, customers and all our stakeholders.

Chairman's Statement

A STRONG CULTURE FOR LONG-TERM SUCCESS

CLOSE BROTHERS HAS AGAIN DELIVERED STRONG RETURNS FOR SHAREHOLDERS, WHILE MAINTAINING GOOD EMPLOYEE ENGAGEMENT AND HIGH LEVELS OF CUSTOMER SATISFACTION.

MICHAEL N. BIGGS
CHAIRMAN

I am pleased to report another solid performance over the last year, in a challenging market environment. The Banking division has continued to grow the loan book while maintaining the discipline of our lending model; Close Brothers Asset Management has maintained strong net inflows despite subdued investor activity; and Winterflood has maintained solid trading profitability in a volatile equity market.

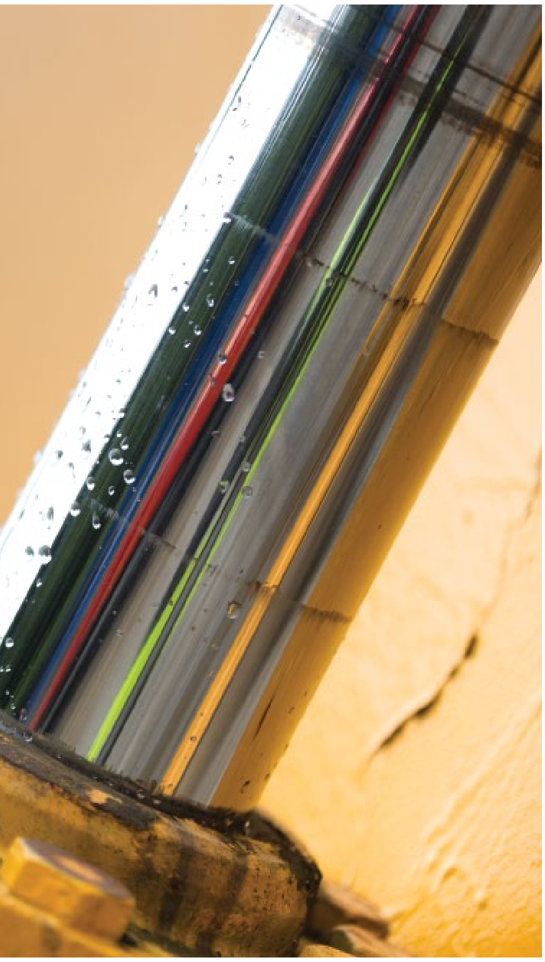
As a result, although overall adjusted operating profit reduced 3% reflecting financial market conditions, we have once again delivered strong returns for shareholders, with a return on opening equity of 15.7%.

The board is pleased to recommend a final dividend of 44.0p per share. If approved at the Annual General Meeting, this will result in a full-year dividend of 66.0p, a 5% increase on last year in line with our progressive dividend policy.

STRATEGIC AND FINANCIAL DISCIPLINE

While the outlook for the UK economy remains uncertain, our focus remains firmly on maintaining the discipline of our business model, which has allowed us to deliver consistent service to our clients and solid profitability in a wide range of market conditions over many years.

The board plays a key role in supporting and challenging the group's long-term strategic planning. This includes a rigorous assessment of both the risks and opportunities presented by the evolving market environment, and considering the interests of key stakeholders. In the last year, we have particularly focused on ensuring that the business is prepared in the event of a market downturn, drawing on the significant experience and expertise of our people to ensure we can both protect our existing business and make the most of any market opportunities.



> *"I firmly believe that acting sustainably and responsibly in our dealings with all our stakeholders is fundamental to the long-term success of our business."*
>
> MICHAEL N. BIGGS | CHAIRMAN

DIVIDEND PER SHARE

66.0P

2018: 63.0P

We are equally focused on maintaining investment in strategic initiatives and technology, to protect and future proof our businesses, enhance the efficiency and effectiveness of our operations, and provide a platform for future growth. This investment is subject to rigorous challenge and prioritisation, to ensure that we continue to offer a service proposition which remains relevant to customers, clients and partners, and delivers value over the long term.

A DISTINCTIVE, CUSTOMER-FOCUSED CULTURE

In last year's Annual Report we introduced our corporate purpose: to help the people and businesses of Britain thrive over the long term. This year has seen further embedding of the corporate purpose both internally and in our external communications, bringing to life the deep relationships we form with customers and partners. We have also launched our new code of conduct, the Close Brothers Way, which brings together the group's purpose, strategy, culture and the conduct standards which underpin our behaviours.

At the heart of our purpose and strategy is an absolute customer focus, which continues to be evident in my interaction with our businesses and employees. Continuous engagement with customers, clients and partners remains a key element of our strategy, with a number of formal programmes in place to listen, analyse and act on their feedback. This customer focus continues to be reflected in strong Net Promoter Scores and high levels of repeat business.

TALENT AND DIVERSITY

Our long-term success is underpinned by our people, who bring the expertise, industry knowledge and commitment that help us understand and react to the challenges and opportunities that our customers and clients face. We are committed to building a culture that attracts talent, builds the expertise of our employees, and allows our people to reach their full potential. I have been delighted to once again see strong engagement scores in this year's employee opinion survey.

Diversity remains an important area of focus for the board and across the organisation, with a number of programmes in place to promote diversity at all levels. We remain strongly committed to our target of 30% female senior management by 2020.

COMMUNITIES AND THE ENVIRONMENT

I firmly believe that acting sustainably and responsibly in our dealings with all our stakeholders is fundamental to the long-term success of our business. As a local employer in many communities in the UK, charitable activities and community engagement remain an important part of our culture.

During the last year we have also made significant progress with our environmental agenda, including formalising an environmental strategy with commitment to a number of targets, notably towards a material reduction in our fleet vehicle emissions. We are in the process of developing a formal framework to identify and respond to emerging climate risks.

BOARD CHANGES

Maintaining depth and diversity of skills and experience, while ensuring continuity in the stewardship of the group and its business model, remains an ongoing focus for the board. In the last year Mike Morgan has successfully transitioned to the role of group finance director, following his appointment in November after eight years as chief financial officer of the Banking division. We were also pleased to welcome Peter Duffy as a non-executive director on 1 January, bringing extensive experience of customer behaviour, marketing and technological change.

In the last year we also announced the retirement of Elizabeth Lee, who stepped down as group head of legal and regulatory affairs on 31 July 2019. On behalf of the board, I would like to thank Elizabeth for her wise counsel and significant contribution to the group over many years.

We have recently announced that Preben Prebensen will step down in the next year, after 10 years as chief executive. I am immensely grateful to Preben for his strong and successful leadership during a period of significant growth and development for the group. The board will now commence a thorough search for a successor, in line with our established succession process, to ensure we continue to protect and build on our successful business model in years to come.

OUR EMPLOYEES

I would like to thank all of our employees for their support and dedication over the last year. Together, we support a truly successful business model, which delivers strong employee engagement, high levels of service and satisfaction for our customers and clients, and strong returns for shareholders.

We all have an important role to play in delivering on our collective purpose: to help the people and businesses of Britain thrive over the long term, whatever the external environment may bring.

MICHAEL N. BIGGS
CHAIRMAN

24 September 2019

Chief Executive's Statement

DELIVERING STRONG RETURNS AND PROFITABILITY

I AM PLEASED THAT THE GROUP HAS DELIVERED ANOTHER VERY SOLID PERFORMANCE, WHILE MAINTAINING THE LONG-TERM DISCIPLINE OF OUR SUCCESSFUL BUSINESS MODEL.

We have maintained strong returns and profitability notwithstanding the challenging financial market conditions in the last year. Overall, we have reported a 3% reduction in adjusted operating profit to £270.5 million (2018: £278.6 million), with higher profit in the Banking division, while profit reduced in our market-facing businesses, Close Brothers Asset Management and Winterflood. Statutory operating profit decreased 2% to £264.7 million (2018: £271.2 million). Our equity base continued to grow, and return on opening equity was strong at 15.7% (2018: 17.0%).

Most importantly, we have maintained our business and strategic discipline throughout this period. In the Banking division, the net interest margin was 7.9% (2018: 8.0%), broadly stable on last year reflecting our continued pricing discipline in a competitive market. The bad debt ratio remains low at 0.6% (2018: 0.6%) with continued strong credit performance across the businesses. Close Brothers Asset Management has maintained good momentum with net inflows at 9% (2018: 12%) of opening managed assets, and Winterflood has achieved solid trading profitability with only two loss days in the year (2018: nil).

We are committed to long-term investment to protect, improve and extend our established business model, and are progressing a number of strategic investment initiatives. At the same time, we maintain a clear focus on cost and continuously seek opportunities to improve operating efficiency and free up resources for investment. Overall, the expense/income ratio increased slightly to 50% (2018: 49%) in the Banking division, and 61% (2018: 60%) for the group as a whole.

We have maintained a strong balance sheet, with a common equity tier 1 ratio rising to 13.0% (1 August 2018: 12.7%), comfortably ahead of regulatory requirements, and a continued prudent funding and liquidity position.

SPECIALISM AND DIVERSITY

While all our businesses share a common culture, built on our core attributes of service, expertise and relationships, each is a specialist in its own market, with a distinct product offering and customer base. This specialism and diversity protects our business, and has allowed us to deliver good performance through the cycle, reflecting the differing market and competitive dynamics across our portfolio of businesses.

This is evident in the divergent performance in the last year: while the market-facing businesses, Close Brothers Asset

Management and Winterflood, have been impacted by the challenging equity market environment, the Banking division has continued to deliver solid profitability and strong returns.

Adjusted operating profit in the Banking division increased 1% overall to £253.7 million (2018: £251.8 million). This in turn reflects a range of differing competitive dynamics and investment cycles across our lending businesses. Profits increased in Commercial, reflecting particularly good loan book growth; profits reduced in Retail, reflecting ongoing investment in that business; and Property was broadly flat on the prior year.

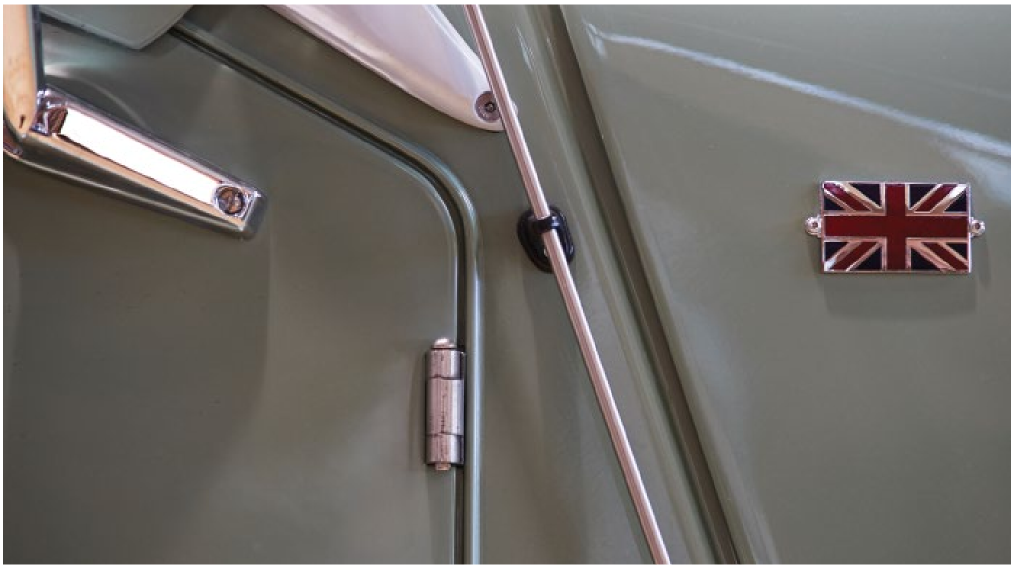
The diversity of our lending also supports our long-term growth, driven by both the resilience of our core businesses and new product initiatives and extensions. In the last financial year, the loan book grew 5.7% to £7.6 billion, with a particularly strong contribution from Commercial, supported by expansion of our offering in the personal contract hire market, growth in our asset-based lending product as well as expansion of the litigation finance offering in Novitas.

Within Retail, the Motor Finance business returned to growth following a period of modest decline, benefiting from a strengthened sales capability in the UK business. The Premium Finance business continued to grow, reflecting a number of new significant distribution relationships with insurance brokers.

Although we see good underlying demand, the Property loan book increased modestly overall, reflecting a significant level of repayments in the year. The business has continued to increase its reach in regional markets, with the opening of a new bridging finance office in Manchester and the extension of its development finance offering to Northern Ireland.

A PROVEN, RESILIENT BUSINESS MODEL

We have a proven and resilient lending model which is underpinned by strong margins, disciplined and consistent underwriting, and prudent levels of funding, capital and liquidity. This model has been extensively tested through past cycles, and we have a long track record of supporting our clients and lending profitably in a wide range of market conditions. As our loan book has grown in recent years, we have maintained strong



credit quality based predominantly on secured lending supported by local, specialist underwriting expertise and with significantly strengthened risk management capabilities.

In Asset Management, our focus on investing for long-term capital preservation protects us against short-term market movements and swings in market sentiment, demonstrated by last year's continued strong new business volumes. Winterflood once again proved its ability to maintain trading profitability in a difficult trading environment, with only two loss days in a year of significant market volatility.

Our priority remains to maintain the discipline of this model, building capital and maintaining funding flexibility for the future. In the last year we have spent significant time on contingency planning for any widespread downturn in the UK economy, including the development of playbooks and simulation exercises for our lending businesses. This will ensure that we leverage the significant experience in our businesses and mobilise the resources required to both protect our existing business, and make the most of any market opportunity which may arise.

INVESTING FOR THE FUTURE

Maintaining long-term investment to protect, improve and extend our business is a key strategic priority. This includes ongoing investment in operational resilience, compliance and technology to keep our organisation safe, as well as a number of

"The specialism and diversity of our businesses allows us to deliver good performance through the cycle."

PREBEN PREBENSEN | CHIEF EXECUTIVE

strategic investment projects. Investment plans are subject to strict challenge and prioritisation, with a rigorous assessment of the financial investment case, and several of our ongoing initiatives are already delivering meaningful financial benefits.

In 2016 we initiated a significant investment programme in our Premium Finance business, to upgrade its technology infrastructure, strengthen the service proposition to customers and brokers, and meet evolving regulatory requirements with a total budgeted spend of over £30 million. This includes a new contact centre, enhanced digital service capabilities and more sophisticated use of data to support our service proposition to customers. The benefits have been substantial and in excess of our original projections: a 34% increase in loan book, which is now over £1 billion, with several significant new broker relationships as a direct result of the enhanced service capability, and substantial cost savings.

More recently, we have begun an extensive investment programme in the Motor Finance business, where we see a clear opportunity to further strengthen our service-oriented, people-based proposition, supported by deep knowledge of the second-hand car and dealership market, drawing on extensive market research and feedback from partners and end customers. Over time, we expect increased new business volumes and improved cost efficiency; we have already seen early benefits in terms of increased sales volumes in the core UK market.

RETURN ON OPENING EQUITY

15.7%

2018: 17.0%

ADJUSTED BASIC EARNINGS PER SHARE

136.7P

2018: 140.2P

Chief Executive's Statement
continued

In the last financial year, we have rolled out our new treasury deposit platform, which will allow us to broaden the range and distribution of our deposit products. In December we successfully transferred 37,000 customers and over £3.8 billion of deposits to the new platform and have launched a number of new deposit products, including both retail and SME notice accounts. This will further increase our future funding flexibility, and optimise the cost of funding.

Our planned transition to the Internal Ratings Based ("IRB") approach for capital remains another key strategic priority, which builds on our existing modelling capabilities to further enhance our risk management framework, optimise our capital requirements and increase our long-term strategic flexibility. We are making good progress towards our IRB application, with increasing visibility and confidence as we move through our preparations. We have completed the development of our initial model suite, which is now undergoing testing and validation. We currently expect to be in a position to submit our formal application to the Prudential Regulation Authority ("PRA") around the 2020 financial year end.

MAXIMISING LONG-TERM GROWTH POTENTIAL IN CLOSE BROTHERS ASSET MANAGEMENT

We have continued to achieve good momentum in Close Brothers Asset Management, with strong net inflows at 9%, resulting in 12% growth in managed assets including market movements to £11.7 billion. Despite the ongoing market uncertainty, we continued to achieve good new business levels both through our own advisers and third party IFAs, and benefited from the hire of additional bespoke portfolio managers in the period. However, adjusted operating profit reduced slightly on the prior year, reflecting difficult financial market conditions and our ongoing investment in people, technology and research capability.

In the last year we have made significant progress on upgrading and consolidating our technology platform, which will further enhance operating efficiency and improve client experience. We have built a strong reputation in the wealth management market, and have attracted a number of key hires in the period, with the opening of a new client office in the West End of London. We believe that our integrated business model, combining professional financial advice with institutional quality investment management and a clear client-focused offering, is well positioned with significant future growth potential.

RESILIENT TRADING PERFORMANCE IN WINTERFLOOD

Winterflood has maintained solid trading profitability in a difficult trading environment, delivering operating profit of £20.0 million (2018: £28.1 million). The last year has been characterised by severe dislocation in the equity markets, driven by concerns around UK and global political events and ongoing economic uncertainty, resulting in low levels of risk appetite particularly among retail investors.

Winterflood's strong risk management, discipline in trading positions and significant market expertise has supported its consistently profitable trading performance, with only two loss days in the year – a significant achievement in this environment. However, income reduced as a result of low market activity, with average bargains per day down 18% on the prior year. Winterflood has maintained a strong market position as a leading market maker to retail stockbrokers in the UK, and continues to build its presence in the institutional market in response to increasing demand for execution services post MiFID II. It has recently obtained a licence to trade directly with institutions in the US, and also continues to develop Winterflood Business Services, which provides outsourced dealing and custody to fund managers and platforms.

These initiatives will provide additional diversification and resilience.

MANAGEMENT CHANGES

During the year we completed the transition of group finance director to Mike Morgan, following the departure of Jonathan Howell in November. We have also been pleased to welcome Martyn Atkinson to the Group Executive Committee as chief operating officer in February, and Angela Yotov as group general counsel, following the retirement of Elizabeth Lee on 31 July.

On 24 September, we announced that I have decided that the time has come to step down as chief executive in the next 12 months. It has been a privilege to lead such a special and successful organisation. The group is clearly well positioned for the future, with an excellent team in place, and I look forward to working closely with the board over the next year to continue delivering on our strategy and ensure a smooth and successful transition.

OUTLOOK

We are committed to maintaining the discipline of our business model, investing in key strategic initiatives and technology, and continually seeking to improve and extend our product offering.

We are closely monitoring external market and economic developments, and our diverse portfolio of businesses and strong credit quality position us well to lend consistently and profitably, and to support our customers and clients throughout the economic cycle.

The Banking division is committed to maintaining pricing and underwriting discipline, and progressing with key strategic investment initiatives.

The Asset Management division is focused on long-term growth in client assets and profits, through organic new business and selective hiring of advisers and portfolio managers.

Winterflood maintains a strong position in its markets, but as a daily trading business it remains sensitive to financial market conditions.

Overall, the group remains well positioned to support our customers and clients in a wide range of market conditions.

PREBEN PREBENSEN
CHIEF EXECUTIVE

24 September 2019

EVERY ONE OF US CAN THRIVE...

IT'S NOT ALWAYS EASY, AND TAKES REAL COMMITMENT, DETERMINATION AND PASSION, BUT IT'S WITHIN ALL OF US.

Case Study | BCW

A CHANCE ENCOUNTER AT A TRADE EXHIBITION OVER 16 YEARS AGO LED TO A LOAN ALLOWING BCW, THEN A START UP, TO BUY ITS FIRST PIECE OF EQUIPMENT. THIS LED TO A RELATIONSHIP THAT WOULD STAND THE TEST OF TIME.

ALEC CASSIE | MANAGING DIRECTOR

"Even though we don't have to use Close Brothers now that we are more established, we do use Close Brothers because we remember what they did for us and when they backed us when other people wouldn't."

BCW now has over 100 machine tools and is one of the UK's most advanced, vertically integrated precision engineering companies, making machined, welded and assembled aluminium extrusions, aluminium castings, assembled steel products, cast iron castings and hot warm and cold forgings.

A people business, BCW has built a company with young people at its heart. Working with universities and colleges, along with young people from disadvantaged backgrounds, BCW strives to support the next generation of UK engineers.

HELPING

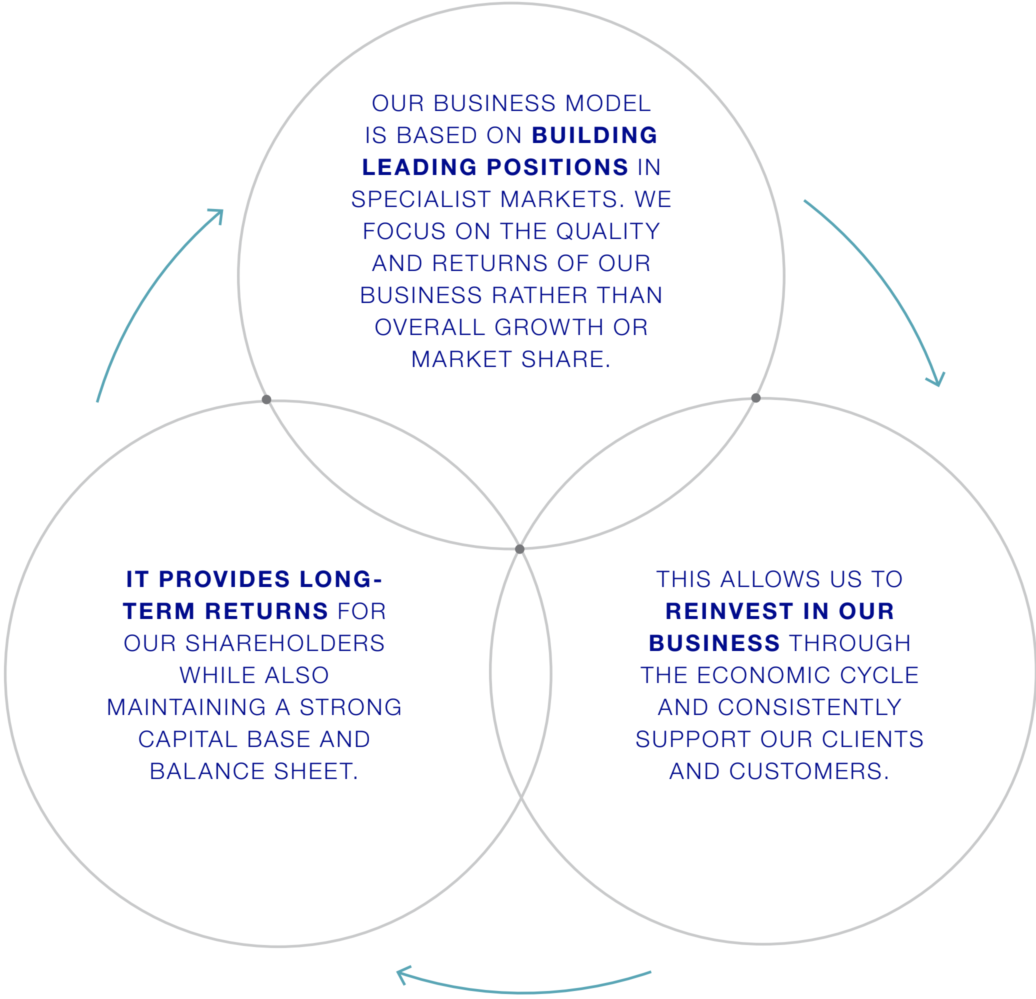
BUSIN

THRIVE


ESSES

Business Model

CLOSE BROTHERS HAS AN ESTABLISHED REPUTATION AS A RESPONSIBLE BANK WITH A DISTINCTIVE, PRUDENT BUSINESS MODEL AND A LONG-TERM APPROACH. WE FOCUS ON PROVIDING STRAIGHTFORWARD PRODUCTS AND SERVICES IN SECTORS WE KNOW AND UNDERSTAND, AND DELIVERING QUALITY AND RELIABILITY FOR OUR CLIENTS.



WE REMAIN COMMITTED TO OUR TRADITIONAL VALUES OF SERVICE, EXPERTISE AND RELATIONSHIPS ALONGSIDE TEAMWORK, INTEGRITY AND PRUDENCE, TO HELP THE PEOPLE AND BUSINESSES OF BRITAIN THRIVE OVER THE LONG TERM.

LONG ESTABLISHED PROVEN BUSINESS MODEL

STRONG CUSTOMER-LED PROPOSITION

Our specialist expertise and personal approach give us a deep understanding of our customers' needs and values, which allows us to offer high service levels and fast, flexible solutions for our clients and intermediaries.

DISCIPLINED APPROACH THROUGH THE CYCLE

We consistently apply our disciplined underwriting criteria at all stages of the financial cycle. Our lending is predominantly secured, with conservative loan to value ratios, small loan sizes and short maturities. Our strong margins and service-led customer relationships position us well to respond to any change in market conditions.

PRUDENT CAPITAL AND FUNDING

We take a prudent approach to managing our financial resources. A fundamental part of our business model is ensuring we have a strong capital position which allows us to grow, invest and meet all regulatory requirements. We also take a conservative approach to funding, focused on diversity of sources and a prudent maturity profile.

CONTINUOUS INVESTMENT WITHIN THE MODEL

Our focus on quality of returns and prudent funding and capital management enables us to reinvest through the cycle to protect, improve and extend our business. We continue to invest in our businesses to enhance our customer proposition and identify new products and opportunities within the boundaries of our model. Keeping our organisation safe with ongoing investment in operational resilience, compliance and technology remains a strategic priority for the group.

DIVERSIFIED PORTFOLIO OF BUSINESSES

In addition to our diversified portfolio of lending businesses, we also provide wealth management services and securities trading, which contribute to further diversification of income streams in the long term. We are constantly looking to maximise market opportunities for our businesses, both in existing and new markets, and tend to target segments of the market where clients value our personal service and expertise.

DRIVING SUSTAINABLE OUTCOMES AND BUSINESS PERFORMANCE

HIGH NET INTEREST MARGIN AND SUSTAINED LOAN BOOK GROWTH

We do not manage our businesses to a growth target, but instead prioritise the consistency of our lending criteria and maintaining strong returns. The strength of our client proposition has supported a loan book growth of between 6% and 23% and a net interest margin between 7.9% and 9.8% over the last 10 years across a range of market conditions.

RESILIENCE IN ALL MARKET CONDITIONS

Our consistent application of underwriting discipline and responsible lending criteria has resulted in a low bad debt ratio ranging from 0.6% to 2.4% over the last 10 years.

STRONG RETURNS

Our customer-focused approach and disciplined lending have supported consistently strong returns at all stages of the financial cycle. Return on net loan book ranged from 3.0% to 3.7% and group return on opening equity averaged 16% over the last 10 years.

PROGRESSIVE DIVIDEND

The consistent profitability and prudent management of capital has enabled us to deliver a long track record of progressive and sustainable dividend growth while maintaining a prudent dividend cover. Since listing in 1984, our dividend per share has grown progressively to 66.0p and has never been cut.

STRONG NET INFLOWS AND CONSISTENT TRADING PROFITABILITY IN OUR MARKET-FACING DIVISIONS

We have seen strong growth in our Asset Management business with net inflows as a percentage of opening managed assets ranging from 6% to 12% over the past five years. We continue to increase the scale and profitability of the Asset Management division through strong net inflows from a range of channels. Winterflood has a long track record of profitable trading in a wide range of market conditions, with only two loss days in the last financial year.

CREATING VALUE FOR STAKEHOLDERS

CONSISTENT CUSTOMER SERVICE

Across our businesses we have a deep knowledge of the industry sectors and asset classes we serve, leading to firmer lending decisions and faster access to funds when clients need them most. Our prudent approach to managing our financial position and capital base enables us to lend consistently to our clients under responsible terms in all market conditions. We are there for our clients even when others may pull back, and this has contributed to high levels of repeat business and strong Net Promoter Scores across our businesses.

Read more on pages 46 and 47.

STRONG SHAREHOLDER RETURNS

We have achieved strong returns for shareholders in a range of market conditions, and continue to deliver over the long term. This is reflected in our long run total shareholder return of 197% over the last 10 years.

ENGAGED EMPLOYEES

We continue to recruit, develop and retain high calibre employees by recognising their values and supporting and motivating them to realising their fullest potential. Our staff underpin our culture of service, expertise and relationships alongside teamwork, integrity and prudence, and are proud of the positive impact we have on our clients and the communities we operate in.

Read more on pages 44 and 45.

SUPPORTING THE COMMUNITIES AND THE ENVIRONMENT

We are committed to contributing lasting value and making a positive impact on the wider community in which we operate. We closely engage with our clients and all relevant stakeholders' communities across our business lines. Further, we are happy to promote a wide range of programmes that help support the causes that are beneficial to all those around us.

Read more on pages 48 to 51.

Strategy and Key Performance Indicators

OUR LONG-TERM STRATEGIC APPROACH FOCUSES ON WAYS TO PROTECT, IMPROVE AND EXTEND OUR MODEL, WHICH IN TURN ALLOWS US TO DELIVER EXCELLENT STAKEHOLDER OUTCOMES IN A WIDE RANGE OF MARKET CONDITIONS.

STRATEGIC OBJECTIVES	2019 PROGRESS	FUTURE PRIORITIES
PROTECT: A LONG-TERM APPROACH TO HOW WE RUN OUR BUSINESS. 1. Maintain prudent underwriting and strong margins in our lending 2. Maintain a sound level of funding, liquidity and capital 3. Maintain our strategic imperative of investing to protect our business	• Maintained firm adherence to our disciplined lending model, prudent loan to value ratios and strong margin in a competitive environment. • Maintained a prudent capital position with good headroom to regulatory requirements and very strong leverage ratio. • Good progress made on our preparation for applying to use the Internal Ratings Based approach. • Further strengthened and diversified our funding position with the launch of a new treasury deposit platform and renewed premium securitisation. • Maintained close risk management at Winterflood in challenging trading conditions, with only two loss days. • Conducted detailed preparatory work on managing for a potential downturn in the economy, with business-level scenario analysis and playbooks.	• Maintain disciplined underwriting and margin in all market conditions. • Maintain capital flexibility in an evolving regulatory environment and submit application for Internal Ratings Based approach. • Ensure our compliance with ongoing regulatory change. • Monitor and mitigate external threats, including competition from both established and emerging players and the UK's departure from the EU. • Continue to invest in our operational resilience, core technology and regulatory compliance.
IMPROVE: ENGAGING STAKEHOLDERS AND INVESTING TO STRENGTHEN OUR PROPOSITION. 4. Help our customers do business with us by adapting to their needs and investing in technology, people and products to improve our proposition 5. Maintain a disciplined approach to cost management and operational efficiency 6. Empower our employees through training, development and diversity	• Motor Finance transformation programme progressing well, with roll out of new sales competencies, process and methodology. • Maintained our cost discipline and operating efficiencies, freeing up capacity to invest. • Continued strong employee engagement. • Enhanced our extensive Voice of the Customer programme to listen, analyse and act upon feedback from our customers. • Benefits of our Premium Finance transformation investment programme materially exceeding original business case.	• Maintain cost discipline by continuously seeking operating efficiencies and opportunities for rationalisation. • Develop new customer centric capabilities in Motor Finance to increase value add and support dealer partners. • Monitor customer needs, preferences and trends in technology through research and responding to customer feedback. • Ensure we retain and attract staff and maximise productivity by responding to employee engagement, training and developing our people and investment in tools and technology.
EXTEND: CREATING FUTURE VALUE THROUGH MAXIMISING OUR POTENTIAL AND IDENTIFYING NEW OPPORTUNITIES. 7. Maximise the opportunity in each of our markets, within the boundaries of the model 8. Identify new products, distribution channels and adjacent market opportunities	• Maintained strong growth momentum in Asset Management with good net inflow levels and attracting new hires in a challenging market environment. • Selective regional expansion in Property Finance including a new office in Manchester, and a new offering in Northern Ireland. • Continued growth of Novitas via its litigation finance product. • Achieved good uptake of asset based lending and personal contract hire products. • Good progress made in expanding Winterflood's institutional relationships and Winterflood Business Services.	• Continue growing client assets and making incremental hires in Asset Management. • Maximise the lending opportunity while maintaining our disciplined approach. • Continue to identify and explore new business areas that fit with our specialist business model and generate strong returns. • Leverage investment in new deposit platform to launch new savings products, access new distribution channels, improve operating efficiency and further diversify our deposit offering. • Continue to develop Winterflood's institutional franchise and grow Winterflood Business Services.

KEY PERFORMANCE INDICATORS

COMMON EQUITY TIER 1 CAPITAL RATIO
PER CENT

2019	**13.0**
2018	12.7
2017	12.6

FUNDING COVER OF LOAN BOOK
PER CENT

2019	**129**
2018	132
2017	127

NET INTEREST MARGIN
PER CENT

2019	**7.9**
2018	8.0
2017	8.1

BAD DEBT RATIO
PER CENT

2019	**0.6**
2018	0.6
2017	0.6

BANKING EXPENSE/INCOME RATIO
PER CENT

2019	**50**
2018	49
2017	48

EMPLOYEE ENGAGEMENT
PER CENT

2019	**88**
2018	89
2017	89

NET PROMOTER SCORES
2019

Retail deposits brand	73
Bespoke Asset Management	56
Asset Finance	79
Premium Finance	51

PROPERTY REPEAT BUSINESS
PER CENT

2019	**78**
2018	77
2017	75

LOAN BOOK GROWTH[1]
PER CENT

2019	**6**
2018	7
2017	7

NET INFLOWS
PER CENT OF OPENING AUM

2019	**9**
2018	12
2017	9

CREATING LONG-TERM SHAREHOLDER VALUE

GROUP RETURN ON OPENING EQUITY
PER CENT

2019	**15.7**
2018	17.0
2017	18.1

ADJUSTED BASIC EARNINGS PER SHARE
PENCE

2019	**136.7**
2018	140.2
2017	133.6

DIVIDEND PER SHARE
PENCE

2019	**66.0**
2018	63.0
2017	60.0

1 For 2018, underlying loan book growth of 6.6% excludes the unsecured retail point of sale finance book of £66.2 million (31 July 2017: £36.7 million) which was held for sale at 31 July 2018.

Principal Risks and Uncertainties

RISK MANAGEMENT

The group faces a number of risks in the normal course of business providing lending, deposit taking, wealth management services and securities trading.

As set out in the strategy section on the previous pages, the protection of our established business model is a key strategic objective. As a result, the management of the risks we face is central to everything we do. The key elements to the way we manage risk are as follows:

- adhering to our established and proven business model outlined on pages 14 and 15;
- implementing an integrated risk management approach based on the concept of "three lines of defence"; and
- setting and operating within clearly defined risk appetites, monitored with defined metrics and set limits.

Further details on our approach to risk management are set out on pages 66 and 67. Risk management is overseen by the Board Risk Committee and its key areas of focus over the last financial year are set out on pages 70 and 71. We believe the key risks facing the group include: the current economic uncertainty; the regulatory landscape and how it may impact some or all of our businesses; the competitive environment; and maintaining operational resilience in the face of growing cyber threats. The potential impact of the UK's anticipated departure from the EU and how it could impact our customers also continues to be closely monitored and managed through the firm's emerging risk framework.

RISKS AND UNCERTAINTIES

The following pages set out the principal risks and uncertainties which may impact the group's ability to deliver its strategy, how we seek to mitigate these risks and the change in the perceived level of risk over the year. While we constantly monitor our portfolio for emerging risks, the group's activities, business model and strategy remain unchanged. As a result, the principal risks and uncertainties which the group faces and our approach to mitigating them remain broadly consistent with prior years. This consistency in approach has underpinned the group's track record of trading successfully and supporting our clients over many years.

The summary below should not be regarded as a complete and comprehensive statement of all potential risks and uncertainties faced by the group but reflect those which the group currently believes may have a significant impact on its performance and future prospects.

KEY: = NO CHANGE ↘ RISK DECREASED ↗ RISK INCREASED

RISK	MITIGATION	CHANGE
CREDIT RISK As a lender to businesses and individuals, the bank is exposed to credit losses if customers are unable to repay loans and outstanding interest and fees. At 31 July 2019 the group had loans and advances to customers amounting to £7.6 billion. The group also has exposure to counterparties with which it places deposits or trades, and also has in place a small number of derivative contracts to hedge interest rate and foreign exchange exposures.	We seek to minimise our exposure to credit losses from our lending by: • applying strict lending criteria when testing the credit quality and covenant of the borrower; • maintaining consistent and conservative loan to value ratios with low average loan size and short-term tenors; • lending on a predominantly secured basis against identifiable and accessible assets; • maintaining rigorous and timely collections and arrears management processes; and • operating strong control and governance both within our lending businesses and with oversight by a central credit risk team. Our exposures to counterparties are mitigated by: • excess liquidity of £1.1 billion placed with the Bank of England; • continuous monitoring of the credit quality of our counterparties within approved set limits; and • Winterflood's trading relating to exchange traded cash securities being settled on a delivery versus payment basis. Counterparty exposure and settlement failure monitoring controls are also in place.	= Credit losses have again remained low during the year to 31 July 2019 while other counterparty exposures are broadly unchanged with the majority of our liquidity requirements and surplus funding placed with the Bank of England. We continue to monitor closely the uncertainty over Brexit and the UK economic outlook combined with rising consumer debt levels. These factors could increase the risk of higher credit losses in the future. Further commentary on the credit quality of our loan book is outlined on pages 30 to 33. Further details on loans and advances to customers and debt securities held are in notes 11 and 12 on pages 125 to 128 of the financial statements. Our approach to credit risk management and monitoring is outlined in more detail in note 28 on page 148.

RISK	MITIGATION	CHANGE
ECONOMIC ENVIRONMENT Any downturn in economic conditions may impact the group's performance through: • lower demand for the group's products and services; • lower investor risk appetite as a result of financial markets instability; • higher credit losses as a result of the inability of our customers to service debt and lower asset values on which loans are secured; and • increased volatility in funding markets.	The group's business model aims to ensure that we are able to trade successfully and support our clients in all economic conditions. By maintaining a strong financial position we aim to be able to absorb short-term economic downturns, continuing to lend when competitors pull back and in so doing building long-term relationships by supporting our clients when it really matters. We test the robustness of our financial position by carrying out regular stress testing on our performance and financial position in the event of adverse economic conditions.	= Although UK economic performance has remained largely resilient to date, economic uncertainty and risk to the macroeconomic outlook remains elevated due to Brexit and wider global events. While a broadly stable macroeconomic backdrop is anticipated in our current base case scenario, stress testing and contingency planning continue to be employed to support preparedness for a range of possible scenarios. The potential economic impacts of the UK's planned departure from the EU continue to be closely monitored through the firm's emerging risk framework. Further commentary on the attributes and resilience of the group's diversified business model is shown on pages 14 and 15.
LEGAL AND REGULATORY Failure to comply with existing legal, regulatory or tax requirements, or to react to changes to these requirements, may have negative consequences for the group. Failing to treat customers fairly, to safeguard client assets or to provide advice and products which are in clients' best interests has the potential to damage our reputation and may lead to legal or regulatory sanctions, litigation or customer redress. This applies to current, past and future business. Similarly, changes to regulation and taxation can impact our financial performance, capital and liquidity and the markets in which we operate.	The group seeks to manage these risks by: • the implementation of appropriate policies, standards and procedures and the use of risk-based monitoring programmes to test adherence; • the provision of clear advice on legal and regulatory requirements, including in relation to the scope of regulatory permissions; • responding in an appropriate, risk-based and proportionate manner to any changes to the legal and regulatory environment and those driven by any strategic initiatives; • investing in training for all staff including anti-money laundering, bribery and corruption, conduct risk, data protection and information security. Additional tailored training for relevant employees is provided in key areas such as complaint handling; • maintaining constructive and positive relationships and dialogue with regulatory bodies and tax authorities; • providing straightforward and transparent products and services to our clients; • reviewing and approving new products and services through a clear governance and approval process; and • maintaining a prudent capital position with headroom above minimum capital requirements.	= Financial services businesses remain the subject of significant regulatory scrutiny. Minimum capital requirements are increasing as regulatory buffers are phased in and remain subject to change by regulators. In addition to the regulatory uncertainties associated with Brexit, there has been growing regulatory focus on consumer borrowing, particularly within motor finance, and on the customer experience within the asset management industry. For example, we continue to monitor the potential for regulatory change in the motor finance market following publication of the FCA's final report in March 2019.

Principal Risks and Uncertainties
continued

RISK	MITIGATION	CHANGE
OPERATIONAL RISK The group is exposed to various operational risks through its day-to-day operations, all of which have the potential to result in financial loss or adverse impact. Losses typically crystallise as a result of inadequate or failed internal processes, people and systems, or as a result of external factors. Adverse impacts to the business, customers, third parties and the markets in which we operate are considered within a developing focus on resilient end-to-end delivery of critical business services.	The group seeks to maintain its operational resilience through: • sustaining robust operational risk management processes, governance and management information; • identifying key systems, third party relationships, processes and staff, to enable effective investment decisions; • investing in technology to provide reliable and contemporary customer service offerings; • investing in cyber security including expertise, tools and staff engagement; • maintaining focus on data protection; • adopting fraud prevention and detection capabilities aligned with our risk profile; and • testing recovery capabilities and planning communications approaches for possible scenarios.	= Market and regulatory expectations continue to increase in relation to operational risk management and resilience. In line with this environment, the group continues to develop and evolve its capacity to reliably deliver key services. We continue to invest in and upgrade our IT infrastructure, third party management framework, operational processes and cyber security capability to keep abreast of these risks. For further information on our approach to operational resilience and also our response to cyber threats, see page 71 of the Risk Committee Report.
COMPETITION The group operates in competitive markets and experiences competition from traditional and new players, varying in both nature and extent across its divisions. Currently we are experiencing particularly high levels of competition within the Motor Finance business and the intermediated part of the Asset Finance market. Elevated levels of competition may impact the group's ability to write loans at its desired risk and return criteria, resulting in lower new business volumes and loss of market share.	The group's long track record of successful trading is supported by a consistent and disciplined approach to pricing and credit quality, even in competitive markets. This allows us to lend profitably and continue to support our customers at all stages in the financial cycle. We build long-term relationships with our clients and intermediaries based on: • the speed and flexibility of services; • our local presence and personal approach; • the experience of our people and subject matter experts; and • our offering of tailored and client-driven product solutions. This differentiated approach and the consistency of our lending results in strong customer relationships and high levels of repeat business. We are further protected by the diversity of our loan book and product portfolio, which provides resilience against competitive pressure in any one part of our markets.	= Despite high levels of competition across each of our businesses, our approach remains unchanged as we focus on supporting our clients, maintaining underwriting standards and investing in our business. Further commentary on the market environment of the Banking division is outlined on page 30. Our business model is set out on pages 14 and 15.

RISK	MITIGATION	CHANGE
EMPLOYEES The quality and expertise of our employees is critical to the success of the group. The loss of key individuals or teams may have an adverse impact on the group's operations and ability to deliver its strategy.	The group seeks to attract, retain and develop staff by: • operating remuneration and benefits structures which are competitive and recognise and reward performance; • creating an inclusive environment that embraces diversity; • listening to employee feedback through engagement surveys and developing action plans; • implementing succession planning for key roles; • improving our talent pipeline via our graduate and school leavers programmes and our sales training academy in Asset Finance; • investing in training and development for all staff; and • delivering leadership development programmes that identify current and future leaders for the group.	= Our highly skilled people are likely to be targeted by competitors, but we are confident in our ability to retain key employees. Further detail on the employee survey and our investment in our people is outlined in the Sustainability Report on pages 42 to 51.
FUNDING AND LIQUIDITY The Banking division's access to funding remains key to support our lending activities and the liquidity requirements of the group.	Our funding approach is based on the principle of "borrow long, lend short". The average maturity of funding allocated to the loan book was 20 months at 31 July 2019. This compares to our weighted average loan maturity of 14 months. Our funding is diversified both by source and channel, and by type and tenor. Liquidity in our Banking division is assessed on a daily basis to ensure adequate liquidity is held and remains readily accessible in stressed conditions. At 31 July 2019 the group's funding position was strong with total available funding equal to 129% of the loan book. This provides a prudent level of liquidity to support our lending activities.	= While economic uncertainty always has the potential to impact funding markets, the group remains conservatively funded and continues to have access to a wide range of funding sources and products. Our new customer deposit platform will further increase our funding resilience with access to a wider range of deposit and savings products, and an online distribution capability. This diversity of funding, combined with relatively long tenor when compared to the average duration of our lending, means we are well placed to meet any future market challenges or constraints. Further commentary on funding and liquidity is provided on pages 28 and 29. Further financial analysis of our funding is shown in note 19 on page 135 of the financial statements.

Principal Risks and Uncertainties
continued

RISK	MITIGATION	CHANGE
MARKET RISK Market volatility impacting equity and fixed income exposures, and/or changes in interest and exchange rates, have the potential to impact the group's performance.	Our policy is to minimise interest rate risk by matching fixed and variable interest rate assets and liabilities, and using swaps where appropriate. The capital and reserves of the group do not have interest rate liabilities and as such are not hedged. Foreign exchange exposures are generally hedged using foreign exchange forwards or currency swaps with exposures monitored daily against approved limits. Winterflood is a market maker providing liquidity to its clients in equity and fixed income instruments. Our trading is predominantly short-term, with most transactions settling within two days. Trading positions are monitored on a real time basis.	= The group's approach and the underlying risks are unchanged. Further detail on the group's exposure to market risk is outlined in note 28 on pages 154 and 155 of the financial statements. The sensitivity analysis on interest rate exposures shown in note 28 on page 154 demonstrates the limited level of exposure to interest rate and foreign exchange movements.

EMERGING RISKS

The group utilises an established framework to monitor its portfolio for emerging risks, supporting organisational readiness for external volatility.

This incorporates input and insight from both a top-down and bottom-up perspective:
- **Top-down:** Emerging risks identified by directors and executives at a group level via the Group Risk and Compliance Committee and the board.
- **Bottom-up:** Emerging risks identified at a business level and escalated, where appropriate, via risk updates into the Group Risk and Compliance Committee and the board.

Group-level emerging risks are monitored by the Group Risk and Compliance Committee and the Risk Committee on an ongoing basis, with agreed actions tracked to ensure the group's preparedness should an emerging risk crystallise.

Current group-level emerging risks are detailed below:

EMERGING RISK	MITIGATING ACTIONS
1. Risk of economic and political uncertainty as a result of the UK's exit from the EU	Brexit Forum established in 2016 to track ongoing developments and develop appropriate contingency plans. Appropriate preparations made for a potential "no deal" exit, including the establishment of a new Irish subsidiary and subsequent approval of a MoneyLender licence in the Republic of Ireland to support continuation of our continental Retail and SME Premium Finance business.
2. Risk of financial loss resulting from the physical or transitional impacts of climate change	Climate Risk Working Group established in 2019 with responsibility for developing an appropriate and regulatory-compliant firm-wide climate risk framework. Senior management responsibility has been assigned to the group chief risk officer while the Risk Committee has assumed responsibility for overseeing and challenging the developing framework.

THRIVING...

IS FOLLOWING YOUR AMBITION, NOT LIMITING IT, SETTING NEW GOALS AND PUSHING YOURSELF FORWARD.

HELPING CUST THRIVE

OMERS

Case Study | Brighton Gin

FOLLOWING MONTHS OF EXPERIMENTATION WITH INGREDIENTS AND COMBINATIONS IN A PUB BASEMENT, TO NOW BEING IN LARGER PREMISES, BRIGHTON GIN IS NOT ONLY BRIGHTON'S FIRST LEGAL DISTILLERY, BUT ALSO A MULTI-AWARD WINNING GIN.

KATHY CATON | FOUNDER AND MANAGING DIRECTOR

"In order to take the next leap onwards, working with Close Brothers has really freed up our cash flow and let us do things like give people jobs, buy kit and really ramp up our production."

Like many small businesses starting out, cash flow can be a major issue. By working with Close Brothers, Brighton Gin was able to free up working capital to meet customer goals and demands, grow their premises, buy equipment, provide employment opportunities and increase production.

Close Brothers was there to help turn their dream into a reality, supporting Brighton Gin every step of the way and helping them to thrive.

Financial Overview

CLOSE BROTHERS DELIVERED A SOLID PERFORMANCE IN THE YEAR, MAINTAINING STRONG RETURNS AND PROFITABILITY.

The group delivered another solid performance, maintaining strong returns and profitability. Adjusted operating profit decreased 3% to £270.5 million (2018: £278.6 million), reflecting a challenging environment for our market-facing businesses and continued investment across all our businesses. Statutory operating profit before tax from continuing operations decreased 2% to £264.7 million (2018: £271.2 million). The operating margin reduced by 2% to 33% (2018: 35%).

The Banking division continued to perform well and slightly ahead of the prior year, delivering an adjusted operating profit of £253.7 million (2018: £251.8 million), with good income growth and continued low bad debt ratios across the businesses, offset by higher adjusted operating expenses as we increased investment in our business. The Asset Management division continued to achieve strong net inflows, although operating profit of £21.8 million (2018: £23.1 million) was down 6% on the prior year reflecting lower average market levels throughout the year and continued investment to support the long-term growth potential of the business. The Securities division delivered solid trading profitability despite difficult market conditions, with operating profit of £20.0 million (2018: £28.1 million), down 29% on a strong prior year. Group net expenses, which include the central functions such as finance, legal and compliance, risk and human resources were up 2% at £25.0 million (2018: £24.4 million).

Adjusted operating income increased 1% to £816.4 million (2018: £805.8 million), as good income growth in the Banking and Asset Management divisions was partially offset by reduced trading income in the Securities division. Income in the Banking division increased 4%, reflecting loan book growth across all businesses and a broadly stable net interest margin of 7.9% (2018: 8.0%). Income in the Asset Management division was up 4%, reflecting higher client assets and a £1.4 million gain on disposal of assets in the second half of the financial year. Income in the Securities division declined 14% as a result of significantly lower trading volumes driven by subdued investor appetite.

Adjusted operating expenses increased 4% to £497.4 million (2018: £480.5 million), with most of the increase in the Banking division, where we continue to invest in a number of strategic projects and business initiatives. While investment costs have increased, we have continued to improve operational efficiency and, as a result, the Banking expense/income ratio only increased to 50% (2018: 49%). Costs also increased in the Asset Management division, driven by continued hiring of advisers and portfolio managers and investments in technology and our research capability. Expenses in the Securities division reduced, reflecting lower variable costs. Overall, the group's expense/income ratio was marginally higher at 61% (2018: 60%) but the group's compensation ratio reduced slightly to 36% (2018: 37%).

The group's loan impairment losses are now reported under IFRS 9. The application of the new standard accelerates the recognition of impairment, principally as loans move between "stages" due to changes in their credit profile or to reflect changes in the macroeconomic outlook. In the last year, impairment losses increased 4% to £48.5 million (2018: £46.7 million under IAS 39). The bad debt ratio remained low at 0.6% (2018: 0.6%), reflecting the continued prudent application of our lending criteria and consistently strong credit performance across our lending portfolios.

The tax charge in the period was £64.4 million (2018: £67.0 million), which corresponds to an effective tax rate of 24% (2018: 25%), reflecting a one-off credit due to the release of a tax provision. Adjusted basic earnings per share ("EPS") from continuing operations decreased 2% to 136.7p (2018: 140.2p) and basic EPS from continuing operations decreased 2% to 133.5p (2018: 136.2p).

DISCONTINUED OPERATIONS

On 1 January 2019, the group completed the sale of its unsecured retail point of sale finance business, which has been treated as a discontinued operation in the income statement for the 2018 and 2019 financial years, and as an asset held for sale on the balance sheet at 31 July 2018 and 1 August 2018. The profit from discontinued operations was £1.1 million (2018: £2.2 million loss) and included a £2.7 million profit on disposal net of tax. Basic EPS from continuing and discontinued operations was 134.2p (2018: 134.7p), broadly in line with the prior year.

DIVIDEND

The board is proposing a final dividend per share of 44.0p (2018: 42.0p), resulting in a full-year dividend per share of 66.0p (2018: 63.0p), an increase of 5% on the prior year. This reflects our progressive dividend policy, which aims to provide sustainable dividend growth year-on-year, while maintaining a prudent level of dividend cover. Subject to shareholder approval at the Annual General Meeting, the final dividend will be paid on 26 November 2019 to shareholders on the register at 11 October 2019.

RETURN ON OPENING EQUITY

15.7%

2018: 17.0%

ADJUSTED OPERATING PROFIT

£270.5M

2018: £278.6M

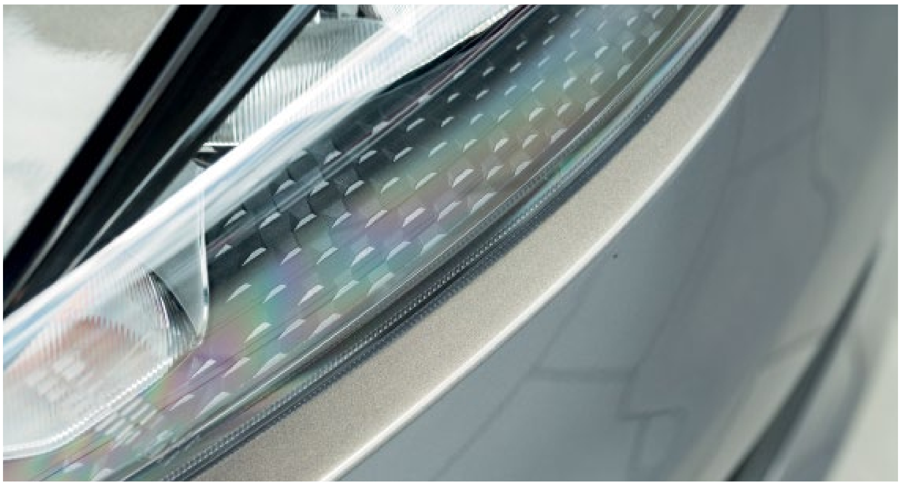
"The group has delivered another solid performance, maintaining strong returns and profitability."

PREBEN PREBENSEN | CHIEF EXECUTIVE

BASIS OF PRESENTATION

Results are presented both on a statutory and an adjusted basis to aid comparability between periods. Adjusted measures are presented on a basis consistent with prior periods and exclude amortisation of intangible assets on acquisition, to present the performance of the group's acquired businesses consistent with its other businesses; any exceptional items, which are non-recurring and do not reflect trading performance; and discontinued operations.

Discontinued operations relate to the unsecured retail point of sale finance business, which was sold on 1 January 2019, and has been classified as a discontinued operation in the group's income statement for the 2018 and 2019 financial years. The related assets and liabilities are classified as held for sale on the group's balance sheet at 31 July 2018 and 1 August 2018.



To maintain consistency with the income statement and reflect the group's continuing operations, the calculation of the bad debt ratio, net interest margin and return on net loan book for the Banking division in the 2018 financial year comparative period excludes the unsecured retail point of sale finance loan book from both the opening and closing loan book.

As previously communicated, the group has adopted IFRS 9 Financial Instruments with effect from 1 August 2018, and is presenting its results for the 2019 financial year under IFRS 9. As permitted by IFRS 9, comparative information has not been restated and transitional adjustments have been accounted for through retained earnings at 1 August 2018.

The comparative income statement for the 2018 financial year continues to be reported under IAS 39 Financial Instruments – Recognition and Measurement. The group has presented its opening balance sheet at 1 August 2018 and reported under IFRS 9 to aid comparability and consistency with the 2019 financial year closing balances (see also note 30 to the consolidated financial statements).

GROUP INCOME STATEMENT

	2019 £ million	2018 £ million	Change %
Continuing operations			
Adjusted operating income	**816.4**	805.8	1
Adjusted operating expenses	**(497.4)**	(480.5)	4
Impairment losses on financial assets	**(48.5)**	(46.7)	4
Adjusted operating profit	**270.5**	278.6	(3)
Banking	**253.7**	251.8	1
Commercial	**86.5**	76.1	14
Retail	**72.5**	81.1	(11)
Property	**94.7**	94.6	0
Asset Management	**21.8**	23.1	(6)
Securities	**20.0**	28.1	(29)
Group	**(25.0)**	(24.4)	2
Amortisation of intangible assets on acquisition	**(5.8)**	(7.4)	(22)
Operating profit before tax	**264.7**	271.2	(2)
Tax	**(64.4)**	(67.0)	(4)
Profit after tax: continuing operations	**200.3**	204.2	(2)
Profit/(loss) from discontinued operations, net of tax	**1.1**	(2.2)	
Loss attributable to non-controlling interests	**(0.2)**	(0.3)	
Profit attributable to shareholders: continuing and discontinued operations	**201.6**	202.3	(0)
Adjusted basic earnings per share (continuing operations)	**136.7p**	140.2p	(2)
Basic earnings per share (continuing operations)	**133.5p**	136.2p	(2)
Basic earnings per share (continuing and discontinued operations)	**134.2p**	134.7p	(0)
Dividend per share	**66.0p**	63.0p	5
Return on opening equity	**15.7%**	17.0%	

BALANCE SHEET

We maintain a prudent approach to managing our financial resources, which is reflected in our strong and transparent balance sheet. The structure of the balance sheet remains unchanged, with most of the assets and liabilities relating to our lending activities. Loans and advances make up the majority of our assets. Our loan book is predominantly secured across a diverse range of asset classes and is generally short term in nature with low average loan size.

Other items on the balance sheet include treasury assets held for liquidity purposes, and settlement balances in our Securities division. Intangibles, property, plant and equipment, and prepayments are included as other assets. Liabilities are predominantly made up of customer deposits and both secured and unsecured borrowings to fund the loan book.

Financial Overview
continued

Total assets increased 3% to £10.6 billion (1 August 2018: £10.2 billion), driven by loan book growth in the year. Total liabilities were up 3% to £9.2 billion (1 August 2018: £8.9 billion) driven by an increase in borrowings and deposits to fund loan book growth. Shareholders' equity of £1.4 billion (1 August 2018: £1.3 billion) continued to build, with profit in the period partially offset by dividend payments of £95.5 million (2018: £91.0 million). The group's return on assets remained broadly stable at 1.9% (2018: 2.0%).

CAPITAL

The group's strong capital generation has allowed us to support continued loan book growth in the year while maintaining capital ratios comfortably ahead of minimum requirements. Overall, the common equity tier 1 ("CET1") capital ratio increased to 13.0% (1 August 2018: 12.7%), reflecting continued profitability and slower loan book growth at this stage in the cycle. The total capital ratio increased to 15.2% (1 August 2018: 15.0%).

In the last year, we generated £87.0 million of CET1 capital, reflecting £201.6 million of profit in the year, partially offset by the regulatory deduction of dividends paid and foreseen of £98.5 million, an increase in intangibles, and other movements in reserves. As a result, CET1 capital increased 8% to £1,169.2 million (1 August 2018: £1,082.2 million).

Risk weighted assets also increased 5% to £9.0 billion (1 August 2018: £8.5 billion), primarily reflecting continued loan book growth.

The leverage ratio, which is a transparent measure of capital strength not affected by risk weightings, remains strong at 11.0% (1 August 2018: 10.6%).

The group's capital ratios at 31 July 2019 are presented on a transitional basis after applying IFRS 9 arrangements that allow the capital impact of expected credit losses to be phased in over a five-year period, and the Capital Requirements Regulation ("CRR") transitional arrangements for grandfathered Tier 2 capital instruments. Before the transitional adjustments, the group's fully loaded CET1 and total capital ratios at 31 July 2019 were 12.6% (1 August 2018: 12.2%) and 14.5% (1 August 2018: 14.2%), respectively.

The group and its individual regulated entities complied with all of the externally imposed capital requirements to which they are subject for the financial years ended 31 July 2019 and 2018. The group's capital ratios remain comfortably ahead of minimum regulatory requirements. Our minimum CET1 capital ratio requirement, effective July 2019, is 9.0%, including all applicable buffers and a 1.1% pillar 2 add-on, with a total capital requirement of 13.4%. Accordingly, we continue to have good headroom of c.400 bps in our CET1 capital ratio, and c.180 bps in the total capital ratio.

This leaves us well placed to support continued growth in the loan book and absorb any foreseen regulatory changes, including the proposed capital adequacy reforms, commonly referred to as Basel 4.

We are making good progress towards our IRB application, with increasing visibility and confidence as we move through our preparations. We have completed the development of our initial model suite, which is now undergoing testing and validation. We currently expect to be in a position to submit our formal application to the PRA around the 2020 financial year end.

GROUP BALANCE SHEET

	31 July 2019 £ million	1 August 2018 £ million[1]
Loans and advances to customers	**7,649.6**	7,239.3
Treasury assets[2]	**1,395.4**	1,435.1
Market-making assets[3]	**666.1**	635.7
Other assets	**850.2**	896.0
Total assets	**10,561.3**	10,206.1
Deposits by customers	**5,638.4**	5,497.2
Borrowings	**2,601.0**	2,501.1
Market-making liabilities[3]	**582.4**	565.5
Other liabilities	**333.1**	338.5
Total liabilities	**9,154.9**	8,902.3
Equity	**1,406.4**	1,303.8
Total liabilities and equity	**10,561.3**	10,206.1

1 Opening balance sheet reported under IFRS 9.
2 Treasury assets comprise cash and balances at central banks, and debt securities held to support lending in the Banking division.
3 Market-making assets and liabilities comprise settlement balances, long and short trading positions and loans to or from money brokers.

GROUP CAPITAL POSITION

	31 July 2019 £ million	1 August 2018 £ million
Common equity tier 1 capital	**1,169.2**	1,082.2
Total capital	**1,364.6**	1,280.1
Risk weighted assets	**8,967.4**	8,542.6
Common equity tier 1 capital ratio	**13.0%**	12.7%
Total capital ratio	**15.2%**	15.0%
Leverage ratio	**11.0%**	10.6%

FUNDING

The primary purpose of our treasury function is to manage funding and liquidity to support the lending businesses and manage interest rate risk. We maintain a conservative approach, with diverse funding sources and a prudent maturity profile, which increases our resilience and flexibility and helps to manage changes in the cost of funding.

Total funding increased to £9.9 billion (1 August 2018: £9.6 billion) and accounted for 129% (1 August 2018: 132%) of the loan book at the balance sheet date. Our average cost of funding of 1.7% (2018: 1.6%) was marginally up on the prior year, though our effective management of funding sources kept this increase comfortably below the 25 bps rise in the Bank of England base rate in August 2018.

We maintain a diverse range of funding sources across a series of maturities, including several public debt securities at both group and operating company level as well as a number of securitisation facilities. Over the year, we increased our volumes of customer deposits, and have continued to make use of smaller private placements.

Our range of secured funding facilities include securitisations of our Premium and Motor Finance loan books. During the year we renewed and increased our Motor Finance securitisation facility by £100 million, at lower pricing, and renewed and increased our Premium Finance securitisation facility to £500 million over a two-year period. We have made limited use of the Term Funding Scheme, which accounted for only 5% of our total funding at the year end. The first of our public Motor Finance securitisations was fully redeemed on 16 September 2019, with all public interest repaid at 31 July 2019.

Deposits increased 3% overall to £5.6 billion (1 August 2018: £5.5 billion) with non-retail deposits decreasing slightly to £3.5 billion (1 August 2018: £3.6 billion) and retail deposits increasing by 12% to £2.1 billion (1 August 2018: £1.9 billion). Unsecured funding remained broadly unchanged at £1.5 billion (1 August 2018: £1.4 billion).

We have maintained a prudent maturity profile. Term funding, with a residual maturity over one year, increased to £5.5 billion (1 August 2018: £4.9 billion), reflecting the renewal of long-term facilities, and now covers 72% (1 August 2018: 68%) of the loan book. The average maturity of funding allocated to the loan book remained significantly ahead of the loan book at 20 months (1 August 2018: 23 months), while the average loan book maturity remained at 14 months (1 August 2018: 14 months).

During the year we implemented a new customer deposit platform, which will allow us to offer a wider range of deposit products to further diversify our funding as well as improve customer experience. We completed the successful migration of c.37,000 customers and £3.8 billion of deposits onto the new platform in December 2018, and have since launched new notice accounts as an additional product for our retail, pension and SME customers. In the 2020 financial year we will be introducing a suite of new savings products and a new online portal.

Our strong credit ratings have been reaffirmed by both Moody's Investors Services ("Moody's") and Fitch Ratings ("Fitch") during the year. Moody's rates Close Brothers Group A3/P2 and Close Brothers Limited Aa3/P1, with stable outlook. Fitch affirmed ratings for both entities "A/F1" in August 2019, having previously revised the outlook to rating watch negative alongside UK peers in March 2019 to reflect their view of the increased risk of a disruptive "no deal" Brexit scenario.

GROUP FUNDING[1]

	31 July 2019 £ million	1 August 2018 £ million
Customer deposits	**5,638.4**	5,497.2
Secured funding	**1,404.8**	1,360.3
Unsecured funding[2]	**1,462.2**	1,421.2
Equity	**1,406.4**	1,303.8
Total available funding	**9,911.8**	9,582.5
Of which term funding (>1 year)	**5,493.4**	4,913.6
Total funding as % of loan book	**129%**	132%
Term funding as % of loan book	**72%**	68%
Average maturity of funding allocated to loan book[3]	**20 months**	23 months

1 Numbers relate to core funding and exclude working capital facilities at the business level.
2 Unsecured funding excludes £29.0 million (2018: £14.6 million) of non-facility overdrafts included in borrowings and includes £295.0 million (2018: £295.0 million) of undrawn facilities.
3 Average maturity of total funding excluding equity and funding held for liquidity purposes.

GROUP LIQUIDITY

	31 July 2019 £ million	1 August 2018 £ million
Cash and balances at central banks	**1,106.4**	1,140.3
Sovereign and central bank debt	**48.3**	44.5
Certificates of deposit	**240.7**	250.3
Treasury assets	**1,395.4**	1,435.1

LIQUIDITY

The group maintains a strong liquidity position, ensuring it is comfortably ahead of both internal risk appetite and regulatory requirements. The majority of our liquidity requirements and surplus funding are held with central banks. In the year, treasury assets remained broadly stable at £1.4 billion (1 August 2018: £1.4 billion) and were predominantly held on deposit with the Bank of England, giving us continued good headroom to both internal and external liquidity requirements.

We regularly assess and stress test our liquidity requirements and continue to comfortably meet the liquidity coverage ratio requirements under the Capital Requirements Directive IV ("CRD IV"), with a 12-month average liquidity coverage ratio of 823% (2018: 1,038%).

COMMON EQUITY TIER 1 CAPITAL RATIO

13.0%

2018: 12.7%

TOTAL FUNDING

£9.9BN

1 AUGUST 2018: £9.6BN

TREASURY ASSETS

£1.4BN

1 AUGUST 2018: £1.4BN

Banking

SOLID PERFORMANCE WHILE MAINTAINING PRICING AND UNDERWRITING DISCIPLINE.

Banking adjusted operating profit was up 1% to £253.7 million (2018: £251.8 million), with solid loan book growth and broadly stable net interest margin offsetting an increase in investment. Statutory operating profit from continuing operations increased 1% to £251.8 million (2018: £249.9 million).

The loan book grew 5.7% (2018: 6.6% excluding discontinued operations), with growth across all our lending businesses, reflecting our strong customer proposition and benefiting from the diversity of our business portfolio. The return on net loan book remained strong at 3.3% (2018: 3.5%).

Adjusted operating income was up 4% at £602.6 million (2018: £581.0 million), supported by loan book growth across the lending businesses.

NET INTEREST MARGIN

7.9%

2018: 8.0%

The net interest margin remained strong at 7.9% (2018: 8.0%), reflecting continued pricing discipline. The slight reduction compared to the prior year reflects a combination of lower fee income and higher cost of funds.

Adjusted operating expenses increased 6% to £300.5 million (2018: £282.5 million). Over two-thirds of the increase relate to investment in strategic projects and new business initiatives, in line with our long-term strategy. This includes our multi-year investment programme in Motor Finance, our new customer deposit platform and investment to support our IRB application.

BUILDING STRONG RELATIONSHIPS

RETURN ON OPENING EQUITY

17.5%

2018: 19.5%

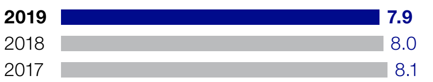
The remaining cost increase largely relates to strengthening our operational resilience and core technology. Despite the increase in overall costs, we have continued with our efforts to improve operating efficiency and carefully manage non-investment spend. Staff costs, which represent the majority of the cost base, remained flat on the prior year. The expense/income ratio was marginally up to 50% (2018: 49%), while the compensation ratio reduced slightly to 28% (2018: 29%).

We have maintained strong credit quality across our businesses and the bad debt ratio remained low at 0.6% (2018: 0.6%).

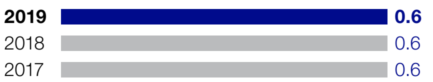
Return on opening equity remained strong at 17.5% (2018: 19.5%) reflecting the ongoing strong profitability of the business, offset by continued growth in the equity base.

KEY PERFORMANCE INDICATORS

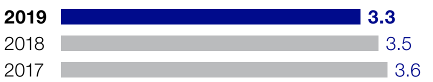
NET INTEREST MARGIN
PER CENT



BAD DEBT RATIO
PER CENT



RETURN ON NET LOAN BOOK
PER CENT



KEY FINANCIALS

Continuing operations[1]	**2019 £ million**	2018 £ million	Change %
Adjusted operating income	**602.6**	581.0	4
Adjusted operating expenses	**(300.5)**	(282.5)	6
Impairment losses on financial assets	**(48.4)**	(46.7)	4
Adjusted operating profit	**253.7**	251.8	1
Net interest margin[2]	**7.9%**	8.0%	
Expense/income ratio	**50%**	49%	
Bad debt ratio[2]	**0.6%**	0.6%	
Return on net loan book[2]	**3.3%**	3.5%	
Return on opening equity	**17.5%**	19.5%	
Average loan book and operating lease assets[3]	**7,654.0**	7,261.1	5

1 Results from continuing operations exclude the unsecured retail point of sale finance business, which was classified as a discontinued operation in the group's income statement for the 2018 and 2019 financial years.
2 The calculation of the bad debt ratio, net interest margin and return on net loan book excludes the unsecured retail point of sale finance loan book from both the opening and closing loan book.
3 Re-presented to exclude the unsecured retail point of sale finance loan book in both the 2018 and 2019 financial years and is used to calculate net interest margin, bad debt ratio and return on net loan book.

LOAN BOOK ANALYSIS

	31 July 2019 £ million	1 August 2018 £ million[1]	Change %
Commercial[2]	**2,991.3**	2,747.5	8.9
Asset Finance	**1,946.4**	1,828.2	6.5
Invoice and Speciality Finance	**1,044.9**	919.3	13.7
Retail	**2,810.7**	2,670.5	5.2
Motor Finance	**1,775.6**	1,722.7	3.1
Premium Finance	**1,035.1**	947.8	9.2
Property	**1,847.6**	1,821.3	1.4
Closing loan book	**7,649.6**	7,239.3	5.7
Operating lease assets[3]	**220.4**	198.6	11.0
Closing loan book and operating lease assets	**7,870.0**	7,437.9	5.8

1 The loan book at 1 August 2018 excludes the unsecured retail point of sale finance loan book of £66.2 million, which was classified as held for sale at the balance sheet date.
2 The Asset Ireland loan book has been reclassified in the period from Asset Finance to Invoice and Speciality Finance, to align with where this business is managed. Both the 31 July 2019 and comparative 1 August 2018 opening loan book figures have been re-presented accordingly.
3 Operating lease assets of £4.2 million (1 August 2018: £7.0 million) relate to Asset Finance and £216.2 million (1 August 2018: £191.8 million) to Invoice and Speciality Finance.

LOAN BOOK

Loan book growth has always been an output of our business model, and we continue to prioritise our margins and credit quality. We have a diverse portfolio of businesses, which ensures that our model remains resilient through the cycle. Loan book growth was 5.7% in the year to £7.6 billion (1 August 2018: £7.2 billion), with all five businesses growing, reflecting a resilient performance in our core businesses and new product initiatives and extensions.

We achieved particularly good growth in our Commercial business lines, across both our core Asset and Invoice Finance businesses, as well as the newer Novitas business.

Premium Finance also delivered good growth in the year and Motor Finance saw a slight return to growth, benefiting from recent investment, while we continue to prioritise our strict lending criteria in the face of ongoing competition.

Property grew modestly in the year, with continued regional growth offsetting a significant level of repayments and slightly lower new business volumes in London and the South East. We continue to see strong structural demand for new build family housing, and the new business pipeline remains solid.

Banking
continued

BANKING: COMMERCIAL

	2019 £ million	2018 £ million	Change %
Operating income	**249.9**	225.5	11
Adjusted operating expenses	**(140.1)**	(132.2)	6
Impairment losses on financial assets	**(23.3)**	(17.2)	35
Adjusted operating profit	**86.5**	76.1	14
Net interest margin	**8.1%**	7.9%	
Expense/income ratio	**56%**	59%	
Bad debt ratio	**0.8%**	0.6%	
Average loan book and operating lease assets	**3,078.9**	2,856.4	8

BANKING: RETAIL

Continuing operations[1]	2019 £ million	2018 £ million	Change %
Adjusted operating income	**223.2**	225.5	(1)
Adjusted operating expenses	**(125.5)**	(119.2)	5
Impairment losses on financial assets	**(25.2)**	(25.2)	–
Adjusted operating profit	**72.5**	81.1	(11)
Net interest margin[2]	**8.1%**	8.4%	
Expense/income ratio	**56%**	53%	
Bad debt ratio[2]	**0.9%**	0.9%	
Average loan book[3]	**2,740.6**	2,676.3	2

1 Results from continuing operations exclude the unsecured retail point of sale finance business, which was classified as a discontinued operation in the group's income statement for the 2018 and 2019 financial years.
2 The calculation of the bad debt ratio and net interest margin excludes the unsecured retail point of sale finance loan book from both the opening and closing loan book.
3 Re-presented to exclude the unsecured retail point of sale finance loan book in both the 2018 and 2019 financial years and is used to calculate net interest margin, bad debt ratio and return on net loan book.

COMMERCIAL

The Commercial businesses provide specialist, secured lending principally to the SME market and include Asset and Invoice and Speciality Finance. The latter includes smaller specialist businesses such as Novitas, a specialist provider of finance to the legal sector, Brewery Rentals, which provides service and finance solutions for brewery equipment and containers, and Vehicle Hire, which provides heavy goods and light commercial vehicles on a predominantly long-term hire basis.

The Commercial loan book increased 9% overall to £3.0 billion (1 August 2018: £2.7 billion), with particularly strong growth in the core Asset and Invoice Finance businesses, and in Novitas. The Asset Finance loan book was up 6% in the year, benefiting from solid performance in our well-established sectors, with good growth in transport, and particularly aviation and marine, notwithstanding continued active competition from both new and existing lenders in the asset finance market. We have also made good progress in expanding our core offerings, with increased uptake of personal contract hire within Asset Finance and of our asset based lending proposition within Invoice Finance.

Adjusted operating profit of £86.5 million (2018: £76.1 million) was up 14%, driven by good income growth and continued low bad debt. Statutory operating profit increased 14% to £84.9 million (2018: £74.5 million).

Operating income of £249.9 million (2018: £225.5 million) was 11% higher than the prior year, reflecting strong growth in the loan book. We have maintained a strong net interest margin of 8.1% (2018: 7.9%), ahead of the prior year reflecting growth in higher margin business lines.

Costs grew by 6% to £140.1 million (2018: £132.2 million), significantly below the increase in operating income, and resulting in an expense/income ratio that reduced to 56% (2018: 59%).

The bad debt ratio increased to 0.8% (2018: 0.6%), reflecting very low bad debts in the prior year, and remains close to historically low levels, with good credit performance overall.

RETAIL

The Retail businesses provide intermediated finance, principally to individuals and small businesses, through motor dealers and insurance brokers.

The Retail loan book increased 5% to £2.8 billion (1 August 2018: £2.7 billion), reflecting loan book growth in both Premium Finance and Motor Finance.

Premium Finance delivered good growth of 9% to £1.0 billion (1 August 2018: £0.9 billion) driven by several new significant broker relationships in the period, with strong growth in Personal lines and continued good growth in Commercial. The Premium Finance business continues to be well positioned competitively, benefiting from the multi-year investment programme in its infrastructure over recent years to improve both broker and end customer experience.

The Motor Finance loan book increased 3% to £1.8 billion (1 August 2018: £1.7 billion). The UK book returned to growth in the period, benefiting from recent improvements in sales capability. This was supported by further growth in the Republic of Ireland, which accounts for 28% (2018: 26%) of the Motor Finance loan book, where we operate through a local partner, First Auto Finance, who provide the distribution and dealer relationships. In both the UK and Ireland, our core product remains hire-purchase contracts for second-hand vehicles, with Personal Contract Plans ("PCP") accounting for only 12% of the Motor Finance loan book at 31 July 2019.

On 1 January 2019 we completed the sale of our unsecured retail point of sale finance business, which provides finance to consumers through retailers, and had a loan book of £66.2 million classified as held for sale at 31 July 2018.

Overall, adjusted operating profit for Retail of £72.5 million (2018: £81.1 million) was down 11% on the prior year, and statutory operating profit from continuing operations reduced 11% to £72.2 million (2018: £80.8 million).

Adjusted operating income was down 1% year-on-year at £223.2 million (2018: £225.5 million) with a slight decline in net interest margin to 8.1% (2018: 8.4%), due to lower fee income in the Motor Finance business and the mix impact of growth in lower margin business in Ireland.

Adjusted operating expenses increased 5% to £125.5 million (2018: £119.2 million), and the expense/income ratio increased to 56% (2018: 53%), reflecting our ongoing investment in both Premium Finance and Motor Finance. Our investment in the infrastructure of the Premium Finance business is now delivering substantial

BANKING: PROPERTY

	2019 £ million	2018 £ million	Change %
Operating income	**129.5**	130.0	(0)
Operating expenses	**(34.9)**	(31.1)	12
Impairment losses on financial assets	**0.1**	(4.3)	(102)
Operating profit	**94.7**	94.6	0
Net interest margin	**7.1%**	7.5%	
Expense/income ratio	**27%**	24%	
Bad debt ratio	**(0.0%)**	0.2%	
Average loan book	**1,834.5**	1,728.4	6

benefits in the form of significant new broker relationships and cost savings through operational efficiencies. This has resulted in a 20% growth in the number of cases and a 34% increase in loan book since the 2016 financial year. We are making good progress with our Motor Finance transformation programme which is aimed at improving the service proposition, enhancing operational efficiency, improving our credit acceptance process and increasing sales effectiveness. We expect to realise further benefits as this investment programme progresses.

Credit performance remains in line with our expectations at this stage of the cycle, with the bad debt ratio stable at 0.9% (2018: 0.9%), reflecting continued commitment to our strict lending criteria.

PROPERTY

Property comprises Property Finance and Commercial Acceptances. The Property Finance business is focused on specialist residential development finance to established professional developers in the UK. Commercial Acceptances provides bridging loans and loans for refurbishment projects. We do not lend to the buy-to-let sector, or provide residential or commercial mortgages.

Property delivered 1% loan book growth, to £1.8 billion (1 August 2018: £1.8 billion), reflecting a significant level of repayments, which offset new business. We continued to see good regional growth, with an increase in the number of clients in the period, which is offsetting slower markets in London and the South East.

We continue to see good structural demand in our core market of property development finance for new build family housing. London and the South East represent c.70% of the portfolio, however there remains strong growth opportunity in regional locations around major commuting hubs. During the year we launched a new bridging finance office in Manchester and expanded our development finance offering in Northern Ireland. Our long track record, expertise and quality of service ensure the business remains resilient to competition and continues to generate high levels of repeat business.

The business delivered an operating profit of £94.7 million (2018: £94.6 million), broadly flat on the prior year. The net interest margin reduced to 7.1% (2018: 7.5%), reflecting an increase in cost of funds driven by the base rate increase in August 2018, and lower transactional fees in the latter part of the year. The business reported a bad debt ratio of (0.0%) (2018: 0.2%).

Operating expenses of £34.9 million (2018: £31.1 million) were up 12%, reflecting the increase in technology investment across the Banking division. The expense/income ratio remained low at 27% (2018: 24%), reflecting the lower operational requirements of the business with larger transaction sizes and a relatively small number of loans.

COMMERCIAL ADJUSTED OPERATING PROFIT

£86.5M

2018: £76.1M

RETAIL ADJUSTED OPERATING PROFIT

£72.5M

2018: £81.1M

PROPERTY OPERATING PROFIT

£94.7M

2018: £94.6M

Asset Management

CONTINUED GOOD MOMENTUM

ASSET MANAGEMENT CONTINUED ITS GROWTH MOMENTUM ACHIEVING STRONG NET INFLOWS, WITH GOOD DEMAND FOR OUR INTEGRATED ADVICE AND INVESTMENT MANAGEMENT SERVICES, NOTWITHSTANDING THE SUBDUED INVESTOR ACTIVITY OVER THE PERIOD.

The division delivered £21.8 million (2018: £23.1 million) adjusted operating profit and an operating margin of 18% (2018: 20%). Statutory operating profit before tax was £17.9 million (2018: £17.6 million). Net inflows were £894 million (31 July 2018: £1,083 million) in the year, or 9% (2018: 12%) of opening managed assets. Including market movements, total managed assets increased 12% to £11.7 billion (2018: £10.4 billion).

Total operating income increased 4% to £120.4 million (2018: £115.5 million), driven by higher investment management income from continued growth in managed assets. The reduction in income on advice and other services reflects lower initial fees associated with new advice business levels due to weaker market sentiment, compared to the prior year. The revenue margin decreased to 93 bps (2018: 98 bps) reflecting the lower average market levels throughout the year, which affected income, and higher market and asset levels at the beginning and end of the financial year.

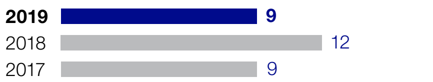
Adjusted operating expenses increased 7% to £98.5 million (2018: £92.4 million), and the expense/income ratio increased to 82% (2018: 80%). Growth in expenses was driven by continued investment in people and our research capability and technology to further enhance our operating efficiency. Headcount increased 5% in the period, reflecting hiring of advisers and portfolio managers, in line with our growth strategy. However, the compensation ratio reduced to 54% (2018: 55%), reflecting lower variable compensation.

GOOD MOMENTUM IN NET INFLOWS ACROSS ALL CHANNELS

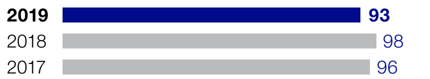
Notwithstanding the subdued investor sentiment over the year, we achieved strong net inflows of £894 million, an annualised net inflow rate of 9%. This reflects continued good demand for both our investment management and integrated wealth services, with strong flows from our own advisers and third party independent financial advisers as well as recent portfolio manager hires.

KEY PERFORMANCE INDICATORS

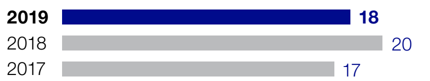
NET INFLOWS
PER CENT OF OPENING AUM



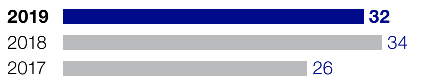
REVENUE MARGIN
BPS



OPERATING MARGIN
PER CENT



RETURN ON OPENING EQUITY
PER CENT



ADJUSTED OPERATING PROFIT

£21.8M

2018: £23.1M

KEY FINANCIALS

	2019 £ million	2018 £ million	Change %
Investment management	**81.7**	75.2	9
Advice and other services[1]	**37.2**	39.6	(6)
Other income[2]	**1.5**	0.7	114
Operating income	**120.4**	115.5	4
Adjusted operating expenses	**(98.5)**	(92.4)	7
Impairment losses on financial assets[3]	**(0.1)**	–	
Adjusted operating profit	**21.8**	23.1	(6)
Revenue margin (bps)	**93**	98	
Operating margin	**18%**	20%	
Return on opening equity	**32.1%**	33.7%	

1 Income from advice and self-directed services, excluding investment management income.
2 Includes a £1.4 million gain on disposal of non-core assets, net interest income and expense, income on principal investments and other income.
3 Impairment loss on financial assets reflects an increase in the expected credit loss provision related to cash balances.

MOVEMENT IN CLIENT ASSETS

	31 July 2019 £ million	31 July 2018 £ million
Opening managed assets	**10,378**	8,900
Inflows	**2,107**	1,961
Outflows	**(1,213)**	(878)
Net inflows	**894**	1,083
Market movements	**401**	395
Total managed assets	**11,673**	10,378
Advised only assets	**1,651**	1,841
Total client assets[1]	**13,324**	12,219
Net flows as % of opening managed assets	**9%**	12%

1 Total client assets include £5.0 billion of assets (31 July 2018: £4.2 billion) that are both advised and managed. Total client assets will reduce by c.£360 million in the first half of 2020, reflecting the agreed disposal of non-core assets.

Positive market movements contributed a further £401 million to managed assets in the year. As a result, managed assets increased 12% overall to £11.7 billion (31 July 2018: £10.4 billion).

Advised assets under third party management decreased by 10% following continued transfers of assets into our management. Total client assets increased 9% overall, to £13.3 billion (31 July 2018: £12.2 billion).

In July 2019, we agreed the sale of a small portfolio of self-directed clients, whose assets are held either on third party platforms or directly with fund managers. The sale is expected to reduce total client assets by c.£360 million in the next financial year. We continue to provide self-directed services to clients via our own platform.

STRONG FUND PERFORMANCE OVER THE YEAR

Our funds and segregated bespoke portfolios are designed to provide attractive long-term risk-adjusted returns for our clients, in line with their individual goals. Over the 12-month period to 31 July 2019 and the three-year period to 31 July 2019, nine out of our 12 multi-asset funds outperformed their relevant peer group average. All of our bespoke strategy composites outperformed their relevant peer group average over the year to 31 July 2019, and over a three and a five-year period, in line with our strong long-term outperformance track record for our bespoke strategies.

"We continue to see good long-term growth potential in our Asset Management business."

PREBEN PREBENSEN | CHIEF EXECUTIVE

REMAIN WELL POSITIONED FOR FUTURE GROWTH

Notwithstanding the challenging external factors impacting global markets, our focus remains on providing excellent service to our clients, while looking at ways to optimise our adviser and investment manager productivity and to improve operational leverage, revenue growth and net inflows. We continue to make significant progress implementing strategic technology enhancements to improve operating efficiency, and to enhance our propositions and service to clients.

Our vertically-integrated, multi-channel business model leaves us well positioned to benefit from ongoing demand for our integrated advice and investment management services and continued industry change. We continue to see significant long-term growth potential for our business and we remain committed to growing our client base both organically and through selective hiring of advisers and investment managers or incremental acquisitions.

Securities

SOLID TRADING PERFORMANCE IN DIFFICULT CONDITIONS

WINTERFLOOD IS A LEADING UK MARKET MAKER, FOCUSED ON DELIVERING HIGH QUALITY EXECUTION SERVICES TO STOCKBROKERS, WEALTH MANAGERS AND INSTITUTIONAL INVESTORS.

KEY PERFORMANCE INDICATORS

INCOME
£M

2019	**93.4**
2018	109.1
2017	106.7

BARGAINS PER DAY
’000

2019	**56**
2018	68
2017	65

OPERATING MARGINS
PER CENT

2019	**21**
2018	26
2017	26

RETURN ON OPENING EQUITY
PER CENT

2019	**21**
2018	29
2017	29

KEY FINANCIALS

	2019 £ million	2018 £ million	Change %
Operating income	**93.4**	109.1	(14)
Operating expenses	**(73.4)**	(81.0)	(9)
Operating profit	**20.0**	28.1	(29)
Bargains per day ('000)	**56**	68	(18)
Operating margin	**21%**	26%	
Return on opening equity	**20.7%**	29.1%	

Winterflood delivered solid trading profitability whilst navigating difficult and volatile equity market conditions and low levels of investor risk appetite throughout the year. Operating profit decreased 29% to £20.0 million (2018: £28.1 million), and return on opening equity remained strong at 20.7% (2018: 29.1%), demonstrating the resilience of our model.

Operating income reduced 14% to £93.4 million (2018: £109.1 million), reflecting lower trading income in the period. Average daily bargains decreased 18% year-on-year to 55,518 (2018: 67,520), reflecting low trading activity across all segments. Market conditions were difficult throughout the year and particularly in the fourth quarter of 2018, with a significant drop in UK market levels which impacted investor trading activity both on the retail and institutional sides.

Despite the difficult market environment, trading remained profitable, with only two loss days (2018: no loss days). This reflects the expertise of our traders and our continued focus on the risk management of our trading positions.

Operating expenses decreased 9% as a result of Winterflood's largely variable cost base. The expense/income ratio increased to 79% (2018: 74%) reflecting lower income in the period, with lower variable costs not fully offsetting the reduction in income. The compensation ratio remained broadly stable at 48% (2018: 47%).

Winterflood remains an established leader in market-making, providing continuous liquidity and high quality execution to its clients. The business has made good progress over the year developing wider relationships with institutional clients, as unbundling of execution and research post MiFID II continues to create opportunities for Winterflood. In August 2019, an affiliate licensed broker dealer was established in the US, allowing Winterflood to trade directly with the US counterparties. We also continue to develop Winterflood Business Services, which achieved monthly break-even in the final quarter. This business provides outsourced dealing and custody services for asset managers and platforms in the UK and now has £3.7 billion of assets under administration.

Winterflood has a long track record of trading profitably in a range of conditions, but due to the nature of the business, it remains sensitive to changes in the market environment.

OPERATING PROFIT

£20.0M

2018: £28.1M

RETURN ON OPENING EQUITY

20.7%

2018: 29.1%

"Despite the difficult market environment, trading remained profitable, with only two loss days."

PREBEN PREBENSEN | CHIEF EXECUTIVE

Non-Financial Information Statement

In line with the non-financial reporting requirements contained in Sections 414CA and 414CB of the Companies Act 2006, the below table contains references to non-financial information intended to help our stakeholders understand the impact of our policies and activities.

Reporting requirement	Policies and standards	Information necessary to understand our impact and outcomes
ENVIRONMENTAL MATTERS	• Bank Credit Policy underwriting standards	• Sustainability Report, pages 42 to 51 • Supporting our environment, pages 50 and 51
EMPLOYEES	• Health and Safety Policy • Whistle-blowing Policy • Key Customer Principles • Equal Opportunity and Dignity at Work Policy	• Our employees, page 7 • Business model, pages 14 and 15 • Sustainability Report, pages 42 to 51 • Supporting our employees, pages 44 and 45 • Supporting our customers, pages 46 and 47 • Gender pay gap, page 45
SOCIAL MATTERS	• Key Customer Principles • Bank Credit Policy underwriting standards	• Sustainability Report, pages 42 to 51 • Supporting our customers, pages 46 and 47
RESPECT FOR HUMAN RIGHTS	• Human Rights and Modern Slavery Act • Privacy and Data Protection Policy • Cyber Security Policy	• Responsible finance, page 47 • Social responsibility, page 49
ANTI-CORRUPTION AND ANTI-BRIBERY	• Anti-money Laundering Policy • Anti-bribery and Corruption Policy • Cyber Security Policy	• Responsible finance, page 47 • Social responsibility, page 49
DESCRIPTION OF PRINCIPAL RISKS AND IMPACT OF BUSINESS ACTIVITY		• Principal risks and uncertainties, pages 18 to 22 • Risk Committee Report, pages 70 and 71
DESCRIPTION OF THE BUSINESS MODEL		• Chairman's Statement, pages 6 and 7 • Business model, pages 14 and 15
NON-FINANCIAL KEY PERFORMANCE INDICATORS		• Strategy and key performance indicators, pages 16 and 17 • Sustainability Report, pages 42 to 51

WHEN YOU ARE THRIVING...

YOU WALK TALLER AND EVERYONE AROUND YOU CAN SEE IT.

Case Study | Nicholas King Homes

WHEN NICHOLAS KING HOMES IDENTIFY A PIECE OF LAND TO BUILD ON, IT CAN VERY OFTEN BE AN EXTREMELY SHORT PERIOD OF TIME THEY HAVE IN WHICH TO CAPITALISE ON IT AND STRUCTURE A DEAL.

NICHOLAS KING | CHIEF EXECUTIVE AND CHAIRMAN OF NICHOLAS KING HOMES

"It's not a relationship with a company, it's a relationship with people. Close Brothers has helped us to thrive by making quick decisions and being consistent over the years."

Close Brothers' specialist knowledge and ability to make fast, firm lending decisions has helped Nicholas King Homes take advantage of opportunities where speed is a priority, therefore helping the business to thrive.

This has been the cornerstone of building a strong relationships with Close Brothers, which Nicholas King describes as being built on traditional values of trust and personal relationships.

HELPING

COMM

THRIVE


UNITIES

Sustainability Report

SUSTAINABILITY IS FUNDAMENTAL TO OUR PURPOSE, STRATEGY AND CULTURE

AS A BUSINESS THAT OPERATES WITH THE LONG TERM IN MIND, SUSTAINABILITY IS CENTRAL TO OUR THINKING, AND WE'RE COMMITTED TO MAKING A POSITIVE IMPACT.

It's an ambition that is key to our strategy, our culture, and our purpose: to help the people and businesses of Britain thrive – now, and for the long term.

This guides our approach and our decision-making today, as we recognise that our actions have lasting impacts and consequences for tomorrow. And we know that doing the right thing now means helping to do the right thing for the future.

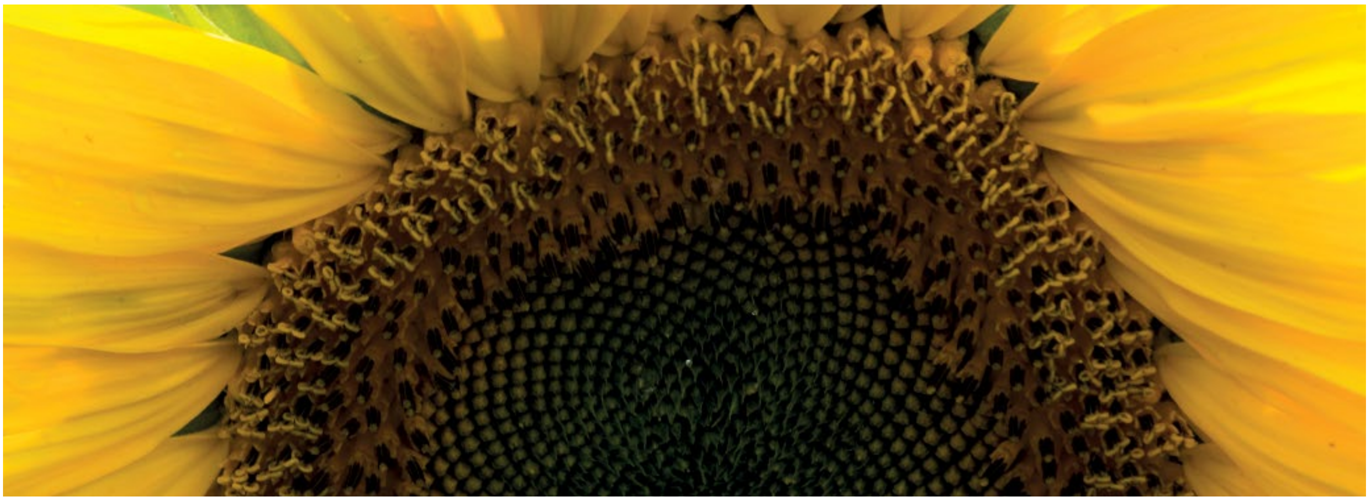
It's about using our expertise to offer people and businesses tailored solutions and specialist advice, helping them to achieve their short-term goals and long-term aspirations.

It's about building a culture with strong values that encourage and support diversity at all levels – broadening our perspective, and so improving our decision-making and productivity.

And it's about appreciating the importance of our environment and the communities we operate in.

Because it's only by taking active steps, to protect and nurture what really matters, that we'll all be able to thrive long into the future.

FOUR FOCUS AREAS	FOR A SUSTAINABLE APPROACH	A GROWING NUMBER OF INITIATIVES
EMPLOYEES	Our culture, values and strong client focus support an engaged, diverse and motivated workforce	• Annual measurement of employee engagement • A series of talent development programmes • UpReach internship programme supporting social mobility
CUSTOMERS	Long-term lasting relationships and continuous feedback enabling us to provide reliable quality of service, expertise and personal approach	• Voice of the Customer and Partner programme to listen and act on client feedback • Insight, experience and design team to measure and improve customer journeys and experiences
COMMUNITIES	Creating long-term value and a lasting positive impact in the communities where we operate	• SME apprentice programme now in its fifth phase • Trustee leadership programme • Matched giving to charities through employee payroll and volunteering schemes
ENVIRONMENT	Acting responsibly and taking steps to reduce our impact, protect our surroundings and recognise the risks and opportunities of climate change	• Five-year environmental strategy • Low emission car leases in company fleet • Cycle to work scheme



TARGETS TO MEASURE OUR PROGRESS

- 30% female senior managers by 2020

- Maintain or improve strong customer satisfaction scores across our businesses

- Maintain our Payroll Giving Quality Mark Gold Award status

- Achieve zero waste to landfill by 2021
- Achieve a 20% improvement in fleet vehicle emissions by 2021

OUR SUSTAINABLE APPROACH

We take a long-term approach to managing our business, and are committed to delivering long-term value for all our stakeholders and the communities and environment in which we operate.

Sustainability matters appear regularly on the senior management agenda, and we now have a dedicated working group for sustainability chaired by our group finance director, with representatives from across our businesses and functions. The working group reports regularly to the board of directors and Executive Committee on key developments and initiatives across a range of sustainable themes. In addition, we have a series of employee teams dedicated to championing and implementing initiatives for charities, communities and the environment.

We participate in and engage with a number of external sustainability rating agencies and indices, including the CDP, Manifest, DJSI, Fitch and MSCI. Our Asset Management business offers several dedicated Socially Responsible Investment ("SRI") funds and includes environmental, social and governance ("ESG") considerations in its formal stewardship code.

A commitment to acting sustainably is embedded within our corporate culture and supported by a range of policies and procedures. We always strive to act responsibly, ethically and with integrity, and are developing meaningful and achievable targets to help measure and track the good progress we are making towards our sustainable goals.

In this report we set out how our sustainable approach is reflected across four key focus areas: our employees, customers, communities and the environment.

SUSTAINABLE DEVELOPMENT GOALS

We recognise the growing influence of the United Nations Sustainable Development Goals ("SDGs") as a global framework promoting action to address worldwide challenges related to poverty, inequality, climate and prosperity.

This framework helps us to better understand our impact and contribution towards global goals for a more sustainable future, and this year we began an assessment of how our business and operational activities relate to the SDGs. Going forward we will continue to engage with a range of stakeholders to enhance our alignment with the SDGs and further develop our sustainability priorities.

Sustainability Report
continued

SUPPORTING OUR EMPLOYEES

WE PLACE A GREAT AMOUNT OF VALUE ON THE CONTRIBUTION OF OUR PEOPLE, WHO CONTINUE TO DELIVER THE HIGHEST LEVELS OF SERVICE FOR OUR CUSTOMERS AND CLIENTS, AND WHO UPHOLD THE EXPERTISE AND LONGSTANDING RELATIONSHIPS THAT POSITION US WELL FOR THE FUTURE.

EMPLOYEE ENGAGEMENT

Building a deep and diverse talent pool, and maintaining the engagement of our people, remains a core strategic priority for the group. We are committed to engaging with our staff to ensure they remain enthusiastic about their work and their organisation, and we regularly listen to their feedback to ensure they feel valued with their views recognised and acted upon. We engage with our staff through a regular externally run group-wide Employee Opinion Survey, which we last conducted in December 2018.

Employee engagement is a measure of the extent to which staff are enthusiastic about their jobs, their level of commitment to the company, and how motivated they are to put effort into their work. Our latest survey results showed the group-wide engagement scores remained high, with an overall score of 88% consistent with the previous survey. We had a very strong overall response rate of 89% which lends credibility to these results.

This comprehensive Employee Opinion Survey runs on a two-year cycle, allowing our businesses the opportunity to analyse the results in detail and formulate meaningful and effective action plans to take forward. We also run a shorter pulse survey between cycles to review progress against our action plans. Our aim is to maintain those areas of strength that our employees value the most while continuing to enhance those areas we could improve on.

EMPLOYEE ENGAGEMENT

88%

2018: 89%

DEVELOPING OUR PEOPLE

During the year we continued to build our range of programmes designed to attract and retain talent, with a series of initiatives promoting development across the group.

All our employees have access to our learning portal, which offers a wide range of practical tools, workshops and e-learning across a range of topics. The average number of training hours across the group has remained good, at 7.7 hours per employee.

We require all staff to complete relevant regulatory training on an annual basis with further training offered when required, and continue to maintain a 100% completion rate of mandatory training for eligible employees in the year.

Internal career mobility and the need to identify and support up-and-coming talent remain important focus areas for our leadership teams, with regular talent forums built into our performance management and succession planning processes. We continue to run talent development programmes throughout the group through a series of structured learning opportunities and exposure to different teams and networks.

PARTICIPATION IN LONG-TERM OWNERSHIP SCHEMES

46%

2018: 45%

Our Sales Academy, launched in 2015, continues to demonstrate our commitment to developing entry-level sales talent. The most recent cohort commenced in September 2018, comprising a mix of internal and external candidates with a strong gender balance. The Sales Academy remains successful in supporting junior staff progress into front-office roles through structured support and on-the-job development.

The Asset Management division's Advice Academy remains a successful programme to develop the skills and knowledge of advice related staff. The Trainee Adviser programme builds on this by supporting individuals with a transition into a financial adviser role.

Our Emerging Leaders programme focuses on individual leadership development, management and coaching skills to develop our pool of future leaders. Over 115 individuals have completed the programme so far, with the majority progressing throughout the organisation. Our seventh cohort will be commencing on the programme in 2020.

REMUNERATION AND BENEFITS

We believe in rewarding our staff fairly and transparently, and we therefore work hard to ensure that remuneration across the group is linked to clear and transparent objectives. We are confident that our enhanced benefits package remains fit for purpose and satisfies employee expectations.

We offer a Save As You Earn scheme, as well as a Buy As You Earn share incentive plan allowing employees to acquire shares on a monthly basis out of pre-tax earnings, both of which remain popular offerings with our staff. Participation rates in our long-term ownership schemes remain strong at 46% of eligible employees.

This year the group has enhanced its pension auto-enrolment contribution by more than requirements to 6%. This ensures a minimum of 9% in total, without requiring our employees to contribute any more than their existing level of 3%. The group continues to pay all staff at or above the national living wage, which is in excess of the national minimum wage.

INCLUSION AND EQUALITY

We are an equal opportunities employer and are committed to ensuring that all our employees can feel proud to work for us, regardless of their gender, age, race, ethnicity, disability, sexual orientation or background.

We continue to partner with leading diversity organisations, including Stonewall, Europe's largest LGBTQ+ charity, to help inform our thinking and activities. This year we have also commenced our partnership with the Business Disability Forum.

Training has been delivered on inclusive leadership for over 400 managers and senior managers, including our group Executives, highlighting how behaviours and decisions drive our culture and enable an environment where everyone can thrive. All training has been delivered face-to-face to make it as impactful as possible.

Flexible working is promoted across the group wherever possible, and we continue to review our benefits offering and provide a variety of family-friendly benefits for our colleagues to utilise, including enhanced parental leave and emergency backup care for children and elderly relations.

Our workforce remains diverse, with 43% female employees, and we have a broad age range of employees, with 25% of our employees being under 30 years old and 19% over 50.

GENDER DIVERSITY

As a diverse and inclusive employer, we are confident that men and women are paid equally for performing equivalent roles across our business. As part of our commitment to taking all steps possible to see a long-term change, we are focused on continuing our efforts to reduce our gender pay gap.

The gender pay gap is defined as the difference between the average earnings male and female colleagues receive, as a percentage of men's earnings. Our median group-wide gender pay gap was 40.5% at 5 April 2018, and the overwhelming majority of our gender pay gap exists because women hold fewer senior positions within the group. If we adjust for the fact that we have more men in senior positions by instead looking at the differences in average pay between males and females in the same salary band, the gap drops to 2.8%.

Further details of our gender pay gap can be found on our website.

Through a variety of initiatives, we are taking steps to promote gender balance at all levels. All our entry-level and formal training programmes aim for a 50:50 gender split. This includes our Asset Finance Sales Academy and our Aspire school leaver and graduate programmes.

GENDER DIVERSITY

	31 July 2019	
	Male	Female
Number of board directors[1]	7	3
Number of directors of subsidiaries[2]	56	8
Number of senior managers, other than board directors[3]	161	94
Number of employees, other than board directors and senior employees	1,646	1,457

1 Includes non-executive directors, excluded from group headcount calculations. Figures at 31 July 2019.
2 Includes subsidiary directors who are excluded from group headcount calculations.
3 Senior managers defined as those managers with line management responsibility for a line manager, in accordance with the representation identified in our gender pay gap report. They are generally heads of departments, functions or larger teams. This figure excludes 19 male and 2 female employees who are reported under directors or subsidiary directors.

A range of development and mentoring programmes are offered across our different businesses, which are designed to foster and enable talented females to thrive and progress across the group. We partner with the 30% Club, an institution focused on developing diverse pools of talent and promoting better gender balance, and participate in their leading cross-company mentoring scheme.

We are a signatory of the Women in Finance Charter, a government-backed initiative dedicated to improving gender balance in senior positions across financial services, and this year Close Brothers Asset Management became founding partners of the WealthiHer Network, an important industry body that is working to better serve the needs of women and their wealth.

At the end of the financial year we exceeded the government's target for 33% of board members to be women, and are broadly in line with Hampton-Alexander gender targets for executives and their direct reports. We were pleased to have already reached our 2020 target of over 30% female senior managers as at 31 July 2019, and will be working towards implementing a more ambitious target for 2025.

PROTECTING OUR EMPLOYEES

We have a range of group-wide policies in place to protect and maintain a safe and healthy working environment, which include:

DIGNITY AT WORK POLICY

Our Dignity at Work Policy outlines the type of behaviour that the company considers to be unacceptable and to explain what solutions there are if any employee has experienced or believes someone else has experienced any discrimination, harassment or bullying at work.

We encourage our employees to speak up if they experience any behaviour that does not embody our cultural attributes, further described by the principles and values within our businesses.

WHISTLE-BLOWING POLICY

We encourage our employees to report any activity that may constitute a violation of laws, regulations or internal policy, and reporting channels are provided to staff for this purpose within the framework of a whistle-blowing policy.

Our comprehensive whistle-blowing procedures comply with the rules that came into effect in September 2016. We have enhanced the existing policies by the appointment of a whistle-blowers' champion and a confidential telephone whistle-blowing service, operated by a third party provider.

EMPLOYEE HEALTH AND SAFETY POLICY

Our Health and Safety Policy ensures that we continue to provide a safe and healthy working environment for our employees and visitors in accordance with The Management of Health and Safety at Work Regulations 1999.

The Health and Safety Committee continues to meet on a quarterly basis and we are proud of the ongoing progress in successfully raising the profile of health and safety across the business. This year we recorded 30 incidents across all of our sites, of which only two were reportable.

We continue to use an online risk assessment tool to manage site-specific risks as appropriate and our Display Screen Equipment risk assessment programme.

Sustainability Report
continued

SUPPORTING OUR CUSTOMERS

WE BELIEVE IN PUTTING OUR CUSTOMERS AND CLIENTS FIRST, AND REMAIN FOCUSED ON UPHOLDING OUR RELIABLE, HIGH QUALITY SERVICE AND PERSONAL APPROACH. WE RECOGNISE THAT PUTTING CUSTOMERS' INTERESTS AT THE HEART OF OUR BUSINESS IS CENTRAL TO OUR SUCCESS.

Our commitment to maintaining high standards of service, delivering specialist expertise and building long-lasting relationships with our customers and partners allows us to add value over and above providing finance to them, helping them to grow and thrive.

We are committed to behaving ethically and responsibly in all our dealings with our customers and partners, and continue to be proud of the long-term relationships we build with them, and the consistently high levels of repeat business that they entrust us with.

A CLEAR CUSTOMER VISION

Our group-wide purpose to help the people and businesses of Britain thrive over the long term underlines our commitment to our customers and clients, and to the people who serve them. We work with businesses of many sizes to help support their growth, improve their infrastructure or invest in new assets, and assist individuals with a variety of products and services to help manage their finances, execute trades, protect their money and plan for the future.

With a wide variety of customers and clients, it is essential that we have a deep understanding of their needs and can respond to rapid changes in technology and to the markets they operate in. This understanding allows us to shape a customer vision for each of our businesses to ensure that the products, services and expertise we provide continue to deliver on our purpose.

UNDERSTANDING CUSTOMER NEEDS

We are dedicated to improving the experience and satisfaction of all our customers and partners, and we firmly believe that customer feedback and insight is essential to maintain the strong relationships across our businesses.

We have a dedicated Customer Insight, Experience and Design team who work with our businesses to conduct in-depth qualitative research, define customer and partner journeys and identify opportunities for improvement. This year the team completed in-depth experience design projects with our Asset Finance, Premium Finance, Invoice Finance and Asset Management businesses, and visited over 250 clients for research purposes. Building on work from previous years, they also supported experience improvements in our Motor Finance, Novitas and savings businesses.

Our maturing "Voice of the Customer and Partner" programme enables us to capture feedback at key moments of truth in the customer journey and use this to prioritise our strategic and continuous improvement programmes. This also allows us to follow up with customers on any occasions where our high minimum standards have not been met.

BESPOKE ASSET MANAGEMENT NPS

+56

2018: +61

PREMIUM FINANCE NPS

+51

2018: +50

RETAIL DEPOSITS BRAND NPS

+73

2018: +73

PROPERTY REPEAT BUSINESS

78%

2018: 77%

MEASURING AND MONITORING CUSTOMER EXPERIENCE

Within the Banking division, we measure ourselves against five key customer principles:

- We are responsible lenders and deposit takers.
- We seek to ensure the right outcomes for our customers.
- We endeavour to ensure our pricing is fair and appropriate.
- We are clear and consistent in the way we communicate with customers.
- We expect our standards to be upheld by our partners.

These principles are underpinned by our experience measures and our conduct risk framework, which are available to the people who run our businesses, senior management and the board.

Fundamental to ensuring we treat customers fairly and deliver on our promises are our customer forums, conducted across the Banking division and at business unit level, which have now been in place for over five years and continue to evolve. These forums allow us to provide a level of assurance against our five customer principles, examine feedback from our customers and partners and decide on the best course of action to take, while also inspiring possibilities for improved service and value for our customers and partners.

Senior management regularly visit our customers and partners to obtain direct feedback, which we also gather by inviting our customers to present at our customer forums.

This year we have begun to establish customer and client councils in several of our businesses to collect feedback and deepen our understanding of what they like about conducting business with us and what we could do better.

The information gathered from these programmes forms a core part of our governance of customer service, and is aligned to the key customer principles that we measure ourselves against on a monthly basis. It also gives the board of directors, Executive Committee and business managers clear visibility that we are continuing to act in our customers' best interests.

FOCUS ON CUSTOMER SATISFACTION

Our strong focus on maintaining and improving customer experience is reflected in the consistently high scores we achieve in customer and partner surveys across our businesses. Net Promoter Scores ("NPS") are a measure of a customer's likelihood to recommend us, and reflect their overall satisfaction with us as a business. Unfavourable ratings are deducted from favourable ratings; hence a score above 0 is good, and above 50 is excellent.

We continue to achieve strong NPS scores across our businesses, and this year we were pleased to achieve a strong +79 NPS for our Asset Finance business and +73 from our retail savings customers. Furthermore, amongst our intermediaries our Motor Finance business achieved a strong +72 NPS from our dealer partners. Considered alongside our high levels of repeat business, these evidence the strength of our relationships and the trust our customers place in us.

DIGITAL SERVICES WITH A PERSONAL TOUCH

Our research and customer feedback shows that our customers and partners value the service, expertise and personal touch that we provide. It also indicates that customers want the choice of how and when to engage and do business with us. We therefore aim to maintain a personal human touch for our customers, augmented with digital experiences where the customer desires it.

This year we have continued to improve and expand the digital services we offer to our customers and partners, and have focused on delivering simple, consistent and accessible experiences through our digital channels. We have also invested in a digital design system to empower our businesses to be more agile in the delivery of new and improved services.

RESPONSIBLE FINANCE

We have a wide range of policies in place across all of our divisions to ensure that our staff and management comply with all regulatory requirements and adhere to the highest professional and ethical standards in dealing with our customers, suppliers and each other. These include:

ANTI-BRIBERY AND CORRUPTION POLICY

We operate a zero-tolerance approach to bribery and corruption, ensuring compliance with all applicable anti-bribery and corruption laws and regulations, including the UK Bribery Act 2010.

PRIVACY POLICY

Our Privacy Policy ensures the protection and correct treatment of client data in accordance with the Data Protection Act 1998 and the General Data Protection Regulation ("GDPR"). We have a strong operating model focusing on both cyber security and data protection, and continue to invest to appropriately protect customer information.

Monitoring and enhancing our systems and controls to safeguard customers' data and protect our business remains a high priority, and we continue to invest in expertise and technology to strengthen our internal capabilities. We also remain a member of the government's Cyber Security Information Sharing Partnership, which provides early warning of potential system failure or cyber-attack and allows intelligence sharing across the industry.

TREATING CUSTOMERS FAIRLY

We have policies and training in place to ensure our staff can identify vulnerable customers and that they are treated fairly in our interaction with them. This remains an area of focus for our customer forums and through regular thematic reviews of our conduct.

During the last year we implemented an operational improvements programme around our complaints handling to drive deeper insight and enable continuous improvement to our customer experience. This involved system upgrades, enhanced staff training, improved processes and root cause analysis to help us optimise the customer journey, reduce complaints and engage constructively with regulatory bodies.

We recognise that our suppliers are a key part of the service we provide to our customers, and are committed to treating them fairly. We are therefore pleased to maintain our Corporate Certification for Ethical Procurement from the Chartered Institute of Procurement and Supply ("CIPS"). We meet with our largest suppliers on a regular basis to ensure that both parties are attaining optimum value from the relationship.

Sustainability Report
continued

SUPPORTING OUR COMMUNITIES

WE ARE COMMITTED TO CONTRIBUTING LONG-TERM VALUE AND MAKING A LASTING, POSITIVE IMPACT ON THE SOCIETY IN WHICH WE OPERATE. WE DO THIS BY ENGAGING WITH OUR COMMUNITY AND OUR CLIENTS' COMMUNITIES ACROSS ALL OUR BUSINESSES AND MAINTAINING A RANGE OF PROGRAMMES TO SUPPORT THE CAUSES THAT BENEFIT THOSE AROUND US.

SME APPRENTICES
100
2018: 80

TRUSTEE APPOINTMENTS
181
2018: 55

SUPPORTING SMEs

We pride ourselves on understanding the needs of SMEs and on helping them to achieve their ambitions. Our specialist expertise and deep industry knowledge allow us to support our customers' unique commercial ambitions, and by better understanding businesses and their communities our local teams can make fast, reliable lending decisions when they need them the most.

The Close Brothers SME Apprentice Programme is part of our long-established commitment to supporting small and medium sized enterprises within our local communities. We believe the SME sector is the lifeblood of the UK economy and strongly encourage the role of apprentices in helping SMEs grow. Our SME Apprentice Programme is now entering its fifth phase and continues to contribute to the funding of new apprentices in the manufacturing and transport sectors, helping SMEs secure the skills they need for the future. To date we have funded 100 of these apprentices in the manufacturing sector in and around the Sheffield and Birmingham areas.

SUPPORTING SOCIAL MOBILITY

We are supportive of social mobility and creating an organisation with equal opportunities for all, regardless of background. Our established programmes for school leavers and graduates contribute to the development of our new talent pipeline, providing on-the-job learning and supporting study towards professional qualifications. Our Aspire programme provides school leavers with the opportunity to start their careers in a professional, challenging and fast-paced business.

This year we signed up to the Social Mobility Pledge, a campaign to improve social mobility in the UK. By signing up we have committed to working towards the three steps outlined in the Pledge, consisting of partnership with local schools to provide coaching, advice and mentoring to students from disadvantaged backgrounds, providing access through structured work experience or apprenticeship opportunities, and adopting open recruitment practices which promote a level playing field.

In line with our commitments as part of the Pledge, we continue to work with the charity UpReach on our internship programme for undergraduates from less-advantaged backgrounds. The programme is currently in its second year.

OUR EMPLOYEES IN THE COMMUNITY

Employee volunteers are key contributors to the planning and running of community and charitable events, and we actively encourage our staff to fundraise and volunteer for the charities they support. The Close Brothers Matched Giving Scheme donates £8 per hour of voluntary time given by employees.

This year we also launched our Employee Volunteering Policy, which allows all employees to take one paid volunteering day each year.

Close Brothers Asset Management continues to run our Trustee Leadership programme in partnership with social enterprise Cause 4, and the Clothworkers Company. This programme provides an opportunity for professionals to take on a board level role within a charity while also providing the charities themselves with a fresh and diverse pool of potential board members. The programme is open to Close Brothers' employees as well as external professionals, and since inception, over 1,100 professionals have taken part. This year we launched further programmes in The Midlands and Scotland in addition to our programmes in London, Manchester and Bristol.

Our Emerging Chairs programme is an evolution of the Trustee Leadership programme and is aimed at existing Trustees who wish to become Chairs. Further Emerging Chairs programmes are scheduled in London and our first in Manchester over the coming months.

CHARITABLE ACTIVITIES

We have a dedicated committee for charitable and community activities chaired by our group head of human resources and supported by employees from across the group. This committee meets regularly to discuss and propose new initiatives with input from our control functions when required. We also have several local committees which plan and run initiatives to raise funds for local charities.

As part of our regular employee opinion survey, we ask our employees to choose their preferred community and health charity partners. This year, Make-A-Wish Foundation, who grant wishes for children with life-threatening illnesses, was selected as our community charity partner and Cancer Research UK as our health charity partner, the latter now for seven consecutive years. Funds raised from group-wide activities are equally split between these two charities.

The success of our annual group-wide charity week, consisting of a wide range of locally organised events for staff as well as group-wide initiatives, continues to build each year. During this year's 2019 charity week we collectively raised over £140,000, an 11% increase on the amount raised in 2018's edition.

The Close Brothers Matched Giving Scheme matches 50% of funds raised for charity by employees. We also match funds raised by other local, organised fundraising activities, encouraging employees to work together to raise money for causes that are close to their hearts.

In addition, we match contributions under our Payroll Giving scheme, which allows employee donations to be made directly from pre-tax salary. Around 13% of employees across the group are signed up to Payroll Giving, achieving us a ninth consecutive year of the Payroll Giving Quality Mark Gold Award, which is a standard we now target ourselves on maintaining. Significantly, over 180 different charities are now supported on an ongoing basis through the generosity of our staff.

SOCIAL RESPONSIBILITY

We are committed to acting responsibly throughout all our activities, and have a number of group-wide policies and regulations in place to ensure we continue to operate in a socially responsible and compliant manner, including:

ANTI-MONEY LAUNDERING REGULATIONS

We have implemented policies and procedures in accordance with anti-money laundering regulations and have dedicated money laundering reporting officers where required.

ANTI-BRIBERY AND CORRUPTION POLICY

We operate a zero-tolerance approach to bribery and corruption, ensuring compliance with all applicable anti-bribery and corruption laws and regulations, including the UK Bribery Act 2010.

HUMAN RIGHTS AND MODERN SLAVERY ACT

The board gives due regard to human rights considerations, as defined under the European Convention on Human Rights and the UK Human Rights Act 1998.

We are aware of our responsibilities and obligations under the Modern Slavery Act, with the appropriate policies and training in place to ensure compliance across the organisation.

The Banking division has also committed to the CIPS Ethical Code of Conduct, which supports our commitment to ensure modern slavery does not exist within our supply chain.

Further details of our compliance with the Modern Slavery Act can be found on our website.

TAX STRATEGY

We are committed to complying with our tax obligations and doing so in a manner consistent with the spirit as well as the letter of tax laws. This includes a transparent and cooperative relationship with the tax authorities.

Our tax obligations arise mainly in the UK where our operations and customers are predominantly based. Our straightforward business model reduces the complexity of our tax affairs and helps us maintain a lower risk tax profile. Further details of our approach to tax can be found on our website.

Sustainability Report
continued

SUPPORTING OUR ENVIRONMENT

IT IS NOW WIDELY RECOGNISED THAT FINANCIAL SERVICES COMPANIES HAVE AN IMPORTANT PART TO PLAY IN SUPPORTING THE TRANSITION TO A CARBON NEUTRAL ECONOMY AND ADDRESSING THE RISKS POSED BY CLIMATE CHANGE. CLOSE BROTHERS TAKES THESE CHALLENGES VERY SERIOUSLY, AND WE WORK TO LIMIT THE IMPACT OF OUR OPERATIONS ON THE ENVIRONMENT AND TO TAKE ACTIONS THAT MAKE A POSITIVE CONTRIBUTION TO THE WORLD AROUND US.

Our green energy lending business has been a leading provider of finance to the renewable energy sector for a number of years, supporting schemes for wind, solar and hydro power developments. We are also aware of our responsibility to protect natural resources and act sustainably, and continue to monitor ways to lower our energy consumption, reduce emissions and increase recycling.

You can read more about our approach to managing the risks and uncertainties presented by climate change on pages 18 to 22.

OUR ENVIRONMENTAL STRATEGY

During the year we implemented a comprehensive five-year environmental strategy, developed in partnership with our third-party environmental consultants.

As part of this process we also formalised an internal Environmental Policy outlining our approach and commitments to managing our environmental sustainability. Our commitments under this policy include:

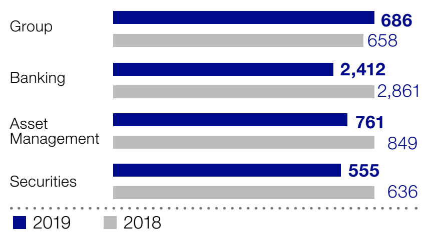
- Compliance with all environmental legislation and codes of practice throughout the different areas we operate in and, where possible, demonstrate best practice in environmental stewardship;
- Continue to monitor and report on our environmental footprint both internally and externally;
- Reduce our direct environmental impact from our operations through the introduction of various initiatives related to waste reduction and management, and our use of transport, energy and water;
- Minimise unnecessary consumption, improve rates of recycling and promote the use of recycled materials wherever possible;
- In particular, we will focus on energy efficiency, the purchase of renewable energy and the reduction of emissions from our fleet vehicles;
- Over the longer term aim to reduce our indirect environmental impact by working with our value chain and promoting efficient and responsible behaviour from both our customers and suppliers; and
- Raise awareness of environmental issues and promote responsible behaviour amongst our employees by engaging them through our "Green Team" of employee representatives, undertaking group wide initiatives and activities, and regularly conducting staff environmental surveys.

To help focus our efforts on achieving a positive impact, we have now set ourselves targets of achieving zero waste to landfill and a 20% improvement in fleet vehicle emissions by 2021. We are also examining the energy efficiency of our head office plant, with plans to invest to enable a significant improvement in its performance.

OUR ENVIRONMENTAL IMPACT

We direct each of our businesses to manage their resources and recycling locally and work closely with all of the locations we operate in to identify new and additional ways to reduce energy use. Waste recycling is encouraged in all our offices, and our head office uses a waste contractor that ensures zero waste goes to landfill.

GHG SCOPE 1 AND 2 EMISSIONS BY DIVISION (tCO_2e)



REDUCTION IN SCOPE 2 ELECTRICITY

17%

2018: 23%

REDUCTION IN SCOPE 1 FUEL (OWNED VEHICLES)

14%

2018: 28%

As in prior years, we monitor our energy consumption and greenhouse gas emissions across the business via a third-party provider. We also continue to participate in the CDP (formerly the "Carbon Disclosure Project"), which allows us to disclose our greenhouse gas emissions and our approach to managing climate related impact on a voluntary basis.

We recognise that most of the impact we have on our environment is a result of staff travel, our supply chain and our office network. We encourage our employees to reduce their own environmental impact on an individual basis by leasing low emission cars and participating in the cycle to work scheme.

Consideration of environmental risks and ethical standards is explicitly required as part of any credit underwriting proposal under our bank Credit Policy. We only lend against asset types defined in our credit policies, and do not finance arms or onshore oil development or lend internationally outside narrowly defined areas.

GREENHOUSE GAS ("GHG") EMISSIONS

In accordance with the GHG Protocol framework, we have calculated the GHG emissions associated with our Scope 1 and 2 operations. Scope 1 includes fuel emissions from buildings and company vehicles and Scope 2 includes our emissions from electricity.

In 2019, our total GHG emissions were 4,414 tonnes of carbon dioxide equivalent ("tCO_2e"), equating to 1.29 tCO_2e per employee, down 12% overall and 16% per employee since 2018. Our continued efforts towards our environmental impact are reflected by this reduction in our total emissions in 2019.

Our Scope 1 fuel emissions from company vehicles continue to fall, benefiting from a combination of lower overall mileage in the year and a reduction in the average CO_2 emissions from our vehicles to 89.5 gCO_2/km (2018: 99.0 gCO_2/km). This reflects a significant and sustained improvement from an increase in the number of more fuel efficient and alternative fuel vehicles such as plug in hybrids, which have been added to our vehicle fleet.

Our Scope 2 electricity consumption is our largest source of GHG emissions but continues to reduce on previous years, which demonstrates our ongoing commitment to improving the energy efficiency of our offices. We also benefited from improvements in the national grid, which led to a reduction of the UK-wide electricity emissions factor by approximately 10% in the period.

Due to its relative size, the Banking division continues to account for the majority of our GHG emissions.

GHG EMISSIONS SUMMARY (tCO_2e)

Scope	GHG emissions source	2019	2018[2]
Scope 1	Fuel (Buildings)[1]	**337**	191
	Fuel (Owned vehicles)	**1,970**	2,288
Scope 2	Electricity	**2,107**	2,525
Total GHG emissions		**4,414**	5,004
Average number of employees		**3,416**	3,234
Total per employee		**1.29**	1.55

1 2019 figures for Scope 1 Fuel (Buildings) now reflect improved data collection for non-head office locations.
2 2018 figures for Fuel (Owned vehicles) and Electricity re-presented to reflect updated figures.

A full breakdown of our 2019 GHG emissions, together with corresponding data for 2018, is shown in the table above.

CALCULATION

We continue to gather increasing levels of data with the assistance of an independent third-party environmental analytics and reporting company. This enables us to verify the accuracy of our data and helps us monitor our performance and develop strategic insights with plans of action.

Our total GHG emissions are reported as tCO_2e and are calculated in line with the GHG Protocol framework. In addition to reporting our total Scope 1 and 2 emissions, we also disclose the emissions per employee as an intensity metric to enable a comparable analysis in future disclosures.

We continue to monitor and report our GHG emissions on an ongoing basis and encourage our offices to report their Scope 3 emissions for water and waste each quarter, where this information is available, to facilitate continued performance monitoring.

This Strategic Report was approved by the board and signed on its behalf by:

PREBEN PREBENSEN
CHIEF EXECUTIVE

24 September 2019

Board of Directors

MIKE BIGGS
CHAIRMAN

Board appointment
Mike was appointed a director in March 2017 and chairman of the board from 1 May 2017.

Background and experience
Mike has over 40 years' experience of the financial services industry. Mike was previously chairman of Resolution Limited, then a FTSE 100 UK life assurance business, and has acted as both chief executive officer and group finance director of Resolution plc. Prior to that he was group finance director of Aviva plc. Mike is also chairman of Direct Line Insurance Group plc. Mike is an Associate of the Institute of Chartered Accountants in England and Wales.

Committee membership
Mike is chairman of the Nomination and Governance Committee.

PREBEN PREBENSEN
CHIEF EXECUTIVE

Board appointment
Preben was appointed to the board as chief executive in April 2009 when he joined Close Brothers.

Background and experience
Preben previously spent his career in a number of senior positions at JP Morgan over 23 years, as well as being chief executive of Wellington Underwriting plc from 2004 to 2006, and then chief investment officer and a member of the group executive committee at Catlin Group Limited. Preben is also a non-executive director of The British Land Company PLC and a member of its Nomination Committee.

MIKE MORGAN
GROUP FINANCE DIRECTOR

Board appointment
Mike was appointed to the board as group finance director in November 2018.

Background and experience
From 2010 to 2018 Mike was chief financial officer of Close Brothers' Banking division, and since 2010 he has been a director of Close Brothers Limited, the group's banking subsidiary. Mike is a chartered accountant and chair of the ICAEW Financial Services Faculty Board and ICAEW Council member. Prior to joining Close Brothers, Mike held a number of senior roles at Scottish Provident and RBS, most recently as finance director of the Wealth Management Division of RBS.

LESLEY JONES
INDEPENDENT NON-EXECUTIVE DIRECTOR

Board appointment
Lesley was appointed a director in December 2013.

Background and experience
Lesley has extensive banking experience, having previously held several line management positions within Citigroup and was group chief credit officer of Royal Bank of Scotland plc from 2008 to 2014. Lesley is also a non-executive director of Moody's Investors Service Limited, N Brown Group plc and ReAssure Group plc (where she also chairs the Risk Committee). Lesley is also a non-executive director of Northern Bank Limited but will stand down from that role on 25 September 2019.

Committee membership
Lesley is chairman of the Risk Committee and a member of the Audit, Remuneration, and Nomination and Governance Committees.

GEOFFREY HOWE
SENIOR INDEPENDENT DIRECTOR

Board appointment
Geoffrey was appointed a director in January 2011 and is the company's senior independent director.

Background and experience
Geoffrey was previously chairman of Jardine Lloyd Thompson Group plc, Railtrack plc and Nationwide Building Society, a non-executive director of Investec plc and JP Morgan Overseas Investment Trust plc, a director of Robert Fleming Holdings Limited and managing partner of law firm Clifford Chance.

Committee membership
Geoffrey is a member of the Audit, Remuneration, Risk, and Nomination and Governance Committees.

BRIDGET MACASKILL
INDEPENDENT NON-EXECUTIVE DIRECTOR

Board appointment
Bridget was appointed a director in November 2013.

Background and experience
Bridget is a non-executive director of Jupiter Fund Management plc and of Jones Lang LaSalle Incorporated, and chairman of Cambridge Associates LLC. Bridget was formerly chairman of First Eagle Holdings LLC and a senior adviser to First Eagle Investment Management LLC, of which she was president and chief executive officer. Bridget was also a trustee of the TIAA-CREF funds and a non-executive director of Prudential plc, Scottish & Newcastle plc, J Sainsbury plc, Hillsdown Holdings plc and of the Federal National Mortgage Association in the US.

Committee membership
Bridget is chairman of the Remuneration Committee and a member of the Audit, Risk, and Nomination and Governance Committees.

OLIVER CORBETT
INDEPENDENT NON-EXECUTIVE DIRECTOR

Board appointment
Oliver was appointed a director in June 2014.

Background and experience
Oliver is chief financial officer of McGill & Partners Ltd. He was formerly chief financial officer of Hyperion Insurance Group Limited and finance director of LCH. Clearnet Group Limited and of Novae Group plc. Oliver is a chartered accountant and previously worked for KPMG, SG Warburg, Phoenix Securities (later Donaldson Lufkin Jenrette) and Dresdner Kleinwort Wasserstein, where he was managing director of investment banking. Oliver was also a non-executive director of Rathbone Brothers plc.

Committee membership
Oliver is chairman of the Audit Committee and a member of the Remuneration, Risk, and Nomination and Governance Committees.

PETER DUFFY
INDEPENDENT NON-EXECUTIVE DIRECTOR

Board appointment
Peter was appointed a director in January 2019.

Background and experience
Peter is chief customer officer of Just Eat plc and in January 2019 was appointed as interim chief executive officer and a director of Just Eat plc. Between 2011 and 2018, Peter held a number of senior roles at easyJet plc, including as chief commercial officer and group commercial director. Prior to that, Peter held roles at Audi UK Ltd and Barclays Bank plc over a period of more than 15 years.

Committee membership
Peter is a member of the Risk Committee.

Executive Committee

PREBEN PREBENSEN
CHIEF EXECUTIVE

ANGELA YOTOV
GROUP GENERAL COUNSEL

MIKE MORGAN
GROUP FINANCE DIRECTOR

MARTIN ANDREW
ASSET MANAGEMENT CHIEF EXECUTIVE

REBEKAH ETHERINGTON
GROUP HEAD OF HUMAN RESOURCES

ADRIAN SAINSBURY
BANKING DIVISION MANAGING DIRECTOR

ROBERT SACK
GROUP CHIEF RISK OFFICER

PHILIP YARROW
WINTERFLOOD CHIEF EXECUTIVE

MARTYN ATKINSON
GROUP CHIEF OPERATING OFFICER

Directors' Report

The directors of the company present their report for the year ended 31 July 2019.

The Strategic Report set out on pages 1 to 51 of this Annual Report, and the Corporate Governance Report, the committee reports and the Directors' Remuneration Report set out on pages 59 to 96 of this Annual Report include information that would otherwise need to be included in this Directors' Report. Relevant items are referred to below and incorporated by reference into this report. Readers are also referred to the cautionary statement on page 163 of this Annual Report.

RESULTS AND DIVIDENDS

The consolidated results for the year are shown on page 104 of the financial statements. The directors recommend a final dividend for the year of 44p (2018: 42p) on each ordinary share which, together with the interim dividend of 22p (2018: 21p) paid in April 2019, makes an ordinary distribution for the year of 66p (2018: 63p) per share. The final dividend, if approved by shareholders at the 2019 Annual General Meeting ("AGM"), will be paid on 26 November 2019 to shareholders on the register at 11 October 2019.

DIRECTORS

The names of the directors of the company at the date of this report, together with biographical details, are given on pages 52 and 53 of this Annual Report. All the directors listed on those pages were directors of the company throughout the year, apart from Mike Morgan and Peter Duffy, who were appointed as directors on 15 November 2018 and 1 January 2019, respectively. In addition, Elizabeth Lee served as a director throughout the year, retiring on 31 July 2019, and Jonathan Howell served as a director for part of the year, standing down from the board at the conclusion of the last AGM on 15 November 2018.

In accordance with the UK Corporate Governance Code, each of the current directors will retire at the 2019 AGM and offer themselves for reappointment at that meeting.

Mike Morgan's appointment as a director and group finance director took effect at the 2018 AGM on 15 November 2018, having been announced by the company on 27 June 2018. Further details on the robust search process that resulted in Mike's appointment can be found in the company's 2018 Annual Report.

Jonathan Howell did not submit himself for reappointment at the company's 2018 AGM, having informed the board of his decision to leave the company to pursue the next stage of his career.

On 19 October 2018, the company announced that Elizabeth Lee would be retiring as an executive director and group head of legal and regulatory affairs on 31 July 2019.

On 15 November 2018, the company announced that, following a search process overseen by the Nomination and Governance Committee, the board had decided to appoint Peter Duffy as an independent non-executive director with effect from 1 January 2019. Peter is a member of the board's Risk Committee and, like each of the company's other directors, is also a director of the group's Banking subsidiary, Close Brothers Limited. More information on the process that resulted in Peter's appointment can be found in the Report of the Nomination and Governance Committee on page 74 of this Annual Report.

On 24 September 2019, the company announced that Preben Prebensen had decided to step down after ten years as chief executive and a member of the board. Preben will remain with the group for the next 12 months to ensure a smooth handover and will stand for reappointment as a director at the company's AGM on 21 November 2019. The board will commence a thorough search for a successor, and will announce further details in due course and in next year's annual report.

Further details on the directors' remuneration and service contracts or appointment letters (as applicable) can be found in the Directors' Remuneration Report on pages 80 and 81 of this Annual Report.

DIRECTORS' INTERESTS

The directors' interests in the share capital and listed debt instruments of the company at 31 July and 19 September 2019 are set out on pages 94 and 96 of the Directors' Remuneration Report.

POWERS AND APPOINTMENT OF DIRECTORS

The company's articles of association set out the powers of the directors and rules governing the appointment and removal of directors. The articles of association can be viewed at www.closebrothers.com/investor-relations/investor-information/corporate-governance. Further details on the powers and appointment and removal of directors are set out in the Corporate Governance Report on pages 64 and 65 of this Annual Report.

DIRECTORS' INDEMNITIES AND INSURANCE

In accordance with its articles of association, the company has granted a deed of indemnity to each of its directors on terms consistent with the applicable statutory provisions. The deeds indemnify the directors in respect of liabilities (and associated costs and expenses) incurred in connection with the performance of their duties as a director of the company or any associated company. Qualifying third party indemnity provisions for the purposes of section 234 of the Companies Act 2006 were accordingly in force during the course of the year, and remain in force at the date of this report. The company also maintains directors' and officers' liability insurance for its directors and officers.

COMPANY SECRETARY

The company secretary of Close Brothers Group plc is Alex Dunn. He can be contacted at the company's registered office.

SHARE CAPITAL

The company's share capital comprises one class of ordinary share with a nominal value of 25p per share. At 31 July 2019, 152,060,290 ordinary shares were in issue, of which 664,109 were held by the company in treasury.

Under section 551 of the Companies Act 2006, the directors may allot equity securities only with the express authorisation of shareholders which may be given in general meeting, but which cannot last more than five years. Under section 561 of the Companies Act, the board may not allot shares for cash (otherwise than pursuant to an employee share scheme) without first making an offer to existing shareholders to allot such shares to them on the same or more favourable terms in proportion to their respective shareholdings, unless this requirement is waived by a special resolution of the shareholders.

At the company's 2018 AGM, the directors were authorised to:
- allot shares in the company or grant rights to subscribe for, or convert, any security into shares up to an aggregate nominal amount of £12,620,574;
- allot shares up to an aggregate nominal amount of £25,241,148, for the purposes of a rights issue;
- allot shares having a nominal amount not exceeding in aggregate £1,893,086 for cash without offering the shares first to existing shareholders in proportion to their holdings;
- allot shares having a nominal amount not exceeding an additional £1,893,086, for the purpose of financing a transaction determined by the directors to be an acquisition or other capital investment as

Directors' Report
continued

defined by the Statement of Principles on Disapplying Pre-Emption Rights published by the Pre-Emption Group;
- allot shares having a nominal amount not exceeding in aggregate £4,732,715 in relation to any issue by the company of any Additional Tier 1 instruments, where the directors consider this desirable, including for the purpose of complying or maintaining compliance with regulatory targets or requirements; and
- make market purchases of up to 15,144,688 of the company's ordinary shares, equivalent to 10% of the company's issued share capital at the time.

Since the date of the company's 2018 AGM, with the exception of the authority to make market purchases, the directors have not used these authorities. Details of market purchases of the company's ordinary shares during the year can be found below in the section headed "Purchase of Own Shares".

The existing authorities given to the company at the last AGM to allot and purchase shares will expire at the conclusion of the forthcoming AGM. At the AGM, shareholders will be asked to renew these authorities. Details of the relevant resolutions to be proposed will be included in the Notice of AGM.

NEW ISSUES OF SHARE CAPITAL
No ordinary shares were allotted and issued during the year. Specifically, no ordinary shares were allotted and issued during the year to satisfy option exercises. Full details of options exercised, the weighted average option exercise price and the weighted average market price at the date of exercise can be found in note 26 on page 142 of the financial statements.

RIGHTS ATTACHING TO SHARES
The company's articles of association set out the rights and obligations attaching to the company's ordinary shares. All of the ordinary shares rank equally in all respects.

On a show of hands, each member has the right to one vote at general meetings of the company. On a poll, each member would be entitled to one vote for every share held. The shares carry no rights to fixed income. No person has any special rights of control over the company's share capital and all shares are fully paid.

The articles of association and applicable legislation provide that the company can decide to restrict the rights attaching to ordinary shares in certain circumstances (such as the right to attend or vote at a shareholders' meeting), including where a person has failed to comply with a notice issued by the company under section 793 of the Companies Act 2006.

DEADLINE FOR VOTING RIGHTS
Full details of the deadlines for exercising voting rights in respect of the resolutions to be considered at the AGM, to be held on 21 November 2019, will be set out in the Notice of AGM.

RESTRICTIONS ON THE TRANSFER OF SHARES
There are no specific restrictions on the transfer of the company's shares which are governed by the general provisions of the articles of association and prevailing legislation. The articles of association set out certain circumstances in which the directors of the company can refuse to register a transfer of ordinary shares.

The company is not aware of any arrangements between its shareholders that may result in restrictions on the transfer of shares and/or voting rights.

Directors and employees of the group are required to comply with applicable legislation relating to dealing in the company's shares as well as the company's share dealing rules. These rules restrict employees' and directors' ability to deal in ordinary shares at certain times, and require the employee or director to obtain permission prior to dealing. Some of the group's employee share plans also contain restrictions on the transfer of shares held within those plans.

PURCHASE OF OWN SHARES
Under section 724 of the Companies Act 2006, a company may purchase its own shares to be held in treasury ("Treasury Shares").

The existing authority given to the company at the last AGM to purchase Treasury Shares of up to 10% of its issued share capital will expire at the conclusion of the next AGM.

The board considers it would be appropriate to renew this authority and intends to seek shareholder approval to purchase Treasury Shares of up to 10% of its issued share capital at the forthcoming AGM in line with current investor sentiment. Details of the resolution renewing the authority will be included in the Notice of AGM.

Awards under the company's employee share plans are met from shares purchased in the market (and held either in treasury or in the employee share trust).

During the year the company made market purchases of 325,000 Treasury Shares with an aggregate nominal value of £81,250, representing 0.21% of its issued share capital, for an aggregate consideration of £4.96 million. It transferred 275,802 shares out of treasury, to satisfy share option awards, for a total consideration of £3.1 million.

At 31 July 2019, the company held 664,109 Treasury Shares with a nominal value of £0.17 million. The maximum number of Treasury Shares held at any time during the year was 937,213 with a nominal value of £0.23 million.

EMPLOYEE SHARE TRUST
Ocorian Trustees (Jersey) Limited is the trustee of the Close Brothers Group Employee Share Trust, an independent trust which holds shares for the benefit of employees and former employees of the group. The trustee will only vote on those shares in accordance with the instructions given to the trustee and in accordance with the terms of the trust deed. The trustee has agreed to satisfy a number of awards under the employee share plans. As part of these arrangements the company funds the trust from time to time, to enable the trustee to acquire shares to satisfy these awards, details of which are set out in note 26 on page 142 of the financial statements. The trustee has waived its right to dividends on all shares held within the trust.

During the year, the employee share trust made market purchases of 384,347 ordinary shares.

SUBSTANTIAL SHAREHOLDINGS
Details of substantial shareholdings in the company are set out in the Corporate Governance Report on page 68 of this Annual Report.

ARTICLES OF ASSOCIATION
The company's articles of association were last amended in November 2009. They may only be amended by a special resolution of the company's shareholders. The articles of association can be viewed at www.closebrothers.com/investor-relations/investor-information/corporate-governance.

CORPORATE GOVERNANCE STATEMENT
The company is required by the Disclosure Guidance and Transparency Rules to prepare a corporate governance statement including certain specified information. Information fulfilling the relevant requirements can be found in this Directors' Report and the Corporate Governance Report, committee reports and Directors'

Remuneration Report on pages 59 to 96 of this Annual Report. This information is incorporated by reference into this Directors' Report.

STRATEGIC REPORT

The company's Strategic Report can be found on pages 1 to 51 of this Annual Report.

BUSINESS ACTIVITIES

The group's business activities, together with a description of future developments (including the factors likely to affect future development and performance) and its summarised financial position, are set out in the Strategic Report.

EMPLOYMENT PRACTICES AND GREENHOUSE EMISSIONS

Information on the company's employment practices (including with respect to disabled employees and employee involvement) and greenhouse gas emissions is set out in the Sustainability Report on pages 42 to 51 of the Strategic Report.

APPROACH TO DIVERSITY

The group is committed to promoting diversity and inclusion across its businesses. Information on the group's approach to diversity can be found on pages 44 and 45 of the Strategic Report. More information on diversity at board level and the board's oversight of diversity initiatives can be found on page 60 of the Corporate Governance Report.

SIGNIFICANT AGREEMENTS AFFECTED BY A CHANGE OF CONTROL

A change of control of the company, following a takeover bid, may cause a number of agreements to which the company is a party to take effect, alter or terminate. These include certain insurance policies, bank facility agreements and employee share plans.

The group had committed facilities totalling £1.7 billion at 31 July 2019 which contain clauses requiring lender consent for any change of control. Should consent not be given, a change of control would trigger mandatory repayment of those facilities.

All of the company's employee share plans contain provisions relating to a change of control. Outstanding awards and options may vest and become exercisable on a change of control, subject, where appropriate, to the satisfaction of any performance conditions at that time and pro-rating of awards.

FINANCIAL INSTRUMENTS

Details of the group's financial instruments can be found in notes 10 to 14, 17 to 20 and 28 to the financial statements. The notes begin on page 111.

FINANCIAL RISK MANAGEMENT

The group has procedures in place to identify, monitor and evaluate the significant risks it faces. The Group's risk management objectives and policies are described on pages 66 and 67, and the risks associated with the group's financial instruments are analysed in note 28 on pages 145 to 156 of the financial statements.

POST-BALANCE SHEET EVENTS

There were no material post-balance sheet events.

POLITICAL DONATIONS

No political donations were made during the year (2018: £nil).

CHARITABLE DONATIONS

Further information on the group's charitable activities, and on the charitable donations made in the year, can be found on page 49 as part of the Strategic Report.

DISCLOSURE OF INFORMATION UNDER LISTING RULE 9.8.4R

As required by Listing Rule 9.8.4CR, the table below sets out the location of information required to be disclosed under Listing Rule 9.8.4R:

Subject	Page
Details of shareholder dividend waivers	See the section headed "Employee Share Trust" on page 56

RESEARCH AND DEVELOPMENT ACTIVITIES

During the normal course of business, the group continues to invest in new technology and systems and to develop new products and services to improve operating efficiency and strengthen its customer proposition.

RESOLUTIONS AT THE 2019 AGM

The company's AGM will be held on 21 November 2019. Resolutions to be proposed at the AGM include the reappointment of directors, the annual advisory vote to approve the Directors' Remuneration Report, the renewal of the directors' authority to allot shares including in relation to any issue of any Additional Tier 1 instruments, the disapplication of pre-emption rights and authority for the company to purchase its own shares.

The full text of each of the resolutions to be proposed at the 2019 AGM will be set out in the Notice of AGM sent to the company's shareholders. A letter from the chairman and explanatory notes will accompany the Notice of AGM.

AUDITOR

PricewaterhouseCoopers LLP ("PwC") has expressed its willingness to continue in office as the company's external auditor. Resolutions to reappoint PwC and to give the directors the authority to determine the auditors' remuneration will be proposed at the forthcoming AGM. The full text of the relevant resolutions will be set out in the Notice of AGM sent to the company's shareholders.

DISCLOSURE OF INFORMATION TO THE AUDITOR

Each of the persons who are directors at the date of approval of this Annual Report confirms that:

- so far as the director is aware, there is no relevant audit information of which the company's auditor is unaware; and
- they have taken all the steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the company's auditor is aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of section 418 of the Companies Act 2006.

GOING CONCERN

The group has a strong, proven and conservative business model and has traded profitably during the year. It is well positioned in each of its core businesses, well capitalised, soundly funded and has adequate access to liquidity.

After making enquiries, the directors have a reasonable expectation that the company and the group have adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the Annual Report.

VIABILITY STATEMENT

In accordance with provision C.2.2 of the UK Corporate Governance Code, the board confirms that it has a reasonable expectation that the group will continue to operate and meet its liabilities, as they fall due, for the three-year period up to 31 July 2022.

Directors' Report
continued

The board considers three years to be an appropriate period for the assessment to be made. A period of three years has been chosen because it is the period covered by the group's strategic planning cycle. Accordingly, we adopt the same three-year period for our regulatory and internal stress testing processes, including: (i) the Internal Capital Adequacy Assessment Process ("ICAAP"), which forecasts key capital requirements; (ii) the Internal Liquidity Adequacy Assessment Process ("ILAAP"), which identifies liquidity requirements; and (iii) other group-wide internal stress testing.

The directors review and approve the group's strategy and three-year plan on an annual basis. The plan considers the group's future projections of profitability, cash flows, capital requirements and resources, and other key financial and regulatory ratios over the period. The group's annual strategy and planning process includes:
- the board reviewing the group's strategy, risk appetite and objectives in the context of the operating environment and macro economy;
- the development of plans and budgets in line with the group objectives, strategy and risk appetite, with rigorous review and challenge taking place from both divisional and group executives; and
- scenario analysis to test capital and funding resources.

In making this assessment, the directors have considered a wide range of information, including:
- the principal and emerging risks which could impact the performance of the group – please see the Principal Risks and Uncertainties on pages 18 to 22;
- the group's current financial position and prospects – please see the Financial Overview on pages 26 to 37;
- the group's business model and strategy – please see Business Model, and Strategy and Key Performance Indicators on pages 14 to 17; and
- the board's risk appetite, and the robust assessment of the group's principal risks and how these are managed, including the results of the ICAAP – please see the Risk and Control Framework on pages 66 and 67.

The directors have also considered the results from the following:
- the ICAAP, which includes both stress testing and scenario analysis. At a group level two scenarios are run, one based on the latest PRA scenarios, the other representing an alternative severe, but plausible, scenario. Both take account of the availability and likely effectiveness of mitigating actions that could be taken by management to avoid or reduce the impact or occurrence of underlying risks;
- the annual review of the Recovery Plan where reverse stress testing is employed to support the identification of potential adverse circumstances and events, and test the efficiency and effectiveness of recovery actions and planning; and
- the ILAAP, which is undertaken to assess the group's liquidity across a range of market-wide and idiosyncratic scenarios demonstrating the ongoing strength of the group's funding and liquidity model.

DIRECTORS' RESPONSIBILITY STATEMENT

The directors, whose names and functions are listed on pages 52 and 53, are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulation.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the group financial statements in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union and the parent company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the group and parent company and of the profit or loss of the group and parent company for that period.

In preparing the group and parent company financial statements, the directors are required to:
- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable IFRSs as adopted by the European Union have been followed for the group financial statements, and whether United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" and applicable law have been followed for the parent company financial statements, subject to any material departures disclosed and explained in the group and parent company financial statements; and
- prepare the group and parent company financial statements on the going concern basis unless it is inappropriate to presume that the group and the parent company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the group and parent company's transactions and disclose with reasonable accuracy at any time the financial position of the group and parent company and enable them to ensure that the financial statements and Directors' Remuneration Report comply with the Companies Act 2006 and, as regards the group financial statements, Article 4 of the IAS Regulation. They are also responsible for safeguarding the assets of the group and parent company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Each of the directors confirms that, to the best of their knowledge:
- the group and parent company financial statements, prepared in accordance with the relevant financial reporting frameworks, give a true and fair view of the assets, liabilities, financial position and profit or loss of the group and parent company respectively;
- the Strategic Report, together with the Directors' Report and the Corporate Governance Report, include a fair review of the development and performance of the business and the position of the group and parent company, together with a description of the principal risks and uncertainties that they face; and
- the Annual Report and financial statements, taken as a whole, are fair, balanced and understandable and provide the information necessary for shareholders to assess the group and parent company's position, performance, business model and strategy.

By order of the board

ALEX DUNN
COMPANY SECRETARY

24 September 2019

Corporate Governance Report

MICHAEL N. BIGGS
CHAIRMAN

ON BEHALF OF THE BOARD, I AM PLEASED TO INTRODUCE THE CORPORATE GOVERNANCE REPORT FOR THE YEAR ENDED 31 JULY 2019. THE PAGES THAT FOLLOW PROVIDE DETAIL ON THE GROUP'S GOVERNANCE STRUCTURE, ITS RISK AND CONTROL FRAMEWORK, AND KEY ACTIVITIES UNDERTAKEN BY THE BOARD AND ITS COMMITTEES DURING THE YEAR TO ENSURE EFFECTIVE DECISION-MAKING AND OVERSIGHT OF THE GROUP'S STRATEGY, BUSINESS MODEL AND PERFORMANCE.

CHAIRMAN'S INTRODUCTION

At Close Brothers we firmly believe in the important role that strong corporate governance and effective board oversight play in supporting long-term, sustainable success for shareholders and other stakeholders, and delivery of the group's strategy. The board is committed to maintaining a robust and effective corporate governance and risk management framework, and I am pleased to report that, once again, the company has complied with the principles and provisions of the 2016 UK Corporate Governance Code throughout the year. Further detail on how we complied appears later in this report.

During the year, the board and its committees have spent time considering recent corporate governance reforms, and making further enhancements to the company's governance framework in line with the new Code which applies to the financial year ending 31 July 2020. The company will report on compliance against the new Code in next year's Annual Report.

The board was refreshed during the year with the appointments of Mike Morgan, who succeeded Jonathan Howell as group finance director at the 2018 AGM, and Peter Duffy, who became an independent non-executive director on 1 January 2019. Further detail on the search process led by the Nomination and Governance Committee that culminated in Peter's appointment can be found on page 74. On 31 July 2019, following an announcement in October 2018, Elizabeth Lee retired as an executive director and group head of legal and regulatory affairs. On behalf of the board, I would like to thank Elizabeth for her wise counsel and substantial contribution to the group over many years.

On 24 September 2019, we announced that Preben Prebensen had decided to step down after ten years as chief executive and a member of the board. Preben will remain with the group for the next 12 months to ensure a smooth handover. The board will commence a thorough search for a successor, and we will announce further details in due course and in next year's annual report.

The board has used formal meetings and other opportunities to discuss the group's performance and delivery of its strategy with group and divisional executives. This included consideration of key stakeholders and their interests, as well as risks arising from the wider regulatory, economic and political environment.

In my own engagement with employees and visits around the group's businesses, I have been pleased to see the group's strong and distinctive culture in action. The board recognises the important role it plays in establishing and monitoring the group's purpose, culture and values, and setting the right tone from the top. The ongoing assessment of the contribution of culture and values to the group's long-term success remains a key focus for the board.

This year, diversity has been an important topic of discussion for the board and the Nomination and Governance Committee, including as part of ongoing board succession planning. The directors approved a new board diversity policy, which recognises the importance of having a diversity of backgrounds and experience on the board, bringing different perspectives and challenge. Further detail on the board's approach to diversity can be found on page 60.

During the year, the board carried out an internal evaluation of its effectiveness and performance. The results found that the board and its committees continue to function effectively. Further details of this evaluation can be found on pages 65 and 66.

In this section of the Annual Report you will also find the Directors' Remuneration Report, setting out disclosures required by statute, regulation and best practice in relation to remuneration matters. I was pleased that last year's AGM resolution approving the 2018 Directors' Remuneration Report was passed with nearly 99% of votes cast in favour. Executive remuneration remains an important area of focus and reform, and the board continues to monitor developments on this topic closely.

Ongoing engagement with shareholders continues to be very important to the board and I have been pleased to meet with a number of our shareholders again during the year to discuss a range of topics. This ongoing dialogue plays a vital role in ensuring that the board is aware of our shareholders' views. The company's AGM this year will take place on 21 November 2019. The board considers this a valuable opportunity for shareholders to raise questions about the performance of the group and for me and my fellow directors to meet with shareholders. I look forward to discussing the group's progress and the work of the board with shareholders at that meeting.

MICHAEL N. BIGGS
CHAIRMAN

24 September 2019

Corporate Governance Report
continued

UK CORPORATE GOVERNANCE CODE

The UK Corporate Governance Code, as published by the Financial Reporting Council ("FRC") in April 2016 (the "Code"), applied to the company throughout the financial year. A copy of the Code can be found on the FRC's website: www.frc.org.uk.

The Code sets out guidance on best practice in the form of principles and provisions on how companies should be directed and controlled to follow good governance practice. The Financial Conduct Authority ("FCA") requires companies with a premium listing in the UK to disclose, in relation to the Code, how they have applied its principles and whether they have complied with its provisions throughout the financial year. Where the provisions have not been complied with, companies must provide an explanation.

It is the board's view that throughout the year the company has complied with the principles and provisions set out in the Code. Further detail as to how the company has complied with the Code is set out in the remainder of this Corporate Governance Report.

In July 2018, the FRC updated the Code, publishing a revised UK Corporate Governance Code (the "Revised Code"), which first applies to the company in the financial year which started on 1 August 2019. Accordingly, the company will report on its compliance with the Revised Code in next year's Annual Report. A copy of the Revised Code can be found on the FRC's website: www.frc.org.uk.

During the year, the board and its committees have continued to monitor corporate governance reforms applicable to the company, together with the company's plans for the application of the Revised Code from 1 August 2019. Information on preparatory actions taken during the 2019 financial year is included in relevant sections below and further detail will be provided next year in line with the reporting requirements of the Revised Code.

THE BOARD

LEADERSHIP OF THE BOARD

The board's primary role is to provide effective leadership, to ensure that the company is appropriately managed, and to promote its long-term sustainable success, thereby generating shareholder value and making a contribution to wider society. The board establishes the company's values, strategy and purpose in alignment with its culture and provides direction for the group as a whole. It also ensures that the company has adequate resources to meet its strategic objectives and monitors management's performance against those objectives.

A key responsibility of the board is to define, promote and monitor the company's culture, setting the "tone from the top". It also ensures effective engagement with, and participation from, shareholders and other stakeholders. The directors supervise the group's operations, with the aim of ensuring that the company maintains a framework of prudent and effective controls which enables risks, including emerging risks, to be properly assessed and appropriately managed.

BOARD SIZE AND COMPOSITION

The board has eight members: the chairman, two executive directors and five independent non-executive directors. The board's members come from a range of backgrounds and the board is structured to ensure that no individual or group of individuals is able to dominate the decision-making process and no undue reliance is placed on any individual.

Following Elizabeth Lee's decision to retire as a director on 31 July 2019, consideration has been given to the overall size of the board and the balance between its executive and non-executive membership. On the recommendation of the Nomination and Governance Committee, the board decided not to appoint an additional executive director following Elizabeth's retirement, concluding that two executive directors were appropriate given the overall size of the board and the company's operations.

Details of the individual directors and their biographies are set out on pages 52 and 53.

BOARD AND SENIOR MANAGEMENT DIVERSITY

The board acknowledges the benefits that diversity can bring to the board and to all levels of the group's operations. The board's diversity policy, which was approved by the board during the year, recognises the importance of having directors with a range of skills, knowledge and experience, and embraces the benefits to be derived from having directors who come from a diversity of backgrounds, bringing different perspectives and the challenge needed to ensure effective decision-making.

The board supports the aim of promoting greater diversity in the boardroom and seeks to maintain a diverse and balanced board. The Nomination and Governance Committee regularly reviews and evaluates the structure, size and composition of the board and is responsible for identifying and recommending new directors for appointment. Board appointments are made on merit against objective and defined criteria, following consideration by the Nomination and Governance Committee of the balance of skills, experience, knowledge and diversity required for the board to operate effectively as a whole.

The board regularly considers diversity and actions to encourage a diverse pipeline as part of discussions around succession planning and talent management throughout the year. The Nomination and Governance Committee also ensures that the external search firms that it uses to assist with board appointments engage with candidates from a broad and diverse range of backgrounds and experience.

In line with the Code, further commentary on the diversity of the board, and future plans in this regard, is set out in the Nomination and Governance Committee Report on page 75. The board's diversity policy is available on the Corporate Governance section of the company's website. The policy is subject to periodic review by the Nomination and Governance Committee.

The board remains committed to improving diversity at all levels of the group's operations. As such, it supports, and is updated on, diversity initiatives in place below board level across the group. Further information on these initiatives can be found on pages 44 and 45 of the Strategic Report.

MATTERS RESERVED TO THE BOARD

A number of key decisions are reserved for, and may only be made by, the board. These specific matters and decisions are set out in a formal schedule, which enables the board and executive management to operate within a clear governance framework. The schedule of matters reserved to the board is reviewed annually and is published on the company's website. During the year, the board updated the schedule of matters reserved to the board, among other things, to reflect the requirements of the Revised Code and other applicable corporate governance reforms.

The matters and decisions specifically reserved for the board include:

- responsibility for the overall direction of the group and oversight of the group's management;
- approval of the group's strategy and monitoring its delivery;
- oversight and monitoring of risk management, regulatory compliance and internal control systems and processes, and assessing the effectiveness of material controls;
- assessing the group's emerging and principal risks, the procedures in place to identify those risks and how they are managed and mitigated;
- ensuring adequate financial resources, including approving the group's Recovery and Resolution Plans, and the Internal Capital Adequacy Assessment Process ("ICAAP");
- changes to the group's dividend policy and significant changes in accounting policies;
- approving acquisitions, disposals, other transactions and expenditure over certain thresholds;
- changes to the capital structure of the group;
- approval of communications to shareholders;
- changes to the structure, size and composition of the board, following recommendations from the Nomination and Governance Committee;
- approval of corporate governance matters, including the evaluation of the performance of the board and its committees;
- undertaking appropriate engagement to understand the views of other stakeholders and reviewing stakeholder engagement mechanisms;
- leading the development, adoption, assessment and monitoring of the group's culture framework; and
- approval and oversight of the group's policy framework and ensuring that the group's policies, practices and behaviour are consistent with the company's values and support long-term, sustainable success.

When carrying out its duties, the board acts in accordance with relevant legislative and regulatory requirements and, in particular, takes into account the directors' duties contained in the Companies Act 2006 (the "Act"), including section 172 of the Act and any other relevant factors.

Corporate Governance Report
continued

BOARD AND COMMITTEE MEETING ATTENDANCE IN 2018/2019

During the year the board held seven regular scheduled meetings. In addition, all members of the board attended an off-site strategy session with senior management over two days in May.

The annual schedule of board meetings is decided a substantial time in advance in order to ensure, so far as possible, the availability of each of the directors. In the event that directors are unable to attend meetings, they receive papers in the normal manner and have the opportunity to relay their comments and questions in advance of the meeting, as well as follow up with the chairman if necessary. The same process applies in respect of the various board committees.

The attendance of directors at scheduled meetings of the board and the committees of which they were members during the financial year is shown in the table below. Some directors also attended committee meetings as invitees during the year, which is not reflected in the table.

	Board		Audit Committee		Remuneration Committee		Risk Committee		Nomination and Governance Committee	
	Attended	**Total**	Attended	**Total**	Attended	**Total**	Attended	**Total**	Attended	**Total**
Executive directors										
Preben Prebensen	7	**7**								
Jonathan Howell[1]	2	**2**								
Mike Morgan[2]	5	**5**								
Elizabeth Lee[3]	7	**7**								
Non-executive directors										
Mike Biggs	7	**7**							5	**5**
Oliver Corbett	7	**7**	5	**5**	5	**5**	6	**6**	5	**5**
Geoffrey Howe	7	**7**	5	**5**	5	**5**	6	**6**	5	**5**
Lesley Jones	7	**7**	5	**5**	5	**5**	6	**6**	5	**5**
Bridget Macaskill	7	**7**	5	**5**	5	**5**	6	**6**	5	**5**
Peter Duffy[4]	5	**5**					4	**4**		

1 Jonathan Howell ceased to be an executive director at the conclusion of the 2018 AGM on 15 November 2018 when he left the company to pursue the next stage of his career, as announced by the company on 25 January 2018.
2 Mike Morgan was appointed as an executive director at the 2018 AGM on 15 November 2018.
3 Elizabeth Lee retired as an executive director on 31 July 2019, as announced by the company on 19 October 2018.
4 Peter Duffy was appointed as an independent non-executive director and a member of the Risk Committee with effect from 1 January 2019.

The board held one additional ad hoc meeting in the year to consider a number of matters, including the appointment of Peter Duffy to the board and the ICAAP. The Nomination and Governance Committee held one additional ad hoc meeting during the year to consider, and recommend to the board, the appointment of Peter Duffy. These additional meetings are not reflected in the table above.

At the end of each of the seven scheduled board meetings in the year, the chairman and the other non-executive directors met without any of the executive directors. In addition, the non-executive directors met throughout the year on an informal basis to discuss matters relevant to the group.

In addition to the calendar of formal board and committee meetings, there are other opportunities for all the directors to meet, both with and without senior management, to discuss the group, its operations, strategy and performance. These opportunities include informal dinners as well as working sessions at which the board considers a particular part of the company's business, performance or strategy in depth. These sessions are valued by the board and provide an additional chance to explore discrete issues in detail and to engage with employees from different levels across the group.

GOVERNANCE FRAMEWORK

BOARD GOVERNANCE STRUCTURE

The board has delegated responsibility for certain matters to its committees. The committee structure is shown in the diagram below. Each committee has written terms of reference which are reviewed annually. These terms of reference outline each committee's role and responsibilities and the extent of the authority delegated by the board. They are available on the company's website at www.closebrothers.com/investor-relations/investor-information/corporate-governance. This year, each committee's terms of reference were updated, among other things, to reflect relevant changes arising from the application of the Revised Code to the company from 1 August 2019. The chairman of each committee reports regularly to the board on matters discussed at committee meetings.

Reports for the board's committees are set out later in this report and they include further detail on each committee's role and responsibilities, and the activities undertaken during the year.

THE BOARD

AUDIT COMMITTEE | REMUNERATION COMMITTEE | RISK COMMITTEE | NOMINATION AND GOVERNANCE COMMITTEE

MEETINGS OF THE BOARD

At each scheduled meeting the board receives reports from the chief executive and group finance director on the performance and results of the group. In addition, the Banking division managing director, the Asset Management chief executive and the Winterflood chief executive attend each meeting to update the board on performance, strategic developments and initiatives in their respective areas. The group chief risk officer and the group general counsel have a standing invitation and provide updates on their respective functions. The board also receives regular reports from the group human resources, operations, corporate development, compliance and internal audit functions.

There is an annual schedule of rolling agenda items to ensure that all matters are given due consideration and are reviewed at the appropriate point in the financial and regulatory cycle. Meetings are structured to ensure that there is sufficient time for consideration and debate of all matters. In addition to scheduled or routine items, the board also considers key issues that impact the group, as they arise.

The directors receive detailed papers in advance of each board meeting. The board agenda is carefully structured by the chairman in consultation with the chief executive and the company secretary. Each director may review the agenda and propose items for discussion, with the chairman's agreement. Additional information is also circulated to directors between meetings, including relevant updates on business performance and regulatory interactions.

Each board meeting includes time for discussion between the chairman and non-executive directors without the executive directors.

KEY BOARD ACTIVITIES DURING THE YEAR

During the year, the board has spent time particularly on:
- considering the strategic aims and performance of businesses across the Banking division and the Asset Management division and Winterflood, as well as for the group as a whole;
- customer matters, including the group's customer experience programme;
- the development of the group's operational risk framework and new requirements in relation to operational resilience;
- strategic projects affecting the group and individual businesses, including the Motor Finance transformation programme, the new deposit platform implemented by the Treasury function and the project to develop the models, systems and processes required to use the Internal Ratings Based approach;
- updates on the progress of discrete workstreams arising out of the board's annual strategy days;
- IT, cyber and disaster recovery planning, and associated projects;
- the group's culture framework and a quarterly review of the group's culture dashboard which sets out information and key metrics in relation to culture across the group and each of its divisions;
- discussing the results of the group's biennial employee opinion survey and follow-up actions proposed by management;
- reviewing the competitive landscape;
- engagement with regulators and regulatory developments during the year, including Brexit and the implications of the FCA's final report published in March 2019 on the motor finance market;
- the review and approval of the group's Recovery and Resolution Plans;
- capital planning and considering and approving the ICAAP and the Internal Liquidity Adequacy Assessment Process;
- the annual review of group risk appetite statements; and
- the internal board and committee effectiveness evaluation.

Corporate Governance Report
continued

CHAIRMAN AND CHIEF EXECUTIVE

In line with the Corporate Governance Code, the role of chairman is distinct and separate from that of the chief executive and there is a clear division of responsibilities between the two roles. A description of the responsibilities of the chairman and chief executive, as approved by the board, can be found on the company's website at www.closebrothers.com/investor-relations/investor-information/corporate-governance.

The chairman is Mike Biggs. His other significant commitments are set out in his biography on page 52. The board has considered Mike's chairmanship of Direct Line Insurance Group plc and remains satisfied that those commitments do not restrict him from devoting such time as is necessary to discharging his duties effectively as the company's chairman.

As chairman, Mike is primarily responsible for leading the board and ensuring that it is able to operate effectively and efficiently. The chairman's role is to promote effective decision-making, challenge of executive management and constructive debate, including by facilitating contributions and engagement from all members of the board. His other responsibilities include setting the agenda for board meetings, making sure that the directors receive information in an accurate, clear and timely manner, and ensuring that adequate time is available for discussion of relevant items by the board. The chairman is charged with ensuring that the directors continually update their skills and knowledge and that the performance of the board, its committees and the individual directors is evaluated on an annual basis. Mike also has responsibility for leading the development of the group's culture by the board and for ensuring that the board sets the "tone from the top". As chairman, he is required to ensure that the board as a whole has a clear understanding of the views of shareholders and, to that end, he regularly engages with the company's major institutional shareholders on a range of topics including strategy, governance and succession planning.

The chief executive is Preben Prebensen, who is primarily responsible for all aspects of the performance and the day-to-day management of the group's business in accordance with the objectives and limits defined by the board. His other responsibilities include coordinating all activities to implement the group's strategic objectives, managing the group's risk exposures in line with board policies and risk appetite, implementing the decisions of the board and facilitating effective communication with stakeholders and regulatory bodies. He also has responsibility for overseeing the adoption of the group's culture and values as part of the day-to-day management of the group.

Preben chairs the Executive Committee, the forum that exercises management oversight of the group, including through the monitoring and implementation of strategy and budgetary objectives, as determined by the board. The members of the Executive Committee are shown on page 54.

The chairman and chief executive have various prescribed responsibilities under the Senior Managers regime overseen by the PRA.

INDEPENDENT NON-EXECUTIVE DIRECTORS

The company's independent non-executive directors are Geoffrey Howe, Oliver Corbett, Peter Duffy, Lesley Jones and Bridget Macaskill. Peter joined the board on 1 January 2019.

Within the board's overall risk and governance structure, the independent non-executive directors are responsible for contributing sound judgement and objectivity to the board's deliberations and the decision-making process. They also provide constructive challenge and scrutiny of the performance of management and delivery of the company's strategy.

SENIOR INDEPENDENT DIRECTOR

The senior independent director is Geoffrey Howe. The senior independent director acts as a sounding board for the chairman and serves as an intermediary for the other directors and shareholders. In addition to the existing channels for shareholder communications, shareholders may discuss any issues or concerns they have with the senior independent director. At least annually, the senior independent director leads meetings of the non-executive directors, without the chairman present, to appraise the chairman's performance and then communicates the results of that appraisal to the chairman.

A description of the responsibilities of the senior independent director, as approved by the board, can be found on the company's website at www.closebrothers.com/investor-relations/investor-information/corporate-governance.

NON-EXECUTIVE DIRECTORS' INDEPENDENCE

The board has assessed the independence of each of the non-executive directors and is of the opinion that each acts in an independent and objective manner and therefore, under the Code, is independent and free from any relationship that could affect their judgement. The board's opinion was determined by considering for each non-executive director, among other things:

- whether they are independent in character and judgement;
- how they conduct themselves in board and committee meetings;
- whether they have any interests which may give rise to an actual or perceived conflict of interest; and
- whether they act in the best interests of the company, its shareholders and other stakeholders at all times.

The board has given particularly rigorous consideration to the independence of Geoffrey Howe who will, subject to his reappointment at the 2019 AGM, have been a non-executive director for more than nine years if he continues on the board beyond 4 January 2020. The board has determined that, notwithstanding his term of office, Geoffrey is independent in character, judgement and in his valuable contributions to the board and its committees, including in his challenge of management. Geoffrey also demonstrates independence in the effective discharge of his duties as the company's senior independent director. As described in more detail in the Nomination and Governance Committee Report on page 74, the Committee has initiated a search to identify a successor for Geoffrey as senior independent director.

The company has therefore complied with the Code provision that at least half the board, excluding the chairman, should comprise independent non-executive directors. Each non-executive director is required to confirm at least annually whether any circumstances exist which could impair their independence.

In addition, the board is satisfied that each non-executive director is able to dedicate the necessary amount of time to the company's affairs, following consideration of each non-executive director's other time commitments. The letters of appointment for each of the company's non-executive directors set out a minimum time commitment in discharging their duties as a director, and requires them to seek prior approval from the chairman (on behalf of the board) before they take on additional commitments.

POWERS OF DIRECTORS

The directors are responsible for the management of the company. They may exercise all powers of the company, subject to any directions given by special resolution and the articles of association. The directors have been authorised to allot and issue ordinary shares and to make market purchases of the company's ordinary shares by virtue of resolutions passed at the company's 2018 AGM. Further detail regarding these authorisations is set out on pages 55 and 56.

APPOINTMENT AND REMOVAL OF DIRECTORS

The appointment of directors is governed by the company's articles of association, the Companies Act 2006 and other applicable regulations and policies. Directors may be elected by shareholders in general meeting or appointed by the board of directors in accordance with the provisions of the articles of association.

In accordance with the Code, all directors retire and submit themselves for reappointment at each AGM. The board will only recommend to shareholders that executive and non-executive directors be proposed for reappointment at an AGM after evaluating the performance of the individual directors.

Letters of appointment or service contracts (as applicable) for individual directors are available for inspection by shareholders at each AGM and during normal business hours at the company's registered office.

The articles of association provide that in addition to any power to remove directors conferred by the Companies Act 2006, the company's shareholders can pass a special resolution to remove a director from office.

REAPPOINTMENT OF DIRECTORS AT THE 2019 AGM

Following performance evaluations undertaken during the year, the board has confirmed that each director continues to be effective and demonstrate commitment to their role. On the recommendation of the Nomination and Governance Committee, the board will therefore be recommending that all serving directors standing for re-election at the 2019 AGM be reappointed by shareholders.

INDUCTION AND PROFESSIONAL DEVELOPMENT

On appointment, all new directors receive a comprehensive and personalised induction programme to familiarise them with the group and the regulatory framework within which it operates, and to meet their specific development requirements. The company also provides bespoke inductions for directors when they are appointed as a committee chairman or member. Induction programmes are tailored to a director's particular requirements, but would typically include site visits, one-to-one meetings with executive directors, the company secretary, senior management for the business areas and support functions and a confidential meeting with the external auditor. Directors also receive guidance on directors' liabilities and responsibilities, together with a range of relevant current and historical information about the group and its business.

Peter Duffy's induction programme included detailed meetings and briefings with members of the board and the Executive Committee, the chief executives of each of the individual Banking businesses, the head of compliance, the director of investor relations and the group's external auditor. Specific topics covered in these sessions included the regulatory framework applicable to the group, capital and other prudential requirements, the group's risk management framework, strategy and purpose, culture and values, and financial performance. In addition, Peter received briefings on the duties and responsibilities of a listed company director, the group's governance framework and the wider UK corporate governance, listing and disclosure regime from the company secretary and the group's external legal advisers.

Mike Morgan has also undertaken a tailored induction following his appointment to the board. The induction provided to Mike reflected his existing extensive knowledge and understanding of the group developed since he joined the group as chief financial officer of the Banking division (and became a director of its Banking subsidiary, Close Brothers Limited) in 2010. Mike's induction activities included meetings with other board members and senior management across the group, and sessions with the group's external auditors, corporate brokers and external legal advisers. Mike also received a briefing on the duties and responsibilities of a listed company director, the group's governance framework and the wider UK corporate governance, listing and disclosure regime from the company secretary.

There is a central training programme in place for the directors, which is reviewed and considered by the Nomination and Governance Committee. In addition, the chairman discusses and agrees any specific requirements as part of each non-executive director's regular reviews. During the year, training and development activities took a number of forms, including meetings with senior management within the businesses and control functions, in-depth business reviews, lunches with emerging leaders and other employees from across the group, attendance at external seminars and dedicated briefings from management and external advisers covering topics such as corporate governance updates, directors' duties and new reporting requirements in relation to section 172 of the Act, regulatory developments, changes in remuneration regulation and practice, accounting changes, the Internal Ratings Based approach, open banking, robotics and cyber security. In addition to training organised by the group specifically for the board, directors attend a range of other training and development sessions as part of other roles they hold.

Training and development records are maintained by the company secretary and reviewed annually by the chairman and each individual director.

COMPANY SECRETARY

The company secretary is responsible for ensuring that board procedures and applicable rules and regulations are observed. All directors have direct access to the services and advice of the company secretary, who also acts as secretary to each of the board committees. The company secretary provides advice and support to the board, through the chairman, on all governance matters and on the discharge of their duties. Directors are able to take independent external professional advice to assist with the performance of their duties at the company's expense.

CONFLICTS OF INTEREST

The articles of association include provisions giving the directors authority to approve conflicts of interest and potential conflicts of interest as permitted under the Companies Act 2006.

Directors are responsible for notifying the chairman and the company secretary of any actual or potential conflicts as soon as they become aware of them. A procedure has been established, whereby actual and potential conflicts of interest are regularly reviewed and appropriate authorisation sought. This procedure includes mechanisms for the identification of conflicts prior to the appointment of any new director or if a new conflict arises during the year. The decision to authorise a conflict of interest can only be made by non-conflicted directors and in making such a decision the directors must act in a way they consider, in good faith, will be most likely to promote the success of the company. The company secretary maintains a register of conflicts authorised by the board. The board believes this procedure operated effectively throughout the year.

BOARD AND COMMITTEE EFFECTIVENESS

ANNUAL BOARD AND COMMITTEE EVALUATION

The board undertakes an evaluation of its effectiveness and the performance of the whole board, its individual directors and its committees annually. In accordance with the Code, at least every third year, an external evaluation is carried out. The last externally facilitated review was conducted in 2018 as described in last year's Annual Report.

Corporate Governance Report
continued

During the 2019 financial year, the Nomination and Governance Committee recommended that the evaluation for the year be undertaken internally by the company secretary, as permitted by the Code. The evaluation took the form of questionnaires completed by each director assessing the performance and effectiveness of the board and each of its committees in a broad range of areas, together with an assessment of progress against the recommendations made in the 2018 external evaluation.

The questions in the assessment were set to develop the themes explored in prior years' evaluations in order to assess the progress of the board and its committees compared with previous years, and also to evaluate recent developments and areas of focus in the 2019 financial year. In each part of the assessment, directors were invited to provide general comments and observations in addition to responding to specific questions.

The evaluation of the board focused on a range of different areas relevant to board effectiveness and corporate governance, including:
- the role and composition of the board;
- strategy, purpose and values;
- culture;
- the business of the board;
- stakeholder engagement; and
- board behaviours.

A separate questionnaire was completed by each member of the board's four committees, covering a variety of subjects relating to composition, performance, effectiveness and the particular responsibilities of the committee concerned.

The responses to the questionnaires were collated and reviewed by the company secretary, and discussed with the chairman. The company secretary subsequently prepared a report setting out the results of the evaluation, including key themes and recommendations arising from the questionnaires, which was presented to the board for discussion in July 2019.

The overall conclusion of the evaluation was that the board and its committees continue to operate effectively and that good progress has been made against each of the recommendations made in the external evaluation undertaken in the previous year. The evaluation also confirmed that the positive features and attributes of the board identified in the 2018 evaluation had remained present in the workings of the board in the 2019 financial year.

Among other things, the evaluation demonstrated the ongoing value and effectiveness of the dedicated annual sessions focusing on the company's strategy (alongside opportunities to discuss strategic issues as part of the regular cycle of board meetings throughout the year), and the role played by the board in recent years in the oversight of the company's culture, values and purpose. The evaluation noted the overall quality of information provided to the board about key stakeholders and the regard that directors have to stakeholder issues when making significant decisions, but has identified some helpful areas for incremental enhancement during the current financial year ahead of new reporting on stakeholder engagement in next year's Annual Report.

The board welcomes the positive conclusions of the evaluation and will focus during the next financial year on a small number of areas to further improve the effectiveness of the board and its committees.

DIRECTORS' PERFORMANCE
During the financial year, the chairman holds regular meetings with individual directors at which, among other things, their individual performance is discussed. These discussions form part of the basis for recommending the reappointment of directors at the company's AGM, and include consideration of the director's performance and contribution to the board and its committees, their time commitment and the board's overall composition.

CHAIRMAN'S PERFORMANCE
As in previous years, Geoffrey Howe, the senior independent director, has led an annual performance assessment process in respect of the chairman. This involves review meetings during the year with the other non-executive directors, without the chairman being present, and consultation with the chief executive. The senior independent director subsequently provides feedback to the chairman.

DIRECTORS' FITNESS AND PROPRIETY
In line with its regulatory obligations, the group undertakes annual reviews of the fitness and propriety of all those in Senior Manager Functions, including all of the company's directors and a number of other senior executives. This process comprises assessments of individuals' honesty, integrity and reputation; financial soundness; competence and capability; and continuing professional development. This year's reviews have confirmed the fitness and propriety of all of the company's directors and other senior executives who perform Senior Manager Functions.

RISK AND CONTROL FRAMEWORK
The board has overall responsibility for maintaining a system of internal control to ensure that an effective risk management and oversight process operates across the group. The risk management framework and associated governance arrangements are designed to ensure that there is a clear organisational structure with distinct, transparent and consistent lines of responsibility and effective processes to identify, manage, monitor and report the risks to which the group is, or may become, exposed. The board has a well defined risk appetite with risk appetite measures which are integrated into decision-making, monitoring and reporting processes. Early warning trigger levels are set to drive the required corrective action before overall tolerance levels are reached. The risk management and internal control framework, overseen by a number of committees including the Risk Committee and the Audit Committee, is the mechanism that ensures the board receives comprehensive risk and control information in a timely manner.

The group maintains a range of internal controls relating to financial management, reporting and control processes, which are designed to ensure the accuracy and reliability of its financial information and reporting. The main features of these controls include consistently applied accounting policies, clearly defined lines of responsibility and processes for the review and oversight of disclosures within the Annual Report. These internal controls are overseen by the Audit Committee.

Identification, measurement and management of risk are fundamental to the success of the group. Over the past 12 months the group has continued to strengthen its risk management framework and further develop the organisation's risk committees, at both a group and business level. These continue to work efficiently and effectively.

The group's risk and control framework is designed to support the capture of business opportunities while maintaining an appropriate balance of risk and reward within the group's agreed risk appetite. It further ensures that the risks to which the group is, or may become, exposed are appropriately identified, and that those risks which the group chooses to take are managed, controlled and, where necessary, mitigated, so that the group is not subject to material unexpected loss.

The group closely monitors its risk profile to ensure that it continues to align with its strategic objectives as documented on page 16.

The group reviews and adjusts its risk appetite annually as part of the strategy-setting process. This aligns risk-taking with the achievement of strategic objectives. Adherence to appetite is monitored by the group's risk committees.

The board considers that the group's current risk profile remains consistent with its strategic objectives.

Throughout the year the Risk Committee undertakes a robust assessment of the principal and emerging risks facing the group, and reviews reports from the risk function on the processes that support the management and mitigation of those risks. As part of this ongoing review process, a specific assessment of the principal risks and emerging risks facing the group was carried out by the board, including those risks that would threaten its business model, future performance, solvency or liquidity. A summary of the group's principal risks and emerging risks is provided on pages 18 to 22.

In addition, throughout the year, the board, assisted by the Risk Committee and the Audit Committee, monitors the group's risk management and internal control systems and reviews their effectiveness. This covers all material controls, including financial, operational and compliance controls. The board reviews the effectiveness of both committees on an annual basis. Based on its assessment throughout the year, and its review of the committees' effectiveness, the board considers that, overall, the group has in place adequate systems and controls with regard to its profile and strategy.

The risk management framework is based on the concept of "three lines of defence", as set out below.

The key principles underlying risk management in the group are that:
- business management owns all the risks assumed throughout the group and is responsible for their management on a day-to-day basis to ensure that risk and return are balanced;
- the board and business management together promote a culture in which risks are identified, assessed and reported in an open, transparent and objective manner;
- the overriding priority is to protect the group's long-term viability and produce sustainable medium to long-term revenue streams;
- risk functions are independent of the businesses and provide oversight of and advice on the management of risk across the group;
- risk management activities across the group are proportionate to the scale and complexity of the group's individual businesses;
- risk mitigation and control activities are commensurate with the degree of risk; and
- risk management and control supports decision-making.

RISK MANAGEMENT FRAMEWORK

First line of defence	Second line of defence	Third line of defence
The Businesses Group Risk and Compliance Committee (Reports to the Risk Committee)	**Risk and Compliance** Risk Committee (Reports to the board)	**Internal Audit** Audit Committee (Reports to the board)
Chief executive delegates to divisional and operating business heads day-to-day responsibility for risk management, regulatory compliance, internal control and conduct in running their divisions or businesses. Business management has day-to-day ownership, responsibility and accountability for: • identifying and assessing risks; • managing and controlling risks; • measuring risk (key risk indicators/early warning indicators); • mitigating risks; • reporting risks; and • committee structure and reporting. **Key Features** • Promotes a strong risk culture and focus on sustainable risk-adjusted returns. • Implements the risk framework. • Promotes a culture of adhering to limits and managing risk exposures. • Promotes a culture of customer focus and appropriate behaviours. • Ongoing monitoring of positions and management and control of risks. • Portfolio optimisation. • Self-assessment.	Risk Committee delegates to the group chief risk officer day-to-day responsibility for oversight and challenge on risk-related issues. Risk functions (including compliance) provide support and independent challenge on: • the design and operation of the risk framework; • risk assessment; • risk appetite and strategy; • performance management; • risk reporting; • adequacy of mitigation plans; • group risk profile; and • committee governance and challenge. **Key Features** • Overarching "risk oversight unit" takes an integrated view of risk (qualitative and quantitative). • Supports through developing and advising on risk strategies. • Facilitates constructive check and challenge – "critical friend"/"trusted adviser". • Oversight of business conduct.	Audit Committee mandates the head of group internal audit with day-to-day responsibility for independent assurance. Internal audit provides independent assurance on: • first and second lines of defence; • appropriateness/effectiveness of internal controls; and • effectiveness of policy implementation. **Key Features** • Draws on deep knowledge of the group and its businesses. • Provides independent assurance on the activities of the firm, including the risk management framework. • Assesses the appropriateness and effectiveness of internal controls. • Incorporates review of culture and conduct.

Corporate Governance Report
continued

SUBSTANTIAL SHAREHOLDINGS

The table below sets out details of the interests in voting rights notified to the company under the provisions of the FCA's Disclosure Guidance and Transparency Rules. Information provided by the company pursuant to the Disclosure Guidance and Transparency Rules is publicly available via the regulatory information services and on the company's website.

	19 September 2019 Voting rights	31 July 2019 Voting rights
Standard Life Aberdeen plc	**14.99%**	14.99%
M&G Investment Management	**5.28%**	5.28%
Royal London Asset Management	**5.03%**	5.03%

Substantial shareholders do not have different voting rights from those of other shareholders.

STAKEHOLDERS

The board recognises that, for the company to be successful over the long term, it is important to build and maintain successful relationships with a wide range of stakeholders and for the board to understand the views of key stakeholders. When taking decisions, the board considers the interests of, and impact on, key stakeholders, including its relationships with shareholders, customers, regulators, employees and suppliers.

During the year, the directors have received updates on new reporting requirements that will first apply in next year's Annual Report in relation to the board's consideration of section 172 of the Act and stakeholder engagement. In June, directors were provided with refresher training on section 172 and the board has considered preparations to ensure compliance with next year's reporting requirements.

On behalf of the board, the Nomination and Governance Committee considered an assessment of who the company's key stakeholders are and how the company and the board engage with them. The Committee also discussed incremental enhancements proposed in relation to stakeholder engagement in the coming months.

The sections below describe the board's approach to engagement with employees and shareholders. Further detail on the company's stakeholders and examples of how the company engages with them can also be found in the Strategic Report on pages 42 to 51.

ENGAGEMENT WITH EMPLOYEES

As part of its consideration of the Revised Code, the board discussed workforce engagement mechanisms and, as permitted by the Revised Code, has decided to put in place its own arrangements to engage with employees across the group rather than using one of the specific methods set out in the Revised Code. The board noted the value to be derived from all directors participating in meaningful employee engagement activities and, following discussion by the Nomination and Governance Committee, a framework for board engagement with employees has been developed by the group head of HR and the company secretary. This framework builds on existing employee engagement activities that have been in place for some time, and presents a range of different opportunities for board members to engage directly with employees and also to receive feedback on relevant issues from management. The framework takes account of guidance and suggestions published by the FRC in this area.

Engagement activities undertaken by the board in the 2019 financial year included:

- detailed discussion of the results, themes and next steps arising out of the group's biennial employee opinion survey;
- reviewing the quarterly culture dashboard;
- site visits by non-executive directors to meet employees at different levels of the group's operations;
- participation by directors in the various programmes and initiatives operated for different groups of employees;
- participation by executive and non-executive directors in Q&A sessions with employees; and
- regular communications from executive directors to employees on the performance and operations of the group, including in relation to the half-year and full-year results.

Further detail of the employee engagement framework, and why the board considers it to be effective, will be set out in next year's Annual Report as part of broader stakeholder reporting, in line with the Revised Code and other regulatory requirements.

ENGAGEMENT WITH SHAREHOLDERS

INVESTOR RELATIONS

The group has a comprehensive investor relations ("IR") programme to ensure that current and potential shareholders, as well as financial analysts, are kept informed of the group's performance and have appropriate access to management to understand the company's business and strategy.

The board believes it is important to maintain open and constructive relationships with shareholders and for them to have opportunities to share their views with the board. The group's IR team, reporting to the group finance director, has primary responsibility for managing the group's relationship with shareholders. The IR team runs a structured programme of meetings, calls and presentations around the financial reporting calendar, as well as throughout the year. The team also regularly seeks investor feedback, both directly and via the group's corporate brokers, which is communicated to the board and management. The board is regularly updated on the IR programme through an IR report, which is produced for each board meeting and summarises share price performance, share register composition and feedback from any investor meetings. In addition, periodic specific "deep dives" on IR matters are provided to the board.

The chief executive and group finance director engage with the group's major institutional shareholders on a regular basis. In addition, the chairman arranges to meet with major institutional shareholders to discuss matters such as strategy, corporate governance and succession planning. Feedback on these meetings is provided to the board during the course of the year. Separately, the senior independent director is available to meet with shareholders.

The chairman of the Remuneration Committee takes part in consultations with major institutional shareholders on remuneration issues from time to time.

Periodically, the group runs seminars covering different parts of its business to provide additional detail to investors and analysts. Relevant presentations, together with all results announcements, Annual Reports, regulatory news announcements and other relevant documents, are available on the IR section of the company's website (www.closebrothers.com/investor-relations).

The group also engages with leading institutional shareholder bodies and proxy advisers during the year.

ANNUAL GENERAL MEETING

The directors regard the company's AGM as an important opportunity for all shareholders to engage directly with the board. All shareholders have the opportunity to raise questions with the board at the AGM, either in person or by submitting written questions in advance. The chairmen of each of the board committees attend the AGM and all other directors are expected to attend the meeting. All directors were in attendance at the 2018 AGM.

At the AGM, the chairman and the chief executive present a review of the group's business. All voting at general meetings of the company is conducted by way of a poll. All shareholders have the opportunity to cast their votes in respect of proposed resolutions by proxy, either electronically or by post. Following the AGM, the voting results for each resolution are published and made available on the company's website.

The board hopes that as many shareholders as possible will be able to attend this year's AGM, which will be held on 21 November 2019.

By order of the board

ALEX DUNN
COMPANY SECRETARY

24 September 2019

Risk Committee Report

THE RISK COMMITTEE'S PRINCIPAL ROLES AND RESPONSIBILITIES ARE TO SUPPORT THE BOARD IN ITS OVERSIGHT OF RISK MANAGEMENT ACROSS THE GROUP. THE IDENTIFICATION, MANAGEMENT AND MITIGATION OF RISK IS FUNDAMENTAL TO THE SUCCESS OF THE GROUP. THE FOLLOWING SECTIONS SET OUT THE COMMITTEE'S MEMBERSHIP, ITS KEY RESPONSIBILITIES AND THE PRINCIPAL AREAS OF RISK UPON WHICH WE HAVE FOCUSED DURING THE YEAR. THE COMMITTEE PLAYS AN IMPORTANT ROLE IN SETTING THE TONE AND CULTURE THAT PROMOTES EFFECTIVE RISK MANAGEMENT ACROSS THE GROUP.

CHAIRMAN'S OVERVIEW

The evolution of the macroeconomic environment and political landscape, together with consideration of new and emerging risks and a demanding regulatory agenda aimed at reinforcing the strength and conduct of the banking industry, have again kept the Risk Committee fully occupied during the year.

I am pleased to report that further enhancements to our risk management framework, and a consistent and prudent risk appetite, have each helped to reinforce the group's strong credit performance again this year. We continue to build out our risk capabilities and are satisfied with the skills and talent of the teams that we have built to meet the challenges and opportunities that lie ahead.

As in previous years, the Committee apportions its time between the planned periodic review of key portfolio risks and the close scrutiny of new business risks as they develop. This approach allows us to ensure that emerging risks are identified and debated and that management's plans for risk mitigation are well understood and appropriately resourced.

COMMITTEE ROLES AND RESPONSIBILITIES

The Committee's key roles and responsibilities are to:

- oversee the maintenance and development of a supportive culture in relation to the management of risk;
- review and set risk appetite, which is the level of risk the group is willing to take in pursuit of its strategic objectives;
- monitor the group's risk profile against the prescribed appetite;
- review the effectiveness of the risk management framework to ensure that key risks are identified and appropriately managed; and
- provide input from a risk perspective into the alignment of remuneration with performance against risk appetite (through the Remuneration Committee).

MEMBERSHIP AND MEETINGS

The Committee comprises Peter Duffy, our newest independent director, Geoffrey Howe, the senior independent director, Oliver Corbett and Bridget Macaskill who chair the Audit and Remuneration Committees respectively, and myself as chairman.

Six scheduled meetings were held during the year and full details of attendance by the non-executive directors at these meetings are set out on page 62.

In addition to the members of the Committee, standing invitations are extended to the chairman of the board, the executive directors, the group chief risk officer, the group head of compliance and the group head of internal audit. All attend our Committee meetings as a matter of course and have supported and informed the Committee's discussions.

Other executives, subject matter experts, risk team members and external advisers are invited to attend the Committee from time to time as required, to present and advise on reports commissioned.

I continue to meet frequently with the group chief risk officer and his risk team in a combination of formal and informal sessions, and with senior management across all divisions of the group, to discuss the business environment and to gather their views of emerging risks, business performance and the competitive environment.

As described in more detail on pages 65 and 66, an internal evaluation of the effectiveness of the board and its committees was undertaken during the year in line with the requirements of the UK Corporate Governance Code.

The Committee considers that during the year it continued to have access to sufficient resources to enable it to carry out its duties and has continued to perform effectively.

ACTIVITY IN THE 2019 FINANCIAL YEAR

The risk function has continued to evolve in 2019. The three lines of defence model is now well established and the governance structure facilitates effective oversight of risk, both at a group and business level. The risk design has been further strengthened through the recruitment and reorganisation of additional specialist skills and resource, in particular with regard to operational resilience oversight. In addition, we have enhanced our credit risk resource structure to allow us to leverage existing capabilities more broadly across the group whilst retaining our core operating model. These actions have continued to improve the flow of management information to the Committee, increasing the effectiveness of its challenge and oversight and enhancing visibility on risk and compliance issues identified at all levels across the group.

The risk appetite framework continues to evolve, as does the quantitative analysis which supports the group's risk management capabilities. This has allowed us to adopt and refine risk appetite measures at a more granular level within portfolio management, individual credit-decisioning and risk reporting. The specific portfolio review approach has continued, with particular attention given to the Motor, Premium, Novitas and Energy portfolios, which have all benefited from deep dives by the Risk Committee.

Management of emerging risks has been a Committee focus, facilitating organisational readiness for external volatility. In addition, the Committee has devoted time to a "preparing for a downturn" workstream through which the group is preparing playbooks, running simulations and ensuring our overall readiness for a stress event. We continue to test our application of previous experience on our current portfolios.

Emerging risk assessment remains a standing agenda item for the Committee's discussion (and indeed, all risk committees within the group) while stress testing capabilities have continued to evolve on a more quantitative basis to support "what if" analysis for one-off events. The potential impacts of Brexit continue to receive focus albeit, given the group's footprint, we remain of the view that these are likely to be secondary in nature. Nevertheless, until we have a clearer idea of the outcome, they will merit regular review. We continue to develop appropriate contingency plans, and these have been subject to regular challenge by the Committee. We remain satisfied that the group is well positioned to address any foreseeable Brexit outcome.

The group's use of finance and risk models continues to evolve at pace, with further refinement of our IFRS 9 model suite and the development of credit scorecards and quantitative grading models in support of the IRB application. In addition, we have seen the embedding and use of the model risk framework and governance structure. The board and the Committee continue to assess various options for advancing our future modelling approach with the aim of enhancing our risk management capabilities. New risk infrastructure is also in place or being developed to support this, including a data warehouse, model hosting platform and RWA calculator.

Across the market, operational risk continues to develop in its complexity and we have again responded by investing further in systems and process enhancements to support the early identification of negative trends. Our operational resilience remains the subject of much debate at the Committee as we continually review the ability of our people, processes, systems and third party relationships to reliably and securely deliver key business services.

We also continue to test our preparedness for the unexpected. Incident simulations have been utilised to good effect and have proved valuable to the Committee in continuing to challenge our resilience preparedness.

Our focus on cyber crime further accelerated during the year, with an increasing number of industry attacks reinforcing the importance of strong cyber defences to protect our systems and customer data. The addition of a new group chief operating officer further increased our bench strength. Our cyber detection and monitoring capabilities have also continued to improve, while our cyber security strategy remains under constant review by the board and this Committee to ensure that we are keeping pace with, and responding to, the latest industry developments. Our third party risk assessment also received further focus and we have continued to improve our risk frameworks and oversight in this area.

Ensuring that we are fully compliant with the numerous and ever-changing regulatory requirements for financial services firms remains challenging. We continue to engage actively with regulators and industry bodies to ensure that our compliance framework remains appropriate and relevant for all of our businesses. The compliance team works closely with first and second line colleagues, providing regulatory advice in support of divisional business strategies, as well as shaping policies, delivering training and conducting assurance reviews.

REMUNERATION

The linkage between culture, risk and compensation is an important one and the Risk Committee and the group chief risk officer have provided input to the Remuneration Committee again this year to ensure that risk behaviours and the management of operational risk incidents over the course of the financial year are appropriately reflected in decisions taken about performance and reward.

LOOKING AHEAD TO 2019

Key priorities for the coming year include:

- Effective management of emerging risks, specifically key impacts of the UK's anticipated exit from the EU, as well as any other material developing concerns.
- Development of an effective and regulatory-compliant climate risk framework.
- As part of the IRB programme, continued review and assessment of the group's modelling capabilities, including the further development of the models strategy.
- Continued enhancement and evolution of our "preparing for a downturn" workstream.
- Refinement and advancement of the group's operational resilience framework.
- Enhancement of the affordability assessment processes across the lending businesses.
- Implementation of the Senior Managers and Certification Regime ("SMCR").
- Evolution of the group's culture framework and further refinement of the conduct risk reporting framework.

LESLEY JONES
CHAIRMAN OF THE RISK COMMITTEE

24 September 2019

Audit Committee Report

THIS REPORT SETS OUT THE PRINCIPAL RESPONSIBILITIES OF THE AUDIT COMMITTEE, ITS MEMBERSHIP AND MEETINGS AS WELL AS THE KEY ACTIVITIES UNDER REVIEW DURING THE YEAR.

CHAIRMAN'S OVERVIEW

It has again been an active year for the Committee, with a particular focus on the transition to IFRS 9. Alongside this, the Committee's time has been spent on its principal roles and responsibilities, which are to:

- assess the integrity of the group's external financial reporting;
- review the effectiveness of the group's internal controls; and
- monitor and review the activities and performance of both internal and external audit.

Further details of the Committee's work in respect of these and other key issues are set out in the sections below.

MEMBERSHIP AND MEETINGS

The Committee comprises solely of independent non-executive directors being Geoffrey Howe, the senior independent director, Lesley Jones and Bridget Macaskill who chair the Risk and Remuneration Committees respectively, and me as Chairman. The Committee met five times during the year with meetings aimed to coincide with the group's financial reporting schedule. Details of members' attendance are set out on page 62.

The qualifications of each of the members are outlined in the biographies on pages 52 and 53. The composition of the Committee satisfies the relevant requirements of the UK Corporate Governance Code. The board considers that I have the appropriate recent and relevant experience.

In addition to the Committee members, standing invitations are extended to the chairman of the board and the executive directors. In addition, the group head of internal audit, the group head of compliance, the group chief risk officer and the group financial controller attend meetings by invitation. I meet with this group as well as the group finance director ahead of each meeting to agree the agenda and to receive a full briefing on all relevant issues.

Invitations to attend are extended to other members of management to brief the Committee on specific issues as necessary. The external auditor attends each meeting and I had regular contact with the lead audit partner during the year. The Committee held private sessions with internal and external audit following each meeting of the Committee, without members of management.

COMMITTEE EFFECTIVENESS

As described in more detail on pages 65 and 66, a formal and rigorous internal evaluation of the Committee's effectiveness was undertaken during the year as part of the broader evaluation of the effectiveness of the board and its committees.

The Committee considers that during the year it continued to have access to sufficient resources to enable it to carry out its duties and has continued to perform effectively.

ACTIVITY IN THE 2019 FINANCIAL YEAR

KEY ACCOUNTING JUDGEMENTS

The Committee has spent considerable time during the year focusing on the key areas of accounting judgement taken by management in preparing the financial statements. Except for IFRS 9, the key judgements were unchanged from the prior year reflecting the group's adherence to its business model and consistency of its approach to financial reporting.

IFRS 9

Throughout the year, the Committee received detailed presentations and updates from management on the Group's implementation of IFRS 9. Particular focus was given to the forward-looking macroeconomic assumptions and new external disclosures required for IFRS 9. The Committee will continue to pay close attention to how the underlying models and macroeconomic scenarios perform over time.

REVENUE RECOGNITION

The Committee reviewed management's approach to revenue recognition, highlighting the key areas where judgement is required across interest, fee and commission income. The Committee noted the consistency of approach with prior years and concluded that revenue recognition for each of the group's key businesses is appropriate.

FUTURE ACCOUNTING CHANGES

The Committee discussed the group's approach to IFRS 16: Leases, a new leasing standard, and considered the impact of adoption, which applies from 1 August 2019, and related disclosure.

OTHER FINANCIAL REPORTING

GOING CONCERN AND VIABILITY STATEMENT

The Committee reviewed a paper from management in support of the going concern basis and the longer-term viability of the group. The Committee noted the stability of the group's business model, its successful track record, the group's three-year business plan and the results of internal stress testing and concluded this provided sufficient evidence to support the board's viability statement set out on pages 57 and 58.

FAIR, BALANCED AND UNDERSTANDABLE

On behalf of the board, the Committee reviewed the financial statements as a whole in order to assess whether they were fair, balanced and understandable. The Committee discussed and challenged the balance and fairness of the overall report with the executive directors and also considered the views of the external auditor. The Committee was satisfied that the Annual Report could be regarded as fair, balanced and understandable and proposed that the board approve the Annual Report in that respect.

POLICY OVERSIGHT

WHISTLE-BLOWING

The Committee oversees the group's Whistle-blowing Policy, and I act as the group's Whistle-blowing Policy champion. The group continues to place a high priority on employees' understanding of the process to enable them to speak out with confidence when appropriate.

OTHER POLICIES

The Committee has also reviewed and approved the group's Recovery and Resolution Plans, finance policy, tax policy and statement, approach to hedging for share awards and the policy for the provision of non-audit services by the external auditor.

INTERNAL AUDIT

The Committee reviewed, challenged and approved the internal audit plan during the year as well as pre-approving any changes to that plan. At each of its meetings during the year, the group head of internal audit presented a summary of key audits, highlighting key themes as well as updating the Committee on progress on agreed actions from previous audits. The Committee also reviewed internal audit operational performance during each meeting. During the year 27 audits were completed, of which one review was requested by the group's regulator.

The Committee reviews annually the effectiveness of the internal audit function. The review for the year under review was completed both internally and via an external independent review. The internal review was supported by feedback from stakeholders across the group.

It is the Committee's policy that an external independent effectiveness review be carried out at least every five years. During the year a comprehensive tender process was undertaken to appoint an external reviewer followed by a thorough examination of internal audit activities including its adherence to relevant standards and industry best practice. The external assessment did not highlight any material concerns and concluded that internal audit generally conforms to the standards set by the Institute of Internal Auditors.

The Committee continued to keep both the level and independence of the internal audit resource under review during the year. The Committee also received ongoing feedback on the performance of the internal audit co-source provider.

EXTERNAL AUDIT

The Committee oversees the relationship with PricewaterhouseCoopers LLP ("PwC"), its external auditor, and during the year has reviewed the external audit plan and findings. PwC has been auditor to the group since 1 August 2017. Mark Hannam has been the group's lead audit partner since the transition from Deloitte LLP in 2017 and attends all meetings of the Committee. Principal matters discussed with PwC are set out in their report on pages 97 to 103.

The FRC's Audit Quality Review team routinely monitors the quality of the audit work of certain UK audit firms through inspections of sample audits. During the year the Audit Quality Review team conducted a review of the audit performed by PwC of the group's 2018 financial statements. I and the other members of the Committee received a copy of the findings and discussed them with PwC and, whilst there were no significant findings, some of PwC's procedures were identified as needing limited improvements only.

The Committee assesses the independence and objectivity, qualifications and effectiveness of the external auditor on an annual basis as well as making a recommendation on the reappointment of the auditor to the board.

This year our evaluation focused on the following key areas:
- the quality of audit expertise, judgement and dialogue with the Committee and senior management;
- the independence and objectivity demonstrated by the audit team; and
- the quality of service including consistency of approach and responsiveness.

The process was facilitated by a group-wide survey of finance, a survey of the PwC senior audit team's view on the group and a review of audit and non-audit fees. Overall, the Committee has concluded that PwC remain independent and that their audit is effective.

The Committee oversees the group's policy on the provision of non-audit services by the external auditor. The group's policy is that permission to engage the external auditor will always be refused when a threat to independence and/or objectivity is perceived. However, the Committee will give permission where it sees benefits for the group where:
- work is closely related to the audit;
- a detailed understanding of the group is required; and
- the external auditor is able to provide a higher quality and/or better value service.

During the year non-audit fees amounted to £0.6 million and represented 43% of the audit fee. Non-audit fees related to:

	£ million
Assurance work on:	
Systems and controls	0.6

The corresponding amounts for the prior year were £0.5 million and 29%.

The Committee was satisfied that these fees, individually and in aggregate, were consistent with the non-audit services policy and did not believe they posed a threat to the external auditors' independence.

OLIVER CORBETT
CHAIRMAN OF THE AUDIT COMMITTEE

24 September 2019

Nomination and Governance Committee Report

CHAIRMAN'S OVERVIEW

This report sets out an overview of the Committee's roles and responsibilities, and its key activities during the year.

The Committee has spent considerable time this year considering the composition of the board, with a particular focus on non-executive succession planning. The board was refreshed during the year with the appointments of Mike Morgan and Peter Duffy. A description of the process that resulted in Mike's appointment can be found in the company's 2018 Annual Report and further information on the search process led by the Committee for Peter's appointment is set out below. As part of the Committee's proactive approach to non-executive succession planning, it has also begun a search to identify a successor, at a future point, for our senior independent director, Geoffrey Howe, who, in January 2020, will have served on the board for nine years. For all searches undertaken this year, the Committee has put in place arrangements to ensure that changes to the board are well managed, with consideration of candidates from a diversity of backgrounds and experiences.

Talent management and succession planning for roles below board level has been an important topic of discussion, and the Committee has continued to monitor activities and initiatives to develop the group's talent pipeline. The Committee also reviewed a new board diversity policy and, once again this year, it has taken account of the benefits of promoting diversity at all levels of the group's operations.

As in prior years, the Committee has monitored changes to the corporate governance and reporting framework in the UK, including the group's preparation for new stakeholder reporting requirements in next year's Annual Report. More broadly, the Committee has followed environmental, social and governance developments in the year and the implications for the group.

COMMITTEE ROLES AND RESPONSIBILITIES

The Committee's key roles and responsibilities are:
- regularly reviewing the structure, size and composition of the board and its committees, and making recommendations to the board with regard to any changes;
- considering the leadership needs of the group and considering succession planning for directors and senior executives;
- considering the appointment or retirement of directors;
- reviewing the continued independence of the non-executive directors;
- assessing the board's balance of skills, knowledge and experience;
- evaluating the skills, knowledge and experience required for a particular appointment, normally with the assistance of external advisers to facilitate the search for suitable candidates; and
- assessing the contribution of the non-executive directors.

The Committee's roles and responsibilities are set out in written terms of reference and are available at www.closebrothers.com.

KEY ACTIVITIES IN THE 2019 FINANCIAL YEAR

During the year the Committee's activities included:
- considering board composition and succession, including the process for the appointment of Peter Duffy;
- reviewing talent and executive management succession planning;
- reviewing and recommending to the board a new board diversity policy;
- oversight of the internal board and committee evaluation undertaken during the year;
- monitoring environmental, social and governance developments and considering the implications for the group;
- receiving updates on the group's response to changes in the UK's corporate governance and reporting framework; and
- assessing the non-executive directors' skill sets, knowledge, suitability and experience to ensure that an appropriate balance of skills, knowledge and experience has been maintained.

MEMBERSHIP AND MEETINGS

The Committee's membership was unchanged during the year and comprises Geoffrey Howe, the senior independent director, Oliver Corbett, Lesley Jones and Bridget Macaskill, who chair the Audit, Risk and Remuneration Committees respectively, and me as chairman. The composition of the Committee satisfies the relevant requirements of the UK Corporate Governance Code.

In addition, the chief executive attends meetings by invitation. The group head of human resources attended a number of meetings during the year, including when presenting reviews of talent and executive management succession planning, and updating the Committee on the progress of searches for board-level and other appointments.

Five scheduled meetings of the Committee were held during the year and details of members' attendance are set out on page 62. In addition, one ad hoc meeting was held to consider the nomination of Peter Duffy as a non-executive member of the board.

SUCCESSION PLANNING AND BOARD COMPOSITION

The Committee spent considerable time during the year reviewing talent and considering the group's succession planning at board and senior management level. This included a formal review by the Committee of senior management succession planning, looking at the capability, diversity and potential of incumbents in key roles, and the succession pipeline, emergency cover arrangements and external market for those roles.

During the first part of the financial year, the Committee oversaw the formal and rigorous process that resulted in the appointment of Peter Duffy as an independent non-executive director on 1 January 2019. The Committee approved a detailed description for the role, including experience of customer behaviour and technological change alongside the capability and skill to contribute to the full range of board activities. The search was undertaken in conjunction with external search firm Heidrick & Struggles, who were instructed to consider candidates from a diversity of backgrounds and experiences. The firm is not connected to the company in any way. A shortlist of potential candidates was selected and interviews were held with the involvement of both non-executive and executive members of the board. Following the process, the Committee recommended Peter's appointment to the board.

As part of its ongoing consideration of non-executive succession planning, the Committee has also initiated a search to appoint a new member of the board to succeed Geoffrey Howe as senior independent director. Heidrick & Struggles are assisting the Committee with the search and have, in line with the board diversity policy, been instructed to consider candidates from a diverse range of backgrounds and experience. The search is ongoing and the company will make a further announcement on the outcome of the process as required in due course and will include further commentary in next year's Annual Report.

Following Elizabeth Lee's decision to retire on 31 July 2019, the Committee considered the balance between executive and non-executive membership on the board. It decided to recommend that, following Elizabeth's retirement, the board continue with only two executive directors (the chief executive and group finance director), which it felt was appropriate for the group's operations and the overall size of the board.

DIVERSITY

Diversity continues to be a key focus of the Committee. The Committee recognises the importance of having directors with a range of skills, knowledge and experience, and embraces the advantages to be derived from having a diversity of gender and social and ethnic backgrounds represented on the board, bringing different perspectives and the challenge needed to ensure effective decision-making. Diversity has been a topic of discussion throughout the year, including in the context of succession planning at both board and senior management level and in the consideration of particular appointments. In addition, the Committee spent time reviewing and recommending to the board for approval a new board diversity policy.

The Committee considers that the board remains diverse, drawing on the knowledge, skills and experience of directors from a range of backgrounds, but will seek to take opportunities to further improve the diversity of the board, where it is consistent with the skills, experience and expertise required at a particular point in time. At all times in the financial year ending 31 July 2019, three of the company's directors were women, meaning that the representation of women on the board exceeded the minimum percentage set out in the recommendations of the Hampton-Alexander Review. However, following the retirement of Elizabeth Lee as a director at the end of the financial year, two of the company's eight directors are women. As noted by the Committee in previous Annual Reports, the relatively small size of the board means that the appointment or departure of a single director can have a significant impact on its ability to achieve recommendations in relation to the composition and diversity of the board as a whole at a particular point in time.

It remains the Committee's aim for the board to have female representation of at least 30% and this aim has been reaffirmed in the ongoing non-executive search referred to above. The Committee is seeking to ensure that female representation on the board will, once again, exceed this percentage in the coming months.

More detail on the group's approach to diversity and the board's diversity policy can be found in the Sustainability Report on pages 44 and 45 and the Corporate Governance Report on page 60.

NON-EXECUTIVE DIRECTORS' SKILL SETS

The Committee has considered and reaffirmed the skill sets and experience of the company's five independent non-executive directors, including their extensive experience within financial services. Geoffrey Howe is the senior independent director and has extensive experience within the industry, including as a chairman of listed and regulated companies. Oliver Corbett has very strong financial skills and broad experience of accounting and internal control matters, including as a finance director and audit committee member. Lesley Jones has familiarity with FCA/PRA and EU risk regulations, and wide experience of risk management and the wider financial services sector at executive and non-executive level, including as a committee chairman. Bridget Macaskill has significant remuneration committee credentials and familiarity with FCA/PRA and EU remuneration regulations as well as wide experience of engaging with shareholders and other stakeholders on remuneration matters. Peter Duffy has considerable knowledge of customer behaviour, marketing and technological change, and brings insight and perspectives to the board from his current and former roles across a range of sectors, including financial services. Further information on the background and experience of each of the non-executive directors can be found in their biographies on pages 52 and 53.

REAPPOINTMENT OF DIRECTORS

Prior to the company's AGM each year, the Committee considers, and makes recommendations to the board concerning, the reappointment of directors, having regard to their performance, time commitment and ability to continue to contribute to the board. Following this year's review in advance of the 2019 AGM, the Committee has recommended to the board that all serving directors be reappointed at the AGM.

Geoffrey Howe has served as a non-executive director for more than six years and, during the coming year, Oliver Corbett, Lesley Jones and Bridget Macaskill will, if their reappointment is approved at the AGM, also have served as directors for more than six years. The extension of each of their terms of office has been subject to particularly rigorous review by the Committee, including with respect to each director's performance, contribution and independence. No individual participated in the discussion on the proposed extension of his or her own term of office. The Committee has noted the valuable contribution that each of the directors makes, including with respect to the particular responsibilities they undertake whether as senior independent director or as a committee chairman. The Committee values the knowledge, experience and continuity that their continued appointments would bring.

CORPORATE GOVERNANCE REFORM

The Committee has monitored the group's planning for, and response to, the various corporate governance reforms that began to apply to the group in the financial year that started on 1 August 2019 and on which the group will report in next year's Annual Report. These reforms include the new Corporate Governance Code and the requirement to publish reports on the board's consideration of its duty under section 172 of the Companies Act 2006 and engagement with stakeholders. The Committee will continue to monitor developments in the coming year.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE ISSUES

During the year, the Committee received and considered dedicated updates on environmental, social and governance ("ESG") issues relevant to the group. These updates covered items across a broad spectrum of areas and were informed by, among other things, engagement with shareholders and other stakeholders, legislative and regulatory initiatives and wider market developments. The Committee will continue to consider ESG matters in the year ahead and make such recommendations as it considers necessary to the board.

COMMITTEE EFFECTIVENESS

As described in more detail on page 65, an internal evaluation of the effectiveness of the board and its committees was undertaken during the year by the company secretary in line with the requirements of the UK Corporate Governance Code. The Committee was involved in determining the format, scope and timing of the evaluation.

The Committee considers that during the year it continued to have access to sufficient resources to enable it to carry out its duties and has continued to perform effectively.

MICHAEL N. BIGGS
CHAIRMAN OF THE NOMINATION AND GOVERNANCE COMMITTEE

24 September 2019

Directors' Remuneration Report

THIS REPORT SETS OUT OUR APPROACH TO REMUNERATION FOR THE GROUP'S EMPLOYEES AND DIRECTORS FOR THE 2019 FINANCIAL YEAR.

ANNUAL STATEMENT FROM THE REMUNERATION COMMITTEE CHAIR

On behalf of the board and the Remuneration Committee, I am pleased to present the Directors' Remuneration Report for the 2019 financial year.

Our Directors' Remuneration Policy was approved by shareholders at the 2017 AGM, with over 97% of the shareholders' votes cast in favour, and there have been no changes to the structure of remuneration for executive directors since the Policy was approved. The Directors' Remuneration Policy will be due for renewal by shareholders at the 2020 AGM and the Committee will shortly undertake a detailed review of the Policy, to ensure that it continues to meet the needs of the business and its stakeholders. As part of this review process, we will be considering the recent changes to the UK Corporate Governance Code and other disclosure requirements, as well as the views expressed by our shareholders, to ensure that the new Policy remains fit for purpose.

HOW THE GROUP PERFORMED

Close Brothers has a well-established business model which supports its long track record of consistent profitability. The model is based on maintaining a disciplined underwriting approach which is sustained through the economic cycle, enabling us to support our clients and deliver strong returns for shareholders in a wide range of market conditions. Our business model is focused on sustainable lending, with a strong net interest margin and conservative underwriting, supported by a clearly defined risk appetite and a prudent approach to managing our business and financial resources.

Continuing to apply this disciplined approach, the group achieved another solid performance, maintaining strong returns and profitability. Adjusted operating profit decreased 3% to £270.5 million (2018: £278.6 million), reflecting a challenging environment for our market-facing divisions and our continued investment in our businesses.

Return on opening equity remained strong at 15.7% (2018: 17.0%) and well ahead of the group's cost of capital.

The table below sets out an overview of our one-year and three-year key performance indicators which provide context for the Remuneration Committee decisions taken this year.

Key performance indicator	**2019**	2018
Return on opening equity	**15.7%**	17.0%
Adjusted operating profit (£ million)	**270.5**	278.6
Adjusted earnings per share growth over three years[1]	**6.5%**	16.3%
Total shareholder return per annum over three years[2]	**10.4%**	3.3%
Distributions to shareholders (£ million)[3]	**98.5**	94.0

1 For the three-year periods ended 31 July 2019 and 31 July 2018.
2 For the three-year periods ended 31 July 2019 and 31 July 2018 based on the average three-month share price prior to that date.
3 For the 2019 financial year, interim dividend paid and proposed final dividend.

The Banking division continued to perform well, delivering an adjusted operating profit of £253.7 million (2018: £251.8 million), with good income growth and continued low bad debt ratios across the businesses, offset by higher adjusted operating expenses as we continue to invest in our business.

Asset Management continued to achieve strong net inflows, although adjusted operating profit of £21.8 million (2018: £23.1 million) was down 6% on the prior year. This reduction was driven by lower average market levels throughout the year and ongoing investment to support the long-term growth of the business.

Securities delivered solid trading profitability despite difficult market conditions, with operating profit of £20.0 million (2018: £28.1 million), down 29% reflecting significantly lower market volumes.

Adjusted operating income was broadly in line with the prior year at £816.4 million (2018: £805.8 million), as good income growth in the Banking businesses and Asset Management was offset by reduced trading income in Securities. Income in the Banking division increased 4%, reflecting good loan book growth across all businesses and a broadly stable net interest margin of 7.9% (2018: 8.0%). Income in Asset Management was up 4%, reflecting higher client assets and a £1.4 million gain on disposal of a portfolio of self-directed intermediated clients in the second half of the financial year. Securities income declined 14% as a result of lower trading volumes.

Adjusted operating expenses increased 4% to £497.4 million (2018: £480.5 million), with most of the uplift seen in Banking, where we continued to invest in a number of business initiatives and infrastructure projects. Costs also increased in Asset Management, driven by investments in people, technology and research capability.

Expenses in Securities reduced, reflecting lower variable costs. Overall, both the group's expense/income and compensation ratios were broadly stable at 61% (2018: 60%) and 36% (2018: 37%), respectively.

EXECUTIVE DIRECTOR REMUNERATION OUTCOMES

As a result of the sustained solid performance, the last year saw the financial element of the executive directors' bonus, which is linked to return on opening equity, pay out at 71.3% of maximum. The executive directors also achieved strong performance against their group-wide balanced scorecard, with payouts ranging from 65% to 98.5%. The Remuneration Committee determines the overall outcome of the balanced scorecard and adjusts the final individual ratings to take into account the individual contributions to successful outcomes of the scorecard objectives. A summary of achievements against the financial targets is set out on page 85 and against the balanced scorecard on pages 86 to 88.

The financial targets within the Long-Term Incentive Plan ("LTIP") grants awarded in 2016 have proven highly demanding given the current market conditions, continued investment in the businesses and the stage of the business cycle. Despite positive adjusted EPS growth of 6.5% over the three-year period, performance of this element remained under the minimum threshold and did not vest. Total shareholder return over the performance period was 10.4% per annum, meeting the threshold target. The overall level of vesting of the LTIP has increased from the previous year's award (30% compared to 19%) and, as a result, the single total remuneration figures for the executive directors have marginally increased from the previous year. The vesting outcomes are set out on pages 89 and 90.

CHANGES TO THE BOARD OF DIRECTORS DURING THE YEAR

On 24 September 2019, the group announced that after ten years, Preben Prebensen had decided to step down as chief executive. The board will now commence a formal search for a successor, considering both internal and external candidates, in line with our established succession process. Preben will remain with the group for the next 12 months to ensure a smooth handover. The termination arrangements in relation to his remuneration will be agreed in due course. These will be disclosed on our website in accordance with Section 430(2B) of the Companies Act 2006 and in the 2020 Directors' Remuneration Report.

As announced earlier in the year, Elizabeth Lee decided to retire from the company at the end of the financial year. Elizabeth will receive a bonus for the full year's contribution she made during the 2019 financial year and she will keep her unvested LTIP awards, time pro-rated and subject to performance conditions.

Jonathan Howell, our former group finance director, left the company at the end of the Annual General Meeting in November 2018. In recognition of his strong contribution during the period before he left, Jonathan has been awarded a time pro-rated bonus for the period of the 2019 financial year for which he was group finance director. However, previously granted LTIP and matching Share Match Plan ("SMP") awards have all lapsed.

Mike Morgan, formerly the chief financial officer of the Banking division, has succeeded Jonathan. His annual bonus relating to the proportion of the year before his appointment as group finance director has been determined in line with other group Executive Committee members, and his annual bonus for the proportion of the year as an executive director has been determined in line with the executive director policy. As disclosed last year, Mike's annual maximum bonus and LTIP opportunity for the group finance director role have both been set initially at 175% of salary, well within the 300% and 350% maximums respectively permitted within our approved policy. We are pleased to see Mike making a good start in his new role.

GROUP-WIDE EMPLOYEE REMUNERATION

The responsibility for determining the reward practices on a group-wide basis lies with the Remuneration Committee. Our wider employee remuneration structure aims to:

- attract, motivate and retain high calibre employees across the company;
- reward good performance;
- promote the achievement of the company's annual plans and its longer-term strategic objectives;
- align the interests of employees with those of all key stakeholders, in particular our customers, clients and shareholders, as well as other key stakeholders including regulators; and
- support good risk management procedures and a positive client conduct culture.

As in previous years, we continue to direct effort into reviewing and approving the overall remuneration for all levels of employees across the group. For further details, please see the Remuneration Committee activity table on page 83.

The average salary increase awarded across the group was 2%, with an emphasis on supporting pay progression for junior employees. Average total compensation for employees across the group decreased by 6%; predominantly driven by the reduction in bonus awards in the Securities division. The group continues to pay all staff at or above the national living wage, which is in excess of the national minimum wage.

GENDER PAY DISCLOSURE

This year the Remuneration Committee has overseen the publication of our second gender pay gap report, which is published on our website at https://www.closebrothers.com/sites/default/ files/CBG_Gender_ Pay_Gap_Report.pdf. We are confident that men and women are paid equally for performing equivalent roles across our business and are committed to taking steps to reduce our gender pay gap.

Our gender pay gap is primarily driven by a greater proportion of males in senior and front office roles where market rates are higher. We are strongly committed to increasing the proportion of women in senior roles, and at the end of the financial year exceeded the government's target for 33% of board members to be women, and are broadly in line with Hampton-Alexander gender targets for executives and their direct reports. We are also on track to meet our commitment as part of the Women in Finance Charter to have 30% of senior management population identify as female.

However, we know there is far more to be done to improve our female talent pipeline at all levels of our business and have made a number of commitments to drive forward change. We also continue to focus on our broader ambitions around inclusion and are committed to fairness and equality, regardless of how our colleagues identify. We are pleased that our employees continue to feel that we are inclusive, as demonstrated by responses in the employee opinion survey, and we continue to push forward and implement activities and initiatives in this sphere to ensure we are building an inclusive environment where all our colleagues feel proud to work for us.

KEY EXTERNAL DEVELOPMENTS

The 2018 UK Corporate Governance Code includes new provisions on executive pay, against which we are already well positioned. The LTIP performance period plus post-vesting holding period totals five years. The Committee has overriding discretion for vesting awards to be reduced, to the extent to which it judges that the unadjusted outcome from the performance conditions does not reflect underlying performance. Our pension benefits provision for new executive directors within our remuneration policy is on the same basis as those of other UK employees and we applied this approach when Mike Morgan was appointed to the Board in 2018. We intend to be compliant with the updated Code and will include appropriate changes during our detailed review of the Directors' Remuneration Policy over the coming year.

Although there is still some uncertainty, draft legislation in Europe has the potential to result in new regulatory requirements on the structure of our remuneration, in particular the latest iteration of the Capital Requirements Directive and the new Investment Firms Directive. We will continue to monitor developments closely and any impact of the regulatory changes will be incorporated in the remuneration policy review to be conducted during 2020.

Finally, I would like to thank my fellow members of the Remuneration Committee for their commitment and engagement in the last year. I hope that you will find this report on the directors' remuneration useful, understandable and clear.

BRIDGET MACASKILL
CHAIRMAN OF THE REMUNERATION COMMITTEE

24 September 2019

Directors' Remuneration Report
continued

EXECUTIVE DIRECTORS' REMUNERATION POLICY

The executive directors' Remuneration Policy was approved by shareholders at the 2017 AGM. It is intended that the Policy will apply for three years up to the 2020 AGM.

A summary of the Policy is provided in the tables below. The Policy can be read in full on pages 74 to 81 of the 2017 Annual Report which is available on our website at www.closebrothers.com.

Information on how the remuneration policy will be applied in 2020 is included in the Annual Report on Remuneration section, on pages 90 and 91.

REMUNERATION POLICY – EXECUTIVE DIRECTORS

Element	Operation
BASE SALARY Attracts and retains high calibre employees. Reflects the employee's role and experience.	• Paid monthly in cash. • Increases will generally not exceed those for the broader employee population unless there is a change in role or responsibility.
BENEFITS Enables the executive directors to perform their roles effectively by contributing to their wellbeing and security.	• Include private medical cover, health screening, life assurance cover, income protection cover and allowance in lieu of company car. • Other benefits provided to individuals in certain circumstances, such as relocation.
PENSION Provides appropriate and competitive level of personal and dependant retirement benefits.	• Existing executive directors may receive cash in lieu of a pension up to 22.5% of base salary. • New executive directors promoted to the Board will receive pension contributions in line with the general employee population.
ANNUAL BONUS Motivates executives to support the group's goals, strategies and values over both the medium and long term, and aligns their interests with those of key stakeholders.	• Maximum opportunity: – Chief executive and group finance director: up to 300% of base salary (60% deferred into shares). – Group head of legal and regulatory affairs[1]: 120% of base salary (40% deferred into shares). • Deferred shares vest in equal tranches over three years. • Awards based 40% to 60% on financial performance with the remainder based on performance against a balanced scorecard. – Chief executive and group finance director: 60%. – Group head of legal and regulatory affairs[1]: 40%. • Subject to malus and clawback provisions.
LONG-TERM INCENTIVE PLAN Motivates executives to achieve the group's longer-term strategic objectives and aligns their interests with those of key stakeholders. Aids the attraction and retention of key staff.	• Maximum award level at grant: – Chief executive and group finance director: 350% of base salary. – Group head of legal and regulatory affairs[1]: 275% of base salary. • Awards vest after three years with subsequent two-year holding period. • Awards vest 70% based on financial performance and 30% based on non-financial performance. • Subject to malus and clawback provisions.
SHAREHOLDING REQUIREMENT Aligns the interests of executives with those of shareholders.	• Shareholding requirements are: – Chief executive and group finance director: minimum 200% of base salary. – Group head of legal and regulatory affairs[1]: minimum 100% of base salary.
OTHER	• The group will pay legal, training and other reasonable and appropriate fees, including any relevant tax liabilities, incurred by the executive directors as a result of performing their duties. • The executive directors are also permitted to participate in the group-wide Save As You Earn scheme and Share Incentive Plan.
LEGACY ARRANGEMENTS	• Historical LTIP and SMP awards granted under the previous executive Remuneration Policy (approved at the 2014 AGM) will continue to operate in line with that policy. • The Committee reserves the right to allow awards to vest or make payments subject to arrangements that were granted or agreed before the individual became a director.

Element	Operation
MALUS The deferred element of the annual bonus is subject to malus prior to vesting. The LTIP is subject to malus for the three-year period to the point of vesting.	• The circumstances where it may apply: – The executive director's employment is terminated for misconduct or the executive director is issued with a formal disciplinary warning for misconduct under the firm's disciplinary policy. – The firm suffers a material loss where the executive director has operated outside the risk parameters or risk profile applicable to their position and, as such, the Committee considers a material failure in risk management has occurred. • The level of the award is not sustainable when assessing the overall financial viability of the firm.
CLAWBACK The cash element of the annual bonus is subject to clawback for three years from award. The deferred element of the annual bonus is subject to clawback for three years from date of award. The LTIP is subject to clawback for four years from date of award.	• The circumstances where it may apply: – Discovery of a material mis-statement resulting in an adjustment in the audited consolidated accounts of the group, or the audited accounts of any material subsidiary. – The assessment of any performance target or condition in respect of an award was based on material error, or materially inaccurate or misleading information. – The discovery that any information used to determine the bonus and number of shares subject to an award was based on material error, or materially inaccurate or misleading information. – Action or conduct of a participant which, in the reasonable opinion of the board, amounts to fraud or gross misconduct.

1 At the end of the 2019 financial year, the group head of legal and regulatory affairs stepped down from the board. For the 2020 financial year Close Brothers will only have two executive directors: the chief executive and group finance director.

Directors' Remuneration Report
continued

SERVICE CONTRACTS AND POLICY FOR PAYMENT ON LOSS OF OFFICE

Standard provision	Policy	Details
Notice period	12 months' notice from the company. 12 months' notice from the executive director.	• Executive directors may be required to work during the notice period, may be placed on garden leave or may be provided with pay in lieu of notice if not required to work the full period. • All executive directors are subject to annual re-election by shareholders.
Compensation for loss of office in service contracts	No more than 12 months' salary, pension allowance and benefits.	• Payment will be commensurate with the company's legal obligations and we will seek appropriate mitigation of loss by the executive director.
Treatment of annual bonus on termination	The standard approach is no payment unless employed on date of payment.	• The Committee may award a pro-rated bonus to executive directors who work for part of the year or are "good leavers" (as determined by the Committee) in certain circumstances, although there is no automatic entitlement. "Good leaver" status may be granted in cases such as death, disability or retirement. • The Committee has discretion to reduce the entitlement of a "good leaver" in line with performance, the circumstances of the termination, and the malus conditions outlined in the policy table. The Committee also has the ability to recover annual bonuses in line with the clawback conditions outlined in the policy table.
Treatment of unvested deferred awards under the annual bonus plan and any previous Invested SMP Shares	The Committee has the discretion under the relevant plan rules to determine whether "good leaver" status should be applied on termination. The current approach provides that discretion may be afforded in cases such as death, disability, retirement, redundancy or mutual separation.	• Where the director is designated a "good leaver", awards vest in full over the original schedule and remain subject to the malus conditions. • The deferred shares are released in full in the event of a change in control. • Awards lapse in the event the employee is declared bankrupt, joins another financial services company within 12 months of termination (unless this condition is waived under "good leaver" status), or leaves and is not designated a "good leaver". • These are also subject to the clawback conditions.
Treatment of the LTIP and any previous Matched SMP Shares	All awards lapse except for "good leavers". The Committee has the discretion under the relevant plan rules to determine how "good leaver" status should be applied on termination. The current approach provides that discretion may be afforded in cases such as death, disability, retirement, redundancy or mutual separation.	• For "good leavers", vesting is pro-rated for the period of employment during the performance period. • Vesting is subject to the achievement over the original performance period against the performance targets and is on the original schedule. • Awards remain subject to the malus and clawback conditions. • In the event of a change in control, the awards will vest subject to the service factor and the achievement against the performance targets at that point. • However, the Committee retains the discretion to increase the amount vesting depending on the circumstances of the change in control.
Outside appointments	Executive directors may accept external appointments.	• Board approval must be sought before accepting the appointment. • The fees may be retained by the director.
Chairman and non-executive directors	• Engaged under letters of appointment for terms not exceeding three years. • Renewable by mutual agreement and can be terminated on one month's notice. • All non-executive directors are subject to annual re-election. • No compensation is payable if required to stand down.	
Other	• The company may pay settlement payments, legal, training and outplacement fees incurred on exit, if appropriate.	
Other notable provisions in service contracts	• There are no other notable provisions in the service contracts.	

Copies of the directors' service contracts and letters of appointment are available for inspection at the group's registered office.

DATES OF SERVICE CONTRACTS – EXECUTIVE DIRECTORS

Name	Date of service contract
Preben Prebensen	9 February 2009
Elizabeth Lee	1 August 2012[1]
Mike Morgan	15 November 2018

1 No longer in force as Elizabeth Lee retired from the company on 31 July 2019.

REMUNERATION POLICY FOR THE CHAIRMAN AND INDEPENDENT NON-EXECUTIVE DIRECTORS

Element and how it supports the group's short-term and long-term strategic objectives	Operation and maximum payable
FEES Attract and retain a chairman and independent non-executive directors who have the requisite skills and experience to determine the strategy of the group and oversee its implementation.	Fees are paid in cash and are reviewed periodically. Fees for the chairman and non-executive directors are set by the board. The chairman and non-executive directors do not participate in decisions to set their own remuneration. The chairman of the board receives a fee as chairman but receives no other fees for chairmanship or membership of any committees. Non-executive directors receive a base fee. The senior independent director receives an additional fee for this role. Additional fees are paid for chairmanship of each of the Audit, Remuneration and Risk Committees. Additional fees are paid for membership of committees, with the exception of the Nomination and Governance Committee, for which no additional fees are payable. The chairman and non-executive directors are entitled to claim reimbursement for reasonable expenses and associated tax liabilities incurred in connection with the performance of their duties for the company, including travel expenses. Overall aggregate fees will remain within the £1 million authorised by our articles of association. There is no performance framework, recovery or withholding.

APPOINTMENT LETTERS – NON-EXECUTIVE DIRECTORS

Name	Date of appointment	Current letter of appointment start date
Oliver Corbett	3 June 2014	17 November 2016
Geoffrey Howe	4 January 2011	17 November 2016
Lesley Jones	23 December 2013	17 November 2016
Bridget Macaskill	21 November 2013	17 November 2016
Mike Biggs	14 March 2017	14 March 2017
Peter Duffy	1 January 2019	1 January 2019

Directors' Remuneration Report
continued

ANNUAL REPORT ON REMUNERATION
REMUNERATION COMMITTEE
COMMITTEE ROLES AND RESPONSIBILITIES

The Committee's key objectives are to:	The Committee's main responsibilities are to:
• determine the overarching principles and parameters of the Remuneration Policy on a group-wide basis;	• review and determine the total remuneration packages of executive directors and other senior executives, including group material risk-takers and senior control function staff in consultation with the chairman and chief executive and within the terms of the agreed policy;
• establish and maintain a competitive remuneration package to attract, motivate and retain high calibre executive directors and senior management across the group;	• approve the design of any performance-related pay schemes operated by the group;
• align senior executives' remuneration with the interests of shareholders; and	• review the design of all-employee share incentive plans;
• promote the achievement of the group's annual plans and strategic objectives by providing a remuneration package that contains appropriately motivating targets that are consistent with the group's risk appetite.	• ensure that contractual terms on termination and any payments made are fair to the individual and the group, that failure is not rewarded and that a duty to mitigate risk is fully recognised;
	• review any major changes in employee benefits structures throughout the group;
	• ensure that the remuneration structures in the group are compliant with the rules and requirements of regulators, and all relevant legislation;
	• ensure that provisions regarding disclosure of remuneration are fulfilled; and
	• seek advice from group control functions to ensure remuneration structures and annual bonuses are appropriately aligned to the group's risk appetite.

MEMBERSHIP
The Committee comprises Bridget Macaskill as chair, together with each of the other independent non-executive directors other than Peter Duffy. A record of the Committee members' attendance at the five meetings held during the year is set out on page 62.

The chairman of the board, chief executive, group head of human resources and the head of reward and HR operations also attend meetings by invitation.

MEMBERSHIP ACTIVITY IN THE 2019 FINANCIAL YEAR

There were five meetings of the Committee held during the year. There is a standing calendar of items which is supplemented by other significant issues that arise during the year. The key matters addressed during the year were as follows:

	September 2018	January 2019	April 2019	June 2019	July 2019
Remuneration policy and disclosures					
Review and approval of Remuneration Policy Statement for 2018	●				
Review and approval of Directors' Remuneration Report for 2018	●				
Review and approval of the remuneration section of the Pillar 3 disclosure for 2018	●				
Annual remuneration governance review	●				
Annual review of Total Reward Principles			●		
Risk and reward					
Review and approve risk-adjustment process/outcomes			●	●	●
Annual review whether to apply malus and clawback to remuneration				●	
Annual remuneration discussions					
Approval of LTIP performance targets for 2018 awards	●				
Final review and approval of EDs' annual bonus targets and objectives	●				
Review of performance testing results for vesting 2015 LTIP and SMP awards	●				
Year-end all-employee group-wide salary and bonus analysis/proposals			●	●	
Thematic review of effectiveness of sales incentive schemes			●		
Review and approval of the risk management objectives for the 2016 LTIP vesting				●	●
Review proposed 2019 compensation for Material Risk Takers				●	
Review and approval of EDs' 2019 compensation proposals					●
Review and approval of proposed 2019 LTIP awards					●
Initial review of LTIP performance targets for 2019 awards					●
Initial review of EDs' annual bonus targets and objectives for 2020					●
Review of sales incentive schemes and approval of schemes for 2020					●
Regulatory and external developments					
Review of Corporate Governance Code		●	●		
Material Risk Takers identification		●	●		
Gender pay gap review		●	●		
Special business					
Review and approval of Divisional Incentive Plans			●	●	●
Review and approval of EDs' retirement arrangements		●			
Omnibus plan rules change	●				
Committee remit and effectiveness					
Review terms of reference	●			●	
Self-evaluation	●				

ADVICE

During the year under review and up to the date of this report, the Committee consulted and received input from the chairman of the board, the chief executive, the group head of HR, the head of reward and HR operations, the group chief risk officer and the company secretary. Where the Committee seeks advice from employees, this never relates to their own remuneration.

The Committee's remuneration advisers are Deloitte LLP (a member of the Remuneration Consultants Group). During the year Deloitte also provided advice on the IRB programme. The Committee is satisfied that the provision of these other services does not affect the objectivity and independence of the remuneration advice provided by Deloitte. Fees paid to Deloitte in their role as remuneration advisers were £151,200 during the 2019 financial year.

The Committee received information on comparative pay data from MM&K. Slaughter and May provided legal advice on the company's equity scheme rules. Fees paid to Slaughter and May were £32,450.

Directors' Remuneration Report
continued

STATEMENT OF VOTING ON THE REMUNERATION POLICY AT THE 2017 AGM

	For	Against	Number of abstentions
Director's Remuneration Policy	97.1%	2.9%	11,022

STATEMENT OF VOTING ON THE DIRECTORS' REMUNERATION REPORT AT THE 2018 AGM

	For	Against	Number of abstentions
Annual Report on Remuneration	98.6%	1.4%	14,746

IMPLEMENTATION OF THE POLICY IN 2019
SINGLE TOTAL FIGURE OF REMUNERATION FOR EXECUTIVE DIRECTORS 2019 (AUDITED)

	Salary		Benefits		Annual bonus[1]		Performance awards[2, 3]		Pension		Total	
Name	**2019 £'000**	2018 £'000	**2019 £'000**	2018 £'000	**2019 £'000**	2018 £'000	**2019 £'000**	2018 £'000	**2019 £'000**	2018 £'000	**2019 £'000**	2018 £'000
Preben Prebensen	**550**	550	**20**	20	**1,356**	1,419	**758**	429	**124**	123	**2,808**	2,541
Jonathan Howell[4]	**123**	415	**4**	14	**293**	1,058	**–**	323	**28**	93	**448**	1,903
Elizabeth Lee	**338**	338	**14**	14	**340**	348	**281**	167	**75**	75	**1,048**	942
Mike Morgan[5,6]	**285**	–	**1**	–	**341**	–	**344**	–	**29**	–	**1,000**	–

1 60% of Preben Prebensen's, Mike Morgan's and Jonathan Howell's annual bonus is deferred into shares and 40% of Elizabeth Lee's annual bonus is deferred into shares.
2 The figures for the performance awards for 2018 have been re-calculated using the actual share price on the dates of vesting for the LTIP and Matched SMP Shares of £15.02. The three-month average to 31 July 2018 was used for the 2018 report given that the awards were vesting after publication of the report.
3 The figures for the performance award for 2019 have been calculated using the three-month average to 31 July 2019.
4 Jonathan Howell left the company in November 2018 and his remuneration including salary, benefits, bonus and pension has been time pro-rated accordingly.
5 Mike Morgan joined the board in November 2018. His salary, benefits, bonus and pension in the table above relate to the period that he was an Executive Director.
6 Mike Morgan's performance awards were granted before he was appointed to the board. £170,316 of the above value relates to 10,520 vested LTIP and SMP Shares that were subject to the performance criteria outlined on page 88 and £173,589 of the above relates to 10,373 vested shares that were conditional on continued employment and positive EPS growth between grant and vesting.

LINK BETWEEN REWARD AND PERFORMANCE
The group's financial results have been solid and reflect a challenging environment for our market-facing divisions and continued investment in our businesses. Adjusted operating profit has decreased 3% in the year to £270.5 million, whilst it has grown 5% per annum compounded over the last three financial years on a reported basis. RoE remains strong at 15.7% and dividend growth was 5% this year, with dividend cover remaining solid at 2.1 times.

The strong RoE has been reflected in the executive directors' bonuses, with the element of the bonus determined by RoE being 71.3% of the potential maximum. The executive directors also achieved strong performance against their group-wide balanced scorecard, with payouts ranging from 65% to 98.5%.

For the 2016 Long-Term Incentive Plan vesting this year, 80% of the vesting is based on financial goals and 20% is based on risk, compliance and control objectives. For the financial goals, the AEPS growth of 6.5% over the last three years was below the threshold performance target of 18.9% and consequently the AEPS element of the LTIP has not vested. The compounded TSR of 10.4% per annum has met the threshold target of 10.0% per annum under the LTIP, meaning the TSR element will vest at 11.1%. The continued prudent approach to capital management combined with a good performance in risk, compliance and controls mean that the risk management objectives element vested at 93.8%. As a result, the LTIP will vest at 29.9% overall this year (see page 88 for further details).

The LTIP vesting levels have marginally increased the single total remuneration figures as the overall level of vesting of the LTIP has increased from the previous year's award (30% compared to 19%), primarily driven by total shareholder return over the performance period meeting the threshold target. Average LTIP vesting levels are 53% over the last five and 10-year periods, and the lower current levels of vesting reflect the stretching targets set by the Committee which are difficult to achieve at the current stage of the business cycle.

ADDITIONAL DISCLOSURES ON THE SINGLE TOTAL REMUNERATION FIGURE FOR EXECUTIVE DIRECTORS TABLE (AUDITED)
SALARY
The per annum salaries paid during the year are as shown in the single total remuneration figure table above. When reviewing salary levels, the Committee takes into account the individual's role and experience, pay for the broader employee population, market and external factors, where applicable. No salary increases have been awarded to the current executive directors for the 2020 financial year, whilst the average increase for the general employee population is 3%.

BENEFITS

Preben Prebensen, Jonathan Howell and Elizabeth Lee each received an allowance in lieu of a company car. Preben Prebensen received £18,000 while Jonathan Howell and Elizabeth Lee received £12,000. Mike Morgan does not receive an allowance in lieu of a company car. These allowances have not been increased since 2012. They also received private health cover. The discount to the share price on grant of SAYE options is included in the year of grant.

PENSION

Preben Prebensen, Jonathan Howell and Elizabeth Lee received a monthly cash pension allowance equivalent to 22.5% of base salary. Mike Morgan received a pension allowance equivalent to 10% of base salary, the same percentage as the general employee population. They do not receive any additional pension provision.

ANNUAL BONUS

Maximum bonus potential for the 2019 financial year was 300% of salary for Preben Prebensen and Jonathan Howell (time pro-rated for period as executive director), 175% of salary for Mike Morgan (time pro-rated for period in executive director role) and 120% of salary for Elizabeth Lee. The bonuses for executive directors were determined with reference to RoE targets and a group-wide balanced scorecard. Details of the achievements and targets are outlined below.

SUMMARY OF ANNUAL BONUS ACHIEVEMENT

	Financial target (RoE)				Group-wide balanced scorecard				
Name	Weighting	Potential maximum £'000s	**Actual per cent of maximum**	**Actual amount awarded £'000s**	Weighting	Potential maximum £'000s	**Actual per cent awarded**	**Actual amount awarded £'000s**	**Total bonus awarded £'000s**
Preben Prebensen	60%	990	**71.3%**	**706**	40%	660	**98.5%**	**650**	**1,356**
Jonathan Howell[1]	60%	747	**71.3%**	**159**	40%	498	**90.0%**	**134**	**293**
Elizabeth Lee	40%	162	**71.3%**	**115**	60%	243	**92.5%**	**225**	**340**
Mike Morgan[1]	60%	420	**71.3%**	**212**	40%	280	**65.0%**	**129**	**341**

1 Jonathan Howell's and Mike Morgan's annual bonus is time pro-rated for their periods as executive directors.

The RoE for the 2019 financial year was 15.7% against a maximum target of 20%, warranting an award of 71.3% of the potential maximum bonus for this element.

FINANCIAL MEASURES – RoE TARGETS

Threshold 33.3% of maximum potential	Target 66.7% of maximum potential	Maximum 100% of maximum potential	**Actual RoE achieved**	**Percentage of RoE element paid**
12%	15%	20%	**15.7%**	**71.3%**

For Preben Prebensen, Jonathan Howell and Mike Morgan, 60% of any annual bonus, and 40% for Elizabeth Lee, is deferred into group shares vesting in equal tranches over three years in line with the 2017 Remuneration Policy.

GROUP-WIDE EXECUTIVE DIRECTORS' OBJECTIVES FOR THE 2019 FINANCIAL YEAR

Annual performance objectives are determined by the Remuneration Committee at the start of each financial year, and are designed to support the group's wider strategic objective of protecting, improving and extending its successful model.

The table on pages 86 to 88 sets out examples of the key balanced scorecard objectives which were in place in 2019, performance metrics against these objectives where appropriate, and an overview of the factors that the Committee has taken into account when assessing the performance of the executives. The Committee determines the overall outcome of the balanced scorecard and adjusts the final individual rating to take into account the individual contributions to successful outcomes of the scorecard objectives. Mike Morgan has made a good start to his executive director role, and the lower percentage awarded to him under the group-wide balance scorecard reflects his recent appointment and relative contribution in the 2019 financial year. The resultant awards ranged between 65% and 98.5% of maximum for this element of the bonus.

For reasons of commercial sensitivity, not all performance criteria and factors taken into consideration by the Committee have been disclosed.

Directors' Remuneration Report
continued

PERFORMANCE AGAINST GROUP-WIDE EXECUTIVE DIRECTORS' BALANCED SCORECARD

Our overriding strategic business objectives of protect, improve and extend are reflected in, and aligned to, the strategic element of the balanced scorecard.

PRINCIPAL RISKS AND UNCERTAINTIES

KEY:
- PERFORMANCE OBJECTIVE HAS BEEN FULLY ACHIEVED OR EXCEEDED
- SATISFACTORY OUTCOME, FURTHER PROGRESS TO BE MADE
- PERFORMANCE OBJECTIVE HAS NOT BEEN MET

Objective	Assessment of performance against objectives including performance metrics
STRATEGIC – PROTECT Maintain the discipline of the business model	Performance metrics • Net interest margin 7.9% (2018: 8.0%) • Bad debt ratio 0.6% (2018: 0.6%) • Return on net loan book 3.3% (2018: 3.5%) • Average loan book maturity 14 months (31 July 2018: 14 months) • Moderate loan growth of 5.7% (2018: underlying growth of 6.6%) • Winterflood only two loss days (2018: no loss days)
	Assessment • Firm adherence to lending model with continued underwriting and pricing discipline • Core financial metrics remain consistent with the group's lending model • Credit risk metrics including security cover, tenor, pricing, credit quality and concentration risk remain within risk appetite • Continued loan book growth moderation reflects margin and underwriting discipline consistent with the business model • Maintained solid trading profitability for Winterflood in challenging conditions
Maintain prudent levels of capital, funding and liquidity	Performance metrics • CET1 capital ratio 13.0% (regulatory minimum requirement: 9.0%) • Total capital ratio 15.2% (regulatory minimum requirement: 13.4%) • Leverage ratio 11.0% (minimum requirement: 3.0%) • Total funding 129% of loan book (31 July 2018: 132%) • Average maturity of allocated funding 20 months vs loan book at 14 months • £1,395 million of liquid assets (31 July 2018: £1,435 million) • Average 12-month liquidity coverage ratio 823% (regulatory minimum: 100%)
	Assessment • Maintained strong capital ratios, diverse funding and conservative maturity profile • Maintained significant CET1 capital headroom above minimum requirement, with very strong leverage ratio • Maintained prudent funding relative to loan book, with average maturity of allocated funding significantly longer than loan book • Successful renewal and extension of secured funding facilities • Prudent liquidity position and very strong liquidity coverage ratio, substantially in excess of regulatory requirements
Monitor and mitigate external threats, including competition from both established and emerging players and the UK's departure from the EU	Assessment • Completed thematic reviews of key industry themes to identify potential risks and opportunities • Ongoing review and monitoring of Brexit-related risks through dedicated Brexit Forum • Appropriate preparations now made for a potential "no deal" exit, including the establishment of a new Irish subsidiary with associated regulatory approvals • Extensive work on preparing to manage the business in a downturn, including scenario analysis, playbooks and simulations

Objective	Assessment of performance against objectives including performance metrics
STRATEGIC – IMPROVE Progress key investment initiatives	Assessment • Premium transformation project benefits delivered materially in excess of original business case, with 34% growth in loan book since 2016 • Delivered new customer deposit platform and successfully transitioned 37,000 customer accounts and £3.8 billion of deposits, with launch of online offering on track for the 2020 financial year • IRB project on track and progressing towards formal application • Motor transformation materially progressing, with rollout of new sales competencies and process resulting in improved new business performance • Technology transformation in Close Brothers Asset Management fully mobilised, planned and resourced
Maintain cost discipline	Performance metrics • Group expense/income ratio 61% (2018: 60%) • Banking expense/income ratio 50% (2018: 49%)
	Assessment • Overall cost growth of 4% vs income at 1% reflects continued strategic investment, as well as pressure on income in market-facing businesses • Banking costs held broadly flat in H2 reducing Banking full-year operating leverage to -3% (H1 -5%) • Banking division staff costs remained flat on prior year
STRATEGIC – EXTEND Progress current new business initiatives	Assessment • Executed sale of unsecured retail point of sale finance business, realising a small profit • Continued strong growth of Novitas' litigation finance product • Good momentum in personal contract hire product in Asset Finance • Maintained good growth momentum in Close Brothers Asset Management with net inflow rate of 9% and recruitment of additional bespoke portfolio managers • Good progress in extension of Winterflood's institutional franchise and development of Winterflood Business Services
Further develop distribution opportunities and networks	Assessment • Winterflood received FINRA approval to enable direct dealing with US institutions • Signed up significant new intermediary relationships in Premium Finance • Extensive review of partner journeys to support investment decisions in Motor Finance • Extension of Property Finance activities to Manchester and Northern Ireland • Effective use of data analytics to increase value add to brokers in Premium Finance
PEOPLE Maintain strong engagement and reinforce position as employer of choice	Performance metrics • 88% employee engagement (external benchmark 83%/2018: 89%)
	Assessment • Employee opinion survey confirms continued strong employee engagement • Full interview-based review to confirm Close Brothers is an employer of choice for front office staff, and identify key strengths and areas of potential improvement
Succession planning for key senior management team	Assessment • Successful transition of Mike Morgan to group finance director • Ongoing development of internal succession options for key executive roles • Successful transition to new group head of compliance and group general counsel • Successful hiring of new group chief operating officer • Successful recruitment of key leadership roles in Close Brothers Asset Management • Embedding of Winterflood leadership team, which is performing well in a challenging market

Directors' Remuneration Report
continued

Objective	Assessment of performance against objectives including performance metrics
CUSTOMERS Maintain focus on the end customer	Performance metrics • +51 customer NPS in Premium Finance (2018: +50), +56 bespoke NPS in Asset Management (2018: +61), +79 customer NPS in Asset Finance, and 78% repeat business in Property
	Assessment • Key customer metrics for all Banking businesses defined and reported through Banking division customer forum and board • Strong key customer metrics maintained across the Banking businesses • Customer research and analysis completed across multiple Banking businesses, forming basis of strategic decisions and future investment plans • Asset Management NPSs well established • Client personas being used to guide technology investment in Close Brothers Asset Management • Multiple enhancements at Winterflood, including corporate and retail web applications, improved response times, and clearer presentation of information
RISK CONDUCT AND COMPLIANCE Operate within risk appetite, preserve compliance with legal and regulatory obligations, maintain strong control framework and overall operational resilience	Performance metrics • 2018 employer opinion survey scores on values and principles; Banking division 95%, Close Brothers Asset Management 98% and Winterflood 95% • 100% completion of mandatory compliance training for eligible staff
	Assessment • Continued strengthening of the risk framework, including policy and standards for risk acceptance and building out the operational risk framework • Internal audit reviews confirm businesses continue to operate within established and embedded risk appetite, with appropriate control framework in place and satisfactory employee behaviours • Continued to evolve strategy and framework for disaster recovery including completion of significant data centre disaster recovery test • Maintained regular and constructive dialogue with the group's regulators • Culture and core values communicated across the group and embedded in staff induction and recognition programmes; culture dashboard reviewed quarterly at RCCs, GRCC and the board

LONG-TERM PERFORMANCE AWARDS

The performance awards in the single total figure of remuneration include the 2016 LTIP grant and the 2016 Matched SMP Shares. Both of these will vest on 4 October 2019, and the overall vesting is outlined in the table below.

DETAILS OF THE OVERALL VESTING FOR THE LTIP AND SMP

Performance measure	Threshold target[1]	Maximum target	Actual achieved	Overall vesting
Adjusted EPS growth (40% weighting)	RPI +3% p.a.	RPI +10% p.a.	**2.1% p.a.**	**0.0%**
TSR (40% weighting)	+10% p.a.	+20% p.a.	**10.4% p.a.**	**11.1%**
Risk management objectives (20% weighting)	n/a	n/a	**As per the table on page 90**	**18.8%**
Overall vesting				**29.9%**

1 25% of the awards vest for satisfying the threshold target.

The share price during the relevant performance period for the LTIP and Matched SMP shares (legacy awards issued under previous Remuneration Policy) increased by 4.2% over the three-year period from the date of grant to the end of the performance period. The average share price used to value the awards due to vest in October 2019 was 1,435.9p (from 1 May 2019 to 31 July 2019, which was the performance measurement period). The 2016 LTIP and SMP awards were originally granted at 1,378.6p. While the increase in share price is positive over the performance period, the single total figures of remuneration for the executive directors have increased from the previous year primarily due to the higher overall vesting of the long-term performance awards.

The performance awards also include the amount (in cash or shares) equal to the dividends which would have been paid during the period from the beginning of the performance period to the time that the awards vest.

DETAILS OF THE ASSESSMENT OF THE RISK MANAGEMENT OBJECTIVES FOR THE LTIP AND SMP

The Committee considers it to be of critical importance that remuneration arrangements continue to incentivise discipline in the management of the firm's capital and balance sheet and in the delivery of the business model.

The Committee undertakes a robust assessment of performance against the risk management objectives to ensure that payments to executive directors are fair and appropriate with consideration for individual and corporate performance. In doing so, the Committee assesses performance against a number of key measures in making its determination.

Performance was assessed after each of the three years of the LTIP performance period, with each year's review carrying a weighting of one-third towards the overall vesting for the award, ensuring a fair assessment of progress over the three-year period.

Year one and year two assessments were set out in the 2017 and 2018 Directors' Remuneration Reports respectively. The year three performance assessment is detailed below.

YEAR THREE PERFORMANCE ASSESSMENT

KEY: ✓ **PERFORMANCE OBJECTIVE HAS BEEN FULLY ACHIEVED OR EXCEEDED**

= **SATISFACTORY OUTCOME, FURTHER PROGRESS TO BE MADE**

X **PERFORMANCE OBJECTIVE HAS NOT BEEN MET**

Element	Measure	Extent to which the Committee determined the target has been met	
Capital and balance sheet management	Capital requirements	• CET1 capital ratio increased from 12.7% to 13.0% and provides a significant buffer above both the current CET1 and Tier 1 regulatory minima of 9.0% and 10.9% respectively	✓
	Dividend	• Full-year dividend increased 5%, maintaining strong dividend cover at 2.1 times	✓
	Funding	• Total funding of £9.9 billion of which £5.5 billion is term funding. Average maturity of funding allocated to loan book is 20 months, well in excess of the loan book at 14 months	✓
	Liquidity	• Continue to comfortably meet the liquidity coverage ratio requirements with an average annual ratio of 823% vs minimum requirement of 100%	✓
Risk, compliance and controls	Regulatory relationship	• Positive relationship with the PRA maintained • Continuing close engagement with the FCA on key focus areas	✓
	Culture	• Group culture dashboard launched with outputs shared on a quarterly basis with the Group Risk and Compliance Committee and board. • Code of Conduct implemented group-wide, outlining expected behaviours, values and attributes of the organisation	✓
	Internal Ratings Based approach	• Good progress towards IRB application and constructive engagement with PRA • Ongoing development of credit scorecards and quantitative grading models in support of application • Embedding and use of model risk framework and governance structure • New risk infrastructure design completed, with initial data warehouse launched	✓
	Operational risk/resilience	• Continued enhancement and alignment of overall approach in line with evolving regulatory standards • Operational resilience skillset strengthened with enhanced operational key risk indicators • Data centre failover test successfully completed, with follow-up actions implemented • Crisis response approach enhanced through simulations with relevant group executives and business teams	✓

Directors' Remuneration Report
continued

The table below summarises the Committee's assessment of performance against the risk management objectives after each of the three years of the LTIP performance period.

Element	Year one assessment	Year two assessment	Year three assessment	Overall vesting
Capital and balance sheet management	100%	100%	100%	100%
Risk, compliance and controls	87.5%	85%	90%	87.5%
Overall vesting				**93.75%**

IMPLEMENTATION OF THE POLICY IN 2020
BASE SALARY

	Salary effective from 1 August 2019	Increase
Chief executive – Preben Prebensen	£550,000	0.0%
Group finance director – Mike Morgan	£400,000	0.0%

Base salaries were determined with reference to the executive director's role and experience, increases for the broader population and external factors. The Committee determined that it was appropriate for the executive directors' salaries not to be increased, in line with the salary guidance for the majority of senior employees. The average salary increase across the wider employee population was 3%.

The executive directors will receive benefits in line with those outlined in the remuneration policy table on page 78. There will be no increases to the allowances for benefits other than any potential increase in the cost of providing them.

Preben Prebensen will continue to receive a cash allowance in lieu of a pension equivalent to 22.5% of base salary. Mike Morgan will receive a 10% of base salary cash allowance in lieu of a pension less employer's national insurance contributions, in line with the level of benefit offered to the general employee population.

2020 ANNUAL BONUS (I.E. BONUS AWARDED IN RESPECT OF THE 2020 PERFORMANCE YEAR)

Nature of measures	Choice of measures	Targets	Percentage of bonus	Vesting ranges
Financial	RoE	12 to 20%	60%	Threshold – 33%[2] Maximum – 100%
Non-financial	Balanced scorecard: • Strategic objectives • People and customers • Risk, conduct and compliance	Discretionary assessment[1]	40%	Minimum – 0% Maximum – 100%

1 Due to commercial sensitivity, the details of the performance targets and achievement against those will be outlined in the 2020 Annual Report on Remuneration.
2 Performance below threshold on the RoE measure would result in zero vesting of the financial measure.

The maximum bonus potential for Preben Prebensen will remain at 300% of salary in line with previous years. As highlighted last year, Mike Morgan will initially have a maximum bonus potential of 175% of salary following his appointment to the board.

RoE continues to be our long-standing metric for the financial element. The Committee considers it to be the primary measure of business performance, as it provides the strongest evidence of adherence to the business model.

2019 LTIP (I.E. LTIP AWARDED IN RESPECT OF THE 2019 TO 2021 CYCLE)
The 2019 LTIP awards due to be granted in October 2019 are shown in the table below.

	Chief executive **Preben Prebensen**	Group finance director **Mike Morgan**	Group head of legal and regulatory affairs **Elizabeth Lee**
2019 LTIP award	£1,890,000[1]	£700,000	–
Percentage change in LTIP award from 2018	0%	0%[2]	–
2019 LTIP award as a percentage of 2019 salary	344%	175%	–

1 Following the announcement regarding the departure of Preben Prebensen in 12 months time, the termination arrangements in relation to his remuneration will be agreed in due course. These will be disclosed on our website in accordance with Section 430(2B) of the Companies Act 2006 and in the 2020 Directors' Remuneration Report.
2 In October 2018 Mike Morgan was granted a time pro-rated LTIP award equivalent to £700,000 from the date he became an executive director.

The 2019 LTIP targets are detailed in the table below.

Nature of measures	Choice of measures	Targets	Weightings	Vesting ranges
Financial	Adjusted EPS growth	10 to 30% over 3 years	35%	Threshold – 25% Maximum – 100%
	RoE	12 to 20%[1]	35%	Threshold – 25% Maximum – 100%
Non-financial	Risk management objectives	Discretionary assessment against specific goals	30%	Threshold – 25% Maximum – 100%

1 Average over three-year performance period.

The Committee believes these targets are appropriately stretching and effectively align the executive directors' interests with those of shareholders.

In order to provide greater alignment of executive directors' compensation to the key long-term risk measures, last year the Committee introduced a more focused approach to concentrate on a smaller number of key risk, conduct and compliance objectives, typically with a multi-year time horizon. Three of the four objectives to be included for the 2020 financial year are the same as for the 2019 financial year. A focus on sustainability as a key risk management objective replaces the objective of improving regulatory relationships as an LTIP performance measure. Whilst these relationships are naturally still very important to the organisation, they will remain as a key objective in the executive directors' annual bonus scorecard, rather than being duplicated in both the LTIP and the bonus scorecard.

The four risk management objectives for the 2020 financial year are detailed in the following table.

Measure
Further progress our plans towards an Internal Ratings-Based ("IRB") approach
Evolve the oversight of the culture framework of the organisation
Increase our focus and further develop the group's approach to sustainability
Continue to enhance our resilience to operational risks

Due to commercial sensitivity, the full details of the milestones for the risk objectives will be outlined in the Directors' Remuneration Report throughout the performance period rather than prospectively.

RELATIVE IMPORTANCE OF SPEND ON PAY

The following table shows the total remuneration paid compared to the total distributions to shareholders.

	2019 £ million	2018 £ million
Remuneration paid	**292.4**	300.1
Distributions to shareholders[1]	**98.5**	94.0

1 Interim dividend paid and final dividend proposed for the financial year.

CHANGE IN REMUNERATION OF THE CHIEF EXECUTIVE

The following table shows how the remuneration of the chief executive changed compared to the general employee population for the 2019 financial year. The Committee deemed it appropriate for Preben Prebensen to receive no salary increase while the average increase across the general employee population was 2%. The change in bonus for Preben Prebensen primarily reflects the achievement against the RoE outlined on page 85. The average bonus for the general employee population broadly moved in line with AOP of the division which employs them, as shown on pages 2 and 3. The average decrease in bonus for the general employee population is 14.6%; if Winterflood is excluded the average decrease is 6.3%.

	Average change in salary for 2019 (from 1 August 2018)[1]	Average change in benefits for 2019 (from 1 August 2018)[2]	Average change in annual bonus for 2019[3]
Preben Prebensen	0%	0%	(4.4)%
All employee population	2%	2%	(14.6)%

1 Calculated as the average percentage increase in salary for those eligible for an increase at 1 August 2018.
2 Calculated as the average percentage increase in benefits for those eligible for a salary increase at 1 August 2018.
3 The percentage increase in the average bonus calculated as the total bonus spend divided by the average headcount for financial years 2018 and 2019.

Directors' Remuneration Report
continued

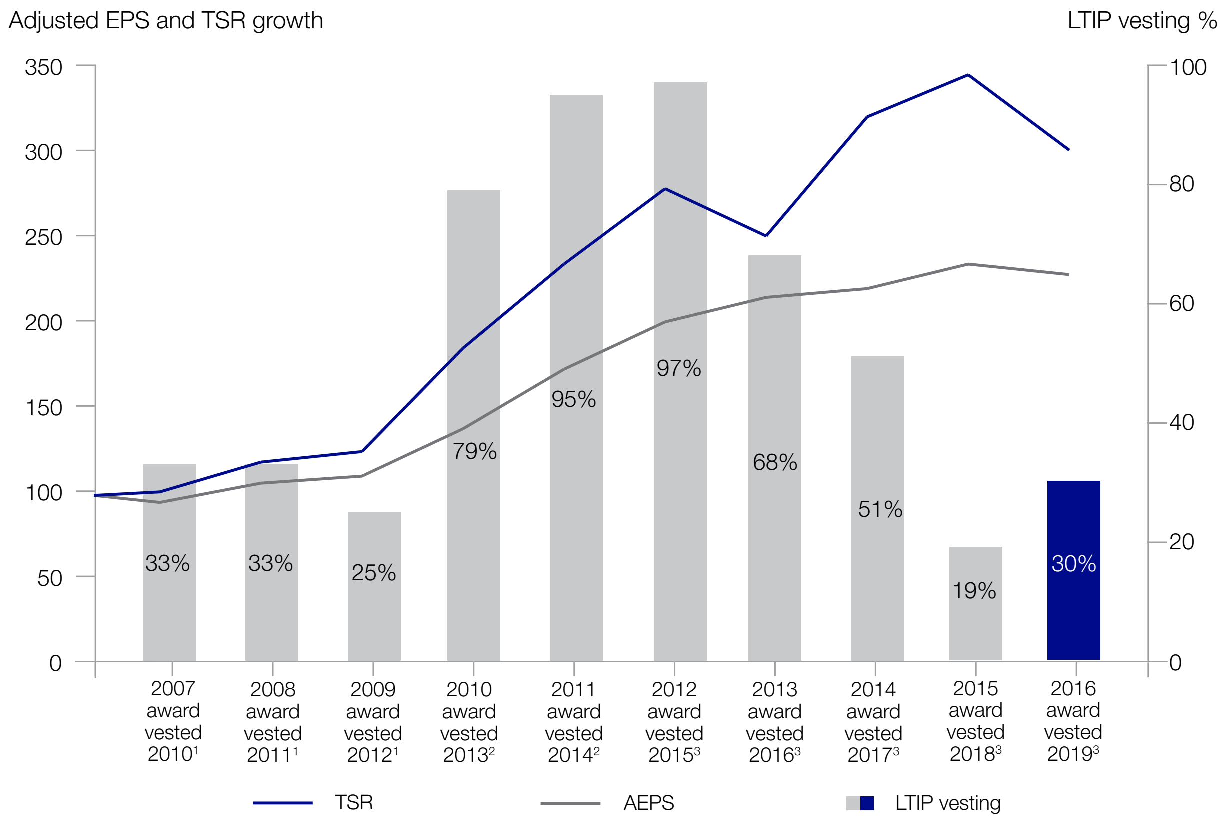
CHIEF EXECUTIVE: HISTORICAL INFORMATION

	2010	2011	2012	2013	2014	2015[2]	2016	2017	2018[1]	**2019**
Preben Prebensen										
Single figure of total remuneration ('000)[2]	£1,890	£2,187	£2,496	£5,748	£7,411	£5,962	£3,995	£3,337	£2,541	**£2,808**
Annual bonus against maximum opportunity	90%	95%	90%	100%	100%	98%	95%	91%	86%	**82%**
LTIP, SMP and Matching Share Award vesting	33%	33%	25%	79%	95%	97%	68%	51%	19%	**30%**

1 The figures for the performance awards for 2018 have been recalculated using the actual share price on the dates of vesting for the LTIP and Matched SMP Shares of £15.02. In the 2018 report, the three-month average to 31 July 2018 was used, given that the awards were vesting after publication of the report.
2 The figures for 2011 to 2014 include the Matching Share Awards that were granted in 2009 at the time of Preben Prebensen's appointment as chief executive.

HISTORICAL VESTING OF LTIP AWARDS COMPARED TO ADJUSTED EPS AND ABSOLUTE TSR

The following graph and table show the level of LTIP vesting following performance testing for the last 10 years.



1 Vesting was subject to two-thirds adjusted EPS and one-third TSR for awards granted in 2007 and 2008.
2 Vesting was subject to one-third adjusted EPS, one-third absolute TSR and one-third strategic goals for all awards granted between 2009 and 2011, inclusive.
3 Vesting was subject to 40% adjusted EPS, 40% absolute TSR and 20% risk management objectives for the 2012 to 2016 awards.

Note: This graph shows the vesting percentage of the LTIP compared with the adjusted EPS rebased to 100 at 31 July 2009, and the TSR based on £100 invested in Close Brothers Group plc on 31 July 2009.

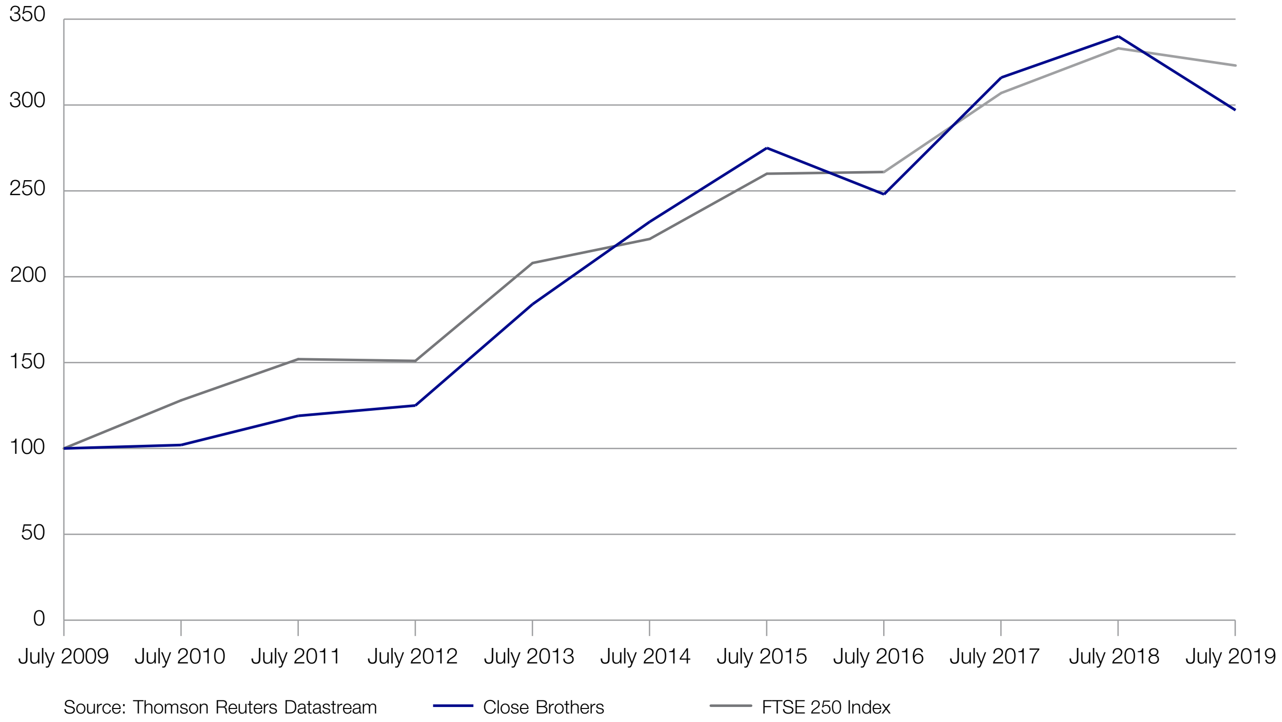
LTIP VESTING FOR THE LAST SIX YEARS

		Vesting percentage			
Year awarded	Year vested	Adjusted EPS	TSR	Goals	Total
2011[1]	2014	100%	100%	85%	**95%**
2012[2]	2015	100%	100%	87%	**97%**
2013[2]	2016	100%	25%	89%	**68%**
2014[2]	2017	56%	26%	92%	**51%**
2015[2]	2018	0%	0%	93%	**19%**
2016[2]	**2019**	**0%**	**28%**	**94%**	**30%**

1 Vesting was subject to one-third adjusted EPS, one-third absolute TSR and one-third strategic goals for all awards granted for 2011.
2 Vesting was subject to 40% adjusted EPS, 40% absolute TSR and 20% risk management objectives for the 2012 to 2016 awards.

PERFORMANCE GRAPH

The graph below shows a comparison of TSR for the company's shares for the 10 years ended 31 July 2019 against the TSR for the companies comprising the FTSE 250 Index.



Note:
This graph shows the value, by 31 July 2019, of £100 invested in Close Brothers Group plc on 31 July 2009 compared with the value of £100 invested in the FTSE 250 Index. The other points plotted are the intervening financial year ends. TSR has been calculated assuming that all dividends are reinvested on their ex-dividend date. The index has been selected because the company has been a constituent of the index throughout the period. The closing mid-market price of the company's shares on 31 July 2019 was 1,331p and the range during the year was 1,331 to 1,660p.

SCHEME INTERESTS AWARDED DURING THE YEAR (AUDITED)

The face value and key details of the share awards granted in the 2019 financial year are shown in the table below. These were all delivered as nil cost options. The Deferred Share Award ("DSA") is a mandatory deferral of a portion of the annual bonus. The share price used to calculate the number of shares awarded was £15.89, the average mid-market closing price for the five days prior to grant (2 October 2018).

Name	Award type[1]	Vesting period	Performance conditions	Face value '000	Percentage vesting at threshold	Number of shares	Vesting/ performance period end date
Preben Prebensen	DSA[2]	1–3 years	No	£852	n/a	53,588	02-Oct-21
	LTIP[3,4]	3 years	Yes	£1,890	25%	118,958	02-Oct-21
Jonathan Howell	DSA[2]	1–3 years	No	£635	n/a	39,965	02-Oct-21
	LTIP[3,4]	3 years	Yes	–	25%	–	02-Oct-21
Mike Morgan	DSA[2]	1–3 years	No	£15	n/a	945	02-Oct-21
	LTIP[3,4]	3 years	Yes	£608	25%	38,268	02-Oct-21
Elizabeth Lee	DSA[2]	1–3 years	No	£139	n/a	8,769	02-Oct-21
	LTIP[3,4]	3 years	Yes	£700	25%	44,059	02-Oct-21

1 The awards are all delivered as nil cost options.
2 The DSA vests in equal tranches over three years.
3 Performance conditions are the same as the 2019 LTIP targets, detailed on page 91.
4 LTIPs granted in 2018 have an additional two-year holding period.

EXTERNAL APPOINTMENTS

Preben Prebensen received £70,875 in non-executive director fees (2018: £63,750) from The British Land Company plc and, whilst in the employment of Close Brothers Group, Jonathan Howell received £22,804 in non-executive director fees (2018: £77,000) from The Sage Group plc.

Directors' Remuneration Report
continued

PAYMENTS TO DEPARTING DIRECTORS (AUDITED)

Jonathan Howell left the company following the November 2018 AGM and, in recognition of his strong contribution prior to departure, has been awarded a time pro-rated bonus for the period of the 2019 financial year he was group finance director, which has been included in the single figure table. The Committee carefully considered the treatment of Jonathan's outstanding share incentive awards taking into account the nature of his departure, his subsequent employment status and the share plan rules. It was consequently agreed by the Committee that Jonathan's outstanding deferred bonus shares and his Invested 2016 SMP award should be permitted to vest on their original vesting schedules and that his outstanding LTIP and Matched 2016 SMP awards should be forfeited upon cessation of employment.

Elizabeth Lee decided to retire from her executive career at the end of the financial year. The Committee determined that Elizabeth will keep previous bonus deferrals and her unvested LTIP awards, subject to time pro-rata and performance conditions. All awards will vest on their original vesting schedule with no acceleration.

Jonathan Howell and Elizabeth Lee both received holiday pay for holiday accrued but not taken during the year amounting to £3,687 and £15,000, respectively.

PAYMENTS TO PAST DIRECTORS (AUDITED)

There were no payments made to past directors during the year other than vesting of outstanding share awards as disclosed in previous remuneration reports.

EXECUTIVE DIRECTORS' SHAREHOLDING AND SHARE INTERESTS (AUDITED)

The interests of the directors in the ordinary shares of the group at 31 July 2019 are set out below:

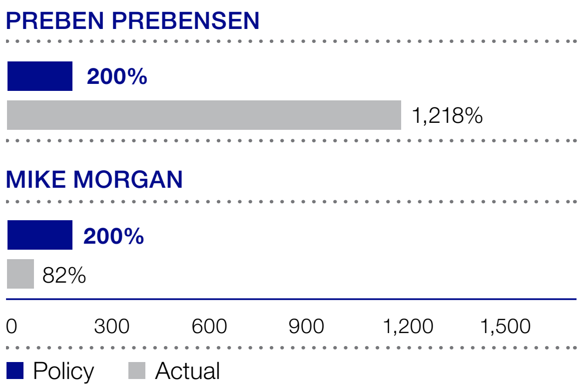
Name	Shareholding requirement at 31 July 2019[1]	**Number of shares owned outright[2] 2019**	Outstanding share awards not subject to performance conditions[3]		Outstanding share awards subject to performance conditions[4]		Outstanding options[5]	
			2019	2018	**2019**	2018	**2019**	2018
Preben Prebensen	82,645	**503,101**	**140,171**	153,190	**405,182**	423,898	**1,458**	1,458
Mike Morgan	60,106	**24,572**	**21,619**	–	**130,024**	–	**2,505**	2,505
Jonathan Howell[6,7]	55,371	**60,000**	**–**	111,729	**–**	310,739	**–**	–
Elizabeth Lee	25,357	**30,948**	**23,277**	27,901	**150,069**	159,581	**1,542**	1,542

1 Based on the closing mid-market share price of 1,331p on 31 July 2019.
2 This includes shares owned outright by closely associated persons.
3 This includes DSA and SMP Invested Shares.
4 This includes LTIP awards and Matched SMP Shares.
5 These are comprised of SAYE options.
6 Jonathan Howell's shareholding is at 16 November 2018, the day he left the company.
7 As at 16 November 2018, Jonathan Howell held 500,000 of the company's subordinated loan notes due 2027.

No executive directors held shares that were vested but unexercised at 31 July 2019. There were no changes in notifiable interests between 1 August 2019 and 19 September 2019, other than the purchase of shares by Preben Prebensen within the SIP which increased his shareholding to 503,125 shares.

EXECUTIVE DIRECTORS' SHAREHOLDING

The chart below compares the current executive directors' shareholding versus shareholding policy, as a percentage of salary. Following Mike Morgan's appointment to group finance director, he will be expected to build up his shareholding over a reasonable timeframe to meet the minimum requirement under the executive directors' remuneration policy.



DETAILS OF EXECUTIVE DIRECTORS' SHARE EXERCISES DURING THE YEAR (AUDITED)

Name	Award type	Held at 1 August 2018	Called[1]	Lapsed	Market price on award p	Market price on calling p	Total value on calling[1] £	Dividends paid on vested shares £
Preben Prebensen	2015 DSA	5,179	5,179	–	1,493.4	1,553.6	80,461	9,190
	2016 DSA	4,727	4,727	–	1,378.6	1,532.2	72,429	5,625
	2017 DSA	21,344	21,344	–	1,459.0	1,532.2	327,040	13,020
	2015 LTIP	66,962	12,442	54,520	1,493.4	1,553.6	193,299	22,078
	2015 SMP – Invested	35,356	35,356	–	1,493.4	1,553.6	549,291	62,737
	2015 SMP – Matched	70,712	13,139	57,573	1,493.4	1,553.6	204,128	23,314
Jonathan Howell	2015 DSA	3,014	3,014	–	1,493.4	1,553.6	46,826	5,348
	2016 DSA	2,565	2,565	–	1,378.6	1,532.2	39,302	3,052
	2017 DSA	15,735	15,735	–	1,459.0	1,532.2	241,097	9,598
	2015 LTIP	50,221	9,332	40,889	1,493.4	1,553.6	144,982	16,559
	2015 SMP – Invested	26,785	26,785	–	1,493.4	1,553.6	416,132	47,528
	2015 SMP – Matched	53,570	9,954	43,616	1,493.4	1,553.6	154,645	17,663
Mike Morgan	2015 LTIP	13,393	2,489	10,904	1,493.4	1,554.0	38,679	4,417
Elizabeth Lee	2015 LTIP	26,785	4,977	21,808	1,493.4	1,553.6	77,323	8,831
	2015 SMP – Invested	13,393	13,393	–	1,493.4	1,553.6	208,074	23,765
	2015 SMP – Matched	26,786	4,977	21,809	1,493.4	1,553.6	77,323	8,831

1 These are the actual number of shares and values realised on calling. Any variances in totals are due to rounding.

NOTES TO THE DETAILS OF EXECUTIVE DIRECTORS' SHARE EXERCISES DURING THE YEAR

The DSA is a mandatory deferral of a portion of the annual bonus.

The DSA, LTIP and SMP give executive directors the right to call for shares in the company from the employee benefit trust or treasury shares, at nil cost, together with a cash amount representing accrued notional dividends thereon. They may be called for at any time up to 12 months from the date of vesting. The DSA, LTIP and SMP awards may be forfeited in certain circumstances if the executive director leaves employment before the vesting date. The value of the awards is charged to the group's income statement in the year to which the award relates for the DSA and Invested SMP Shares, and spread over the vesting period for the LTIP and Matched SMP Share awards.

The LTIP awards are held under the 2009 LTIP and are subject to the performance criteria described in the remuneration policy on page 78. The Matched SMP Shares are subject to the same performance criteria.

DETAILS OF EXECUTIVE DIRECTORS' OPTION EXERCISES DURING THE YEAR (AUDITED)

No executive director exercised options during the 2019 financial year.

SINGLE TOTAL FIGURE OF REMUNERATION FOR NON-EXECUTIVE DIRECTORS (AUDITED)

	2019						2018					
Name	**Basic fee[1] £'000**	**Committee chairman £'000**	**Committee member £'000**	**Senior independent director £'000**	**Benefits[2] £'000**	**Total £'000**	Basic fee[1] £'000	Committee chairman £'000	Committee member £'000	Senior independent director £'000	Benefits[2] £'000	Total £'000
Mike Biggs	**300**	**–**	**–**	**–**	**5**	**305**	300	–	–	–	6	306
Oliver Corbett	**67**	**30**	**10**	**–**	**–**	**107**	67	30	10	–	–	107
Geoffrey Howe	**67**	**–**	**15**	**20**	**–**	**102**	67	–	15	20	–	102
Lesley Jones	**67**	**30**	**10**	**–**	**3**	**110**	67	30	10	–	1	108
Bridget Macaskill	**67**	**30**	**10**	**–**	**11**	**118**	67	30	10	–	10	117
Peter Duffy[3]	**39**	**–**	**3**	**–**	**–**	**42**	–	–	–	–	–	–

1 Non-executive director fees were last increased with effect from 1 August 2017.
2 Benefits include travel-related expenses in respect of attendance at board meetings which are taxable. Amounts disclosed have been grossed up using the appropriate tax rate as the company pays the non-executive directors' tax.
3 Peter Duffy was appointed a director on 1 January 2019.

Directors' Remuneration Report
continued

NOTES TO THE SINGLE TOTAL FIGURE OF REMUNERATION FOR NON-EXECUTIVE DIRECTORS

The fees payable to non-executive directors for the 2019 and 2020 financial years are as follows. Certain fees have been increased with effect from 1 August 2019 for the first time since 2017.

Role	**2020**	2019
Chairman[1]	**£300,000**	£300,000
Non-executive director	**£70,000**	£67,000
Supplements		
Senior independent director	**£20,000**	£20,000
Chairman of Audit Committee	**£33,000**	£30,000
Chairman of Remuneration Committee	**£33,000**	£30,000
Chairman of Risk Committee	**£33,000**	£30,000
Committee membership[2]	**£5,000**	£5,000

1 The chairman receives no other fees for chairmanship or membership of board committees.
2 No fees are payable to the chairman, or for membership, of the Nomination and Governance Committee.

NON-EXECUTIVE DIRECTORS' SHARE INTERESTS (AUDITED)

The interests of the non-executive directors in the ordinary shares of the company are set out below:

Name	**Shares held beneficially at 31 July 2019**	Shares held beneficially at 31 July 2018
Oliver Corbett	**–**	–
Geoffrey Howe	**5,000**	5,000
Lesley Jones	**–**	–
Bridget Macaskill	**2,500**	2,500
Mike Biggs	**500**	500
Peter Duffy	**–**	–

There were no changes in notifiable interests between 1 August 2019 and 19 September 2019.

This report was approved by the board of directors on 24 September 2019 and signed on its behalf by:

BRIDGET MACASKILL
CHAIRMAN OF THE REMUNERATION COMMITTEE

Independent Auditors' Report to the Members of Close Brothers Group plc

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

OPINION

In our opinion:

- Close Brothers Group plc's group financial statements and parent company financial statements (the "financial statements") give a true and fair view of the state of the group's and of the parent company's affairs as at 31 July 2019 and of the group's profit and cash flows for the year then ended;
- the group financial statements have been properly prepared in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law); and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the group financial statements, Article 4 of the IAS Regulation.

We have audited the financial statements, included within the Annual Report, which comprise: the consolidated and company balance sheets as at 31 July 2019; the consolidated income statement, the consolidated statement of comprehensive income, the consolidated cash flow statement, and the consolidated and company statements of changes in equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Our opinion is consistent with our reporting to the Audit Committee.

BASIS FOR OPINION

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

INDEPENDENCE

We remained independent of the group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, as applicable to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

To the best of our knowledge and belief, we declare that non-audit services prohibited by the FRC's Ethical Standard were not provided to the group or the parent company.

Other than those disclosed in the Audit Committee Report on page 73 of the Annual Report, we have provided no non-audit services to the group or the parent company in the period from 1 August 2018 to 31 July 2019.

OUR AUDIT APPROACH

OVERVIEW

MATERIALITY

- Overall group materiality: £13.2 million (2018: £13.5 million), based on 5% of profit before tax.
- Overall parent company materiality: £10 million (2018: £6.5 million), based on 1% of total assets.

AUDIT SCOPE

- The scope of our audit and the nature, timing and extent of audit procedures performed were determined by our risk assessment, the financial significance of components and other qualitative factors (including history of misstatement through fraud or error).
- We performed audit procedures over components considered financially significant in the context of the group (full scope audit) or in the context of individual primary statement account balances (audit of specific account balances). We performed other procedures including testing entity level controls, information technology general controls and analytical review procedures to mitigate the risk of material misstatement in the residual components.

KEY AUDIT MATTERS

- Determination of expected credit losses on loans and advances to customers (group).
- Application of effective interest rate ("EIR") accounting (group).

Independent Auditors' Report to the Members of Close Brothers Group plc continued

THE SCOPE OF OUR AUDIT

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we looked at where the directors made subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain.

CAPABILITY OF THE AUDIT IN DETECTING IRREGULARITIES, INCLUDING FRAUD

Based on our understanding of the group and industry, we identified that the principal risks of non-compliance with laws and regulations related to breaches of banking laws and regulations such as, but not limited to, regulations relating to consumer credit and unethical and prohibited business practices and we considered the extent to which non-compliance might have a material effect on the financial statements. We also considered those laws and regulations that have a direct impact on the preparation of the financial statements such as the Companies Act 2006, UK tax legislation and the Listing Rules of the Financial Conduct Authority ("FCA"). We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to posting inappropriate journal entries to increase revenue or reduce expenditure, and management bias in accounting estimates. The group engagement team shared this risk assessment with the component auditors so that they could include appropriate audit procedures in response to such risks in their work. Audit procedures performed by the group engagement team and/or component auditors included:

- Review of correspondence with and reports to the regulators PRA and FCA , review of correspondence with legal advisors, enquiries of management, and review of internal audit reports in so far as they related to the financial statements;
- Assessment of matters reported on the group's whistleblowing helpline and the results of management's investigation of such matters;
- Challenging assumptions and judgements made by management in their significant accounting estimates, in particular in relation to the determination of expected credit losses on loans and advances (see related key audit matter below); and
- Identifying and testing journal entries, in particular any journal entries posted with unusual account combinations, unusual times or posted by senior management.

There are inherent limitations in the audit procedures described above and the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely we would become aware of it. Also, the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

KEY AUDIT MATTERS

Key audit matters are those matters that, in the auditors' professional judgement, were of most significance in the audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by the auditors, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team.

These matters, and any comments we make on the results of our procedures thereon, were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. This is not a complete list of all risks identified by our audit.

Key audit matter	How our audit addressed the key audit matter
Determination of expected credit losses on loans and advances to customers (group) The determination of expected credit loss allowances is subjective and judgmental. Models are used to collectively assess and determine expected credit loss allowances on loans and advances which are not classified as being credit impaired at the reporting date or are individually small. Key inputs and assumptions include significant increase in credit risk criteria, probability of default, loss given default and the use of multiple, probability weighted, economic scenarios. Individually large exposures to counterparties who are in default at the reporting date are estimated on an individual basis. Judgement is required to determine when a loan is considered to be in default, and then to estimate the amount and timing of the expected future cash flows related to that loan under multiple, probability weighted, scenarios.	We understood and critically assessed the appropriateness of the impairment policy (including management's definitions of default and a significant increase in credit risk) and its application in the determination of ECL provisions. *Collectively assessed provisions* We understood management's process and tested key controls around the determination of expected credit loss allowances, including controls relating to: • Appropriateness of modelling methodologies and monitoring of model performance; • The integrity of data feeds from source systems into the models; and • The approval of key inputs and assumptions used in applying multiple economic scenarios. We found these key controls were designed, implemented and operated effectively, and therefore determined that we could place reliance on these key controls for the purposes of our audit.

Key audit matter	How our audit addressed the key audit matter
Refer to note 28 to the financial statements for the relevant disclosures	We assessed the reasonableness of key inputs used in the determination of the ECL allowances by independently reperforming management's model monitoring analyses (comparing actual experience to that predicted by the models) and performing sensitivity analyses on the results. We assessed management's judgement as to whether the results of these activities indicated whether the models continued to perform appropriately or if any post-model adjustments were required. We used our economist experts to assess the reasonableness of management's selected economic scenarios and associated probability weightings, giving specific consideration to the current political uncertainty. We tested the completeness and accuracy of key data inputs, sourced from underlying systems, that are applied in the calculation of the ECL allowances and tested the integrity of the calculations. We used credit risk modelling specialists to support the audit team in the performance of these audit procedures. *Individually assessed provisions* We performed the following procedures to test the completeness of the identification of defaulted assets requiring individual assessment: • We critically assessed the criteria for determining whether a default event had occurred; and • We haphazardly tested a sample of loans which management had determined were not in default at the reporting date. For each sampled loan, we independently assessed whether they had indicators of a default event and therefore whether they were appropriately categorised between performing and in default. For a sample of individually assessed loans in default and related ECL allowances, we: • Evaluated the basis on which the allowances were determined, and the evidence supporting the analysis performed by management; • Independently challenged whether the key assumptions used, such as the recovery strategies, collateral rights and ranges of potential outcomes were appropriate given the borrower's circumstances; and • Re-performed management's provision calculation, critically assessing key inputs including expected future cash flows, discount rates, valuations of collateral held and the weightings applied to scenario outcomes. Based on the evidence obtained, we concluded that the methodologies, modelled assumptions, management judgements and data used within the individual assessments to be appropriate and compliant with the requirements of IFRS 9.

Independent Auditors' Report to the Members of Close Brothers Group plc continued

Key audit matter	How our audit addressed the key audit matter
Application of effective interest rate ("EIR") accounting (group) Interest income on loans and advances is recognised using the effective interest rate method and any fees, commissions or direct transaction costs that are an integral part of the financial instrument, are included within the effective interest rate. Judgement is required to determine whether applicable fees and direct costs should be included within the effective interest rate, or whether immediate recognition should be applied. Management have to estimate the period over which amounts are to be recognised, based on the life of the instrument. The judgement and manual nature applied across different businesses throughout the group results in a higher risk of material misstatement due to fraud or error. Relevant references: • note 2, critical accounting estimates and judgements on page 116; • the key accounting judgements section of the Audit Committee Report on page 72; and • note 1, significant accounting policies that includes the group's revenue recognition policy on page 112.	We have understood management's process and tested key controls around revenue recognition, including: • walkthroughs for the main lending products to understand the processes and key controls for the identification, recognition and calculation of fees, commissions and direct costs under the effective interest rate method; and • the reconciliations between the models used to calculate the effective interest rate adjustments for the respective fees and the general ledger. We found these key controls were designed, implemented and operated effectively, and therefore determined that we could place reliance on these key controls for the purposes of our audit. In addition we have performed the following substantive procedures: • we tested the effective interest rate models by assessing their design, critically challenging relevant assumptions, and testing the accuracy of model computations by re-performing a sample of effective interest rate calculations; • we agreed a sample of loan agreements and cash receipts to the inputs used within the respective effective interest rate models, and assessed whether the appropriate fees and costs had been reflected in the effective interest rate; and • we considered the consistent application of the EIR accounting policy across the group's different businesses. Based on the evidence obtained, we found that the assumptions, models and data used were appropriate.

We determined that there were no key audit matters applicable to the parent company to communicate in our report.

HOW WE TAILORED THE AUDIT SCOPE

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the structure of the group and the parent company, the accounting processes and controls, and the industry in which they operate. For the purpose of describing our scoping we refer to the group's organisational units as components.

The group is structured into three primary segments being Banking, Winterflood Securities and Asset Management. Banking is subsequently divided into Retail, Commercial and Property segments. The consolidated financial statements are a consolidation of these components.

In establishing the overall approach to the group audit, we determined the type of work that is required to be performed over the components by us, as the group engagement team, or auditors within the PwC network of firms operating under our instruction ("component auditors").

Where the work was performed by component auditors, we determined the level of involvement we needed to have in their audit work to be able to conclude whether sufficient appropriate audit evidence had been obtained as a basis for our opinion on the consolidated financial statements as a whole. This included regular communication with the component auditors throughout the audit, the issuance of instructions, a review of the results of their work on the key audit matters and formal clearance meetings.

Any components which were considered individually financially significant in the context of the group's consolidated financial statements (defined as components which that represent more than or equal to 10% of the total profit before tax of the consolidated group) were considered full scope components. We considered the individual financial significance of other components in relation to primary statement account balances. We considered the presence of any significant audit risks and other qualitative factors (including history of misstatements through fraud or error). Any component which was not already included as a full scope audit component but was identified as being individually financially significant in respect of one of more account balances was subject to specific audit procedures over those account balances. Inconsequential components (defined as components which did not represent a reasonable possibility of a risk of material misstatement either individually or in aggregate) were eliminated from further consideration for specific audit procedures although they were subject to group-level analytical review procedures. All remaining components which were neither inconsequential nor individually financially significant were within our audit scope, with the risk of material misstatement mitigated through audit procedures including testing of entity level controls, information technology general controls and group and component level analytical review procedures.

Certain account balances were audited centrally by the group engagement team.

Components within the scope of our audit contributed over 95% of group total assets and operating profit before tax.

MATERIALITY

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

	Group financial statements	Parent company financial statements
OVERALL MATERIALITY	£13.2 million (2018: £13.5 million).	£10.0 million (2018: £6.5 million).
HOW WE DETERMINED IT	5% of profit before tax.	1% of total assets.
RATIONALE FOR BENCHMARK APPLIED	Profit before tax is a primary measure used by the shareholders in assessing the performance of the group, and is a generally accepted benchmark for determining audit materiality.	We have selected total assets as an appropriate benchmark for parent company materiality. Profit based benchmarks were not considered appropriate for parent company materiality as the parent company is an investment holding company and is not required to disclose a parent company income statement.

For each component in the scope of our group audit, we allocated a materiality that is less than our overall group materiality. The range of materiality allocated across components was between £2,000,000 and £12,200,000. Certain components were audited to a local statutory audit materiality that was also less than our overall group materiality.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £500,000 (group audit) (2018: £500,000) and £500,000 (parent company audit) (2018: £500,000) as well as misstatements below those amounts that, in our view, warranted reporting for qualitative reasons.

GOING CONCERN

In accordance with ISAs (UK) we report as follows:

Reporting obligation	Outcome
We are required to report if we have anything material to add or draw attention to in respect of the directors' statement in the financial statements about whether the directors considered it appropriate to adopt the going concern basis of accounting in preparing the financial statements and the directors' identification of any material uncertainties to the group's and the parent company's ability to continue as a going concern over a period of at least twelve months from the date of approval of the financial statements.	We have nothing material to add or to draw attention to. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the group's and parent company's ability to continue as a going concern. For example, the terms on which the United Kingdom may withdraw from the European Union are not clear, and it is difficult to evaluate all of the potential implications on the group's trade, customers, suppliers and the wider economy.
We are required to report if the directors' statement relating to going concern in accordance with Listing Rule 9.8.6R(3) is materially inconsistent with our knowledge obtained in the audit.	We have nothing to report.

REPORTING ON OTHER INFORMATION

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Strategic Report and Directors' Report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on the responsibilities described above and our work undertaken in the course of the audit, the Companies Act 2006 ("CA06"), ISAs (UK) and the Listing Rules of the Financial Conduct Authority ("FCA") require us also to report certain opinions and matters as described below (required by ISAs (UK) unless otherwise stated).

Independent Auditors' Report to the Members of Close Brothers Group plc continued

STRATEGIC REPORT AND DIRECTORS' REPORT

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors' Report for the year ended 31 July 2019 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements. *(CA06)*

In light of the knowledge and understanding of the group and parent company and their environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic Report and Directors' Report. *(CA06)*

THE DIRECTORS' ASSESSMENT OF THE PROSPECTS OF THE GROUP AND OF THE PRINCIPAL RISKS THAT WOULD THREATEN THE SOLVENCY OR LIQUIDITY OF THE GROUP

We have nothing material to add or draw attention to regarding:

- The directors' confirmation on page 58 of the Annual Report that they have carried out a robust assessment of the principal risks facing the group, including those that would threaten its business model, future performance, solvency or liquidity.
- The disclosures in the Annual Report that describe those risks and explain how they are being managed or mitigated.
- The directors' explanation on page 58 of the Annual Report as to how they have assessed the prospects of the group, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

We have nothing to report having performed a review of the directors' statement that they have carried out a robust assessment of the principal risks facing the group and statement in relation to the longer-term viability of the group. Our review was substantially less in scope than an audit and only consisted of making inquiries and considering the directors' process supporting their statements; checking that the statements are in alignment with the relevant provisions of the UK Corporate Governance Code (the "Code"); and considering whether the statements are consistent with the knowledge and understanding of the group and parent company and their environment obtained in the course of the audit. *(Listing Rules)*

OTHER CODE PROVISIONS

We have nothing to report in respect of our responsibility to report when:

- The statement given by the directors, on page 58, that they consider the Annual Report taken as a whole to be fair, balanced and understandable, and provides the information necessary for the members to assess the group's and parent company's position and performance, business model and strategy is materially inconsistent with our knowledge of the group and parent company obtained in the course of performing our audit.
- The section of the Annual Report on page 73 describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee.
- The directors' statement relating to the parent company's compliance with the Code does not properly disclose a departure from a relevant provision of the Code specified, under the Listing Rules, for review by the auditors.

DIRECTORS' REMUNERATION

In our opinion, the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006. *(CA06)*

RESPONSIBILITIES FOR THE FINANCIAL STATEMENTS AND THE AUDIT

RESPONSIBILITIES OF THE DIRECTORS FOR THE FINANCIAL STATEMENTS

As explained more fully in the Directors' Responsibility Statement set out on page 58, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the group's and the parent company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group or the parent company or to cease operations, or have no realistic alternative but to do so.

AUDITORS' RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

USE OF THIS REPORT

This report, including the opinions, has been prepared for and only for the parent company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

OTHER REQUIRED REPORTING

COMPANIES ACT 2006 EXCEPTION REPORTING

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- certain disclosures of directors' remuneration specified by law are not made; or
- the parent company financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

APPOINTMENT

Following the recommendation of the Audit Committee, we were appointed by the directors on 17 May 2017 to audit the financial statements for the year ended 31 July 2018 and subsequent financial periods. The period of total uninterrupted engagement is 2 years, covering the years ended 31 July 2018 to 31 July 2019.

MARK HANNAM (SENIOR STATUTORY AUDITOR)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London

24 September 2019

Consolidated Income Statement

FOR THE YEAR ENDED 31 JULY 2019

	Note	**2019 £ million**	2018 £ million
Interest income	4	**635.6**	601.0
Interest expense	4	**(129.9)**	(114.9)
Net interest income		**505.7**	486.1
Fee and commission income	4	**224.9**	213.3
Fee and commission expense	4	**(19.2)**	(13.7)
Gains less losses arising from dealing in securities		**81.3**	100.1
Other income	4	**77.4**	65.1
Depreciation of operating lease assets and other direct costs	16	**(53.7)**	(45.1)
Non-interest income		**310.7**	319.7
Operating income		**816.4**	805.8
Administrative expenses	4	**(497.4)**	(480.5)
Impairment losses on financial assets	11	**(48.5)**	(46.7)
Total operating expenses before amortisation of intangible assets on acquisition		**(545.9)**	(527.2)
Operating profit before amortisation of intangible assets on acquisition		**270.5**	278.6
Amortisation of intangible assets on acquisition	15	**(5.8)**	(7.4)
Operating profit before tax		**264.7**	271.2
Tax	6	**(64.4)**	(67.0)
Profit after tax from continuing operations		**200.3**	204.2
Profit/(loss) from discontinued operations, net of tax	7	**1.1**	(2.2)
Profit after tax		**201.4**	202.0
Loss attributable to non-controlling interests from continuing operations		**(0.2)**	(0.3)
Profit attributable to shareholders		**201.6**	202.3
From continuing operations			
Basic earnings per share	8	**133.5p**	136.2p
Diluted earnings per share	8	**132.5p**	135.3p
From continuing and discontinued operations			
Basic earnings per share	8	**134.2p**	134.7p
Diluted earnings per share	8	**133.2p**	133.8p
Interim dividend per share paid	9	**22.0p**	21.0p
Final dividend per share	9	**44.0p**	42.0p

Consolidated Statement of Comprehensive Income

FOR THE YEAR ENDED 31 JULY 2019

	2019 £ million	2018 £ million
Profit after tax	**201.4**	202.0
Other comprehensive income/(expense) that may be reclassified to income statement from continuing operations		
Currency translation gains	**0.4**	0.3
(Losses)/gains on cash flow hedging	**(6.0)**	4.4
Gains/(losses) on financial instruments classified as available for sale:		
Sovereign and central bank debt	**–**	0.6
Contingent consideration	**–**	(0.3)
Losses on financial instruments classified at fair value through other comprehensive income:		
Sovereign and central bank debt	**(0.1)**	–
Tax relating to items that may be reclassified	**1.1**	(1.3)
	(4.6)	3.7
Other comprehensive income/(expense) that will not be reclassified to income statement from continuing operations		
Defined benefit pension scheme gains	**1.9**	1.7
Tax relating to items that will not be reclassified	**(0.4)**	(0.4)
	1.5	1.3
Other comprehensive (expense)/income, net of tax from continuing operations	**(3.1)**	5.0
Total comprehensive income	**198.3**	207.0
Attributable to		
Non-controlling interests	**(0.2)**	(0.3)
Shareholders	**198.5**	207.3
	198.3	207.0

Consolidated Balance Sheet

AT 31 JULY 2019

	Note	**31 July 2019 £ million**	1 August 2018[1] £ million	31 July 2018 £ million
Assets				
Cash and balances at central banks		**1,106.4**	1,140.3	1,140.4
Settlement balances		**562.9**	512.1	512.2
Loans and advances to banks	10	**108.9**	140.1	140.2
Loans and advances to customers	11	**7,649.6**	7,239.3	7,297.5
Debt securities	12	**314.4**	320.4	320.6
Equity shares	13	**36.3**	32.1	32.1
Loans to money brokers against stock advanced		**42.5**	66.4	66.4
Derivative financial instruments	14	**30.1**	16.6	16.6
Intangible assets	15	**219.4**	201.3	201.3
Property, plant and equipment	16	**248.2**	226.1	226.1
Deferred tax assets	6	**52.2**	57.1	43.0
Prepayments, accrued income and other assets	17	**190.4**	186.8	187.1
Assets classified as held for sale	7	**–**	67.5	67.5
Total assets		**10,561.3**	10,206.1	10,251.0
Liabilities				
Settlement balances and short positions	18	**568.1**	543.1	543.1
Deposits by banks	19	**58.0**	55.2	55.2
Deposits by customers	19	**5,638.4**	5,497.2	5,497.2
Loans and overdrafts from banks	19	**519.3**	509.8	509.8
Debt securities in issue	19	**1,860.1**	1,773.4	1,773.4
Loans from money brokers against stock advanced		**14.3**	22.4	22.4
Derivative financial instruments	14	**20.6**	15.7	15.7
Current tax liabilities		**21.2**	17.4	17.4
Accruals, deferred income and other liabilities	17	**233.3**	249.6	249.6
Subordinated loan capital	20	**221.6**	217.9	217.9
Liabilities classified as held for sale	7	**–**	0.6	0.6
Total liabilities		**9,154.9**	8,902.3	8,902.3
Equity				
Called up share capital	21	**38.0**	38.0	38.0
Retained earnings		**1,392.5**	1,282.8	1,327.7
Other reserves		**(23.1)**	(16.2)	(16.2)
Total shareholders' equity		**1,407.4**	1,304.6	1,349.5
Non-controlling interests		**(1.0)**	(0.8)	(0.8)
Total equity		**1,406.4**	1,303.8	1,348.7
Total liabilities and equity		**10,561.3**	10,206.1	10,251.0

1 See notes 1 and 30.

Approved and authorised for issue by the Board of Directors on 24 September 2019 and signed on its behalf by:

MICHAEL N. BIGGS
CHAIRMAN

P. PREBENSEN
CHIEF EXECUTIVE

Registered number: 520241

Consolidated Statement of Changes in Equity

FOR THE YEAR ENDED 31 JULY 2019

				Other reserves							
	Called up share capital £ million	Share premium account £ million	Retained earnings £ million	Available for sale movements reserve £ million	FVOCI reserve £ million	Share-based payments reserve £ million	Exchange movements reserve £ million	Cash flow hedging reserve £ million	Total attributable to equity holders £ million	Non-controlling interests £ million	Total equity £ million
At 1 August 2017	38.0	307.8	906.6	0.7	–	(11.9)	(1.5)	(3.2)	1,236.5	(0.5)	1,236.0
Profit/(loss) for the year	–	–	202.3	–	–	–	–	–	202.3	(0.3)	202.0
Other comprehensive income	–	–	1.3	0.1	–	–	0.3	3.3	5.0	–	5.0
Total comprehensive income/(expense) for the year	–	–	203.6	0.1	–	–	0.3	3.3	207.3	(0.3)	207.0
Dividends paid	–	–	(91.0)	–	–	–	–	–	(91.0)	–	(91.0)
Shares purchased	–	–	–	–	–	(16.0)	–	–	(16.0)	–	(16.0)
Shares released	–	–	–	–	–	12.5	–	–	12.5	–	12.5
Other movements	–	–	–	–	–	(0.5)	–	–	(0.5)	–	(0.5)
Share premium cancellation	–	(307.8)	307.8	–	–	–	–	–	–	–	–
Income tax	–	–	0.7	–	–	–	–	–	0.7	–	0.7
At 31 July 2018	38.0	–	1,327.7	0.8	–	(15.9)	(1.2)	0.1	1,349.5	(0.8)	1,348.7
IFRS 9 transition (note 30)	–	–	(44.9)	(0.8)	0.8	–	–	–	(44.9)	–	(44.9)
At 1 August 2018	38.0	–	1,282.8	–	0.8	(15.9)	(1.2)	0.1	1,304.6	(0.8)	1,303.8
Profit/(loss) for the year	–	–	201.6	–	–	–	–	–	201.6	(0.2)	201.4
Other comprehensive income/(expense)	–	–	1.5	–	(0.1)	–	–	(4.5)	(3.1)	–	(3.1)
Total comprehensive income/(expense) for the year	–	–	203.1	–	(0.1)	–	–	(4.5)	198.5	(0.2)	198.3
Dividends paid (note 9)	–	–	(95.5)	–	–	–	–	–	(95.5)	–	(95.5)
Shares purchased	–	–	–	–	–	(11.0)	–	–	(11.0)	–	(11.0)
Shares released	–	–	–	–	–	10.9	–	–	10.9	–	10.9
Other movements	–	–	2.8	–	–	(2.2)	–	–	0.6	–	0.6
Share premium cancellation	–	–	–	–	–	–	–	–	–	–	–
Income tax	–	–	(0.7)	–	–	–	–	–	(0.7)	–	(0.7)
At 31 July 2019	**38.0**	**–**	**1,392.5**	**–**	**0.7**	**(18.2)**	**(1.2)**	**(4.4)**	**1,407.4**	**(1.0)**	**1,406.4**

Consolidated Cash Flow Statement

FOR THE YEAR ENDED 31 JULY 2019

	Note	2019 £ million	2018 £ million
Net cash inflow from operating activities	27(a)	**20.4**	306.0
Net cash (outflow)/inflow from investing activities			
Purchase of:			
Property, plant and equipment		**(4.9)**	(11.4)
Intangible assets – software		**(42.2)**	(33.0)
Subsidiaries and non-controlling interest	27(b)	**(3.6)**	(1.2)
Sale of:			
Discontinued operations and subsidiaries	27(c)	**87.6**	0.9
		36.9	(44.7)
Net cash inflow before financing activities		**57.3**	261.3
Financing activities			
Purchase of own shares for employee share award schemes		**(11.0)**	(16.0)
Equity dividends paid		**(95.5)**	(91.0)
Interest paid on subordinated loan capital and debt financing		**(14.2)**	(10.8)
Issuance of group bonds, net of transaction costs		**–**	248.6
Net (decrease)/increase in cash		**(63.4)**	392.1
Cash and cash equivalents at beginning of year		**1,251.7**	859.6
Cash and cash equivalents at end of year	27(d)	**1,188.3**	1,251.7

Company Balance Sheet

AT 31 JULY 2019

	Note	2019 £ million	2018 £ million
Fixed assets			
Intangible assets	15	**–**	–
Property, plant and equipment	16	**–**	–
Investments in subsidiaries	31	**287.0**	287.0
		287.0	287.0
Current assets			
Amounts owed by subsidiaries due within one year		**408.5**	415.2
Amounts owed by subsidiaries due after more than one year		**312.2**	312.0
Corporation tax receivable		**4.0**	3.7
Deferred tax assets	6	**1.4**	2.0
Other debtors		**7.8**	7.4
Other investments		**–**	0.2
Cash at bank		**0.2**	0.2
		734.1	740.7
Creditors: amounts falling due within one year			
Debt securities in issue	19	**1.8**	1.8
Provisions	17	**2.3**	2.2
Other creditors		**0.4**	0.8
Accruals		**8.5**	9.2
		13.0	14.0
Net current assets		**721.1**	726.7
Total assets less current liabilities		**1,008.1**	1,013.7
Creditors: amounts falling due after more than one year			
Debt securities in issue	19	**248.5**	247.9
Subordinated loan capital		**174.3**	174.1
Provisions	17	**2.5**	3.9
Net assets		**582.8**	587.8
Capital and reserves			
Share capital	21	**38.0**	38.0
Profit and loss account		**563.0**	565.7
Other reserves		**(18.2)**	(15.9)
Shareholders' funds		**582.8**	587.8

The Company reported a profit for the financial year ended 31 July 2019 of £88.3 million (2018: £48.7 million).

Approved and authorised for issue by the Board of Directors on 24 September 2019 and signed on its behalf by:

MICHAEL N. BIGGS
CHAIRMAN

P. PREBENSEN
CHIEF EXECUTIVE

Company Statement of Changes in Equity

FOR THE YEAR ENDED 31 JULY 2019

				Other reserves	
	Share capital £ million	Share premium account £ million	Profit and loss account £ million	Share-based payments reserve £ million	Shareholders' funds £ million
At 1 August 2017	38.0	307.8	298.6	(11.9)	632.5
Profit for the year	–	–	48.7	–	48.7
Other comprehensive income	–	–	1.3	–	1.3
Total comprehensive income for the year	–	–	50.0	–	50.0
Dividends paid	–	–	(91.0)	–	(91.0)
Shares purchased	–	–	–	(16.0)	(16.0)
Shares released	–	–	–	12.5	12.5
Share premium cancellation	–	(307.8)	307.8	–	–
Other movements	–	–	0.3	(0.5)	(0.2)
At 31 July 2018	38.0	–	565.7	(15.9)	587.8
Profit for the year	–	–	88.3	–	88.3
Other comprehensive income	–	–	1.5	–	1.5
Total comprehensive income for the year	–	–	89.8	–	89.8
Dividends paid (note 9)	–	–	(95.5)	–	(95.5)
Shares purchased	–	–	–	(11.0)	(11.0)
Shares released	–	–	–	10.9	10.9
Share premium cancellation	–	–	–	–	–
Other movements	–	–	3.0	(2.2)	0.8
At 31 July 2019	**38.0**	**–**	**563.0**	**(18.2)**	**582.8**

The Notes

1. SIGNIFICANT ACCOUNTING POLICIES

(A) REPORTING ENTITY

Close Brothers Group plc ("the company"), a public limited company incorporated and domiciled in the UK, together with its subsidiaries (collectively, "the group"), operates through five (2018: five) operating segments: Commercial, Retail, Property, Asset Management and Securities, and is primarily located within the UK.

The company financial statements ("the company accounts") have been prepared in compliance with United Kingdom Accounting Standards, including Financial Reporting Standard 102 ''The Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland'' (''FRS 102'') and the Companies Act 2006, under the provision of the Large and Medium-sized Companies and Groups (Accounts and Financial Instruments: Recognition and Measurement Reports) Regulations 2008 (SI 2008/410).

As permitted by FRS 102, the company has chosen to adopt IFRS 9 Financial Instruments where applicable and taken advantage of the disclosure exemptions available under that standard in relation to the presentation of a cash flow statement, share-based payments and related party transactions. Where required, equivalent disclosures are given in the consolidated financial statements of the group. The company has also taken advantage of the exemption in section 408 of the Companies Act 2006 not to present its company income statement and related notes.

(B) COMPLIANCE WITH INTERNATIONAL FINANCIAL REPORTING STANDARDS

The consolidated financial statements ("the consolidated accounts") have been prepared and approved by the directors in accordance with all relevant IFRSs as issued by the International Accounting Standards Board and interpretations issued by the IFRS Interpretations Committee endorsed by the EU.

STANDARDS ADOPTED DURING THE YEAR

The accounting policies applied this financial year are set out in this note and consistent with those of the previous financial year except in relation to the adoption of IFRS 9 Financial Instruments, which was effective from 1 August 2018. IFRS 9 replaces IAS 39 Financial Instruments: Recognition and Measurement. There are significant changes in the accounting for financial instruments, particularly with regards to impairment. The impact of the transition to IFRS 9 is set out in note 30.

In accordance with the requirements of IFRS 9, comparative information has not been restated and transitional adjustments have been accounted for through retained earnings at 1 August 2018, the date of initial application. The consolidated balance sheet and notes 11 and 22 include 1 August 2018 balances to aid comparability following the adoption of IFRS 9.

IFRS 9 includes an accounting policy choice to continue to apply hedge accounting under IAS 39 and the group elected to apply this accounting policy choice for the foreseeable future.

The group also adopted IFRS 15 Revenue from Contracts with Customers effective from 1 August 2018. IFRS 15 replaces IAS 18 Revenue and IAS 11 Construction Contracts and does not apply to financial instruments, lease contracts or insurance contracts which fall under the scope of other IFRSs. The standard introduces a new revenue recognition model which features a contract-based five-step analysis of transactions to determine whether, how much, and when revenue is recognised. The group's existing accounting policies comply with the requirements of the standard. The standard has no material impact on the group's financial statements.

FUTURE ACCOUNTING DEVELOPMENTS

IFRS 16 Leases is effective for the group from 1 August 2019. The standard replaces IAS 17 and introduces a new recognition model that recognises all leases on a lessee's balance sheet (subject to certain exemptions). Lessor accounting is largely unchanged. At the transition date of 1 August 2019, the group will recognise right of use assets and lease liabilities of approximately £50 million, largely in respect of leased properties previously accounted for as operating leases, with no impact on shareholders' equity. Following transition, a finance charge will be recognised on the lease liabilities and a depreciation charge on the right of use assets.

(C) BASIS OF PREPARATION

The consolidated and company accounts have been prepared under the historical cost convention, except for the revaluation of financial assets and liabilities held at fair value through profit or loss, financial assets held at fair value through other comprehensive income (2018: available for sale financial assets) and all derivative financial instruments ("derivatives").

The financial statements are prepared on a going concern basis as disclosed in the Directors' Report.

(D) CONSOLIDATION

SUBSIDIARIES

Subsidiaries are all entities over which the group has control. The group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Such power generally accompanies a shareholding of more than one half of the voting rights. Subsidiaries are fully consolidated from the date on which the group effectively obtains control. They are de-consolidated from the date that control ceases.

The acquisition method of accounting is used to account for the acquisition of subsidiaries. Under the acquisition method of accounting, with some limited exceptions, the assets, liabilities and contingent liabilities of a subsidiary are measured at their fair values at the date of acquisition. Any non-controlling interest is measured either at fair value or at the non-controlling interest's proportion of the net assets acquired. Acquisition related costs are accounted for as expenses when incurred, unless directly related to the issue of debt or equity securities. Any excess of the cost of acquisition over net assets is capitalised as goodwill. All intra-group balances, transactions, income and expenses are eliminated.

(E) DISCONTINUED OPERATIONS

The results of discontinued operations are shown as a single amount on the face of the consolidated income statement comprising the post-tax profit or loss of discontinued operations and the post-tax gain or loss recognised either on measurement to fair value less costs to sell or on the disposal of the discontinued operation. A discontinued operation is a CGU or a group of CGUs that either has been disposed of, or is classified as held for sale, and represents a separate major line of business or geographical area of operations, is part of a single coordinated plan to dispose of a separate major line of business or geographical area of operations or is a subsidiary acquired exclusively with a view to resale.

(F) FOREIGN CURRENCY TRANSLATION

For the company and those subsidiaries whose balance sheets are denominated in sterling, which is the company's functional and presentation currency, monetary assets and liabilities denominated in foreign currencies are translated into sterling at the closing rates of exchange at the balance sheet date. Foreign currency transactions are translated into sterling at the average rates of exchange over the year and exchange differences arising are taken to the consolidated income statement.

The Notes
continued

1. SIGNIFICANT ACCOUNTING POLICIES CONTINUED

The balance sheets of subsidiaries denominated in foreign currencies are translated into sterling at the closing rates. The income statements for these subsidiaries are translated at the average rates and exchange differences arising are taken to equity. Such exchange differences are reclassified to the consolidated income statement in the period in which the subsidiary is disposed of.

(G) REVENUE RECOGNITION

INTEREST INCOME

Interest on loans and advances made by the group, and fee income and expense and other direct costs relating to loan origination, restructuring or commitments are recognised in the consolidated income statement using the effective interest rate method.

The effective interest rate method applies a rate that discounts estimated future cash payments or receipts relating to a financial instrument to its net carrying amount. The cash flows take into account all contractual terms of the financial instrument including transaction costs and all other premiums or discounts but not future credit losses.

FEES AND COMMISSIONS

Where fees that have not been included within the effective interest rate method are earned on the execution of a significant act, such as fees arising from negotiating or arranging a transaction for a third party, they are recognised as revenue when that act has been completed. Fees and corresponding expenses in respect of other services are recognised in the consolidated income statement as the right to consideration or payment accrues through performance of services. In particular, upfront commissions paid in respect of managing, as opposed to originating, fund products are initially included within "accruals and deferred income" and then recognised as revenue as the services are provided. To the extent that fees and commissions are recognised in advance of billing they are included as accrued income or expense.

DIVIDENDS

Dividend income is recognised when the right to receive payment is established.

GAINS LESS LOSSES ARISING FROM DEALING IN SECURITIES

Net realised and unrealised gains arising from both buying and selling securities and from positions held in securities, including related interest income and dividends.

(H) ADJUSTED ITEMS

The consolidated income statement is presented on both a statutory and adjusted basis. The adjusted basis excludes exceptional items and amortisation of intangible assets on acquisition. Exceptional items are income and expense items that are material by size and/or nature and are non-recurring. The separate reporting of these items helps give an indication of the group's underlying performance. Amortisation of intangible assets on acquisition is excluded to present the performance of the group's acquired businesses consistent with its other businesses.

(I) FINANCIAL ASSETS AND LIABILITIES (EXCLUDING DERIVATIVES)

CLASSIFICATION AND MEASUREMENT

Financial assets are classified at initial recognition on the basis of the business model within which they are managed and their contractual cash flow characteristics. The classification categories are amortised cost, fair value through other comprehensive income ("FVOCI") and fair value through profit or loss ("FVTPL").

Financial assets that are held to collect contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Initial recognition is at fair value plus directly attributable transaction costs. Interest income is accounted for using the effective interest rate method.

Financial assets that are held to collect contractual cash flows and for subsequent sale, where the assets' cash flows represent solely payments of principal and interest, are classified at fair value through other comprehensive income. Directly attributable transaction costs are added to the initial fair value. Gains and losses arising from changes in fair value except when due to credit risk are recognised in other comprehensive income until the financial asset is either sold or matures, at which time the cumulative gain or loss is recognised in the income statement. Gains and losses arising from changes in fair value due to credit risk are recognised in the income statement.

Financial assets are classified at fair value through profit or loss where they do not meet the criteria to be measured at amortised cost or fair value through other comprehensive income or where they are designated at fair value through profit or loss to reduce an accounting mismatch. Financial assets at fair value through profit or loss are recognised at fair value. Transaction costs are not added to or deducted from the initial fair value, they are immediately recognised in profit or loss on initial recognition. Gains and losses that subsequently arise on changes in fair value are recognised in the income statement.

Financial liabilities are classified at initial recognition at amortised cost except for the following which are classified at fair value through profit or loss: derivatives; financial liabilities held for trading; and financial liabilities designated at fair value through profit or loss to eliminate an accounting mismatch.

Financial liabilities at amortised cost are measured at fair value less directly attributable transaction costs on initial recognition. Interest expense is accounted for using the effective interest rate method. Financial liabilities at fair value through profit or loss are measured at fair value on initial recognition. Transaction costs are not added to or deducted from the initial fair value, they are immediately recognised in profit or loss on initial recognition. Subsequent changes in fair value are recognised in the income statement except for financial liabilities designated at fair value through profit or loss, changes in fair value attributable to changes in credit risk are recognised in other comprehensive income.

The fair values of quoted financial assets or financial liabilities in active markets are based on bid or offer prices. If the market for a financial asset or financial liability is not active, or they relate to unlisted securities, the group establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, discounted cash flow analysis and other valuation techniques commonly used by market participants.

DERECOGNITION

Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or where the group has transferred substantially all risks and rewards of ownership. If substantially all the risks and rewards have been neither retained nor transferred the assets continue to be recognised to the extent of the group's continuing involvement. Financial liabilities are derecognised when they are extinguished.

MODIFICATIONS

The terms or cash flows of a financial asset or liability may be modified due to renegotiation or otherwise. If the terms or cash flows are substantially different to the original, then the financial asset or liability is derecognised and a new financial asset or liability is recognised at fair value. If the terms or cash flows are not substantially different to the original, then the financial asset carrying value is adjusted to reflect the present value of modified cash flows discounted at the original EIR.

The following was applied in the previous financial year under IAS 39.

CLASSIFICATION
The group classifies its financial assets into the following measurement categories: (i) financial assets held at fair value through profit or loss; (ii) loans and receivables; and (iii) available for sale. Financial liabilities are classified as either held at fair value through profit or loss, or at amortised cost using the effective interest method.

Management determines the classification of its financial assets and liabilities at initial recognition.

FINANCIAL ASSETS AND LIABILITIES HELD AT FAIR VALUE THROUGH PROFIT OR LOSS
This category has two sub-categories: financial assets and liabilities held for trading, and those designated at fair value through profit or loss at inception.

Financial assets and liabilities are classified as held for trading either if acquired principally for the purpose of selling in the short term, or they are derivatives (not in qualifying hedge relationships).

Financial assets and liabilities may be designated at fair value through profit or loss when:
- the designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring assets or liabilities on a different basis;
- a group of financial assets and/or liabilities is managed and its performance evaluated on a fair value basis; or
- the assets or liabilities include embedded derivatives and such derivatives are required to be recognised separately.

Financial assets and liabilities held at fair value through profit or loss are subsequently carried at fair value, with gains and losses arising from changes in fair value taken directly to the consolidated income statement.

LOANS AND RECEIVABLES
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and it is expected that substantially all of the initial investment will be recovered, other than because of credit deterioration. Loans and receivables are subsequently carried at amortised cost using the effective interest method and recorded net of provisions for impairment losses.

AVAILABLE FOR SALE
Available for sale assets are those non-derivative financial assets intended to be held for an indefinite period of time, which may be sold in response to liquidity requirements or changes in interest rates, exchange rates or equity prices. Available for sale financial assets are subsequently carried at fair value, with gains and losses arising from changes in fair value taken to a separate component of equity until the asset is sold, or is impaired, when the cumulative gain or loss is transferred to the consolidated income statement.

The fair values of quoted financial assets or financial liabilities in active markets are based on bid or offer prices. If the market for a financial asset or financial liability is not active, or they relate to unlisted securities, the group establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, discounted cash flow analysis and other valuation techniques commonly used by market participants.

DERECOGNITION
Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or where the group has transferred substantially all risks and rewards of ownership. If substantially all the risks and rewards have been neither retained nor transferred the assets continue to be recognised to the extent of the group's continuing involvement. Financial liabilities are derecognised when they are extinguished.

(J) IMPAIRMENT OF FINANCIAL ASSETS

EXPECTED CREDIT LOSSES
Expected credit losses are recognised for loans and advances to customers and banks, other financial assets held at amortised cost, financial assets measured at fair value through other comprehensive income, loan commitments and financial guarantee contracts. The impairment charge in the income statement includes the change in expected credit losses and fraud costs.

At initial recognition, a provision is recognised for 12 months of expected credit losses. These financial assets are considered to be in Stage 1. If a significant increase in credit risk since initial recognition occurs, with a 30-days past due backstop, a provision is made for the lifetime expected credit losses. These financial assets are considered to be in Stage 2. A financial asset will remain classified as Stage 2 until the credit risk has improved such that it no longer represents a significant increase since origination and will be returned to Stage 1.

When objective evidence exists that a financial asset is credit impaired, such as a credit default event has occurred or an unlikeness to pay indicator has been identified, with a 90-days past due backstop, the financial asset is considered to be in Stage 3.

Loans and advances to customers are written off against the related provisions when there are no reasonable expectations of further recovery following realisation of all associated collateral and available recovery actions against the customer. Subsequent recoveries of amounts previously written off decrease the amount of impairment losses recorded in the income statement.

The calculation of expected credit losses for loans and advances to customers, either on 12-month or lifetime basis, is based on the probability of default ("PD"), adjusted to reflect a range of forward-looking macroeconomic scenarios, the estimated exposure at default ("EAD") and the estimated loss given default ("LGD"). The EAD and LGD are adjusted to account for the impact of discounting using the effective interest rate. Some Stage 3 assets, mainly in the Commercial and Property segments, are subject to individual rather than collective assessment.

The PD represents the likelihood of a borrower defaulting on its financial obligation either over the next 12 months or over the remaining lifetime of the obligation. EAD is based on the amounts we expect to be owed at the time of default. LGD represents our expectation of the extent of loss on a defaulted exposure after taking into account cash recoveries including the value of collateral held.

The calculation of expected credit losses for receivables relating to operating lease assets and settlement balances is based on a simplified lifetime only expected credit loss approach.

By their nature, limitations in the Group's impairment models or input data may be identified through ongoing model monitoring and validation of models. In certain circumstances, management make appropriate adjustments to model calculated expected credit losses. These adjustments are based on management judgements, to ensure the expected credit loss provision adequately reflects the expected outcome. Management adjustments are actively monitored, reviewed and incorporated into future model development where applicable.

The Notes
continued

1. SIGNIFICANT ACCOUNTING POLICIES CONTINUED

The following was applied in the previous financial year under IAS 39.

The group assesses at each balance sheet date whether there is any objective evidence that a financial asset or group of financial assets classified as available for sale or loans and receivables is impaired. A financial asset or group of financial assets is impaired and an impairment loss incurred if there is objective evidence that an event or events since initial recognition of the asset have adversely affected the amount or timing of future cash flows from the asset.

FINANCIAL ASSETS AT AMORTISED COST

If there is objective evidence that an impairment loss on a financial asset or group of financial assets classified as loans and receivables has been incurred, the group measures the amount of the loss as the difference between the carrying amount of the asset or group of assets and the present value of estimated future cash flows from the asset or group of assets discounted at the effective interest rate of the instrument at initial recognition. Impairment losses are assessed individually for financial assets that are individually significant and individually or collectively for assets that are not individually significant. Individually assessed financial assets which are not considered impaired may also be included in collective assessment. In making collective assessment of impairment, financial assets are grouped into portfolios on the basis of similar risk characteristics.

For loans and receivables, the amount of the loss is measured as the difference between the loan's carrying amount and the present value of estimated future cash flows, excluding future credit losses that have not been incurred, discounted at the original effective interest rate. As the loan amortises over its life, the impairment loss may amortise. All impairment losses are reviewed at least at each reporting date. If subsequently the amount of the loss decreases as a result of a new event, the relevant element of the outstanding impairment loss is reversed. Interest on impaired financial assets is recognised at the original effective interest rate applied to the carrying amount as reduced by an allowance for impairment.

For loans that are not considered individually significant, the group adopts a formulaic approach which allocates a loss rate dependent on the overdue period. Loss rates are based on the discounted expected future cash flows and are regularly benchmarked against actual outcomes to ensure they remain appropriate.

FINANCIAL ASSETS CARRIED AT FAIR VALUE

When a decline in the fair value of a financial asset classified as available for sale has been recognised directly in equity and there is objective evidence that the asset is impaired, the cumulative loss is removed from equity and recognised in the consolidated income statement. The loss is measured as the difference between the amortised cost of the financial asset and its current fair value. Impairment losses on available for sale equity instruments are not reversed through the consolidated income statement but those on available for sale debt instruments are reversed if there is an increase in fair value that is objectively related to a subsequent event.

(K) SETTLEMENT ACCOUNTS

Settlement balance debtors and creditors are the amounts due to and from counterparties in respect of the group's market-making activities and are carried at amortised cost. The balances are short term in nature, do not earn interest and are recorded at the amount receivable or payable.

(L) LOANS TO AND FROM MONEY BROKERS AGAINST STOCK ADVANCED

Loans to money brokers against stock advanced is the cash collateral provided to these institutions for stock borrowing by the group's market-making activities and is carried at amortised cost. Interest is paid on the stock borrowed and earned on the cash deposits advanced. The stock borrowing to which the cash deposits relate is short term in nature and is recorded at the amount receivable. Loans from money brokers against stock collateral provided are recorded at the amount payable. Interest is paid on the loans.

(M) FINANCE LEASES, OPERATING LEASES AND HIRE PURCHASE CONTRACTS

A finance lease is a lease or hire purchase contract that transfers substantially all the risks and rewards incidental to ownership of an asset to the lessee. Finance leases are recognised as loans at an amount equal to the gross investment in the lease discounted at its implicit interest rate. Finance charges on finance leases are taken to income in proportion to the net funds invested.

Rental costs under operating leases and hire purchase contracts are charged to the consolidated income statement in equal instalments over the period of the leases. Rental income from operating leases is recognised in equal instalments over the period of the leases and included in other income in the consolidated income statement.

(N) SALE AND REPURCHASE AGREEMENTS AND OTHER SECURED LENDING AND BORROWINGS

Securities may be sold subject to a commitment to repurchase them. Such securities are retained on the consolidated balance sheet when substantially all the risks and rewards of ownership remain with the group. The transactions are treated as collateralised borrowing and the counterparty liability is included within loans and overdrafts from banks. Similar secured borrowing transactions, including securities lending transactions and collateralised short-term notes, are treated and presented in the same way. These secured financing transactions are initially recognised at fair value, and subsequently valued at amortised cost, using the effective interest rate method.

(O) SECURITISATION TRANSACTIONS

The group securitises its own financial assets via the sale of these assets to special purpose entities, which in turn issue securities to investors. All financial assets continue to be held on the group's consolidated balance sheet together with debt securities in issue recognised for the funding – see derecognition policy (i).

(P) OFFSETTING FINANCIAL INSTRUMENTS

Financial assets and financial liabilities are offset and the net amount presented on the consolidated balance sheet if, and only if, there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or to realise an asset and settle the liability simultaneously.

(Q) DERIVATIVES AND HEDGE ACCOUNTING

In general, derivatives are used to minimise the impact of interest, currency rate and equity price changes to the group's financial instruments. They are carried on the consolidated balance sheet at fair value which is obtained from quoted market prices in active markets, including recent market transactions and discounted cash flow models.

On acquisition, certain derivatives are designated as a hedge and the group formally documents the relationship between these derivatives and the hedged item. The group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivative is highly effective in offsetting changes in fair values or cash flows of hedged items. If a hedge was deemed partially ineffective but continues to qualify for hedge accounting, the amount of the ineffectiveness, taking into account the timing of the expected cash flows where relevant, would be recorded in the consolidated income statement. If the hedge is not, or has ceased to be, highly effective, the group discontinues hedge accounting.

For fair value hedges, changes in the fair value are recognised in the consolidated income statement, together with changes in the fair value of the hedged item. For cash flow hedges, the fair value gain or loss associated with the effective proportion of the cash flow hedge is recognised initially directly in equity and recycled to the consolidated income statement in the period when the hedged item affects income.

(R) INTANGIBLE ASSETS

Computer software (acquired and costs associated with development) and intangible assets on acquisition (excluding goodwill) are stated at cost less accumulated amortisation and provisions for impairment which are reviewed at least annually. Amortisation is calculated to write off their cost on a straight-line basis over the estimated useful lives as follows:

Computer software	3 to 5 years
Intangible assets on acquisition	8 to 20 years

Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill is assessed annually for impairment and carried at cost less any accumulated impairment.

(S) PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment is stated at cost less accumulated depreciation and provisions for impairment which are reviewed at least annually. Depreciation is calculated to write off their cost on a straight-line basis over their estimated useful lives as follows:

Long leasehold property	40 years
Short leasehold property	Over the length of the lease
Fixtures, fittings and equipment	3 to 5 years
Assets held under operating leases	1 to 20 years
Motor vehicles	5 years

(T) SHARE CAPITAL

SHARE ISSUE COSTS

Incremental costs directly attributable to the issue of new shares or options, including those issued on the acquisition of a business, are shown in equity as a deduction, net of tax, from the proceeds.

DIVIDENDS ON ORDINARY SHARES

Dividends on ordinary shares are recognised in equity in the period in which they are paid or, if earlier, approved by shareholders.

TREASURY SHARES

Where the company or any member of the group purchases the company's share capital, the consideration paid is deducted from shareholders' equity as treasury shares until they are cancelled. Where such shares are subsequently sold or reissued, any consideration received is included in shareholders' equity.

(U) EMPLOYEE BENEFITS

The group operates defined contribution pension schemes for eligible employees as well as a defined benefit pension scheme which is closed to new members and further accrual.

Under the defined contribution scheme the group pays fixed contributions into a fund separate from the group's assets. Contributions are charged in the consolidated income statement when they become payable.

The expected cost of providing pensions within the funded defined benefit scheme, determined on the basis of annual valuations using the projected unit method, is charged to the consolidated income statement. Actuarial gains and losses are recognised in full in the period in which they occur and recognised in other comprehensive income.

The retirement benefit obligation recognised in the balance sheet represents the present value of the defined benefit obligation, as adjusted for unrecognised past service cost, and as reduced by the fair value of scheme assets at the balance sheet date. Both the return on investment expected in the period and the expected financing cost of the liability, as estimated at the beginning of the period, are recognised in the results for the period. Any variances against these estimates in the year form part of the actuarial gain or loss. The assets of the scheme are held separately from those of the group in an independently managed fund.

(V) SHARE-BASED PAYMENTS TO EMPLOYEES

At 31 July 2019, the group operates four share-based award schemes: the Deferred Share Awards ("DSA") scheme, the Long Term Incentive Plan ("LTIP"), the Share Matching Plan ("SMP"), and the HMRC approved Save As You Earn ("SAYE") scheme.

The costs of the awards granted under the DSA scheme are based on the salary of the individual at the time the award is made. The value of the share award at the grant date is charged to the group's consolidated income statement in the year to which the award relates.

The costs of LTIP, SMP and SAYE are based on the fair value of awards on the date of grant. Fair values of share-based awards are determined using the Black-Scholes pricing model, with the exception of fair values for market-based performance conditions, which are determined using Monte Carlo simulation. Both models take into account the exercise price of the option, the current share price, the risk-free interest rate, the expected volatility of the company's share price over the life of the option award and other relevant factors. For non-market-based performance conditions, vesting conditions are not taken into account when measuring fair value, but are reflected by adjusting the number of shares in each award such that the amount recognised reflects the number that are expected to, and then actually do, vest. The fair value is expensed in the consolidated income statement on a straight-line basis over the vesting period, with a corresponding credit to the share-based payments reserve. At the end of the vesting period, or upon exercise, lapse or forfeit if earlier, this credit is transferred to retained earnings. Further information on the group's schemes is provided in note 26 and in the Directors' Remuneration Report.

(W) PROVISIONS AND CONTINGENT LIABILITIES

Provisions are recognised in respect of present obligations arising from past events where it is probable that outflows of resources will be required to settle the obligations and they can be reliably estimated.

Contingent liabilities are possible obligations whose existence depends on the outcome of uncertain future events or those present obligations where the outflows of resources are uncertain or cannot be measured reliably. Contingent liabilities are not recognised in the financial statements but are disclosed unless they are deemed remote.

(X) TAXES, INCLUDING DEFERRED TAXES

Current tax is the expected tax payable on the taxable profit for the year. Taxable profit differs from net profit as reported in the consolidated income statement because it excludes items of income and expense that are taxable or deductible in other years and items that are never taxable or deductible. The group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

To enable the tax charge to be based on the profit for the year, deferred tax is provided in full on temporary timing differences, at the rates of tax expected to apply when these differences crystallise. Deferred tax assets are recognised only to the extent that it is

The Notes
continued

1. SIGNIFICANT ACCOUNTING POLICIES CONTINUED

probable that sufficient taxable profits will be available against which temporary differences can be set. Deferred tax liabilities are offset against deferred tax assets when there is both a legal right to set off and an intention to settle on a net basis.

(Y) CASH AND CASH EQUIVALENTS

For the purposes of the cash flow statement, cash and cash equivalents comprises cash and demand deposits with banks, together with short-term highly liquid investments that are readily convertible to known amounts of cash.

(Z) SEGMENTAL REPORTING

Operating segments are reported in a manner consistent with the internal reporting provided to the Executive Committee, which is considered the group's chief operating decision maker. All transactions between business segments are conducted on an arm's length basis, with intra-segment revenue and costs being eliminated on consolidation. Income and expenses directly associated with each segment are included in determining business segment performance.

2. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The reported results of the group are sensitive to the accounting policies, assumptions and estimates that underlie the preparation of its financial statements. UK company law and IFRS require the directors, in preparing the group's financial statements, to select suitable accounting policies, apply them consistently and make judgements and estimates that are reasonable. The group's estimates and assumptions are based on historical experience and expectations of future events and are reviewed on an ongoing basis.

CRITICAL ACCOUNTING JUDGEMENTS

In the application of the group's accounting policies, which are described in note 1, judgements that are considered by the board to have the most significant effect on the amounts in the financial statements are as follows.

REVENUE RECOGNITION

Interest income is recognised using the effective interest rate method, which applies a rate that discounts estimated future cash payments or receipts relating to a financial instrument to their net carrying amount. The estimated future cash flows take into account all contractual terms and expected behavioural life of the financial instrument including transaction fees and costs and all other premiums or discounts but not future credit losses. Other fees and commissions are recognised as services are provided or on completion of the execution of a significant act.

Judgement is required in determining the fees and costs which are integral to the yield and recognised as interest income and in determining the period over which to recognise non-interest income.

The critical accounting judgements below are new this financial year following the adoption of IFRS 9.

At 31 July 2019 the group's expected credit loss provision was £104.3 million (1 August 2018: £97.3 million). The calculation of the group's expected credit loss provision under IFRS 9 requires the group to make a number of judgements, assumptions and estimates. The most significant are set out below.

SIGNIFICANT INCREASE IN CREDIT RISK

Assets are transferred from Stage 1 to Stage 2 when there has been a significant increase in credit risk since initial recognition. The assessment is unbiased, probability weighted and uses forward-looking information. The group uses a multifactor approach based on quantitative measures and qualitative indicators to help make such an assessment. Quantitative measures are changes in PD or credit score since origination and qualitative indicators include forbearance and watch list processes. As a backstop, all financial assets that are 30 days past due are considered to have experienced a significant increase in credit risk.

The assessment of whether a significant increase in credit risk has occurred requires judgement. The use of different trigger points may have a material impact upon the size of the expected credit loss provision. The Group monitors the effectiveness of the multifactor approach on an ongoing basis.

DEFINITION OF DEFAULT

The PD of loans and advances to customers is an important assumption to the measurement of expected credit losses and as a result the definition of default is a key judgement. Loans and advances to customers are considered defaulted when the borrower is in breach of contract, is bankrupt, or experiences other significant financial difficulties which are expected to have a detrimental impact on their ability to pay interest or principal on the loan. This includes events such as administration; insolvency; repossession of assets and voluntary termination or surrender. As a backstop, all financial assets that are 90 days past due are considered as defaulted.

The critical accounting judgement below relates to the previous financial year under IAS 39.

LOAN IMPAIRMENT PROVISIONS

Loan impairment provisions are made if there is objective evidence of impairment as a result of one or more subsequent events regarding a significant loan or a portfolio of loans. Determining whether such objective evidence has arisen requires judgement.

KEY SOURCES OF ESTIMATION UNCERTAINTY

At the balance sheet date, the directors consider that expected credit loss provisions are a key source of estimation uncertainty which, depending on a range of factors, could result in a material adjustment to the carrying amounts of assets and liabilities in the next financial year.

The critical accounting estimate below is new this financial year following the adoption of IFRS 9.

EXPECTED CREDIT LOSSES

The accuracy of the expected credit loss calculation would be impacted by unanticipated changes to model assumptions which differ from actual outcomes and movements in the macroeconomic scenarios or weightings.

FORWARD-LOOKING INFORMATION

IFRS 9 requires the incorporation of forward-looking macroeconomic information that is reasonable and supportable. To capture the effect of changes to the economic environment, the calculation of expected credit losses incorporates forward-looking information and assumptions linked to economic variables that impact losses in each portfolio. Externally sourced forecast economic data and scenarios are used to project potential credit conditions for each portfolio. The introduction of macroeconomic information introduces additional volatility to provisions but through the cycle expectations remain unchanged.

Economic scenarios are assigned a probability weighting using a combination of quantitative analysis and expert judgement. Six different projected economic scenarios are currently considered to cover a range of possible outcomes, reflecting upside and downside relative to the baseline and forecast economic conditions. The economic scenarios are generated to capture a range of possible economic outcomes to facilitate the calculation of unbiased and probability-weighted expected credit losses.

Weighted assumptions are aligned to the forward-looking outlook. The impact varies across the group's lending businesses because of the sensitivity of each portfolio to specific macroeconomic variables.

A committee including the group and business chief executive officer, group chief risk officer, chief credit risk officer, group finance director and head of treasury meets quarterly, to review and, if appropriate, agree changes to the economic scenarios and probability weighting assigned to the economic scenario.

The table below shows the key UK economic assumptions within each of the scenarios, and the weighting applied to each at 31 July 2019. The numbers shown are an average over the five-year period from 2019 to 2023 and are not necessarily representative of peak to trough movements. There has been no significant change to the group's baseline economic assumptions included in the IFRS 9 models over the course of the year. However, during the first half of the year the group reduced the weightings to the base case from 60% to 40% and the upside strong from 15% to 5% with a corresponding increase to the downside scenario weightings. The range of scenarios and weightings selected and applied continues to cover a broad range of potential outcomes, reflecting the current political and macroeconomic uncertainty in the UK.

The expected credit loss provision is sensitive to judgement and estimations made with regard to the selection and weighting of multiple macroeconomic scenarios. As a result, management has assessed and considered the sensitivity of the provision by recalculating the expected credit loss provision under the upside strong and downside protracted scenarios described below for selected portfolios, applying a 100% weighting to each scenario in turn. The change in provision is driven by the movement in PD under each scenario, and resulting impact on stage allocation as well as the measurement of the resulting provision.

Based on this analysis, application of 100% weighting to the upside strong scenario would decrease the expected credit loss by £5.0 million whilst application to the downside protracted scenario would increase the expected credit loss by £8.0 million driven by changes in PDs and stage allocation of the selected portfolios.

This sensitivity analysis excludes expected credit loss provisions and loans and advances to customers in Stage 3 because the measurement of expected credit losses in this population is considered more sensitive to credit factors specific to the borrower than macroeconomic scenarios.

In addition to the above, the group has considered a separate LGD sensitivity to reflect the potential impact of a fall in collateral values on the Property Finance loan book. Increasing the LGD by 20% for relevant loans and advances to customers in Stages 1, 2 and 3, would result in an increase in the expected credit loss provision at 31 July 2019 of £14.9 million.

When performing sensitivity analysis there is a high degree of estimation uncertainty. On this basis 100% weighted expected credit loss provisions presented for the upside and downside scenarios and the specific Property Finance LGD sensitivity should not be taken to represent the lower or upper range of possible and actual expected credit loss outcomes. The recalculated ECL for each of the scenarios should be read in the context of the sensitivity analysis as a whole and in conjunction with the narrative disclosures provided in note 28. The modelled impact presented is based on gross loans and advances to customers at 31 July 2019, it does not incorporate future changes relating to performance, growth or credit risk.

	Baseline	**Upside (exceptionally strong)**	**Upside (strong)**	**Downside (mild)**	**Downside (moderate)**	**Downside (protracted)**
At 31 July 2019						
UK GDP Growth	**1.5%**	**2.4%**	**2.1%**	**1.2%**	**0.8%**	**0.3%**
UK Unemployment	**4.7%**	**3.3%**	**3.7%**	**5.3%**	**6.4%**	**7.2%**
HPI Growth	**1.8%**	**4.7%**	**3.7%**	**0.8%**	**(1.1%)**	**(3.0%)**
BoE Base Rate	**1.1%**	**1.7%**	**1.5%**	**0.6%**	**0.2%**	**0.1%**
Weighting	**40%**	**0%**	**5%**	**40%**	**10%**	**5%**

	Baseline	Upside (exceptionally strong)	Upside (strong)	Downside (mild)	Downside (moderate)	Downside (protracted)
At 1 August 2018						
UK GDP Growth	1.6%	2.6%	2.3%	1.3%	0.8%	0.3%
UK Unemployment	4.9%	3.4%	3.9%	5.6%	6.6%	7.4%
HPI Growth	2.1%	5.1%	4.1%	1.1%	(1.0%)	(2.7%)
BoE Base Rate	1.3%	1.7%	1.4%	0.6%	0.2%	0.1%
Weighting	**60%**	**0%**	**15%**	**20%**	**5%**	**0%**

The Notes
continued

2. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS CONTINUED

The critical accounting estimate below relates to the previous financial year under IAS 39.

LOAN IMPAIRMENT PROVISIONS

At the balance sheet date, the directors consider that loan impairment provisions are a key source of estimation uncertainty which, depending on a range of factors such as changes in the economic environment in the UK, could result in a material adjustment to the carrying amounts of assets and liabilities in the next financial year.

Loan impairment provisions represent management's estimate of the losses incurred in the loan portfolios at the balance sheet date. Individual impairment losses are determined as the difference between the carrying value and the present value of estimated future cash flows, discounted at the loans' original effective interest rate. Impairment losses determined on a portfolio basis are calculated using a formulaic approach which allocates a loss rate dependent on the overdue period. Loss rates are based on the discounted expected future cash flows and are regularly benchmarked against actual outcomes to ensure they remain appropriate.

Estimating the amount and timing of future recoveries involves significant judgement, and considers the level of arrears as well as the assessment of matters such as future economic conditions and the value of collateral. At 31 July 2018, gross impaired loans were £131.0 million against which a £39.1 million provision was recorded. A 10% increase or decrease in expected future recoveries in respect of these impaired loans would decrease or increase provisions respectively by £9.2 million.

3. SEGMENTAL ANALYSIS

The directors manage the group by class of business and present the segmental analysis on that basis. The group's activities are presented in five (2018: five) operating segments: Commercial, Retail, Property, Asset Management and Securities.

In the segmental reporting information that follows, Group consists of central functions as well as various non-trading head office companies and consolidation adjustments and is presented in order that the information presented reconciles to the consolidated income statement. The Group balance sheet primarily includes treasury assets and liabilities comprising cash and balances at central banks, debt securities, customer deposits and other borrowings.

Divisions continue to charge market prices for the limited services rendered to other parts of the group. Funding charges between segments take into account commercial demands. More than 90% of the group's activities, revenue and assets are located in the UK.

	Banking						
	Commercial £ million	Retail £ million	Property £ million	Asset Management £ million	Securities £ million	Group £ million	Total £ million
Summary income statement for the year ended 31 July 2019							
Net interest income/(expense)	**176.7**	**199.8**	**129.8**	**0.1**	**(0.7)**	**–**	**505.7**
Non-interest income	**73.2**	**23.4**	**(0.3)**	**120.3**	**94.1**	**–**	**310.7**
Operating income	**249.9**	**223.2**	**129.5**	**120.4**	**93.4**	**–**	**816.4**
Administrative expenses	**(128.6)**	**(113.9)**	**(30.2)**	**(96.6)**	**(71.7)**	**(24.9)**	**(465.9)**
Depreciation and amortisation	**(11.5)**	**(11.6)**	**(4.7)**	**(1.9)**	**(1.7)**	**(0.1)**	**(31.5)**
Impairment losses on financial assets	**(23.3)**	**(25.2)**	**0.1**	**(0.1)**	**–**	**–**	**(48.5)**
Total operating expenses	**(163.4)**	**(150.7)**	**(34.8)**	**(98.6)**	**(73.4)**	**(25.0)**	**(545.9)**
Adjusted operating profit/(loss)[1]	**86.5**	**72.5**	**94.7**	**21.8**	**20.0**	**(25.0)**	**270.5**
Amortisation of intangible assets on acquisition	**(1.6)**	**(0.3)**	**–**	**(3.9)**	**–**	**–**	**(5.8)**
Operating profit/(loss) before tax from continuing operations	**84.9**	**72.2**	**94.7**	**17.9**	**20.0**	**(25.0)**	**264.7**
Operating profit before tax from discontinued operations	**–**	**0.8**	**–**	**–**	**–**	**–**	**0.8**
Operating profit/(loss) before tax	**84.9**	**73.0**	**94.7**	**17.9**	**20.0**	**(25.0)**	**265.5**
External operating income/(expense)	**300.8**	**264.6**	**158.1**	**120.5**	**93.4**	**(121.0)**	**816.4**
Inter segment operating (expense)/income	**(50.9)**	**(41.4)**	**(28.6)**	**(0.1)**	**–**	**121.0**	**–**
Segment operating income	**249.9**	**223.2**	**129.5**	**120.4**	**93.4**	**–**	**816.4**

1 Adjusted operating profit/(loss) is stated before amortisation of intangible assets on acquisition, profit from discontinued operations and tax.

	Banking						
	Commercial £ million	Retail £ million	Property £ million	Asset Management £ million	Securities £ million	Group[2] £ million	Total £ million
Balance sheet information at 31 July 2019							
Total assets[1]	**3,211.7**	**2,810.7**	**1,847.6**	**115.9**	**723.8**	**1,851.6**	**10,561.3**
Total liabilities	**–**	**–**	**–**	**59.1**	**652.6**	**8,443.2**	**9,154.9**

1 Total assets for the Banking operating segments comprise the loan book and operating lease assets only.
2 Balance sheet includes £1,856.2 million assets and £8,533.6 million liabilities attributable to the Banking division primarily comprising the treasury balances described in the second paragraph of this note.

Equity is allocated across the group as set out below. Banking division equity, which is managed as a whole rather than on a segmental basis, reflects loan book and operating lease assets of £7,870.0 million, in addition to assets and liabilities of £1,856.2 million and £8,533.6 million respectively primarily comprising treasury balances which are included within the Group column above.

	Banking £ million	Asset Management £ million	Securities £ million	Group £ million	Total £ million
Equity	**1,192.6**	**56.8**	**71.2**	**85.8**	**1,406.4**

	Banking						
	Commercial	Retail	Property	Asset Management	Securities	Group	Total
Other segmental information for the year ended 31 July 2019							
Employees (average number)[1]	**1,117**	**1,048**	**180**	**672**	**274**	**64**	**3,355**

1 Banking segments are inclusive of a central function headcount allocation.

	Banking						
	Commercial £ million	Retail £ million	Property £ million	Asset Management £ million	Securities £ million	Group £ million	Total £ million
Summary income statement for the year ended 31 July 2018							
Net interest income/(expense)	160.9	195.9	129.8	0.1	(0.7)	0.1	486.1
Non-interest income	64.6	29.6	0.2	115.4	109.8	0.1	319.7
Operating income	225.5	225.5	130.0	115.5	109.1	0.2	805.8
Administrative expenses	(124.2)	(109.5)	(27.2)	(90.6)	(79.2)	(24.6)	(455.3)
Depreciation and amortisation	(8.0)	(9.7)	(3.9)	(1.8)	(1.8)	–	(25.2)
Impairment losses on loans and advances	(17.2)	(25.2)	(4.3)	–	–	–	(46.7)
Total operating expenses	(149.4)	(144.4)	(35.4)	(92.4)	(81.0)	(24.6)	(527.2)
Adjusted operating profit/(loss)[1]	76.1	81.1	94.6	23.1	28.1	(24.4)	278.6
Amortisation of intangible assets on acquisition	(1.6)	(0.3)	–	(5.5)	–	–	(7.4)
Operating profit/(loss) before tax from continuing operations	74.5	80.8	94.6	17.6	28.1	(24.4)	271.2
Operating loss before tax from discontinued operations	–	(3.0)	–	–	–	–	(3.0)
Operating profit/(loss) before tax	74.5	77.8	94.6	17.6	28.1	(24.4)	268.2
External operating income/(expense)	270.7	265.3	154.4	115.6	109.1	(109.3)	805.8
Inter segment operating (expense)/income	(45.2)	(39.8)	(24.4)	(0.1)	–	109.5	–
Segment operating income	225.5	225.5	130.0	115.5	109.1	0.2	805.8

1 Adjusted operating profit/(loss) is stated before amortisation of intangible assets on acquisition, loss from discontinued operations and tax.

The Notes
continued

3. SEGMENTAL ANALYSIS CONTINUED

	Banking			Asset Management £ million	Securities £ million	Group[2] £ million	Total £ million
	Commercial £ million	Retail £ million	Property £ million				
Balance sheet information at 31 July 2018							
Total assets[1]	2,982.4	2,686.4	1,827.5	119.4	711.4	1,923.9	10,251.0
Total liabilities	–	–	–	63.9	640.3	8,198.1	8,902.3

1 Total assets for the Banking operating segments comprise the loan book and operating lease assets only.
2 Balance sheet includes £1,915.0 million assets and £8,278.6 million liabilities attributable to the Banking division primarily comprising the treasury balances described in the second paragraph of this note.

	Banking £ million	Asset Management £ million	Securities £ million	Group £ million	Total £ million
Equity[1]	1,132.7	55.5	71.1	89.4	1,348.7

1 Equity of the Banking division reflects loan book and operating lease assets of £7,496.3 million, in addition to assets and liabilities of £1,915.0 million and £8,278.6 million respectively primarily comprising treasury balances which are included within the Group column in the balance sheet information above.

	Banking			Asset Management	Securities	Group	Total
	Commercial	Retail	Property				
Other segmental information for the year ended 31 July 2018							
Employees (average number)[1]	1,046	1,079	146	647	262	61	3,241

1 Banking segments are inclusive of a central function headcount allocation.

4. OPERATING PROFIT BEFORE TAX

	2019 £ million	2018 £ million
Interest income		
Cash and balances at central banks	**6.2**	4.0
Loans and advances to banks	**0.5**	0.3
Loans and advances to customers	**623.1**	594.4
Other interest income	**5.8**	2.3
	635.6	601.0
Interest expense		
Deposits by banks	**(0.1)**	(0.2)
Deposits by customers	**(76.0)**	(67.8)
Borrowings	**(44.6)**	(41.7)
Other interest expense	**(9.2)**	(5.2)
	(129.9)	(114.9)
Net interest income	**505.7**	486.1

	2019 £ million	2018 £ million
Fee and commission income		
Banking	**93.6**	87.8
Asset Management	**120.3**	116.3
Securities	**11.0**	9.2
	224.9	213.3
Fee and commission expense	**(19.2)**	(13.7)
Net fee and commission income	**205.7**	199.6

Fee income and expense (other than amounts calculated using the effective interest rate method) on financial instruments that are not at fair value through profit or loss were £93.6 million (2018: £87.8 million) and £17.1 million (2018: £11.5 million) respectively.

Fee income and expense arising from trust and other fiduciary activities amounted to £120.3 million (2018: £116.3 million) and £1.6 million (2018: £1.7 million) respectively.

	2019 £ million	2018 £ million
Other income		
Operating lease assets rental income	**64.4**	56.3
Other	**13.0**	8.8
	77.4	65.1

	2019 £ million	2018 £ million
Administrative expenses		
Staff costs:		
Wages and salaries	**241.3**	247.0
Social security costs	**34.6**	35.9
Share-based awards	**3.7**	6.0
Pension costs	**12.8**	11.2
	292.4	300.1
Depreciation and amortisation	**31.5**	25.2
Other administrative expenses	**173.5**	155.2
	497.4	480.5

5. INFORMATION REGARDING THE AUDITOR

	2019 £ million	2018 £ million
Fees payable		
Audit of the company's annual accounts	**0.2**	0.2
Audit of the company's subsidiaries pursuant to legislation	**1.2**	1.5
Audit related services	**0.5**	0.3
Other services	**0.1**	0.2
	2.0	2.2

The auditor of the group was PricewaterhouseCoopers LLP (2018: PricewaterhouseCoopers LLP).

The Notes
continued

6. TAXATION

	2019 £ million	2018 £ million
Tax charged/(credited) to the income statement		
Current tax:		
UK corporation tax	**59.4**	64.7
Foreign tax	**1.3**	1.5
Adjustments in respect of previous years	**(0.9)**	(2.3)
	59.8	63.9
Deferred tax:		
Deferred tax charge for the current year	**3.7**	1.1
Adjustments in respect of previous years	**0.9**	2.0
	64.4	67.0
Tax on items not charged/(credited) to the income statement		
Current tax relating to:		
Share-based payments	**(0.1)**	(0.3)
Deferred tax relating to:		
Cash flow hedging	**(1.5)**	1.1
Defined benefit pension scheme	**0.4**	0.4
Financial instruments classified as available for sale	**–**	0.2
Share-based payments	**0.8**	(0.4)
Currency translation gains	**0.4**	–
Acquisitions	**0.2**	–
	0.2	1.0
Reconciliation to tax expense		
UK corporation tax for the year at 19.0% (2018: 19.0%) on operating profit	**50.3**	51.5
Effect of different tax rates in other jurisdictions	**(0.2)**	(0.2)
Disallowable items and other permanent differences	**0.3**	1.1
Banking surcharge	**14.0**	15.1
Deferred tax impact of (increased)/decreased tax rates	**–**	(0.2)
Prior year tax provision	**–**	(0.3)
	64.4	67.0

The standard UK corporation tax rate for the financial year is 19.0% (2018: 19.0%). However, an additional 8% surcharge applies to banking company profits as defined in legislation. The effective tax rate of 24.3% (2018: 24.7%) is above the UK corporation tax rate primarily due to the surcharge applying to most of the group's profits.

Movements in deferred tax assets and liabilities were as follows:

	Capital allowances £ million	Pension scheme £ million	Share-based payments and deferred compensation £ million	Impairment losses £ million	Cash flow hedging £ million	Intangible assets £ million	Other £ million	Total £ million
Group								
At 1 August 2017	42.6	(0.8)	9.5	0.5	1.1	(5.4)	(0.1)	47.4
(Charge)/credit to the income statement	(4.2)	0.1	(0.3)	–	–	1.3	–	(3.1)
Charge to other comprehensive income	–	(0.4)	–	–	(1.1)	–	(0.2)	(1.7)
Credit to equity	–	–	0.4	–	–	–	–	0.4
Acquisitions	–	–	–	–	–	–	–	–
At 31 July 2018	38.4	(1.1)	9.6	0.5	–	(4.1)	(0.3)	43.0
IFRS 9 transition	–	–	–	14.1	–	–	–	14.1
At 1 August 2018	38.4	(1.1)	9.6	14.6	–	(4.1)	(0.3)	57.1
(Charge)/credit to the income statement	(3.3)	0.1	(0.5)	(1.9)	–	1.0	–	(4.6)
(Charge)/credit to other comprehensive income	(0.4)	(0.4)	–	–	1.5	–	–	0.7
Charge to equity	–	–	(0.8)	–	–	–	–	(0.8)
Acquisitions	–	–	–	–	–	(0.2)	–	(0.2)
At 31 July 2019	**34.7**	**(1.4)**	**8.3**	**12.7**	**1.5**	**(3.3)**	**(0.3)**	**52.2**

	Capital allowances £ million	Pension scheme £ million	Share-based payments and deferred compensation £ million	Total £ million
Company				
At 1 August 2017	0.2	(0.8)	3.2	2.6
Credit/(charge) to the income statement	–	0.1	(0.3)	(0.2)
Charge to statement of recognised gains and losses	–	(0.4)	–	(0.4)
At 31 July 2018	0.2	(1.1)	2.9	2.0
Credit/(charge) to the income statement	–	0.1	(0.3)	(0.2)
Charge to statement of recognised gains and losses	–	(0.4)	–	(0.4)
At 31 July 2019	**0.2**	**(1.4)**	**2.6**	**1.4**

As the group has been and is expected to continue to be consistently profitable, the full deferred tax assets have been recognised.

7. DISCONTINUED OPERATIONS AND NON-CURRENT ASSETS HELD FOR SALE

On 1 January 2019, the group completed the sale of Close Brothers Retail Finance, which provides unsecured retail point of sale finance to consumers, to Klarna Bank AB. The transaction fulfilled the requirements of IFRS 5 to be classified as "discontinued operations" in the consolidated income statement.

The net assets of Close Brothers Retail Finance on 1 January 2019, the date of disposal, was £80.9 million, comprising largely of loans and advances to customers. In the 31 July 2018 consolidated balance sheet, net assets of £66.9 million relating to Close Brothers Retail Finance were presented as "held for sale". No impairment has been recognised in relation to these net assets in the year.

RESULTS OF DISCONTINUED OPERATIONS

	2019 £ million	2018 £ million
Operating income	**3.7**	6.6
Operating expenses	**(4.2)**	(7.2)
Impairment losses on financial assets	**(1.6)**	(2.3)
Operating loss before tax	**(2.1)**	(2.9)
Tax	**0.5**	0.8
Impairment of plant, property and equipment and intangible assets	**–**	(0.1)
Loss after tax	**(1.6)**	(2.2)
Profit on disposal of discontinued operations, net of tax	**2.7**	–
Profit/(loss) from discontinued operations	**1.1**	(2.2)

The Notes
continued

7. DISCONTINUED OPERATIONS AND NON-CURRENT ASSETS HELD FOR SALE CONTINUED

ASSETS AND LIABILITIES HELD FOR SALE

The major classes of assets and liabilities classified as held for sale are as follows:

	2019 £ million	2018 £ million
Balance sheet		
Intangible assets	–	0.9
Loans and advances to customers	–	66.2
Other assets	–	0.4
Total assets classified as held for sale	–	67.5
Other liabilities	–	0.6
Total liabilities classified as held for sale	–	0.6

CASH FLOW FROM DISCONTINUED OPERATIONS

	2019 £ million	2018 £ million
Net cash flow from operating activities	**(16.1)**	(31.9)
Net cash flow from investing activities	**(0.3)**	(0.4)

8. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the profit attributable to shareholders and the number of basic weighted average shares. When calculating the diluted earnings per share, the weighted average number of shares in issue is adjusted for the effects of all dilutive share options and awards.

	2019	2018
Continuing operations		
Basic	**133.5p**	136.2p
Diluted	**132.5p**	135.3p
Adjusted basic[1]	**136.7p**	140.2p
Adjusted diluted[1]	**135.7p**	139.3p
Continuing and discontinued operations		
Basic	**134.2p**	134.7p
Diluted	**133.2p**	133.8p

1 Excludes amortisation of intangible assets on acquisition and their tax effects.

	2019 £ million	2018 £ million
Profit attributable to shareholders	**201.6**	202.3
Less profit/(loss) from discontinued operations, net of tax	**1.1**	(2.2)
Profit attributable to shareholders on continuing operations	**200.5**	204.5
Adjustments:		
Amortisation of intangible assets on acquisition	**5.8**	7.4
Tax effect of adjustments	**(1.0)**	(1.3)
Adjusted profit attributable to shareholders on continuing operations	**205.3**	210.6

	2019 million	2018 million
Average number of shares		
Basic weighted	**150.2**	150.2
Effect of dilutive share options and awards	**1.1**	1.0
Diluted weighted	**151.3**	151.2

9. DIVIDENDS

	2019 £ million	2018 £ million
For each ordinary share		
Final dividend for previous financial year paid in November 2018: 42.0p (2017: 40.0p)	**62.7**	59.7
Interim dividend for current financial year paid in April 2019: 22.0p (2018: 21.0p)	**32.8**	31.3
	95.5	91.0

A final dividend relating to the year ended 31 July 2019 of 44.0p, amounting to an estimated £65.7 million, is proposed. This final dividend, which is due to be paid on 26 November 2019 to shareholders on the register at 11 October 2019, is not reflected in these financial statements.

10. LOANS AND ADVANCES TO BANKS

	On demand £ million	Within three months £ million	Between three months and one year £ million	Between one and two years £ million	Between two and five years £ million	Total £ million
At 31 July 2019	**93.4**	**0.4**	**1.9**	**10.3**	**2.9**	**108.9**
At 31 July 2018	125.5	0.5	9.2	2.5	2.5	140.2

11. LOANS AND ADVANCES TO CUSTOMERS

	On demand £ million	Within three months £ million	Between three months and one year £ million	Between one and two years £ million	Between two and five years £ million	After more than five years £ million	Impairment provisions £ million	Total £ million
At 31 July 2019	**80.7**	**2,288.8**	**2,381.0**	**1,332.0**	**1,556.3**	**115.1**	**(104.3)**	**7,649.6**
At 1 August 2018	77.3	2,135.8	2,301.1	1,324.3	1,402.3	95.8	(97.3)	7,239.3
At 31 July 2018	77.3	2,135.8	2,301.1	1,324.3	1,402.3	95.8	(39.1)	7,297.5

	Stage 1 £ million	Stage 2 £ million	Stage 3 £ million	Total £ million
Impairment provisions on loans and advances to customers				
At 31 July 2018				39.1
IFRS 9 transition (note 30)				58.2
At 1 August 2018	23.7	24.8	48.8	97.3
New financial assets originated	26.5	–	–	26.5
Transfers to Stage 1	1.0	(4.4)	(0.4)	(3.8)
Transfers to Stage 2	(6.4)	20.8	(0.2)	14.2
Transfers to Stage 3	(2.1)	(4.7)	48.2	41.4
Net remeasurement of expected credit losses arising from transfers between stages and repayments	(7.5)	11.7	47.6	51.8
Final repayments and repayments while stage remained unchanged	(17.5)	(7.5)	(11.4)	(36.4)
Changes to model methodologies	–	–	(0.3)	(0.3)
Charge to the income statement	1.5	4.2	35.9	41.6
Write offs	(0.3)	(1.9)	(32.4)	(34.6)
At 31 July 2019	**24.9**	**27.1**	**52.3**	**104.3**

	2019 £ million
Impairment losses relating to loans and advances to customers:	
Charge to income statement arising from movement in impairment provisions	**41.6**
Amounts written off directly to income statement, net of recoveries and other costs	**5.8**
	47.4
Impairment losses relating to other financial assets	**1.1**
Impairment losses on financial assets recognised in income statement	**48.5**

The Notes
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11. LOANS AND ADVANCES TO CUSTOMERS CONTINUED

The contractual amount outstanding at 31 July 2019 on financial assets that were written off during the period and are still subject to recovery activity is £12.7 million.

	2018 £ million
Impairment provisions on loans and advances to customers	
At 1 August	52.4
Charge for the year	46.7
Amounts written off net of recoveries	(60.0)
At 31 July	39.1

	Stage 1 £ million	Stage 2 £ million	Stage 3 £ million	Total £ million
Gross loans and advances to customers				
At 1 August 2018	6,479.2	597.3	260.1	7,336.6
New financial assets originated	5,856.4	–	–	5,856.4
Transfers to Stage 1	204.6	(195.3)	(65.1)	(55.8)
Transfers to Stage 2	(918.4)	791.5	(11.3)	(138.2)
Transfers to Stage 3	(249.9)	(126.7)	315.4	(61.2)
Net transfers between stages and repayments	(963.7)	469.5	239.0	(255.2)
Final repayments and repayments while stage remained unchanged	(4,573.0)	(369.3)	(134.8)	(5,077.1)
Changes to model methodologies	86.5	23.0	(109.5)	–
Write offs	(21.4)	(16.8)	(68.6)	(106.8)
At 31 July 2019	**6,864.0**	**703.7**	**186.2**	**7,753.9**

Loans and advances to customers in Stages 2 and 3 with a gross carrying amount of £275.0 million prior to modification were modified during the year. No material gain or loss was recognised as a result of those modifications. The gross carrying amount at 31 July 2019 of modified loans and advances to customers which transferred from Stage 2 or 3 to Stage 1 during the year was £55.4 million.

	2019 £ million	2018 £ million
Loans and advances to customers comprise		
Hire purchase agreement receivables	**2,927.6**	2,852.4
Finance lease receivables	**453.1**	447.6
Other loans and advances	**4,268.9**	3,997.5
At 31 July	**7,649.6**	7,297.5

The following table shows a reconciliation between gross investment in finance lease and hire purchase agreement receivables to present value of minimum lease and hire purchase payments:

	2019 £ million	2018 £ million
Gross investment in finance leases and hire purchase agreement receivables due:		
Within one year	**1,408.2**	1,387.5
Between one and five years	**2,493.6**	2,372.1
After more than five years	**73.3**	66.0
	3,975.1	3,825.6
Unearned finance income	**(531.0)**	(513.3)
Present value of minimum lease and hire purchase agreement payments	**3,444.1**	3,312.3
Of which due:		
Within one year	**1,218.9**	1,202.1
Between one and five years	**2,165.2**	2,058.1
After more than five years	**60.0**	52.1
	3,444.1	3,312.3

The aggregate cost of assets acquired for the purpose of letting under finance leases and hire purchase agreements was £6,060.4 million (2018: £5,978.8 million). The average effective interest rate on finance leases approximates to 9.4% (2018: 9.6%). The present value of minimum lease and hire purchase agreement payments reflects the fair value of finance lease and hire purchase agreement receivables before deduction of impairment provisions.

Gross loans and advances to customers by stage and the corresponding impairment provisions and provision coverage ratios are set out below:

		Stage 2				
	Stage 1 £ million	Less than 30 days past due £ million	Greater than or equal to 30 days past due £ million	Total £ million	Stage 3 £ million	Total £ million
At 31 July 2019						
Gross loans and advances to customers						
Commercial	**2,647.7**	**293.1**	**17.6**	**310.7**	**84.7**	**3,043.1**
Retail	**2,577.1**	**239.3**	**4.9**	**244.2**	**26.5**	**2,847.8**
Property	**1,639.2**	**43.2**	**105.6**	**148.8**	**75.0**	**1,863.0**
Total	**6,864.0**	**575.6**	**128.1**	**703.7**	**186.2**	**7,753.9**
Impairment provisions						
Commercial	**12.5**	**10.8**	**1.1**	**11.9**	**27.4**	**51.8**
Retail	**10.4**	**11.2**	**0.5**	**11.7**	**15.0**	**37.1**
Property	**2.0**	**1.9**	**1.6**	**3.5**	**9.9**	**15.4**
Total	**24.9**	**23.9**	**3.2**	**27.1**	**52.3**	**104.3**
Provision coverage ratio						
Commercial	**0.5%**	**3.7%**	**6.3%**	**3.8%**	**32.3%**	**1.7%**
Retail	**0.4%**	**4.7%**	**10.2%**	**4.8%**	**56.6%**	**1.3%**
Property	**0.1%**	**4.4%**	**1.5%**	**2.4%**	**13.2%**	**0.8%**
Total	**0.4%**	**4.2%**	**2.5%**	**3.9%**	**28.1%**	**1.3%**

		Stage 2				
	Stage 1 £ million	Less than 30 days past due £ million	Greater than or equal to 30 days past due £ million	Total £ million	Stage 3 £ million	Total £ million
At 1 August 2018						
Gross loans and advances to customers						
Commercial	2,452.4	246.1	16.8	262.9	81.2	2,796.5
Retail	2,452.1	224.9	4.3	229.2	24.0	2,705.3
Property	1,574.7	58.9	46.3	105.2	154.9	1,834.8
Total	**6,479.2**	**529.9**	**67.4**	**597.3**	**260.1**	**7,336.6**
Impairment provisions						
Commercial	11.8	10.5	1.1	11.6	25.7	49.1
Retail	10.0	10.1	0.4	10.5	14.2	34.7
Property	1.9	2.4	0.3	2.7	8.9	13.5
Total	**23.7**	**23.0**	**1.8**	**24.8**	**48.8**	**97.3**
Provision coverage ratio						
Commercial	0.5%	4.3%	6.5%	4.4%	31.7%	1.8%
Retail	0.4%	4.5%	9.3%	4.6%	59.2%	1.3%
Property	0.1%	4.1%	0.6%	2.6%	5.7%	0.7%
Total	**0.4%**	**4.3%**	**2.7%**	**4.2%**	**18.8%**	**1.3%**

Increases in Stage 1 loans and advances to customers and expected credit loss provisions have primarily been driven by financial assets originated and further lending to customers. Total expected credit loss provisions as a percentage of loans and customers ("the provision coverage ratio") remained flat at 0.4%.

Stage 2 loans and advances to customers increased by £106.4 million to £703.7 million (1 August 2018: £597.3 million) across all segments, primarily due to significant increase in credit risk indicators and the 30 days past due backstop being triggered. Stage 2 expected credit loss provisions as a percentage of loans and advances to customers reduced marginally to 3.9% (1 August 2018: 4.2%) reflecting the change in composition of loans.

The Notes
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11. LOANS AND ADVANCES TO CUSTOMERS CONTINUED
Stage 3 loans and advances to customers decreased by £73.9 million to £186.2 million (1 August 2018: £260.1 million). These movements were primarily due to the Property segment, where refinements have been made to the definition of default for the segment causing fewer loans to be categorised as Stage 3 and transferred to Stages 1 and 2 at 31 July 2019. This definition change incorporated updates to the payment allocation method used to define the days past due of a loan and the cure period used for default. This has resulted in an increase to the Stage 3 provision coverage ratio to 28.1% (1 August 2018: 18.8%).

12. DEBT SECURITIES

	Fair value through profit or loss £ million	**Fair value through other comprehensive income £ million**	**Amortised cost £ million**	**Total £ million**
Long trading positions in debt securities	**25.4**	**–**	**–**	**25.4**
Certificates of deposit	**–**	**–**	**240.7**	**240.7**
Sovereign and central bank debt	**–**	**48.3**	**–**	**48.3**
At 31 July 2019	**25.4**	**48.3**	**240.7**	**314.4**

	Held for trading £ million	Available for sale £ million	Loans and receivables £ million	Total £ million
Long trading positions in debt securities	25.6	–	–	25.6
Certificates of deposit	–	–	250.5	250.5
Sovereign and central bank debt	–	44.5	–	44.5
At 31 July 2018	25.6	44.5	250.5	320.6

Movements on the book value of sovereign and central bank debt comprise:

	2019 £ million	2018 £ million
Sovereign and central bank debt at 1 August	**44.5**	43.6
Additions	**–**	–
Currency translation differences	**1.0**	–
Movement in value	**2.8**	0.9
Sovereign and central bank debt at 31 July	**48.3**	44.5

13. EQUITY SHARES

	31 July 2019 £ million	31 July 2018 £ million
Long trading positions	**35.3**	31.6
Other equity shares	**1.0**	0.5
	36.3	32.1

14. DERIVATIVE FINANCIAL INSTRUMENTS
The group enters into derivative contracts with a number of financial institutions to minimise the impact of interest and currency rate changes to its financial instruments. The group's total derivative asset and liability position as reported on the consolidated balance sheet is as follows:

	31 July 2019			31 July 2018		
	Notional value £ million	**Assets £ million**	**Liabilities £ million**	Notional value £ million	Assets £ million	Liabilities £ million
Exchange rate contracts	**260.5**	**1.2**	**5.6**	120.3	0.1	0.7
Interest rate contracts	**2,836.7**	**28.9**	**15.0**	3,530.9	16.5	15.0
	3,097.2	**30.1**	**20.6**	3,651.2	16.6	15.7

Notional amounts of interest rate contracts totalling £2,282.7 million (31 July 2018: £2,781.4 million) have a residual maturity of more than one year.

Included in the derivatives above are the following cash flow and fair value hedges:

	31 July 2019			31 July 2018		
	Notional value £ million	**Assets £ million**	**Liabilities £ million**	Notional value £ million	Assets £ million	Liabilities £ million
Cash flow hedges						
Interest rate contracts	**735.7**	**0.2**	**6.1**	719.9	1.4	1.3
Fair value hedges						
Interest rate contracts	**1,251.1**	**27.6**	**5.5**	1,202.3	14.1	12.1

The group generally enters into fair value hedges and cash flow hedges with changes in the relevant benchmark interest rate risk being the predominant hedged risk.

The fair value hedges seek to hedge the exposure to changes in the fair value of recognised assets and liabilities or firm commitments attributable to interest rate risk. Changes in interest rate risk are considered the largest component of the overall change in fair value. Other risks such as credit risk are managed but excluded from the hedge accounting relationship. The interest rate risk component is the change in fair value of the fixed rate hedging items arising solely from changes in the benchmark interest rate.

Cash flow hedges seek to hedge the exposure to variability in future cash flows due to movements in the relevant benchmark interest rate with interest rate swaps. These future cash flows relate to future interest payments or receipts on recognised financial instruments and on forecast transactions for periods of up to seven (2018: eight) years. The group applies portfolio cash flow hedging for interest rate risk exposures on a portfolio of actual and forecast variable interest rate cash flows arising from variable rate borrowings.

Certain items which are economically hedged may be ineligible for hedge accounting in accordance with IAS 39. Therefore, a portfolio of floating rate liabilities have been designated as eligible hedged items in the cash flow hedge portfolio. The amounts and timing of future cash flows are projected on the basis of their contractual and forecast terms and other relevant factors. The exposure from this portfolio frequently changes due to new facilities being originated, contractual repayments and new interest rate swaps added to the portfolio.

To assess hedge effectiveness the change in fair value or cash flows of the hedging instruments is compared with the change in fair value or cash flows of the hedged item attributable to the hedged risk. A hedge is considered highly effective if the results are within a ratio of 80%-125%.

The main sources of hedge ineffectiveness can include, but are not limited to, differences in the discount rates and cash flow timing differences between the hedged item and the hedging instrument.

The maturity profile for the notional amounts of the group's fair value hedges is set out below.

	On demand £ million	**Within three months £ million**	**Between three and six months £ million**	**Between six months and one year £ million**	**Between one and five years £ million**	**After more than five years £ million**	**Total £ million**
At 31 July 2019							
Fair value hedges							
Interest rate risk	**–**	**–**	**–**	**62.0**	**826.6**	**362.5**	**1,251.1**

Fair value hedges have an average fixed rate of 2.8%.

Details of the hedging instruments for the group's hedge ineffectiveness assessment are set out below.

	Changes in fair value of hedging instrument used for calculating hedge ineffectiveness 2019 £ million	**Hedge ineffectiveness recognised in income statement 2019 £ million**
Cash flow hedges		
Interest rate risk	**(6.1)**	**–**
Fair value hedges		
Interest rate risk	**19.9**	**0.2**

The carrying amount of hedging interest rate swaps is held within derivative financial instruments and the hedge ineffectiveness is held within other income.

The Notes
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14. DERIVATIVE FINANCIAL INSTRUMENTS CONTINUED

Details of the hedged exposures covered by the group's hedging strategies are set out below.

	Carrying amount of hedged item £ million	Accumulated amount of fair value adjustment on the hedged item £ million	Changes in fair value of hedged item used for calculating hedge ineffectiveness £ million
At 31 July 2019			
Fair value hedges			
Assets			
Debt securities	**48.3**	**2.8**	**2.9**
Loans and advances to customers and undrawn commitments	**25.5**	**2.4**	**2.4**
	73.8	**5.2**	**5.3**
Liabilities			
Deposits by customers	**240.5**	**2.0**	**(1.6)**
Debt securities in issue	**752.8**	**20.7**	**(20.1)**
Subordinated loan capital	**175.1**	**0.9**	**(3.3)**
	1,168.4	**23.6**	**(25.0)**

Details of the impact of hedging relationships on the income statement and other comprehensive income are set out below.

	Changes in fair value of hedged item used for calculating hedge ineffectiveness £ million	Gains/(losses) from changes in value of hedging instrument recognised in other comprehensive income £ million	Amounts reclassified from reserves to income statement[1] Hedged cash flows will no longer occur £ million
At 31 July 2019			
Cash flow hedges			
Interest rate risk	**6.1**	**(6.1)**	**0.1**

1 Amounts have been reclassified to other income.

15. INTANGIBLE ASSETS

	Goodwill £ million	Software £ million	Intangible assets on acquisition £ million	Group total £ million	Company software £ million
Cost					
At 1 August 2017	150.7	131.6	67.0	349.3	0.4
Additions	–	36.2	–	36.2	–
Disposals	–	(7.0)	–	(7.0)	–
At 31 July 2018	150.7	160.8	67.0	378.5	0.4
Additions	0.2	48.1	0.5	48.8	–
Disposals	(0.1)	(7.7)	–	(7.8)	–
At 31 July 2019	**150.8**	**201.2**	**67.5**	**419.5**	**0.4**
Amortisation and impairment					
At 1 August 2017	47.9	75.7	34.0	157.6	0.4
Amortisation charge for the year	–	16.6	7.4	24.0	–
Disposals	–	(4.4)	–	(4.4)	–
At 31 July 2018	47.9	87.9	41.4	177.2	0.4
Amortisation charge for the year	–	20.5	5.8	26.3	–
Disposals	–	(3.4)	–	(3.4)	–
At 31 July 2019	**47.9**	**105.0**	**47.2**	**200.1**	**0.4**
Net book value at 31 July 2019	**102.9**	**96.2**	**20.3**	**219.4**	**–**
Net book value at 31 July 2018	102.8	72.9	25.6	201.3	–
Net book value at 1 August 2017	102.8	55.9	33.0	191.7	–

Intangible assets on acquisition relate to broker and customer relationships and are amortised over a period of eight to 20 years.

In the 2019 financial year, £5.8 million (2018: £7.4 million) of the amortisation charge is included in amortisation of intangible assets on acquisition and £20.5 million (2018: £16.6 million) of the amortisation charge is included in administrative expenses shown in the consolidated income statement.

IMPAIRMENT TESTS FOR GOODWILL

At 31 July 2019, goodwill has been allocated to nine individual CGUs. Seven are within the Banking division, one is the Asset Management division and the remaining one is the Securities division. Goodwill impairment reviews are carried out annually by assessing the recoverable amount of the group's CGUs, which is the higher of fair value less costs to sell and value in use. The recoverable amounts for all CGUs were measured based on value in use.

A value in use calculation uses discounted cash flow projections based on the most recent board approved three year plans to determine the recoverable amount of each CGU. The key assumptions underlying management's three year plans, which are based on past experience and forecast market conditions, are expected loan book growth rates and net return on loan book in the Banking CGUs, expected total client asset growth rate and revenue margin in the Asset Management CGU and expected market-making conditions in the Securities CGU.

For cash flows beyond the group's three year planning horizon, a terminal value was calculated using a prudent annual growth rate of 0% (2018: 0%). The cash flows are discounted using a pre-tax estimated weighted average cost of capital that reflects current market rates appropriate to the CGU as set out in the following table.

At 31 July 2019, the results of the review indicate there is no goodwill impairment. The inputs used in the value in use calculations are sensitive, primarily to the impact of changes in the assumptions for future cash flows, discount rates and long-term growth rates. Having performed stress tested value in use calculations, the group believes that any reasonably possible change in the key assumptions which have been used would not lead the carrying value of any CGU to exceed its recoverable amount.

The Notes
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15. INTANGIBLE ASSETS CONTINUED

Details of the CGUs in which the goodwill carrying amount is significant in comparison with total goodwill, together with the pre-tax discount rate used in determining value in use, are disclosed separately in the table below:

	31 July 2019		31 July 2018	
Cash generating unit	**Goodwill £ million**	**Pre-tax discount rate %**	Goodwill £ million	Pre-tax discount rate %
Close Brothers Asset Management	**38.4**	**9.0**	38.5	10.0
Winterflood Securities	**23.3**	**10.6**	23.3	11.9
Novitas	**12.1**	**10.2**	12.1	10.2
Other	**29.1**	**10.2-11.3**	28.9	10.2-11.3
	102.9		102.8	

16. PROPERTY, PLANT AND EQUIPMENT

	Leasehold property £ million	Fixtures, fittings and equipment £ million	Assets held under operating leases £ million	Motor vehicles £ million	Total £ million
Group					
Cost					
At 1 August 2017	22.4	45.1	230.8	0.3	298.6
Additions	0.3	11.2	79.6	–	91.1
Disposals	(0.3)	(0.5)	(41.5)	(0.2)	(42.5)
At 31 July 2018	22.4	55.8	268.9	0.1	347.2
Additions	5.9	6.2	72.9	–	85.0
Disposals	(1.2)	(6.5)	(27.7)	–	(35.4)
At 31 July 2019	**27.1**	**55.5**	**314.1**	**0.1**	**396.8**
Depreciation					
At 1 August 2017	11.1	31.7	53.0	0.1	95.9
Charge for the year	2.1	6.5	31.3	–	39.9
Disposals	(0.3)	(0.2)	(14.2)	–	(14.7)
At 31 July 2018	12.9	38.0	70.1	0.1	121.1
Charge for the year	2.7	8.3	36.1	–	47.1
Disposals	(1.0)	(6.1)	(12.5)	–	(19.6)
At 31 July 2019	**14.6**	**40.2**	**93.7**	**0.1**	**148.6**
Net book value at 31 July 2019	**12.5**	**15.3**	**220.4**	**–**	**248.2**
Net book value at 31 July 2018	9.5	17.8	198.8	–	226.1
Net book value at 1 August 2017	11.3	13.4	177.8	0.2	202.7

The gain from the sale of assets held under operating leases for the year ended 31 July 2019 was £0.3 million (2018: £0.1 million gain).

	31 July 2019 £ million	31 July 2018 £ million
Future minimum lease rentals receivable under non-cancellable operating leases		
Within one year	**42.0**	39.4
Between one and five years	**65.7**	61.0
After more than five years	**0.6**	0.8
	108.3	101.2

	Leasehold property £ million	Fixtures, fittings and equipment £ million	Total £ million
Company			
Cost			
At 1 August 2017	2.7	1.1	3.8
At 31 July 2018	2.7	1.1	3.8
At 31 July 2019	**2.7**	**1.1**	**3.8**
Depreciation			
At 1 August 2017	2.7	1.1	3.8
At 31 July 2018	2.7	1.1	3.8
At 31 July 2019	**2.7**	**1.1**	**3.8**
Net book value at 31 July 2019	**–**	**–**	**–**
Net book value at 31 July 2018	–	–	–
Net book value at 1 August 2017	–	–	–

The net book value of leasehold property comprises:

	Group		Company	
	31 July 2019 £ million	31 July 2018 £ million	**31 July 2019 £ million**	31 July 2018 £ million
Long leasehold property	**1.4**	1.5	**–**	–
Short leasehold property	**11.1**	8.0	**–**	–
	12.5	9.5	**–**	–

The Notes
continued

17. OTHER ASSETS AND OTHER LIABILITIES

	31 July 2019 £ million	31 July 2018 £ million
Prepayments, accrued income and other assets		
Prepayments and accrued income	**140.4**	135.6
Trade and other receivables	**50.0**	51.5
	190.4	187.1
Accruals, deferred income and other liabilities		
Accruals and deferred income	**144.5**	148.0
Trade and other payables	**70.9**	80.1
Provisions	**17.9**	21.5
	233.3	249.6

Provisions movement in the year:

	Claims £ million	Property £ million	Other £ million	Total £ million
Group				
At 1 August 2017	0.2	7.9	14.6	22.7
Additions	0.4	0.4	2.9	3.7
Utilised	(0.4)	(0.2)	(2.8)	(3.4)
Released	(0.2)	–	(1.3)	(1.5)
At 31 July 2018	–	8.1	13.4	21.5
Additions	0.5	1.0	3.8	5.3
Utilised	(0.1)	(0.1)	(4.8)	(5.0)
Released	(0.1)	(3.1)	(0.7)	(3.9)
At 31 July 2019	**0.3**	**5.9**	**11.7**	**17.9**

	Property £ million	Other £ million	Total £ million
Company			
At 1 August 2017	2.0	4.1	6.1
Additions	–	1.8	1.8
Utilised	–	(1.3)	(1.3)
Released	0.1	(0.6)	(0.5)
At 31 July 2018	2.1	4.0	6.1
Additions	–	1.2	1.2
Utilised	–	(0.8)	(0.8)
Released	(1.7)	–	(1.7)
At 31 July 2019	**0.4**	**4.4**	**4.8**

Claims and other items for which provisions are made arise in the normal course of business and include those related to employee benefits. The timing and outcome of these claims and other items are uncertain. Property provisions are in respect of leaseholds where rents payable exceed the value to the group, potential dilapidations and onerous leases. These property provisions will be utilised and released over the remaining lives of the leases which range from one to nine years.

18. SETTLEMENT BALANCES AND SHORT POSITIONS

	31 July 2019 £ million	31 July 2018 £ million
Settlement balances	**547.6**	512.5
Short positions in:		
Debt securities	**9.6**	16.4
Equity shares	**10.9**	14.2
	20.5	30.6
	568.1	543.1

19. FINANCIAL LIABILITIES

	On demand £ million	**Within three months £ million**	**Between three months and one year £ million**	**Between one and two years £ million**	**Between two and five years £ million**	**After more than five years £ million**	**Total £ million**
Deposits by banks	**12.5**	**15.7**	**29.8**	**–**	**–**	**–**	**58.0**
Deposits by customers	**78.3**	**1,232.7**	**2,817.9**	**1,157.2**	**352.3**	**–**	**5,638.4**
Loans and overdrafts from banks	**19.0**	**10.3**	**–**	**213.2**	**276.8**	**–**	**519.3**
Debt securities in issue	**20.7**	**27.4**	**143.6**	**937.8**	**459.5**	**271.1**	**1,860.1**
At 31 July 2019	**130.5**	**1,286.1**	**2,991.3**	**2,308.2**	**1,088.6**	**271.1**	**8,075.8**

	On demand £ million	Within three months £ million	Between three months and one year £ million	Between one and two years £ million	Between two and five years £ million	After more than five years £ million	Total £ million
Deposits by banks	7.9	16.1	31.2	–	–	–	55.2
Deposits by customers	86.5	1,275.0	2,570.6	1,142.6	422.5	–	5,497.2
Loans and overdrafts from banks	9.6	5.2	–	–	495.0	–	509.8
Debt securities in issue	0.6	23.1	561.3	190.3	709.9	288.2	1,773.4
At 31 July 2018	104.6	1,319.4	3,163.1	1,332.9	1,627.4	288.2	7,835.6

At 31 July 2019, the company held £250.3 million (31 July 2018: £249.7 million) debt securities in issue.

As discussed in note 28(c) the group has accessed £490.0 million (31 July 2018: £495.0 million) cash under the Bank of England's Term Funding Scheme. Cash from the Term Funding Scheme and repurchase agreements is included within bank loans and overdrafts. Residual maturities of the Term Funding Scheme and repurchase agreements are as follows:

	On demand £ million	Within three months £ million	Between three months and one year £ million	Between one and two years £ million	Between two and five years £ million	After more than five years £ million	Total £ million
At 31 July 2019	**–**	**0.3**	**–**	**213.2**	**276.8**	**–**	**490.3**
At 31 July 2018	–	0.2	–	–	495.0	–	495.2

20. SUBORDINATED LOAN CAPITAL

	Prepayment date	Initial interest rate	**31 July 2019 £ million**	31 July 2018 £ million
Final maturity date				
2026	2021	7.42%	**15.5**	15.5
2026	2021	7.62%	**31.0**	30.9
2027	2022	4.25%	**175.1**	171.5
			221.6	217.9

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21. SHARE CAPITAL AND RESERVES

	31 July 2019		31 July 2018	
	million	**£ million**	million	£ million
Group and company				
Allotted, issued and fully paid				
Ordinary shares of 25p each	**152.1**	**38.0**	152.1	38.0

Further analysis of the group's and company's share capital and reserves is shown on pages 107 and 110.

At 31 July 2019, the company's reserves available for distribution under section 830(2) and 831(2) of the Companies Act 2006 were £376.2 million (2018: £381.2 million). The directors have applied the guidance provided by ICAEW TECH 02/17 in determining this.

22. CAPITAL

The group's policy is to be well capitalised and its approach to capital management is driven by strategic and organisational requirements, while also taking into account the regulatory and commercial environments in which it operates.

The Prudential Regulation Authority ("PRA") supervises the group on a consolidated basis and receives information on the capital adequacy of, and sets capital requirements for, the group as a whole. In addition, a number of subsidiaries are regulated for prudential purposes by either the PRA or the Financial Conduct Authority ("FCA"). The aim of the capital adequacy regime is to promote safety and soundness in the financial system. It is structured around three "pillars": Pillar 1 on minimum capital requirements; Pillar 2 on the supervisory review process; and Pillar 3 on market discipline. The group's Pillar 1 information is presented below. Under Pillar 2, the group completes an annual self assessment of risks known as the Internal Capital Adequacy Assessment Process ("ICAAP"). The ICAAP is reviewed by the PRA which culminates in the PRA setting a Total Capital Requirement ("TCR") that the group and its regulated subsidiaries are required to hold at all times. The TCR is currently set at 9.9%, of which 5.6% needs to be met with common equity tier 1 ("CET1") capital. This includes the Pillar 1 requirements (4.5% and 8% respectively for CET1 and total capital) and a Pillar 2A component of 1.9%, of which 1.1% needs to be met with CET1 capital. Pillar 3 requires firms to publish a set of disclosures which allow market participants to assess information on that group's capital, risk exposures and risk assessment process. The group's Pillar 3 disclosures can be found on the group's website www.closebrothers.com/investor-relations/investor-information/results-reports-and-presentations.

The group maintains a strong capital base to support the development of the business and to ensure the group meets the TCR and additional Capital Requirements Directive buffers at all times. As a result, the group maintains capital adequacy ratios above minimum regulatory requirements, which are currently set at a minimum CET1 capital ratio of 9.0% and a minimum total capital ratio of 13.4%. The minimum capital requirements are inclusive of the capital conservation buffer (currently 2.5% for both CET1 capital and total capital) and the countercyclical buffer (currently 0.96% effective rate for the group, for both CET1 capital and total capital).

A full analysis of the composition of regulatory capital and Pillar 1 risk weighted assets ("RWAs"), a reconciliation between equity and CET1 capital after deductions and a table showing the movement in CET1 capital during the year are shown on the following pages. All RWAs and capital ratios shown are unaudited.

At 31 July 2019, the group's CET1 capital ratio was 13.0% (1 August 2018: 12.7%; 31 July 2018: 12.7%). CET1 capital increased to £1,169.2 million (1 August 2018: £1,082.2 million; 31 July 2018: £1,084.4 million) primarily due to retained profit.

RWAs, calculated using the standardised approaches, increased to £8,967.4 million (1 August 2018: £8,542.6 million; 31 July 2018: £8,547.5 million) as a result of growth in credit and counterparty risk associated with the loan book.

	31 July 2019 £ million	1 August 2018 £ million	31 July 2018 £ million
CET1 capital			
Called up share capital	**38.0**	38.0	38.0
Retained earnings	**1,392.5**	1,282.8	1,327.7
Other reserves recognised for CET1 capital	**19.0**	21.3	21.3
Deductions from CET1 capital			
Intangible assets, net of associated deferred tax liabilities	**(216.1)**	(198.1)	(198.1)
Foreseeable dividend[1]	**(65.7)**	(62.7)	(62.7)
Investment in own shares	**(37.7)**	(37.6)	(37.6)
Pension asset, net of associated deferred tax liabilities	**(5.3)**	(4.0)	(4.0)
Prudent valuation adjustment	**(0.1)**	(0.2)	(0.2)
IFRS 9 transitional arrangements[2]	**44.6**	42.7	–
CET1 capital	**1,169.2**	1,082.2	1,084.4
Tier 2 capital – subordinated debt	**195.4**	197.9	197.9
Total regulatory capital[3]	**1,364.6**	1,280.1	1,282.3
RWAs (notional)[3] – unaudited			
Credit and counterparty credit risk	**7,930.5**	7,600.5	7,605.4
Operational risk[4]	**884.4**	845.8	845.8
Market risk[4]	**152.5**	96.3	96.3
	8,967.4	8,542.6	8,547.5
CET1 capital ratio[3] – unaudited	**13.0%**	12.7%	12.7%
Total capital ratio[3] – unaudited	**15.2%**	15.0%	15.0%

1 Under the Regulatory Technical Standard on own funds, a deduction has been recognised at 31 July 2019 and 31 July 2018 for a foreseeable dividend being the proposed final dividend as set out in note 9.
2 The group has elected to apply IFRS 9 transitional arrangements for 31 July 2019, which allow the capital impact of expected credit losses to be phased in over a five-year period.
3 Shown after applying IFRS 9 transitional arrangements and the Capital Requirements Regulations transitional and qualifying own funds arrangements. At 31 July 2019 the fully loaded CET1 capital ratio is 12.6% and total capital ratio is 14.5% (1 August 2018: CET1 capital ratio 12.2% and total capital ratio 14.2%).
4 Operational and market risk include a notional adjustment at 8% in order to determine notional RWAs.

The following table shows a reconciliation between equity and CET1 capital after deductions:

	31 July 2019 £ million	1 August 2018 £ million	31 July 2018 £ million
Equity	**1,406.4**	1,303.8	1,348.7
Regulatory deductions from equity:			
Intangible assets, net of associated deferred tax liabilities	**(216.1)**	(198.1)	(198.1)
Foreseeable dividend[1]	**(65.7)**	(62.7)	(62.7)
IFRS 9 transitional arrangements[2]	**44.6**	42.7	–
Pension asset, net of associated deferred tax liabilities	**(5.3)**	(4.0)	(4.0)
Prudent valuation adjustment	**(0.1)**	(0.2)	(0.2)
Other reserves not recognised for CET1 capital:			
Cash flow hedging reserve	**4.4**	(0.1)	(0.1)
Non-controlling interests	**1.0**	0.8	0.8
CET1 capital	**1,169.2**	1,082.2	1,084.4

1 Under the Regulatory Technical Standard on own funds, a deduction has been recognised at 31 July 2019 and 31 July 2018 for a foreseeable dividend being the proposed final dividend as set out in note 9.
2 The group has elected to apply IFRS 9 transitional arrangements for 31 July 2019, which allow the capital impact of expected credit losses to be phased in over a five-year period.

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22. CAPITAL CONTINUED
The following table shows the movement in CET1 capital during the year:

	£ million
CET1 capital at 31 July 2018	1,084.4
Profit in the period attributable to shareholders	201.6
Dividends paid and foreseen	(98.5)
Reduction in shareholders' equity from IFRS 9	(44.9)
IFRS 9 transitional arrangements	44.6
Increase in intangible assets, net of associated deferred tax liabilities	(18.0)
Other movements in reserves recognised for CET1 capital	1.3
Other movements in deductions from CET1 capital	(1.3)
CET1 capital at 31 July 2019	**1,169.2**

23. CONTINGENT LIABILITIES, GUARANTEES AND COMMITMENTS
CONTINGENT LIABILITIES
FINANCIAL SERVICES COMPENSATION SCHEME ("FSCS")
A principal subsidiary of the group, Close Brothers Limited ("CBL"), by virtue of being a regulated deposit-taker, contributes to the FSCS which provides compensation to customers of financial institutions in the event that an institution is unable, or is likely to be unable, to pay claims against it.

Compensation has previously been paid out by the FSCS funded by loan facilities provided by HM Treasury to FSCS in support of the FSCS's obligations to the depositors of banks declared in default. The facilities are expected to be repaid wholly from recoveries from the failed deposit-takers. In the event of a shortfall, the FSCS will recover the shortfall by raising levies on the industry. The amount of future levies payable by the group depends on a number of factors including the potential recoveries of assets by the FSCS, the group's participation in the deposit-taking market at 31 December, the level of protected deposits and the population of FSCS members.

GUARANTEES

	Group		Company	
	31 July 2019 £ million	31 July 2018 £ million	**31 July 2019 £ million**	31 July 2018 £ million
Guarantees and irrevocable letters of credit	**163.1**	162.4	**156.6**	159.3

Where the group undertakes to make a payment on behalf of its subsidiaries for guarantees issued, such as bank facilities or property leases or as irrevocable letters of credit for which an obligation to make a payment to a third party has not arisen at the reporting date, they are included in these consolidated financial statements as contingent liabilities.

COMMITMENTS
UNDRAWN FACILITIES, CREDIT LINES AND OTHER COMMITMENTS TO LEND

	31 July 2019 £ million	31 July 2018 £ million
Within one year	**1,100.6**	1,091.7
After more than one year	**–**	35.7
	1,100.6	1,127.4

OPERATING LEASE COMMITMENTS
Minimum operating lease payments recognised in the consolidated income statement amounted to £9.5 million (2018: £9.1 million).

The group had outstanding commitments for future minimum lease rentals payable under non-cancellable operating leases, which fall due as follows:

	31 July 2019		31 July 2018	
	Premises £ million	**Other £ million**	Premises £ million	Other £ million
Within one year	**11.1**	**4.6**	12.8	4.2
Between one and five years	**28.9**	**6.1**	29.5	5.2
After more than five years	**4.5**	**–**	6.6	–
	44.5	**10.7**	48.9	9.4

OTHER COMMITMENTS
Subsidiaries had contracted capital commitments relating to capital expenditure of £8.9 million (2018: £12.1 million).

24. RELATED PARTY TRANSACTIONS

TRANSACTIONS WITH KEY MANAGEMENT

Details of directors' remuneration and interests in shares are disclosed in the Directors' Remuneration Report on pages 76 to 96.

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of an entity; the group's key management are the members of the group's Executive Committee, which includes all executive directors, together with its non-executive directors.

The table below details, on an aggregated basis, key management personnel emoluments:

	2019 £ million	2018 £ million
Emoluments		
Salaries and fees	**3.9**	4.2
Benefits and allowances	**0.5**	0.6
Performance related awards in respect of the current year:		
Cash	**3.4**	4.0
Deferred	**2.1**	2.5
	9.9	11.3
Share-based awards	**1.7**	3.5
	11.6	14.8

Gains upon exercise of options by key management personnel, expensed to the income statement in previous years, totalled £4.1 million (2018: £6.3 million).

Key management have banking and asset management relationships with group entities which are entered into in the normal course of business. Amounts included in deposits by customers at 31 July 2019 attributable, in aggregate, to key management were £0.1 million (31 July 2018: £0.2 million). At 31 July 2019, no members of key management held any of the company's 4.25% subordinated loan notes. At 31 July 2018, a member of key management held 500,000 of the company's 4.25% subordinated loan notes.

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25. PENSIONS
The group operates defined contribution pension schemes for eligible employees as well as a defined benefit pension scheme which is closed to new members and further accrual. Assets of all schemes are held separately from those of the group.

DEFINED CONTRIBUTION SCHEMES
During the year the charge to the consolidated income statement for the group's defined contribution pension schemes was £12.6 million (2018: £11.0 million), representing contributions payable by the group and is included in administrative expenses.

DEFINED BENEFIT PENSION SCHEME
The group's only defined benefit pension scheme ("the scheme") is a final salary scheme which operates under trust law. The scheme is managed and administered in accordance with the scheme's Trust Deed and Rules and all relevant legislation by a trustee board made up of trustees nominated by both the company and the members.

The scheme was closed to new entrants in August 1996 and closed to further accrual during 2012. At 31 July 2019 this scheme had 37 (31 July 2018: 41) deferred members and 49 (31 July 2018: 46) pensioners and dependants.

FUNDING POSITION
The scheme's most recent triennial actuarial valuation at 31 July 2018 showed that the scheme was fully funded. As such, no further contributions are scheduled.

IAS 19 VALUATION
The following disclosures are reported in accordance with IAS 19. Significant actuarial assumptions are as follows:

	2019 %	2018 %
Inflation rate (Retail Price Index)	**3.4**	3.3
Inflation rate (Consumer Price Index)	**2.4**	2.3
Discount rate for scheme liabilities[1]	**2.0**	2.5
Expected interest/expected long-term return on plan assets	**2.0**	2.5
Mortality assumptions[2]:		
Existing pensioners from age 65, life expectancy (years):		
Men	**23.9**	24.3
Women	**25.5**	25.9
Non-retired members currently aged 50, life expectancy from age 65 (years):		
Men	**24.7**	25.1
Women	**26.8**	28.0

1 Based on market yields at 31 July 2019 and 2018 on high quality sterling-denominated corporate bonds, adjusted to be consistent with the estimated term of the post-employment benefit obligation, using the Willis Towers Watson model "Global RATE:Link".
2 Based on standard tables SAPS S2 Light (2018: SAPS S1 Light) produced by the CMI Bureau of the Institute and Faculty of Actuaries with adjusted mortality multipliers for pensioners and non-pensioners, together with projected future improvements in line with the CMI 2017 (2018: CMI 2014) core projection model with a long-term trend of 1.5% per annum.

The surplus of the scheme disclosed below has been accounted for as an asset of the group within note 17 "Other assets and other liabilities".

The group has the unconditional right to any surpluses that arise within the scheme once all benefits have been secured in full. As such no asset ceiling has been applied, and accordingly the scheme surplus is recognised on the consolidated balance sheet.

	2019 £ million	2018 £ million	2017 £ million	2016 £ million	2015 £ million
Fair value of scheme assets[1]:					
Equities	**13.1**	12.7	20.9	35.9	33.0
Bonds	**29.9**	28.7	20.6	8.7	8.5
Cash	**0.2**	0.1	0.3	0.2	0.2
Total fair value of scheme assets	**43.2**	41.5	41.8	44.8	41.7
Present value of scheme liabilities	**(36.5)**	(36.4)	(38.2)	(43.6)	(38.6)
Surplus	**6.7**	5.1	3.6	1.2	3.1

1 There are no amounts included within the fair value of scheme assets relating to the financial instruments of Close Brothers Group plc.

Movement in the present value of scheme liabilities during the year:

	2019 £ million	2018 £ million
Carrying amount at 1 August	**(36.4)**	(38.2)
Interest expense	**(0.9)**	(0.9)
Benefits paid	**2.2**	2.3
Actuarial gains/(losses)	**(1.4)**	0.4
Carrying amount at 31 July	**(36.5)**	(36.4)

Movement in the fair value of scheme assets during the year:

	2019 £ million	2018 £ million
Carrying amount at 1 August	**41.5**	41.8
Interest income	**1.0**	1.0
Benefits paid	**(2.2)**	(2.3)
Administrative costs paid	**(0.4)**	(0.3)
Return on scheme assets, excluding interest income	**3.3**	1.3
Carrying amount at 31 July	**43.2**	41.5

Historical experience of actuarial gains/(losses) are shown below:

	2019 £ million	2018 £ million	2017 £ million	2016 £ million	2015 £ million
Experience gains on scheme assets	**3.3**	1.3	3.7	3.6	2.9
Experience gains/(losses) on scheme liabilities	**1.3**	–	–	1.3	–
Impact of changes in assumptions on scheme liabilities	**(2.7)**	0.4	(1.0)	(6.8)	(4.9)
Total actuarial gains/(losses) on scheme liabilities	**(1.4)**	0.4	(1.0)	(5.5)	(4.9)
Total actuarial gains/(losses)	**1.9**	1.7	2.7	(1.9)	(2.0)

Total actuarial gains have been recognised in other comprehensive income. Income of £0.1 million (2018: £0.1 million) from the interest on the scheme surplus has been recognised within administrative expenses in the consolidated income statement. The group's policy is not to allocate the net defined benefit cost between group entities participating in the scheme.

The valuation of the scheme's liabilities is sensitive to the key assumptions used in the valuation. The effect of a change in those assumptions in 2019 and 2018 is set out below. The analysis reflects the variation of the individual assumptions. The variation in price inflation includes all inflation-linked pension increases in deferment and in payment.

		Impact on defined benefit obligation increase/(decrease)			
		2019		2018	
Key assumption	Sensitivity	**%**	**£ million**	%	£ million
Discount rate	0.25% increase	**(4.2)**	**(1.5)**	(5.0)	(1.8)
Price inflation (RPI and CPI)	0.25% increase	**1.8**	**0.7**	2.0	0.7
Mortality	Increase in life expectancy at age 65 by one year	**4.0**	**1.5**	3.0	1.1

Changes in the assumptions used in the valuation due to external factors would affect the carrying value of the scheme. The most significant risks are:

- Market factors (movements in equity and bond markets): The scheme's assets are invested 30% in global equities, 69% in bonds and 1% in cash (2018: 31% global equities and 69% bonds) and the scheme's liabilities are measured with reference to corporate bond yields. The performance of these asset classes can be volatile. Underperformance of either of these markets would have an adverse impact on the carrying value of the scheme.
- Inflation: Deferred pensions and pensions in payment increase at specified periods in line with inflation, subject to certain caps and floors in place. Changes in inflation may impact scheme liabilities.
- Life expectancy: Change in the life expectancy of the scheme's members may impact scheme liabilities.

The weighted average duration of the benefit payments reflected in the scheme liabilities is 17 years (2018: 20 years).

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26. SHARE-BASED AWARDS

The Save As You Earn ("SAYE"), Long Term Incentive Plan ("LTIP"), Deferred Share Awards ("DSA") and Share Matching Plan ("SMP") share-based awards have been granted under the group's share schemes. The general terms and conditions for these share-based awards are described in the Directors' Remuneration Report on pages 76 to 96.

In order to satisfy a number of the awards below the company has purchased company shares into Treasury and the Close Brothers Group Employee Share Trust has purchased company shares. At 31 July 2019, 0.7 million (31 July 2018: 0.6 million) and 2.1 million (31 July 2018: 2.2 million) of these shares were held respectively and in total £37.7 million (2018: £37.6 million) was recognised within the share-based payments reserve. During the year £10.9 million (2018: £12.5 million) of these shares were released to satisfy share-based awards to employees. The share-based payments reserve as shown in the consolidated statement of changes in equity also includes the cumulative position in relation to unvested share-based awards charged to the consolidated income statement of £19.5 million (2018: £21.7 million). The share-based awards charge of £3.7 million (2018: £6.0 million) is included in administrative expenses shown in the consolidated income statement.

Movements in the number of share-based awards outstanding and their weighted average share prices are as follows:

	SAYE		LTIP		DSA		SMP	
	Number	Weighted average exercise price	Number	Weighted average exercise price	Number	Weighted average exercise price	Number	Weighted average exercise price
At 1 August 2017	1,069,569	–	1,377,483	–	560,346	–	1,138,718	–
Granted	455,385	1,155.2p	594,194	–	426,184	–	–	–
Exercised	(210,104)	1,095.5p	(221,266)	–	(280,978)	–	(255,429)	–
Forfeited	(139,666)	1,174.1p	(105,559)	–	(6,309)	–	(20,136)	–
Lapsed	(6,299)	1,170.2p	(212,823)	–	(4,838)	–	(118,509)	–
At 31 July 2018	1,168,885	–	1,432,029	–	694,405	–	744,644	–
Granted	412,343	1,157.9p	449,411	–	394,686	–	–	–
Exercised	(275,697)	1,120.3p	(75,888)	–	(270,776)	–	(172,767)	–
Forfeited	(143,688)	1,156.2p	(197,158)	–	(32,704)	–	(47,557)	–
Lapsed	(4,449)	1,156.1p	(339,164)	–	–	–	(193,547)	–
At 31 July 2019	**1,157,394**	**–**	**1,269,230**	**–**	**785,611**	**–**	**330,773**	**–**
Exercisable at:								
31 July 2019	**13,259**	**1,133.0p**	**–**	**–**	**4,129**	**–**	**–**	**–**
31 July 2018	–	–	–	–	15,585	–	–	–

The table below shows the weighted average market price at the date of exercise:

	2019	2018
SAYE	**1,474.7p**	1,432.0p
LTIP	**1,537.5p**	1,453.4p
DSA	**1,493.4p**	1,473.2p
SMP	**1,547.0p**	1,463.7p

The range of exercise prices and weighted average remaining contractual life of awards and options outstanding are as follows:

	2019 Options outstanding		2018 Options outstanding	
	Number outstanding	**Weighted average remaining contractual life Years**	Number outstanding	Weighted average remaining contractual life Years
SAYE				
Between £9 and £10	**1,611**	**–**	71,486	0.8
Between £11 and £12	**1,011,814**	**2.4**	931,585	2.4
Between £12 and £13	**143,969**	**1.5**	165,814	2.5
LTIP				
Nil	**1,269,230**	**2.2**	1,432,029	2.3
DSA				
Nil	**785,611**	**1.9**	694,405	1.9
SMP				
Nil	**330,773**	**1.2**	744,644	1.7
Total	**3,543,008**	**2.1**	4,039,963	2.1

For the share-based awards granted during the year, the weighted average fair value of those options at 31 July 2019 was 1,097.3p (31 July 2018: 1,022.6p). The main assumptions for the valuation of these share-based awards comprised:

Exercise period	Share price at issue	Exercise price	Expected volatility	Expected option life in years	Dividend yield	Risk free interest rate
SAYE						
1 Dec 2021 to 31 May 2022	1,598.8p	1,279.0p	25.0%	3	4.3%	0.8%
1 Dec 2023 to 31 May 2024	1,598.8p	1,279.0p	23.0%	5	4.3%	1.0%
1 Jun 2022 to 30 Nov 2022	1,468.8p	1,175.0p	24.0%	3	4.4%	0.7%
1 Jun 2024 to 30 Nov 2024	1,468.8p	1,175.0p	23.0%	5	4.4%	0.9%
LTIP						
3 Oct 2021 to 2 Oct 2022	1,588.8p	–	24.0%	3	4.1%	0.8%
DSA						
2 Oct 2019 to 1 Oct 2020	1,588.8p	–	–	–	–	–
2 Oct 2020 to 1 Oct 2021	1,588.8p	–	–	–	–	–
2 Oct 2021 to 1 Oct 2022	1,588.8p	–	–	–	–	–
12 Mar 2020 to 11 Mar 2021	1,430.0p	–	–	–	–	–
11 Mar 2021 to 10 Mar 2022	1,430.0p	–	–	–	–	–

Expected volatility was determined mainly by reviewing share price volatility for the expected life of each option up to the date of grant.

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continued

27. CONSOLIDATED CASH FLOW STATEMENT RECONCILIATION

	31 July 2019 £ million	31 July 2018 £ million
(a) Reconciliation of operating profit before tax to net cash inflow from operating activities		
Operating profit before tax from continuing operations	**264.7**	271.2
Profit/(loss) before tax from discontinued operations	**0.8**	(3.0)
Tax paid	**(55.6)**	(66.8)
Depreciation and amortisation	**73.5**	63.9
(Increase)/decrease in:		
Interest receivable and prepaid expenses	**(4.8)**	(18.4)
Net settlement balances and trading positions	**(29.2)**	15.9
Net loans from money brokers against stock advanced	**15.8**	0.3
Interest payable and accrued expenses	**(3.5)**	9.4
Net cash inflow from trading activities	**261.7**	272.5
Decrease/(increase) in:		
Loans and advances to banks not repayable on demand	**1.9**	16.4
Loans and advances to customers	**(416.6)**	(449.8)
Assets let under operating leases	**(62.7)**	(68.0)
Certificates of deposit	**9.8**	(70.2)
Sovereign and central bank debt	**–**	(0.9)
Other assets less other liabilities	**9.1**	14.1
Increase/(decrease) in:		
Deposits by banks	**2.8**	(16.8)
Deposits by customers	**141.2**	384.1
Loans and overdrafts from banks	**9.5**	178.9
Issuance/redemption of debt securities, net of transaction costs	**63.7**	45.7
Net cash inflow from operating activities	**20.4**	306.0
(b) Analysis of net cash outflow in respect of the purchase of subsidiaries and non-controlling interests		
Cash consideration paid	**(3.6)**	(1.2)
(c) Analysis of net cash inflow in respect of the sale of discontinued operations and subsidiaries		
Cash consideration received	**87.6**	0.9
	87.6	0.9
(d) Analysis of cash and cash equivalents[1]		
Cash and balances at central banks	**1,094.9**	1,126.2
Loans and advances to banks	**93.4**	125.5
	1,188.3	1,251.7

1 Excludes Bank of England cash reserve account and amounts held as collateral.

During the year ended 31 July 2019, the non-cash changes on debt financing amounted to £18.6 million (31 July 2018: £9.4 million) arising largely from interest accretions and fair value hedging movements.

28. FINANCIAL RISK MANAGEMENT

As a financial services group, financial instruments are central to the group's activities. The risk associated with financial instruments represents a significant component of those faced by the group and is analysed in more detail below.

The group's financial risk management objectives are summarised within the Risk and Control Framework in Corporate Governance on pages 66 and 67. Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised, in respect of each class of financial asset, financial liability and equity instrument are disclosed in note 1.

(A) CLASSIFICATION

The following tables analyse the group's assets and liabilities in accordance with the categories of financial instruments in IFRS 9 (31 July 2018: IAS 39).

	Derivatives designated as hedging instruments £ million	Fair value through profit and loss £ million	Fair value through other compre-hensive income £ million	Amortised cost £ million	Total £ million
At 31 July 2019					
Assets					
Cash and balances at central banks	–	–	–	**1,106.4**	**1,106.4**
Settlement balances	–	–	–	**562.9**	**562.9**
Loans and advances to banks	–	–	–	**108.9**	**108.9**
Loans and advances to customers	–	–	–	**7,649.6**	**7,649.6**
Debt securities	–	**25.4**	**48.3**	**240.7**	**314.4**
Equity shares	–	**36.3**	–	–	**36.3**
Loans to money brokers against stock advanced	–	–	–	**42.5**	**42.5**
Derivative financial instruments	**27.8**	**2.3**	–	–	**30.1**
Other financial assets	–	**2.1**	–	**48.3**	**50.4**
	27.8	**66.1**	**48.3**	**9,759.3**	**9,901.5**
Liabilities					
Settlement balances and short positions	–	**20.5**	–	**547.6**	**568.1**
Deposits by banks	–	–	–	**58.0**	**58.0**
Deposits by customers	–	–	–	**5,638.4**	**5,638.4**
Loans and overdrafts from banks	–	–	–	**519.3**	**519.3**
Debt securities in issue	–	–	–	**1,860.1**	**1,860.1**
Loans from money brokers against stock advanced	–	–	–	**14.3**	**14.3**
Subordinated loan capital	–	–	–	**221.6**	**221.6**
Derivative financial instruments	**11.6**	**9.0**	–	–	**20.6**
Other financial liabilities	–	**3.5**	–	**107.0**	**110.5**
	11.6	**33.0**	–	**8,966.3**	**9,010.9**

The Notes
continued

28. FINANCIAL RISK MANAGEMENT CONTINUED

	Held for trading £ million	Designated at fair value through profit or loss £ million	Available for sale £ million	Loans and receivables £ million	Held at amortised cost £ million	Derivatives held for hedging £ million	Total £ million
At 31 July 2018							
Assets							
Cash and balances at central banks	–	–	–	1,140.4	–	–	1,140.4
Settlement balances	–	–	–	512.2	–	–	512.2
Loans and advances to banks	–	–	–	140.2	–	–	140.2
Loans and advances to customers	–	–	–	7,297.5	–	–	7,297.5
Debt securities	25.6	–	44.5	250.5	–	–	320.6
Equity shares	31.6	–	0.5	–	–	–	32.1
Loans to money brokers against stock advanced	–	–	–	66.4	–	–	66.4
Derivative financial instruments	1.1	–	–	–	–	15.5	16.6
Other financial assets	–	–	2.1	73.6	–	–	75.7
	58.3	–	47.1	9,480.8	–	15.5	9,601.7
Liabilities							
Settlement balances and short positions	30.6	–	–	–	512.5	–	543.1
Deposits by banks	–	–	–	–	55.2	–	55.2
Deposits by customers	–	–	–	–	5,497.2	–	5,497.2
Loans and overdrafts from banks	–	–	–	–	509.8	–	509.8
Debt securities in issue	–	–	–	–	1,773.4	–	1,773.4
Loans from money brokers against stock advanced	–	–	–	–	22.4	–	22.4
Subordinated loan capital	–	–	–	–	217.9	–	217.9
Derivative financial instruments	2.3	–	–	–	–	13.4	15.7
Other financial liabilities	–	4.2	–	–	115.8	–	120.0
	32.9	4.2	–	–	8,704.2	13.4	8,754.7

(B) VALUATION

The fair values of the group's financial assets and liabilities are not materially different from their carrying values. The main differences are as follows:

	31 July 2019		31 July 2018	
	Fair value £ million	**Carrying value £ million**	Fair value £ million	Carrying value £ million
Subordinated loan capital	**234.1**	**221.6**	233.7	217.9
Debt securities in issue	**1,891.2**	**1,860.1**	1,797.4	1,773.4

VALUATION HIERARCHY

The group holds financial instruments that are measured at fair value subsequent to initial recognition. Each instrument has been categorised within one of three levels using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. These levels are based on the degree to which the fair value is observable and are defined as follows:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities where prices are readily available and represent actual and regularly occurring market transactions on an arm's length basis. An active market is one in which transactions occur with sufficient frequency to provide ongoing pricing information;
- Level 2 fair value measurements are those derived from quoted prices in less active markets for identical assets or liabilities or those derived from inputs other than quoted prices that are observable for the asset or liability, either directly as prices or indirectly derived from prices; and
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data ("unobservable inputs").

Investments classified as Level 1 predominantly comprise sovereign and central bank debt and liquid listed equity shares.

Investments classified as Level 2 predominantly comprise less liquid listed equity shares, investment grade corporate bonds and over-the-counter derivatives.

Investments classified as Level 3 predominantly comprise contingent consideration payable and receivable in relation to the acquisitions and the disposal of subsidiaries.

The valuation of contingent consideration is determined on a discounted expected cash flow basis. The group believes that there is no reasonably possible change to the inputs used in the valuation of these positions which would have a material effect on the group's consolidated income statement.

There were no significant transfers between Level 1, 2 and 3 in 2019 and 2018.

The tables below show the classification of financial instruments held at fair value into the valuation hierarchy.

	Level 1 £ million	**Level 2 £ million**	**Level 3 £ million**	**Total £ million**
At 31 July 2019				
Assets				
Debt securities:				
Long positions in debt securities	**24.0**	**1.4**	**–**	**25.4**
Sovereign and central bank debt	**48.3**	**–**	**–**	**48.3**
Equity shares	**5.6**	**30.4**	**0.3**	**36.3**
Derivative financial instruments	**–**	**30.1**	**–**	**30.1**
Contingent consideration	**–**	**–**	**2.1**	**2.1**
	77.9	**61.9**	**2.4**	**142.2**
Liabilities				
Short positions:				
Debt securities	**7.9**	**1.7**	**–**	**9.6**
Equity shares	**2.7**	**8.2**	**–**	**10.9**
Derivative financial instruments	**–**	**20.6**	**–**	**20.6**
Contingent consideration	**–**	**–**	**6.0**	**6.0**
	10.6	**30.5**	**6.0**	**47.1**

	Level 1 £ million	Level 2 £ million	Level 3 £ million	Total £ million
At 31 July 2018				
Assets				
Debt securities:				
Long positions in debt securities held for trading	22.9	2.7	–	25.6
Sovereign and central bank debt classified as available for sale	44.5	–	–	44.5
Equity shares:				
Held for trading	5.5	26.1	–	31.6
Fair value through profit or loss	–	–	–	–
Available for sale	–	–	0.5	0.5
Derivative financial instruments	–	16.6	–	16.6
Contingent consideration	–	–	2.1	2.1
	72.9	45.4	2.6	120.9
Liabilities				
Short positions held for trading:				
Debt securities	14.2	2.2	–	16.4
Equity shares	4.2	10.0	–	14.2
Derivative financial instruments	–	15.7	–	15.7
Contingent consideration	–	–	5.4	5.4
	18.4	27.9	5.4	51.7

The Notes
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28. FINANCIAL RISK MANAGEMENT CONTINUED
Movements in financial instruments categorised as Level 3 were:

	Equity shares £ million	Contingent consideration £ million
At 1 August 2017	0.8	(3.9)
Total gains recognised in the consolidated income statement	–	0.6
Total gains recognised in other comprehensive income	–	0.3
Purchases and issues	–	(1.2)
Sales and settlements	(0.3)	0.9
At 31 July 2018	0.5	(3.3)
Total losses recognised in the consolidated income statement	–	(1.2)
Total gains recognised in other comprehensive income	–	–
Purchases and issues	–	0.4
Sales and settlements	(0.2)	0.2
At 31 July 2019	**0.3**	**(3.9)**

The losses recognised in the consolidated income statement relating to instruments held at the year end amounted to £nil (2018: £nil).

(C) CREDIT RISK
Credit risk is the risk of a reduction in earnings and/or value, as a result of the failure of a counterparty or associated party with whom the group has contracted to meet its obligations as they fall due. Credit risk across the group mainly arises through the lending and treasury activities of the Banking division.

The Banking division applies consistent and prudent lending criteria to mitigate credit risk. Its lending activities are predominantly secured across a diverse range of asset classes and are generally short term in nature with low average loan size. This ensures concentration risk is controlled in both the loan book and associated collateral.

The group has established limits for all counterparties with whom it places deposits, enters into derivative contracts or whose debt securities are held and the credit quality of the counterparties is monitored. While these amounts may be material, the counterparties are all regulated institutions with high credit ratings assigned by international credit rating agencies and fall within the large exposure limits set by regulatory requirements.

MAXIMUM EXPOSURE TO CREDIT RISK
The table below presents the group's maximum exposure to credit risk, before taking account of any collateral and credit risk mitigation, arising from its on balance sheet and off balance sheet financial instruments. For off balance sheet instruments, the maximum exposure to credit risk represents the contractual nominal amounts.

	31 July 2019 £ million	31 July 2018 £ million
On balance sheet		
Cash and balances at central banks	**1,106.4**	1,140.4
Settlement balances	**562.9**	512.2
Loans and advances to banks	**108.9**	140.2
Loans and advances to customers	**7,649.6**	7,297.5
Debt securities	**314.4**	320.6
Loans to money brokers against stock advanced	**42.5**	66.4
Derivative financial instruments	**30.1**	16.6
Other financial assets	**50.4**	75.7
	9,865.2	9,569.6
Off balance sheet		
Irrevocable undrawn commitments	**196.9**	191.0
Total maximum exposure to credit risk	**10,062.1**	9,760.6

ASSETS PLEDGED AND RECEIVED AS COLLATERAL
The group pledges assets for repurchase agreements and securities borrowing agreements which are generally conducted under terms that are customary to standard borrowing contracts.

At 31 July 2019, the group was a participant of the Bank of England's Term Funding Scheme. Under this scheme, asset finance loan receivables of £790.6 million (31 July 2018: £773.8 million) were positioned as collateral with the Bank of England, against which £490.0 million of cash (31 July 2018: £495.0 million) was drawn. The term of these transactions is four years from the date of each drawdown but the group may choose to repay earlier at its discretion. The risks and rewards of the loan receivables remain with the group and continue to be recognised in loans and advances to customers on the consolidated balance sheet.

The group has securitised without recourse and restrictions £1,299.0 million (31 July 2018: £1,499.3 million) of its insurance premium and motor loan receivables in return for cash and asset-backed securities in issue of £949.8 million (31 July 2018: £983.3 million). This includes £35.4 million (31 July 2018: £118.1 million) asset-backed securities in issue retained for liquidity purposes. As the group has retained exposure to substantially all the credit risk and rewards of the residual benefit of the underlying assets it continues to recognise these assets in loans and advances to customers in its consolidated balance sheet.

Loans to money brokers against stock advanced of £42.5 million (31 July 2018: £66.4 million) is the cash collateral provided to these institutions for stock borrowing by Winterflood. The stock borrowing to which the cash deposits relate is short term in nature and is recorded at the amount payable.

The majority of loans and advances to customers are secured against specific assets. The security will correspond to the type of lending as detailed in the segmental loan book analysis on page 31 of the Strategic Report. Consistent and prudent lending criteria are applied across the whole loan book with emphasis on the quality of the security provided.

FINANCIAL ASSETS: LOANS AND ADVANCES TO CUSTOMERS

CREDIT RISK MANAGEMENT AND MONITORING

The overall credit risk appetite is set by the group board. The monitoring of credit policy is the responsibility of the Banking division's risk and compliance committees. Large loans are subject to approval by a credit committee.

Credit underwriting and in-life monitoring is undertaken either centrally or through regional office networks, appropriate to the diverse and specialised nature of the businesses and the size and complexity of the transaction. Underwriting authority is ultimately delegated from the Board Risk Committee and cascaded accordingly, with lending businesses approving lower risk exposures locally subject to compliance with credit policy and risk appetite.

This model is supported by central oversight and control. An independent central credit risk function provides ongoing monitoring of material credit risks through the risk assurance programme, a review of appetites and policy, and oversight / approval of large complex credit deals. This team reports through the chief credit risk officer ("CCRO") to the group chief risk officer ("GCRO") and provides monthly reporting to the Credit Risk Management Committee ("CRMC") and Group Risk and Compliance Committee ("GRCC"). The Banking division has a dual approach to mitigating credit risk by:

- lending on a secured basis with emphasis on both the customer's ability to repay and the quality of the underlying security to minimise any loss should the customer not be able to repay; and
- applying greater scrutiny both analytically and in terms of escalation of sanctioning authority where the security collateralising a loan is less tangible, or in cases of higher loan to valuation ("LTV").

Collections and recoveries processes are designed to provide a fair, consistent and effective operation for arrears management. We seek to engage in early communication with borrowers experiencing difficulty in meeting their repayments, to obtain their commitment to maintaining or re-establishing a regular payment plan.

FORBEARANCE

Forbearance occurs when a customer is experiencing difficulty in meeting their financial commitments and a concession is granted, by changing the terms of the financial arrangement, which would not otherwise be considered. This arrangement can be temporary or permanent depending on the customer's circumstances.

The Banking division maintains a forbearance policy to ensure the necessary processes are in place to enable consistently fair treatment of each customer and that they are managed based on their individual circumstances. The arrangements agreed with customers will aim to create a sustainable and affordable financial position, thereby reducing the likelihood of suffering a credit loss. The forbearance policy is periodically reviewed to ensure it is still effective.

The Banking division offers a range of concessions to support customers which varies depending on the product and the customer's status. Such concessions could involve changing the terms and conditions of a loan. The primary forbearance types granted are agreement to an extension outside terms (for example a higher loan to value or overpayments) and refinancing, which may incorporate an extension of the loan tenor and capitalisation of arrears. Other forms of forbearance (for example, moratorium; covenant waivers; rate concessions) would also be considered. The extent and type of forbearance granted reflects the predominantly secured nature of the portfolio.

Loans are classified as forborne at the time a customer in financial difficulty is granted a concession. Where forbearance has been granted, the customer will remain treated and recorded as forborne until the following exit conditions are met:

1. When all due payments, as per the amended contractual terms, have been made in a timely manner over a continuous repayment period (loan is considered as performing);

2. A minimum two-year probation period has passed from the date the forborne exposure was considered as performing; and

3. None of the customer's exposures with the Banking division are more than 30 days past due at the end of the probation period.

At 31 July 2019 the gross carrying amount of exposures with forbearance measures was £174.5 million (31 July 2018: £148.6 million). All forborne loans are captured in Stage 2 or Stage 3 for IFRS 9 and hold provisions on a lifetime basis. Total expected credit losses ("ECL") as a proportion of loans and advances which are forborne have increased to 10.7% (31 July 2018: 5.7%).

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28. FINANCIAL RISK MANAGEMENT CONTINUED

Analysis of forborne accounts is shown in the table below:

	Gross loans and advances to customers £ million	Forborne loans £ million	Forborne loans as a percentage of gross loans and advances to customers £ million	Provision on forborne loans £ million
31 July 2019	**7,753.9**	**174.5**	**2.3%**	**18.7**
31 July 2018	7,336.6	148.6	2.0%	8.5

The following is a breakdown of forborne loans by concession type at 31 July 2019:

	Forborne loans £ million
Extension outside terms	130.4
Refinancing	26.2
Moratorium	14.2
Other modifications	3.7
Total	**174.5**

SEGMENTAL CREDIT RISK

Commercial is a combination of several specialist secured lending businesses. The nature of assets financed varies across the businesses. The majority of the loan book is comprised of loans less than £2.5 million. Credit quality is predominantly assessed on an individual loan by loan basis. Collection and recovery activity is executed promptly by experts with experience in the specialised assets. This approach allows remedial action to be implemented at the appropriate time to minimise potential loss.

Retail is predominantly high volume secured lending. The majority of the loan book is comprised of loans less than £20,000. Credit issues are identified early via largely automated tracking processes. Remedial actions are implemented promptly to restore customers to a performing status or recovery methods are applied to minimise potential loss.

Property is a low volume, specialised lending portfolio with credit quality assessed on an individual loan by loan basis. The majority of the loan book is comprised of loans less than £10 million. Loans are continually monitored to determine whether they are performing satisfactorily.

In Property and Commercial performing loans with elevated levels of credit risk may be placed on watch lists depending on the perceived severity of the credit risk.

CREDIT RISK REPORTING

The following table sets out loans and advances to customers, trade receivables and undrawn facilities by the group's internal credit risk grading.

The analysis of lending has been prepared based on the following risk categories:

Low risk: The credit risk profile of the borrower is considered acceptable with no concerns on ability to meet obligations as they fall due. Standard monitoring in place.

Medium risk: Evidence of deterioration in the credit risk profile of the borrower exists which requires increased monitoring. Potential concerns on ability to meet obligations as they fall due may exist.

High risk: Evidence of significant deterioration in the credit risk profile of the borrower exists which requires enhanced management. Full repayment may not be achieved with potential for loss identified.

	Stage 1 £ million	Stage 2 £ million	Stage 3 £ million	Total £ million
At 31 July 2019				
Loans and advances to customers				
Low risk	**6,837.6**	**477.8**	**55.2**	**7,370.6**
Medium risk	**14.9**	**224.3**	**45.7**	**284.9**
High risk	**–**	**1.2**	**79.5**	**80.7**
Ungraded	**11.5**	**0.4**	**5.8**	**17.7**
	6,864.0	**703.7**	**186.2**	**7,753.9**
Undrawn commitments				
Low risk	**1,083.9**	**8.5**	**3.8**	**1,096.2**
Medium risk	**–**	**4.4**	**–**	**4.4**
	1,083.9	**12.9**	**3.8**	**1,100.6**
Trade receivables				
Low risk	**7.9**	**–**	**–**	**7.9**
Medium risk	**–**	**0.7**	**–**	**0.7**
High risk	**–**	**–**	**1.2**	**1.2**
	7.9	**0.7**	**1.2**	**9.8**

Low risk and Stage 1 loans and advances to customers represent 88% of the overall balance, reflecting the strong quality of the portfolio and our conservative underwriting approach.

Low risk and Stage 2 represent 6% of loans and advances to customers, primarily reflecting early arrears cases, or agreements which have triggered a significant increase in credit risk indicator, or a 30-days past due backstop. These loans are considered to be performing and standard monitoring continues to apply.

Loans and advances to customers reflected as low risk and Stage 3 primarily relate to agreements which have triggered the 90-days past due backstop but where full repayment is expected.

Medium risk agreements account for 4% of total loans and advances to customers with the majority corresponding with Stage 2. This is primarily driven by significant increase in credit risk indicators having been triggered, warranting increased monitoring. Loans and advances to customers reflected as medium risk and Stage 3 primarily relate to agreements that have triggered the 90-days past due backstop in addition to other significant increase in credit risk triggers.

At 31 July 2018, loans and advances to customers were analysed between the following categories for credit risk under IAS 39. Following transition, these disclosures are no longer required and have been replaced with the information presented on the previous pages. They are provided for comparative purposes only.

(I) NEITHER PAST DUE NOR IMPAIRED
The following table shows the ageing based on contractual maturity of loans and advances to customers split by credit assessment method which were neither past due nor impaired. £4.2 billion had a contractual maturity of less than 12 months demonstrating the short-term nature of the lending.

	31 July 2018 Loans and advances to customers		
	Individually assessed £ million	Collectively assessed £ million	Total £ million
Within one month	725.2	393.4	1,118.6
Between one and three months	426.5	452.8	879.3
Between three months and one year	1,177.5	1,056.2	2,233.7
Over one year	1,003.6	1,710.7	2,714.3
	3,332.8	3,613.1	6,945.9

(II) PAST DUE BUT NOT IMPAIRED
Under IAS 39, loans and advances to customers were classified as past due but not impaired when the customer failed to make a payment when contractually due but there was no evidence of impairment. This included loans which were individually assessed for impairment but where the value of security met the required repayments. This also included loans to customers which were past due for technical reasons.

The following table shows the ageing based on the period loans and advances to customers were past due, split by credit assessment method, but for which no impairment provision was raised.

	31 July 2018 Loans and advances to customers		
	Individually assessed £ million	Collectively assessed £ million	Total £ million
Within one month	98.3	83.5	181.8
Between one and three months	46.1	3.4	49.5
Between three months and one year	18.3	0.7	19.0
Over one year	9.4	–	9.4
	172.1	87.6	259.7

(III) IMPAIRED
The factors considered in determining whether assets were impaired under IAS 39 are outlined in the accounting policies in note 1(j). Impaired loans and advances to customers were analysed according to whether the impairment provisions were individually or collectively assessed.

Individually assessed provisions were determined on a case by case basis, taking into account the financial condition of the customer and an estimate of potential recovery from the realisation of security. Typically this methodology was applied by the Property business and by the Invoice and Speciality Finance business within Commercial.

Collectively assessed provisions were considered on a portfolio basis, to reflect the homogeneous nature of the assets. A percentage of the portfolio was considered impaired by evaluating the ageing of missed payments combined with the historical recovery rates for that particular portfolio. This methodology was predominantly applied by the Retail businesses and the Asset Finance business within Commercial.

Gross impaired loans were quoted without taking account of any collateral or security held, which could reduce the potential loss. The application of conservative LTV ratios on inception and the emphasis on the quality of the security provided are reflected in the low provision to gross impaired balance ratio ("coverage ratio") of 30%.

The Notes
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28. FINANCIAL RISK MANAGEMENT CONTINUED

The following table shows gross impaired loans and advances to customers and the provision thereon split by assessment method.

	31 July 2018 Loans and advances to customers		
	Individually assessed £ million	Collectively assessed £ million	Total £ million
Gross impaired loans	59.4	71.6	131.0
Provisions	(17.1)	(22.0)	(39.1)
Net impaired loans	42.3	49.6	91.9

The amount of interest income accrued on impaired loans and advances to customers in 2018 was £8.2 million.

COLLATERAL HELD

The group mitigates credit risk through holding collateral against loans and advances. The group has internal policies on the acceptability of specific collateral types, which define amongst other things the nature of assets accepted, loan to value and age at origination and exposure maturity. An asset valuation is undertaken as part of the loan origination process.

The principal types of collateral held by the Group against loans and advances to customers in the Property and Commercial segments include residential and commercial property and charges over business assets such as equipment, inventory and accounts receivable. Within the Retail segment the group holds collateral primarily in the form of vehicles in Motor Finance and refundable insurance premiums in Premium Finance, where an additional layer of protection may exist through broker recourse.

The Banking division's collateral policies have not materially changed during the reporting period and there has been no significant change in the overall quality of the collateral held by the group since the prior period.

Analysis by LTV ratio is provided below based on the group's lending facilities to customers where the exposure at origination exceeded £1.0 million, excluding Property facilities written pre 2009. Lending below this threshold is concentrated in Retail and Commercial, as the large majority of Property loans are greater than £1.0 million. There is a broad range of LTV ratios in both Retail and Commercial below £1.0 million, with the majority falling between 70% and 100%. The value of collateral used in determining the LTV ratio is based upon data captured at loan origination, or where available, a more recent updated valuation.

Gross loans and advances to customers where exposure at origination exceeded £1.0 million:

	Commercial £ million	**Retail £ million**	**Property £ million**	**Total £ million**
LTV				
Less than 70%	**245.5**	**–**	**1,518.9**	**1,764.4**
70% to 90%	**577.7**	**41.6**	**38.0**	**657.3**
Greater than 90%	**226.2**	**2.6**	**7.6**	**236.4**
At 31 July 2019	**1,049.4**	**44.2**	**1,564.5**	**2,658.1**

	Commercial £ million	Retail £ million	Property £ million	Total £ million
LTV				
Less than 70%	237.3	–	1,529.1	1,766.4
70% to 90%	514.5	7.5	13.1	535.1
Greater than 90%	201.2	17.2	–	218.4
At 31 July 2018	953.0	24.7	1,542.2	2,519.9

Gross loans and advances to customers which are credit-impaired at 31 July 2019 and where exposure at origination exceeded £1.0 million:

	Commercial £ million	**Retail £ million**	**Property £ million**	**Total £ million**
LTV				
Less than 70%	**2.9**	**–**	**20.5**	**23.4**
70% to 90%	**0.5**	**–**	**3.0**	**3.5**
Greater than 90%	**13.0**	**2.3**	**–**	**15.3**
At 31 July 2019	**16.4**	**2.3**	**23.5**	**42.2**

FINANCIAL ASSETS: TREASURY ASSETS
The credit risk presented by the group's treasury assets is low. Immaterial impairment provisions are recognised for cash and balances at central banks, certificates of deposit and sovereign and central bank debt. These financial assets are considered to be investment grade and in Stage 1.

FINANCIAL ASSETS: SETTLEMENT BALANCES
CREDIT RISK MANAGEMENT AND MONITORING
The credit risk presented by settlement balances in the Securities division is limited, as such balances represent delivery versus payment transactions where delivery of securities occurs simultaneously with payment. The credit risk is therefore limited to the change in market price of a security between trade date and settlement date and not the absolute value of the trade. Winterflood is a market maker and trades on a principal-only basis with regulated counterparties including stockbrokers, wealth managers, institutions and hedge funds who are either authorised and regulated by the PRA and/or FCA or equivalent regulator in the respective country.

CREDIT RISK REPORTING
The credit risk presented by settlement balances which are past due is mitigated by the delivery versus payment mechanism, as well as by Winterflood trading only with regulated counterparties. Counterparty exposure and settlement failure monitoring controls are in place as part of an overall risk management framework and settlement balances past due are actively managed.

The following table shows the ageing of settlement balances and loans for money brokers against stock advanced:

	Stage 1 £ million	Stage 2 £ million	Stage 3 £ million	Total £ million
At 31 July 2019				
Not past due	**529.5**	**–**	**–**	**529.5**
Less than 30 days past due	**31.8**	**–**	**–**	**31.8**
More than 30 days but less than 90 days past due	**–**	**0.6**	**–**	**0.6**
More than 90 days past due	**–**	**–**	**1.0**	**1.0**
	561.3	**0.6**	**1.0**	**562.9**

In 2018, settlement balances were classified as neither past due nor impaired when the respective trades had not yet reached their settlement date. Settlement balances were classified as past due but not impaired when trades failed to be settled on their contractual settlement date.

	31 July 2018		
	Neither past due nor impaired £ million	Past due but not impaired £ million	Total £ million
Within one month	489.7	19.4	509.1
Between one and three months	–	1.5	1.5
Between three months and one year	–	1.2	1.2
Over one year	–	0.4	0.4
	489.7	22.5	512.2

(D) MARKET RISK
Market risk is the risk that a change in the value of an underlying market variable, such as interest or foreign exchange rates, will give rise to an adverse movement in the value of the group's assets and arises primarily in the Securities division.

The Notes
continued

28. FINANCIAL RISK MANAGEMENT CONTINUED

INTEREST RATE RISK

The group's exposure to interest rate risk arises in the Banking division and the remainder of this section relates to the Banking division accordingly. Interest rate risk in the group's other divisions is considered to be immaterial.

The group has a simple and transparent balance sheet and a low appetite for interest rate risk which is limited to that required to operate efficiently. The group's policy is to match repricing characteristics of assets and liabilities naturally where possible or by using interest rate swaps to secure the margin on its loans and advances to customers. These interest rate swaps are disclosed in note 14.

The Asset and Liability Committee monitors the interest rate risk exposure across the balance sheet. There are three main sources of interest rate risk recognised, which could adversely impact future income or the value of the balance sheet:

- repricing risk occurs when assets and liabilities reprice at different times;
- embedded optionality risk occurs as a result of special conditions attached to contract terms embedded in some loans; and
- basis risk occurs where there is a mismatch in the interest rate reference rate for assets and liabilities.

The table below sets out the assessed impact on our base case earnings at risk ("EaR") due to a parallel shift in interest rates at 31 July 2019:

	2019 £ million	2018 £ million
0.5% increase	**(4.0)**	(4.9)
0.5% decrease	**5.1**	5.8

The average impact in 2019 on our base case EaR measure due to a parallel 0.5% increase or decrease in interest rates was a £4.3 million decrease and £5.2 million increase respectively.

The table below sets out the assessed impact on our base case economic value of equity ("EVE") due to a shift in interest rates at 31 July 2019:

	2019 £ million	2018 £ million
0.5% increase	**–**	0.8
0.5% decrease	**–**	(0.8)

The average impact in 2019 on our base case EVE measure due to a parallel 0.5% increase or decrease in interest rates was a £0.4 million increase and £0.4 million decrease respectively.

FOREIGN CURRENCY RISK

The group has limited exposure to foreign currency risk which derives from the equity balances of its overseas operations, which are not hedged. These balances are predominantly in euros. Foreign exchange differences which arise from the translation of these operations are recognised directly in equity.

A change in the euro exchange rate would decrease the group's equity by the following amounts:

	2019 £ million	2018 £ million
20% strengthening of sterling against the euro	**(4.3)**	(3.9)

The group has additional material currency assets and liabilities primarily as a result of treasury operations in the Banking division. These assets and liabilities are matched by currency, using exchange rate derivative contracts where necessary. Details of these contracts are disclosed in note 14. Other potential group exposures arise from share trading settled in foreign currency in the Securities division, and foreign currency equity investments. The group has policies and processes in place to manage foreign currency risk, and as such the impact of any reasonably expected exchange rate fluctuations would not be material.

MARKET PRICE RISKS

TRADING FINANCIAL INSTRUMENTS: EQUITY SHARES AND DEBT SECURITIES

The group's trading activities relate to Winterflood. The following table shows the group's trading book exposure to market price risk:

	Highest exposure £ million	**Lowest exposure £ million**	**Average exposure £ million**	**Exposure at 31 July £ million**
For the year ended 31 July 2019				
Equity shares				
Long	**39.8**	**24.5**	**30.9**	**35.3**
Short	**27.2**	**9.7**	**14.2**	**10.9**
			16.7	**24.4**
Debt securities				
Long	**32.1**	**22.0**	**25.6**	**25.5**
Short	**17.1**	**5.7**	**12.0**	**9.6**
			13.6	**15.9**

	Highest exposure £ million	Lowest exposure £ million	Average exposure £ million	Exposure at 31 July £ million
For the year ended 31 July 2018				
Equity shares				
Long	41.1	24.8	32.0	31.6
Short	29.1	9.4	16.0	14.2
			16.0	17.4
Debt securities				
Long	30.4	12.0	22.2	25.6
Short	19.7	8.5	11.8	16.4
			10.4	9.2

With respect to the long and short positions on debt securities £12.6 million and £0.4 million (2018: £10.8 million and £0.8 million) were due to mature within one year respectively.

The average exposure has been calculated on a daily basis. The highest and lowest exposures occurred on different dates and therefore a net position of these exposures does not reflect a spread of the trading book.

Based upon the trading book exposure given above, a hypothetical fall of 10% in market prices would result in a £2.4 million decrease (2018: £1.7 million decrease) in the group's income and net assets on the equity trading book and a £1.6 million decrease (2018: £0.9 million decrease) on the debt securities trading book. However, the group's trading activity is mainly market-making where positions are managed throughout the day on a continuous basis. Accordingly, the sensitivity referred to above is purely hypothetical.

NON-TRADING FINANCIAL INSTRUMENTS

Net gains and losses on non-trading financial instruments are disclosed in notes 12 and 13.

The Notes
continued

28. FINANCIAL RISK MANAGEMENT CONTINUED

(E) LIQUIDITY RISK

Liquidity risk is the risk that liabilities cannot be met when they fall due or can only be met at an uneconomic price and arises mainly in the Banking division.

The group has a prudent liquidity position with total available funding at 31 July 2019 of £9.9 billion (31 July 2018: £9.6 billion). This funding is significantly in excess of its loans and advances to customers at 31 July 2019 of £7.6 billion (31 July 2018: £7.3 billion). The group has a large portfolio of high quality liquid assets principally including cash placed on deposit with the Bank of England. The group measures liquidity risk with a variety of measures including regular stress testing and cash flow monitoring, and reporting to both the group and divisional boards.

The following table analyses the contractual maturities of the group's on balance sheet financial liabilities on an undiscounted cash flow basis.

	On demand £ million	In less than three months £ million	In more than three months but not more than six months £ million	In more than six months but not more than one year £ million	In more than one year but not more than five years £ million	In more than five years £ million	Total £ million
At 31 July 2019							
Settlement balances	**–**	**547.6**	**–**	**–**	**–**	**–**	**547.6**
Deposits by banks	**12.5**	**15.7**	**27.8**	**2.0**	**–**	**–**	**58.0**
Deposits by customers	**69.7**	**1,235.7**	**1,137.7**	**1,700.5**	**1,573.9**	**–**	**5,717.5**
Loans and overdrafts from banks	**19.0**	**10.9**	**0.9**	**1.8**	**493.9**	**–**	**526.5**
Debt securities in issue	**–**	**32.9**	**37.1**	**130.9**	**1,465.0**	**292.1**	**1,958.0**
Loans from money brokers against stock advanced	**14.3**	**–**	**–**	**–**	**–**	**–**	**14.3**
Subordinated loan capital	**–**	**1.7**	**3.7**	**5.4**	**43.3**	**245.4**	**299.5**
Derivative financial instruments	**0.1**	**7.6**	**5.8**	**8.6**	**34.8**	**9.0**	**65.9**
Other financial liabilities	**11.6**	**89.5**	**6.1**	**1.7**	**10.6**	**2.3**	**121.8**
Total	**127.2**	**1,941.6**	**1,219.1**	**1,850.9**	**3,621.5**	**548.8**	**9,309.1**

	On demand £ million	In less than three months £ million	In more than three months but not more than six months £ million	In more than six months but not more than one year £ million	In more than one year but not more than five years £ million	In more than five years £ million	Total £ million
At 31 July 2018							
Settlement balances	–	512.5	–	–	–	–	512.5
Deposits by banks	8.0	16.1	28.9	2.2	–	–	55.2
Deposits by customers	81.3	1,279.7	914.6	1,686.5	1,610.4	–	5,572.5
Loans and overdrafts from banks	9.6	5.6	0.6	1.2	500.1	–	517.1
Debt securities in issue	–	29.5	86.1	499.6	990.1	317.0	1,922.3
Loans from money brokers against stock advanced	22.4	–	–	–	–	–	22.4
Subordinated loan capital	–	1.7	3.7	5.4	44.5	255.1	310.4
Derivative financial instruments	0.3	4.7	3.4	7.8	50.2	14.9	81.3
Other financial liabilities	11.0	97.5	2.3	1.6	7.5	0.1	120.0
Total	132.6	1,947.3	1,039.6	2,204.3	3,202.8	587.1	9,113.7

Derivative financial instruments in the table above includes net currency swaps. The following table shows the currency swaps on a gross basis:

	On demand £ million	In less than three months £ million	In more than three months but not more than six months £ million	In more than six months but not more than one year £ million	In more than one year but not more than five years £ million	In more than five years £ million	Total £ million
At 31 July 2019	**5.6**	**163.3**	**88.8**	**8.6**	**34.8**	**9.0**	**310.1**
At 31 July 2018	42.1	63.5	3.4	7.8	50.2	14.9	181.9

(F) OFFSETTING

The following table shows the impact on derivative financial assets and liabilities which have not been offset but for which the group has enforceable master netting arrangements in place with counterparties. The net amounts show the exposure to counterparty credit risk after offsetting benefits and collateral, and are not intended to represent the group's actual exposure to credit risk.

Master netting arrangements allow outstanding transactions with the same counterparty to be offset and settled net, either unconditionally or following a default or other predetermined event. Financial collateral on derivative financial instruments consists of cash settled, typically daily, to mitigate the mark to market exposures.

	Gross amounts recognised £ million	Master netting arrangements £ million	Financial collateral £ million	Net amounts after offsetting £ million
At 31 July 2019				
Derivative financial assets	**30.1**	**(14.9)**	**(12.4)**	**2.7**
Derivative financial liabilities	**20.6**	**(14.9)**	**(5.4)**	**0.2**
At 31 July 2018				
Derivative financial assets	16.6	(8.3)	(7.7)	0.6
Derivative financial liabilities	15.7	(8.3)	(7.2)	0.2

29. INTEREST IN UNCONSOLIDATED STRUCTURED ENTITIES

Structured entities are those entities that have been designed so that voting or similar rights are not the dominant factor in deciding who has control, such as when any voting rights relate to administrative tasks only, or when the relevant activities are directed by means of contractual arrangements.

The group has interests in structured entities as a result of contractual arrangements arising from the management of assets on behalf of its clients as part of its Asset Management division. These structured entities consist of unitised vehicles such as Authorised Unit Trusts ("AUTs") and Open Ended Investment Companies ("OEICs") which entitle investors to a percentage of the vehicle's net asset value. The structured entities are financed by the purchase of units or shares by investors. The group does not hold direct investments in its structured entities.

As fund manager, the group does not guarantee returns on its funds or commit to financially support its funds. The business activity of all structured entities is the management of assets in order to maximise investment returns for investors from capital appreciation and/or investment income. The group earns a management fee from its structured entities, based on a percentage of the entity's net asset value.

The main risk the group faces from its interest in assets under management on behalf of external investors is the loss of fee income as a result of the withdrawal of funds by clients. Outflows from funds are dependent on market sentiment, asset performance and investor considerations. The assets under management of unconsolidated structured entities managed by the group were £4,843 million at 31 July 2019 (31 July 2018: £4,348 million). Included in revenue on the consolidated income statement is management fee income of £31.3 million (2018: £27.6 million) from unconsolidated structured entities managed by the group.

30. IMPLEMENTATION OF IFRS 9

The group has adopted IFRS 9 Financial Instruments with effect from 1 August 2018. In accordance with the requirements of IFRS 9, comparative information has not been restated and transitional adjustments have been accounted for through retained earnings at 1 August 2018, the date of initial application.

At 1 August 2018, retained earnings decreased by £44.9 million reflecting an increase in impairment provisions of £59.0 million partly offset by an increase in deferred tax assets of £14.1 million. £58.2 million of the increase in impairment provisions relates to loans and advances to customers while the remaining £0.8 million relates to other financial assets.

This increase in impairment provisions principally reflects the additional expected credit loss on performing and underperforming loans, as well as a broader definition of default compared to IAS 39 and the addition of forward-looking macroeconomic assumptions.

The Notes
continued

30. IMPLEMENTATION OF IFRS 9 CONTINUED

The following table sets out the impact of IFRS 9 on the group balance sheet at 1 August 2018.

	Classification and measurement[1] IAS 39	IFRS 9	IAS 39 carrying amount 31 July 2018 £ million	IFRS 9 transitional adjustment £ million	IFRS 9 carrying amount 1 August 2018 £ million
Assets					
Cash and balances at central banks	LAR	AC	1,140.4	(0.1)	1,140.3
Settlement balances	LAR	AC	512.2	(0.1)	512.1
Loans and advances to banks	LAR	AC	140.2	(0.1)	140.1
Loans and advances to customers	LAR	AC	7,297.5	(58.2)	7,239.3
Debt securities			320.6	(0.2)	320.4
	LAR	AC	250.5	(0.2)	250.3
	AFS	FVOCI	44.5	–	44.5
	HFT	FVPL	25.6	–	25.6
Equity shares			32.1	–	32.1
	AFS	FVPL	0.5	–	0.5
	HFT	FVPL	31.6	–	31.6
Loans to money brokers against stock advanced	LAR	AC	66.4	–	66.4
Derivative financial instruments			16.6	–	16.6
	HFT	FVPL	1.1	–	1.1
	FV(H)	FV(H)	15.5	–	15.5
Intangible assets			201.3	–	201.3
Property, plant and equipment			226.1	–	226.1
Deferred tax assets			43.0	14.1	57.1
Prepayments, accrued income and other assets			187.1	(0.3)	186.8
	LAR	AC	49.4	(0.3)	49.1
	FVPL	FVPL	2.1	–	2.1
	AC	AC	135.6	–	135.6
Assets classified as held for sale			67.5	–	67.5
Total assets			**10,251.0**	**(44.9)**	**10,206.1**
Liabilities					
Settlement balances and short positions			543.1	–	543.1
	AC	AC	512.5	–	512.5
	HFT	FVPL	30.6	–	30.6
Deposits by banks	AC	AC	55.2	–	55.2
Deposits by customers	AC	AC	5,497.2	–	5,497.2
Loans and overdrafts from banks	AC	AC	509.8	–	509.8
Debt securities in issue	AC	AC	1,773.4	–	1,773.4
Loans from money brokers against stock advanced	AC	AC	22.4	–	22.4
Derivative financial instruments	FVPL	FVPL	15.7	–	15.7
Current tax liabilities	AC	AC	17.4	–	17.4
Accruals, deferred income and other liabilities			249.6	–	249.6
	AC	AC	244.2	–	244.2
	FVPL	FVPL	5.4	–	5.4
Subordinated loan capital	AC	AC	217.9	–	217.9
Liabilities classified as held for sale			0.6	–	0.6
Total liabilities			**8,902.3**	**–**	**8,902.3**
Total equity			**1,348.7**	**(44.9)**	**1,303.8**
Total liabilities and equity			**10,251.0**	**(44.9)**	**10,206.1**

1 Abbreviations
AC – amortised cost
AFS – available for sale
FV(H) – derivatives held for hedging and carried at fair value
FVOCI – fair value through other comprehensive income
FVPL – fair value through profit or loss
HFT – held for trading
LAR – loans and receivables

31. INVESTMENTS IN SUBSIDIARIES

In accordance with section 409 of the Companies Act 2006, the following is a list of the group's subsidiaries at 31 July 2019 which are all wholly owned and incorporated in the UK unless otherwise stated.

GROUP

Close Brothers Holdings Limited[1]

BANKING

Air and General Finance Limited[2]
Armed Services Finance Limited[5]
Arrow Audit Services Limited[1]
Brook Funding (No.1) Limited[13, 20]
Capital Lease Solutions Limited[1]
CBM Holdings Limited[1]
CLL I Limited[14]
Close Asset Finance Limited[2]
Close Brewery Rentals Limited[6]
Close Brothers Asset Finance GmbH (Germany)[16]
Close Brothers Factoring GmbH (Germany)[16]
Close Brothers Finance plc[1]
Close Brothers Limited[1]
Close Brothers Military Services Limited[5]
Close Brothers Premium DAC[19]
Close Brothers Technology Services Limited (85% shareholding)[1]
Close Brothers Vehicle Hire Limited[15]
Close Business Finance Limited[2]
Close Credit Management (Holdings) Limited[1]
Close Finance (CI) Limited (Jersey)[17]
Close International Bank Holdings Limited (Guernsey)[4]
Close Invoice Finance Limited[1]
Close Leasing Limited[14]
Close Motor Finance Limited[5]
Close PF Funding I Limited[12, 20]
Close Trust Nominees Limited[1]
Commercial Acceptances Limited[7]
Commercial Finance Credit Limited[2]
Ecasks Limited[6]
Finance for Industry Limited[1]

BANKING CONTINUED

Finance for Industry Services Limited[1]
Kingston Asset Finance Limited[2]
Kingston Asset Leasing Limited[2]
Metropolitan Factors Limited[1]
Micgate Holdings (UK) Limited[1]
Novitas Loans Limited[2]
Novitas (Salisbury) Limited[2]
Orbita Funding 2016-1 plc[13, 20]
Orbita Funding 2017-1 plc[13, 20]
Orbita Holdings Limited[13, 20]
Surrey Asset Finance Limited[2]

SECURITIES

W.S. (Nominees) Limited[3]
Winterflood Client Nominees Limited[3]
Winterflood Gilts Limited[3]
Winterflood Securities Holdings Limited[3]
Winterflood Securities Limited[3]
Winterflood Securities US Corporation[18]

ASSET MANAGEMENT

Adrian Smith & Partners Limited[1]
Cavanagh Financial Management Limited[8]
CBF Wealth Management Limited (80% shareholding)[1]
CFSL Management Limited[1]
Close Asset Management Holdings Limited[1]
Close Asset Management Limited[1]
Close Asset Management (UK) Limited[1]
Close Investments Limited[1]
Close Portfolio Management Limited[1]
Close Properties Jersey Limited (Jersey)[9]
EOS Wealth Management Limited[1]
Lion Nominees Limited[1]
Place Campbell Close Brothers Limited (50% shareholding)[11]

Registered offices:
1 10 Crown Place, London EC2A 4FT, United Kingdom.
2 Wimbledon Bridge House, Hartfield Road, Wimbledon, London SW19 3RU, United Kingdom.
3 The Atrium Building Cannon Bridge, 25 Dowgate Hill, London EC4R 2GA, United Kingdom.
4 1st and 2nd Floors, Elizabeth House, Les Ruettes Brayes, St Peter Port GY1 1EW, Guernsey.
5 Roman House, Roman Road, Doncaster, South Yorkshire DN4 5EZ, United Kingdom.
6 Unit 1, Kingfisher Park, Headlands Business Park, Ringwood, Hampshire BH24 3NX, United Kingdom.
7 100 George Street, London W1U 8NU, United Kingdom.
8 4th Floor, The Athenaeum Building, 8 Nelson Mandela Place, Glasgow G2 1BT, United Kingdom.
9 47 Esplanade, St Helier JE1 0BD, Jersey.
10 Saltire Court, 3rd Floor, West Wing, 20 Castle Terrace, Edinburgh, Scotland EH1 2EN, United Kingdom.
11 Wilmington House, High Street, East Grinstead, West Sussex RH19 3AU, United Kingdom.
12 25 Canada Square, Level 37, London E14 5LQ, United Kingdom.
13 35 Great St. Helen's, London EC3A 6AP, United Kingdom.
14 Olympic Court Third Avenue, Trafford Park Village, Manchester M17 1AP, United Kingdom.
15 Lows Lane, Stanton-By-Dale, Ilkeston, Derbyshire DE7 4QU, United Kingdom.
16 Grosse Bleiche 35-39, 55116, Mainz, Germany.
17 Conway House, Conway Street, St Helier JE4 5SR, Jersey.
18 1209 Orange Street, Wilmington 19801, New Castle, Delaware, U.S.A.
19 Swift Square, Building 1, Santry Demesne, Northwood, Dublin, DO9 AOE4, Ireland.

Subsidiaries by virtue of control:
20 The related undertakings are included in the consolidated financial statements as they are controlled by the group.

Glossary and Definition of Key Terms

12 month expected credit loss provision ("12 month ECL")	Losses that result from default events occurring within the next 12 months
Adjusted	Adjusted measures are used to increase comparability between periods and exclude amortisation of intangible assets on acquisition, any exceptional items and discontinued operations
Adjusted operating profit ("AOP")	Calculated as operating income less adjusted operating expenses and impairment losses on financial assets
Asset Risk Consultant ("ARC")	Independent investment management consultant providing manager research and benchmarking for private client investment managers, charities, trustees and family offices
Assets under administration	Total assets for which Winterflood Business Services provide custody and administrative services
Bad debt ratio	Impairment losses as a percentage of average net loans and advances to customers and operating lease assets
Bargains per day	Average number of Winterflood's trades with third parties
Buy-as-you-earn ("BAYE")	The HM Revenue & Customs-approved Share Incentive Plan that gives all employees the opportunity to become shareholders in the group
Capital Requirements Directive IV ("CRD IV")	European Union regulation implementing the Basel III requirements in Europe, alongside CRR
Capital Requirements Regulation ("CRR")	European Union regulation implementing the Basel III requirements in Europe, alongside CRD IV
Common equity tier 1 ("CET1") capital	Measure of capital as defined by the CRR. CET1 capital consists of the highest quality capital including ordinary shares, share premium account, retained earnings and other reserves, less goodwill and intangible assets and certain other regulatory adjustments
CET1 capital ratio	Measure of the group's CET1 capital as a percentage of risk weighted assets, as required by CRR
Compensation ratio	Total staff costs as a percentage of adjusted operating income
Credit impaired	Where one or more events that have a detrimental impact on the estimated future cash flows of a loan have occurred. Credit impaired events are more severe than SICR triggers. Accounts which are credit impaired will be allocated to Stage 3
Discounting	The process of determining the present value of future payments
Dividend per share	Comprises the final dividend proposed for the respective year, together with the interim dividend declared and paid in the year
Earnings per share ("EPS")	Profit attributable to shareholders divided by number of basic shares
Effective interest rate ("EIR")	The interest rate at which revenue is recognised on loans and discounted to their carrying value over the life of the financial asset
Effective tax rate	Tax on operating profit/(loss) as a percentage of profit/(loss) on ordinary activities before tax
Employee engagement score	A measure, in percentage terms, of the extent to which staff are enthusiastic about their jobs, their level of commitment to the company, and how motivated they are to put effort into their work
Expense/income ratio	Total adjusted operating expenses divided by adjusted operating income
Expected credit loss ("ECL")	The unbiased probability-weighted average credit loss determined by evaluating a range of possible outcomes and future economic conditions
Exposure at default ("EAD")	The capital outstanding at the point of default
Financial Conduct Authority ("FCA")	A financial regulatory body in the UK, regulating financial firms and maintaining integrity of the UK's financial market
Financial Reporting Council ("FRC")	An independent regulatory body responsible for promoting high quality corporate governance and reporting amongst UK companies
Forbearance	Forbearance occurs when a customer is experiencing financial difficulty in meeting their financial commitments and a concession is granted, by changing the terms of the financial arrangement, which would not otherwise be considered
Funding allocated to loan book	Total funding excluding equity and funding held for liquidity purposes

Funding % loan book	Total funding divided by net loans and advances to customers
General Data Protection Regulation ("GDPR")	Regulation intended to strengthen and unify data protection for all individuals within the European Union
Gross carrying amount	Loan book before expected credit loss provision
High quality liquid assets ("HQLAs")	Assets which qualify for regulatory liquidity purposes, including Bank of England deposits and sovereign and central bank debt, including funds drawn under the Funding for Lending Scheme
Independent financial adviser	Professional offering independent, whole of market advice to clients including investments, pensions, protection and mortgages
Internal Capital Adequacy Assessment Process ("ICAAP")	An annual self-assessment of a bank's material risks and the associated level of capital needed to be held, and undertaking appropriate stress testing of capital adequacy
Internal Ratings Based ("IRB") approach	A supervisor-approved method using internal models, rather than standardised risk weightings, to calculate regulatory capital requirements for credit risk
International Accounting Standards ("IAS")	Older set of standards issued by the International Accounting Standards Council, setting up accounting principles and rules for preparation of financial statements. IAS are being superseded by IFRS
International Financial Reporting Standards ("IFRS")	Globally accepted accounting standards issued by the IFRS Foundation and the International Accounting Standards Board
Leverage ratio	Tier 1 capital as a percentage of total balance sheet assets, adjusted for certain capital deductions, including intangible assets, and off balance sheet exposures
Lifetime expected credit loss provision ("Lifetime ECL")	Losses that result from default events occurring within the lifetime of the loan
Liquidity coverage ratio	Measure of the group's HQLAs as a percentage of expected net cash outflows over the next 30 days in a stressed scenario
Loan to value ratio ("LTV")	For a secured loan, the loan balance as a percentage of the total value of the asset
Loss given default ("LGD")	The amount lost on a loan if a customer defaults
Managed assets	Total market value of assets which are managed by Close Brothers in one of our investment solutions
Market abuse regulation ("MAR")	European regulation aimed at increasing market integrity and investor protection
MiFID II	The Markets in Financial Instruments Directive is the EU legislation that regulates firms who provide services to clients linked to financial instruments, and the venues where those instruments are traded
Modelled expected credit loss provision	ECL = PD x LGD x EAD
Net carrying amount	Loan book value after expected credit loss provision
Net interest margin ("NIM")	Adjusted income generated by lending activities, including interest income net of interest expense, fees and commissions income net of fees and commissions expense, and operating lease income net of operating lease expense, less depreciation on operating lease assets, divided by average loans and advances to customers (net of impaired loans) and operating lease assets
Net Promoter Score ("NPS")	A measure of customer satisfaction by which unfavourable ratings are deducted from favourable ratings; hence a score above 0 is good, and above 50 is excellent
Operating margin	Adjusted operating profit divided by adjusted operating income
Personal Contract Plan ("PCP")	PCP is a form of vehicle finance where the customer defers a significant portion of credit to the final repayment at the end of the agreement, thereby lowering the monthly repayments compared to a standard hire purchase arrangement. At the final repayment date, the customer has the option to: (a) pay the final payment and take the ownership of the vehicle; (b) return the vehicle and not pay the final repayment; or (c) part-exchange the vehicle with any equity being put towards the cost of a new vehicle
Probability of default ("PD")	Probability that a customer will default on their loan
Prudential Regulation Authority ("PRA")	A financial regulatory body, responsible for regulating and supervising banks and other financial institutions in the UK
Return on assets	Profit attributable to shareholders divided by total closing assets at a balance sheet date

Glossary and Definition of Key Terms
continued

Return on net loan book ("RoNLB")	Adjusted operating profit from lending activities divided by average net loans and advances to customers and operating lease assets
Return on opening equity ("RoE")	Adjusted operating profit after tax and non-controlling interests divided by opening equity, excluding non-controlling interests
Revenue margin	Income from advice, investment management and related services divided by average total client assets. Average total client assets calculated as a two-point average
Risk weighted assets ("RWA")	A measure of the amount of a bank's assets, adjusted for risk. It is used in determining the capital requirement for a financial institution
Save-as-you-earn ("SAYE")	Scheme intended to encourage saving and build long-term share ownership in the group
Secured debt	Debt backed or secured by collateral
Senior debt	Represents the type of debt that takes priority over other unsecured or more junior debt owed by the issuer. Senior debt is first to be repaid ahead of other lenders or creditors
Significant increase in credit risk ("SICR")	An assessment of whether credit risk has increased significantly since initial recognition of a loan using a range of triggers. Accounts which have experienced a significant increase in credit risk will be allocated to Stage 2
Standardised approach	Generic term for regulator-defined approaches for calculating credit, operational and market risk capital requirements as set out in the CRR
Subordinated debt	Represents debt that ranks below, and is repaid after claims of, other secured or senior debt owed by the issuer
Term funding	Funding with a remaining maturity greater than 12 months
Tier 2 capital	Additional regulatory capital that along with Tier 1 capital makes up a bank's total regulatory capital. Includes qualifying subordinated debt
Total client assets	Total market value of all client assets including both managed assets and assets under advice and/or administration in the Asset Management division
Total shareholder return ("TSR")	Measure of shareholder return including share price appreciation and dividends, which are assumed to be re-invested in the company's shares
Watch list	Internal risk management process for heightened monitoring of exposures that are showing increased credit risk

Investor Relations

FINANCIAL CALENDAR (PROVISIONAL)

Event	Date
First quarter trading update	November 2019
Annual General Meeting	21 November 2019
Final dividend payment	26 November 2019
Pre-close trading update	January 2020
Half year end	31 January 2020
Interim results	March 2020
Third quarter trading update	May 2020
Pre-close trading update	July 2020
Financial year end	31 July 2020
Preliminary results	September 2020

The financial calendar is updated on a regular basis throughout the year. Please refer to our website www.closebrothers.com for up-to-date details.

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Certain statements included or incorporated by reference within this report may constitute "forward-looking statements" in respect of the group's operations, performance, prospects and/or financial condition. Forward-looking statements are sometimes, but not always, identified by their use of a date in the future or such words as "anticipates", "aims", "due", "could", "may", "will", "should", "expects", "believes", "intends", "plans", "potential", "targets", "goal" or "estimates". By their nature, forward-looking statements involve a number of risks, uncertainties and assumptions and actual results or events may differ materially from those expressed or implied by those statements. Accordingly, no assurance can be given that any particular expectation will be met and reliance should not be placed on any forward-looking statement. Additionally, forward-looking statements regarding past trends or activities should not be taken as a representation that such trends or activities will continue in the future. Except as may be required by law or regulation, no responsibility or obligation is accepted to update or revise any forward-looking statement resulting from new information, future events or otherwise. Nothing in this report should be construed as a profit forecast. Past performance is no guide to future performance and persons needing advice should consult an independent financial adviser.

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