Close Brothers
Modern Merchant Banking

Close Brothers Group plc
Annual Report 2021

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Financial Highlights
for the year ended 31 July 2021

Adjusted[1] Operating Profit

£270.7m

2021	**£270.7m**
2020	£144.0m
2019	£270.5m
2018	£278.6m
2017	£268.7m

Operating Profit Before Tax

£265.2m

2021	**£265.2m**
2020	£140.9m
2019	£264.7m
2018	£271.2m
2017	£262.5m

Adjusted[1] Basic Earnings per Share

140.4p

2021	**140.4p**
2020	74.5p
2019	136.7p
2018	140.2p
2017	133.6p

Basic Earnings per Share

134.8p

2021	**134.8p**
2020	72.8p
2019	133.5p
2018	136.2p
2017	130.2p

Return on Opening Equity[2]

14.5%

2021	**14.5%**
2020	8.0%
2019	15.7%
2018	17.0%
2017	18.1%

Profit Attributable to Shareholders

£202.1m

2021	**£202.1m**
2020	£109.5m
2019	£201.6m
2018	£202.3m
2017	£191.2m

Ordinary Dividend per Share[3]

60.0p

2021	**60.0p**
2020	40.0p
2019	66.0p
2018	63.0p
2017	60.0p

1 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, and any exceptional and other adjusting items which do not reflect underlying trading performance. Please refer to page 43 for further details on items excluded from the adjusted performance metrics.
2 Adjusted operating profit attributable to shareholders divided by opening equity, excluding non-controlling interests.
3 Represents the final dividend proposed for the respective years together with the interim dividend declared and paid in those years.

Our Businesses

Close Brothers is a leading UK merchant banking group providing lending, wealth management services and securities trading. We employ over 3,700 people across 47 offices predominantly in the UK, Ireland and Germany.

Banking

Commercial

Adjusted operating profit

£52.8m

2020: £4.8m

The **Commercial** businesses lend principally to small and medium-sized enterprises ("SME"), both through their direct sales force and via broker distribution channels. Our highly specialist sales force operates from offices throughout the UK, Ireland and Germany.

The **Asset Finance** business has c.25,000 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, green energy production, and aircraft and marine vessels.

Loan book[1]: **£2.8 billion**

Average loan size: **c.£58,000**

Typical loan maturity[2]: **3 to 4 years**

The **Invoice and Speciality Finance** business works with c.5,300 businesses, providing debt factoring, invoice discounting and asset-based lending. It also includes our smaller specialist businesses such as Novitas Loans ("Novitas")[4], 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, light commercial vehicles and buses on long-term rental contracts.

Loan book[1]: **£1.1 billion**

Average loan size[3]: **c.£456,000**

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

Retail

Adjusted operating profit

£71.9m

2020: £34.9m

The **Retail** businesses provide 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.6,000 independent motor dealers and has approximately 260,000 customers in the UK and Ireland.

Loan book: **£1.9 billion**

Average loan size: **c.£7,000**

Typical loan maturity[2]: **4 years**

The **Premium Finance** business finances insurance payments for over three million companies and individuals, via a network of c.1,600 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

Operating profit

£87.8m

2020: £59.5m

The **Property** business specialises in short-term residential development finance through Property Finance, and also offers refurbishment and bridging loans through Commercial Acceptances.

The Property 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.

Loan book: **£1.5 billion**

Average loan size: **c.£1.2 million**

Typical loan maturity[2]: **6 to 18 months**

Read more about Banking
See pages 46 to 51

1 Excludes operating lease assets of £1.3 million (31 July 2020: £2.9 million) which relate to Asset Finance and £221.6 million (31 July 2020: £219.0 million) to Invoice and Speciality Finance.
2 Typical loan maturities for new business on a contractual basis, except core Invoice Finance which are on a behavioural basis.
3 Average loan size and typical loan maturity include the Invoice Finance business only.
4 Following the strategic review of Novitas' products and services, in July 2021 the group decided to cease permanently the approval of lending to new customers across all of the products offered by Novitas, a wholly owned subsidiary of Close Brothers acquired in 2017, and withdraw from the legal services financing market.

Asset Management

Close Brothers Asset Management (“CBAM”)

Adjusted operating profit

£23.7m

2020: £20.4m

CBAM is a vertically integrated top 20 UK wealth manager, providing financial advice and investment management services to private clients in the UK. Our clients range from mid to high net worth individuals.

Our core capabilities are advice, multi-asset investment management and custody which we combine to create different propositions tailored to client preference and client size.

Our strategic aim is to gather assets into our investment management and platform through three main distribution channels: our own financial advisers; our private client investment managers; and via third party financial advisers.

We are a national business operating out of 11 locations with c.90 advisers, 65 investment professionals and over 700 employees in total.

Total client assets: **£17.0 billion**

Managed assets: **£15.6 billion**

Read more about Asset Management
See pages 52 and 53

Securities

Winterflood

Operating profit

£60.9m

2020: £47.9m

The **Securities** division comprises **Winterflood**, a leading UK market maker for retail stockbrokers and institutions. Winterflood deals in over 15,000 instruments in the UK and overseas, and trades with over 600 institutional asset managers, retail stockbrokers, wealth managers, platforms and other market counterparties, providing continuous liquidity through its market-leading execution services, supported by strong proprietary technology. Its traders have extensive experience of executing orders in a range of market conditions, enabling it to trade successfully and profitably over many years. We also offer sales trading services to institutional clients both in the UK and in the US.

Our investment trust team provide the full range of services of corporate finance, corporate broking, sales and research, as well as market-making. We act as corporate broker and adviser to over 55 corporate clients with a diverse range of conventional and alternative asset classes.

Winterflood Business Services has been operating for over 10 years and provides outsourced dealing and custody solutions.

Average bargains per day: **c.101,000**

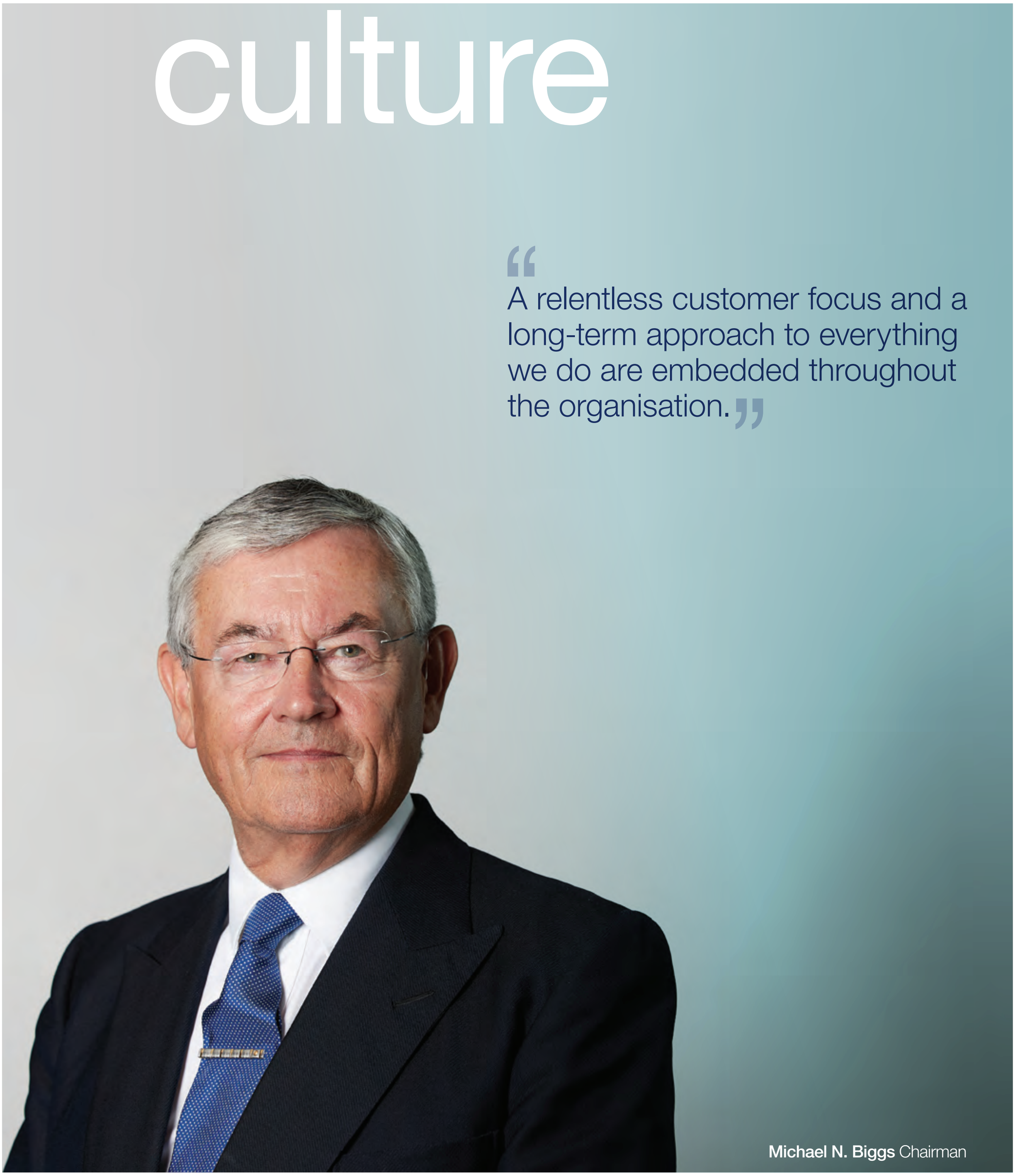
Total counterparties: **c.600**

Read more about Securities
See pages 54 and 55

Chairman's Statement

A distinctive culture

> A relentless customer focus and a long-term approach to everything we do are embedded throughout the organisation.



Michael N. Biggs Chairman

The ongoing impact of the pandemic has been felt during the year both by our businesses and among our people. In the face of this uncertain environment, the benefits of the group's disciplined adherence to the business model have been evidenced by the strong performance delivered this year.

The lending business has delivered significantly higher profit as a result of increased income and lower impairment charges while continuing to progress strategic investments; Asset Management continued to grow and attract client assets and new hires; and Winterflood achieved an exceptional trading performance as it benefited from the heightened market activity for most of the year and the expertise of our traders.

After exceptional and other adjusting items, statutory operating profit before tax increased by 88% to £265.2 million (2020: £140.9 million). The adjusted operating profit increased 88% and returned to pre-Covid-19 levels at £270.7 million, corresponding to a return on opening equity of 14.5% (2020: 8.0%). In light of this year's performance and to reflect the board's continued confidence in the group's business model and financial position, we are pleased to recommend a final dividend of 42.0p per share. If approved at the Annual General Meeting, this will take the full-year dividend to 60.0p per share, a 50% increase on last year.

The Right Model, the Right Strategy

The group has navigated the crisis well, and this is a testament to Adrian and his management team, who led the group during this challenging period, maintaining the passion and engagement of our people and continued support for customers and clients.

In his first year as the group's chief executive, Adrian undertook a review with the objective of evolving the group's strategy to reflect the focus on growth in line with Close Brothers' business model, as well as incorporating the group's approach to sustainability. As a result, the framework for articulating the group's priorities evolved to "protect", "grow" and "sustain" our successful business model. This framework captures our commitment to deliver disciplined growth and to sustain our business for the long term.

The executive team also recently held an Investor Event to explain these strategic priorities and to give details of how it plans to deliver disciplined growth. Continuity and consistency of the business model are two very important tenets for the board, and I am pleased to see these being articulated and executed. I am confident that we have the right strategy and business model to continue delivering for all of our stakeholders.

A Distinctive Culture

One of the most valuable assets of Close Brothers is our distinctive culture. A relentless customer focus and a long-term approach to everything we do are embedded throughout the organisation and play a key role in the achievement of such a successful performance, throughout the years and in this challenging environment.

I was pleased to see the results of our most recent employee opinion survey ("EOS"). We pride ourselves on our excellent levels of service, with 93% of the respondents saying they see colleagues go the extra mile to meet the needs of customers and clients. We also believe in trustworthy behaviour and always "doing the right thing", with 97% of our colleagues agreeing that our culture encourages them to treat customers and clients fairly. These are really strong numbers and we take great pride in the fact that our culture and the values that underpin it are embraced by our colleagues, every day. You can read more about the EOS highlights on page 16 of this report.

During the pandemic, the preservation of this culture and our colleagues' wellbeing have been at the top of the board's agenda. The directors received frequent updates on employee issues arising from Covid-19, including the review and discussion of a quarterly culture dashboard. You can read more about this and other stakeholders' matters considered by the board during the year on page 36.

Chairman's Statement continued

The right model, the right strategy

"I am confident that we have the right strategy and business model to continue delivering for all of our stakeholders."

Board Composition
Adrian Sainsbury was appointed to succeed Preben Prebensen on 21 September 2020 following the announcement of Preben's planned departure and an extensive search process undertaken by the board. Adrian has demonstrated expert leadership as the group makes the most of the opportunities arising and continues to deliver disciplined growth.

After more than nine years' dedicated service on the board, Geoffrey Howe decided not to seek reappointment at the 2020 AGM and ceased to be a director on 19 November 2020. In December 2020, the board was pleased to appoint Mark Pain as a successor to Geoffrey. Mark joined the board as an independent non-executive director with effect from 1 January 2021. Mark brings to the board more than 30 years' executive and non-executive experience in financial services, including in retail banking and insurance, with strong finance, risk management and commercial credentials.

Once again, I would like to thank Preben and Geoffrey for their contribution to the group over many years.

We were also pleased to welcome Tesula Mohindra and Patricia Halliday as independent non-executive directors with effect from 15 July 2021 and 1 August 2021, respectively.

Tesula has over 25 years' experience in the financial sector and brings extensive financial and commercial expertise gained in a broad range of organisations, from investment banks to start-ups. Patricia has over 30 years' experience in risk management across the investment, corporate and retail banking sectors, both in the UK and internationally, with a deep understanding of the regulatory, risk and governance environment in which the group operates.

The appointments of Mark, Tesula and Patricia further strengthen the range of skills, backgrounds and experience on the board, and demonstrate our orderly and proactive approach to succession planning. Diversity and inclusion remains an area of focus for the board's succession planning while ensuring continuity in the stewardship of the group. I am pleased that we comply with the recommendations of the Hampton-Alexander and Parker Reviews in terms of the composition of the board.

Doing the Right Thing
At Close Brothers we believe we have the responsibility to help address the social, economic and environmental changes facing our business, employees and customers, both now and into the future.

We strive to build that responsibility into everything we do. During the year, the board and management team maintained the focus on the group's sustainability agenda, with good progress on our programmes and initiatives. These are aimed at addressing our key priorities such as inclusion, social mobility, supporting customer needs, reducing our impact on the environment, and responding to the threats of climate change.

Promoting an inclusive culture and supporting new ways of working and social mobility are some of the objectives we set ourselves and I am particularly pleased with the great progress we are making in these areas.

Addressing the threat of climate change, as well as identification of the risks and opportunities it poses to our business, is at the forefront of the directors' and the executive team's agendas. We are supportive of the goals of the Paris Agreement and have set ourselves targets for our operational emissions, with good progress made in lowering those emissions over the last financial year. Over the next few months, we will continue to work towards improving our understanding of our indirect Scope 3 emissions, which will help shape our roadmap for lowering emissions from our business activity and setting more ambitious targets in the future.

I have been impressed by the commitment and hard work demonstrated by our colleagues while adapting to new ways of working, and for this I wish to extend my gratitude. Our people are critical to the continued long-term success of the group and I am confident that, together, we will continue to deliver on our purpose.

Michael N. Biggs
Chairman

28 September 2021

Chief Executive's Statement

A proven and resilient model

"Our priority has been to ensure the group remained in a strong position to support our people and customers while making the most of the opportunities arising."

Adrian Sainsbury Chief Executive

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

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

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

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

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

Financial Performance

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

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

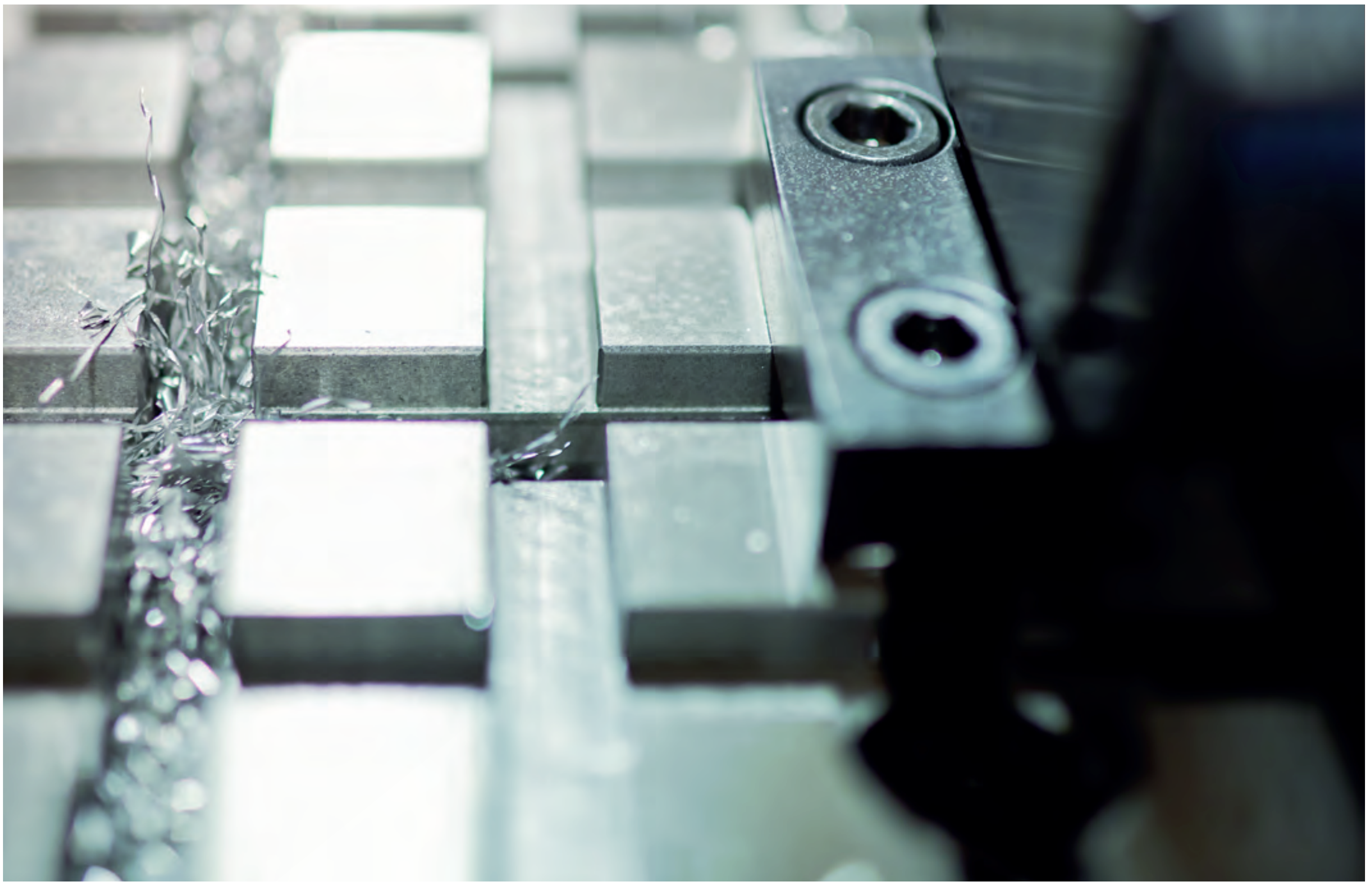
Costs increased 10%, broadly in line with income growth, mainly driven by continued investment and higher compensation as performance improved. In Banking and Asset Management, costs increased, reflecting our continued investment and higher performance-related costs. Winterflood's operating expenses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

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

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

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

Chief Executive's Statement continued



Keeping Our Model Safe While Taking it Forward

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

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

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

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

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

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

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

Focus on the Long Term

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

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

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

Outlook

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

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

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

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

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

Adrian Sainsbury
Chief Executive

28 September 2021

Business Model

Close Brothers has a proven and resilient business model, delivering excellent service in sectors we know and understand. Our distinctive strengths ensure we are well positioned to continue delivering on our long-term track record of growth and profitability.

Our distinctive strengths

Disciplined underwriting and pricing through the cycle

In Banking, our success is supported by our disciplined pricing and underwriting criteria. We consistently apply these criteria at all stages of the economic cycle. Our lending is predominantly secured or structurally protected, with conservative loan to value ratios, small loan sizes and short maturities. We do not operate in the undifferentiated, volume-driven markets which are dominated by the larger banks, and prioritise pricing and margins over volume.

Prudent management of financial resources

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 liquidity management and funding, as we focus on diversity of funding sources and a prudent maturity profile. This enables us to protect, grow and sustain our business model.

Service, expertise and relationships

Our focus on service and personal approach gives us a deep understanding of the needs of our customers, clients and partners. It allows us to offer high service levels and flexible solutions across all of our businesses. As we deliver a human-fronted, tech-enabled approach, we are experts in the industry sectors we serve. In Banking, this leads to fast lending decisions and access to funds when customers need them most. Close Brothers Asset Management and Winterflood are strong examples of the expertise of our people in their specialist fields, which underpins their success in wealth management and trading.

Distinctive culture

A key asset of Close Brothers is our distinctive culture. It brings out the very best in our people and our customer-centric and long-term approach to everything we do is embedded throughout the organisation. Our people are engaged in the business and embody the values that enable us to help our customers thrive. Our culture is key to the foundations of our successful business model and in driving our strong financial performance.

Diversified portfolio of businesses

Our diversified portfolio of businesses is an important part of our success and resilience over the years. We lend in a variety of sectors, locations and asset classes, and also provide wealth management services and securities trading. Close Brothers Asset Management and Winterflood provide additional income streams and contribute to the diversification of the group. This diversification supports the stability of earnings and dividends, particularly in challenging times, while also allowing us to continue investing to grow the business through the cycle.

Strong performance across our diversified portfolio of businesses

High net interest margin and low bad debt ratio in Banking

We do not manage our businesses to a growth target, but instead prioritise the consistency of our lending criteria and maintaining strong returns. The consistent application of underwriting discipline and responsible lending criteria has resulted in a low bad debt ratio ranging from 0.6% to 2.3% over the last 10 years.

A key point of difference at Close Brothers is our long-term approach and the rigorous discipline behind our proven and resilient business model. This supports our long-term track record of growth, profitability and returns to shareholders over many years.

Our track record

Each of our distinctive strengths has contributed to our long-term track record, enabling us to deliver loan book growth, profitability and returns to shareholders over many years, with each of our businesses supporting our overall performance as a group.

Strong customer satisfaction

Net promoter scores ("NPS")

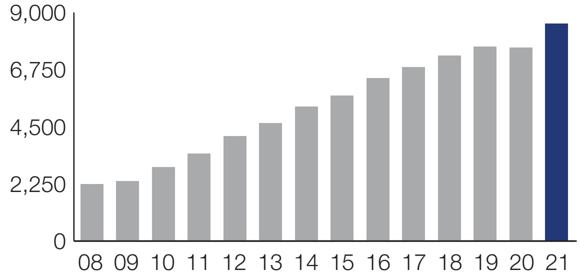
Asset Finance	Property Finance[1]	Motor Finance (dealers)
+72	+87	+70

1 Property Finance NPS score excludes the Commercial Acceptances business.

We listen to our customers, putting their needs at the heart of our business. Our customer-centric approach is reflected in the strong customer satisfaction and net promoter scores we continue to achieve across our businesses.

Long-term growth

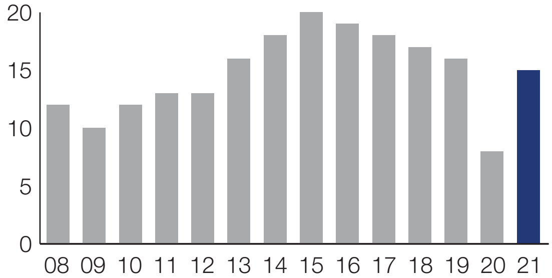
Loan book (£ million)



We have a strong track record of delivering disciplined growth by maximising the opportunity in existing markets, as well as continuously exploring new opportunities that fit with our model.

Strong returns through the cycle

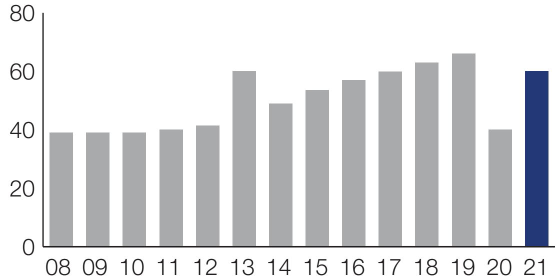
Return on opening equity (%)



The disciplined application of our business model and diversified portfolio of businesses have supported consistently strong returns at all stages of the financial cycle.

Long-term dividend track record

Dividend per share (p)



While dividend decisions in the 2020 and 2021 financial years have reflected the unprecedented uncertainty caused by Covid-19, we aim to return to delivering long-term, progressive and sustainable dividend growth in the future, in line with our policy.

Strong net inflows in CBAM

We have seen strong growth in our Asset Management business with net inflows as a percentage of opening managed assets ranging from 7% to 12% over the past five years. We continue to increase the scale and profitability of the Asset Management division, capitalising on our vertically integrated and multi-channel distribution.

Long-term income generation in Winterflood

Winterflood has a long track record of profitable trading and good levels of income generation in a wide range of market conditions, with only one loss day in the last financial year despite volatile trading conditions. The business has made the most of the volatility and surge in retail trading seen since Covid-19.

The Foundations of Our Business

Our culture, our strategy and our responsibility underpin the foundations of our success, enabling us to deliver on our purpose: to help the people and businesses of Britain thrive over the long term.

We believe in putting our customers and clients first. Our cultural attributes bring out the very best of our people, skills and strong reputation that we have built with our stakeholders over many years. A combination of expertise, service and relationships with teamwork, integrity and prudence underpins our approach and gives us the tools to help our customers thrive over the long term.

Our long-term strategic approach places exceptional service at the heart of everything we do. Each of our diverse, specialist businesses all 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 enable them to thrive, rather than simply survive, whatever the market conditions.

And we recognise that to help the people and businesses of Britain thrive, we also have a responsibility to help address the social, economic and environmental challenges facing our business, employees and clients, now and into the future.

These guiding principles are the foundations of our success and enable us to continue delivering for our stakeholders.

Our Purpose

Our purpose is to help the people and businesses of Britain thrive over the long term.

Our purpose is at the heart of our business and guides every decision we make. We take a long-term approach to managing our business.

This means supporting our colleagues, customers and clients, and the communities and environment in which they operate, for the benefit of all our stakeholders. It means helping people and businesses unlock their potential and plan for the future with confidence, building relationships that stand the test of time. It also means that we continue to be there for the long term, whatever the economic climate, making decisions that are right for today and for generations to come.

Our customers are the people and businesses of Britain and we recognise that putting their needs and interests at the heart of our business is central to our success.

Our Culture

Our distinctive culture and long-term approach are embedded throughout the organisation.

It combines our values of service, expertise and relationships with our ways of working: teamwork, integrity and prudence. These values ensure we continue to provide excellent service for our customers and clients over the long term, bringing out the best in our people and supporting our strong reputation.

Service

We pride ourselves on our excellent level of service and thinking that is both entrepreneurial and disciplined.

93%

say colleagues **go the extra mile** to meet the needs of customers and clients

Expertise

We are committed to fostering a culture that attracts and retains talent, whilst also growing and building the expertise of our people.

97%

of colleagues believe they have the **skills and knowledge** to do their job well

Relationships

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

High customer satisfaction and strong levels of repeat business across the group

Teamwork

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

96%

of colleagues believe their **immediate team work well together** to get the job done

Integrity

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

97%

of colleagues believe our **culture** encourages them to **treat customers and clients fairly**

92%

believe our **senior leaders act in line with our values;** 14% higher than the benchmark[1]

Prudence

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

94%

of colleagues believe we are committed to **prudent risk management**

1 External benchmark calculated by our survey provider ETS based on responses to the same questions asked to different organisations. All scores are taken from Close Brothers' Employee Opinion Survey, with the survey closing in March 2021.

Our Strategy

To protect, grow and sustain our proven and resilient business model so that it continues to deliver in the long term.

Protect
Keeping it safe

Maintaining and enhancing the key strengths of our business model
Our key strengths differentiate our proven and resilient business model and have contributed to our long-term track record, enabling us to deliver growth, profitability and returns to shareholders over many years.

Our high levels of personal service and specialism are key points of differentiation. Our people have deep knowledge of the industry sectors and asset classes we cover, leading to lending decisions informed by experts and faster access to funds when our customers need them most.

We run our business prudently, maintaining a strong funding, liquidity and capital position. Our loan book is predominantly secured or structurally protected, with a focus on maintaining strong credit quality.

We adopt a consistent and disciplined approach, as we maintain prudent underwriting and pricing in our lending.

Whilst our focus on the strict management of costs remains unchanged, it is essential that we continue to invest in protecting the key attributes of our model and maintain regulatory compliance and enhance our operational and cyber resilience. Our investments and cost base support the generation of our strong margins, enabling our operational and financial resilience, while also supporting our ability to maximise opportunities as they arise.

Protect
Keeping it safe

Maintaining and enhancing the **key strengths** of our business model

Grow
Delivering disciplined growth

Maximising opportunities in existing and new markets; loan book growth remains an output of the business model

Sustain
Doing it responsibly

Securing the **long-term future** of our business, customers and the world we operate in

Our multi-year investment programmes that are in progress include:

Motor Finance transformation
Improving the service proposition, enhancing operational efficiency and increasing sales effectiveness.

Asset Finance transformation
Enhancing sales effectiveness through improved data capabilities and technology.

Asset Management technology projects
Continued investment in technology to improve operational leverage, efficiency and resilience.

IRB
Transitioning to IRB approach to better reflect the risk profile of our lending.

Cyber resilience
Investing to enhance cyber security and operational resilience.

Data centre transformation
Investing in new data centres and the Cloud.

Our Strategy continued

To protect, grow and sustain our proven and resilient business model so that it continues to deliver in the long term.

Grow
Delivering disciplined growth

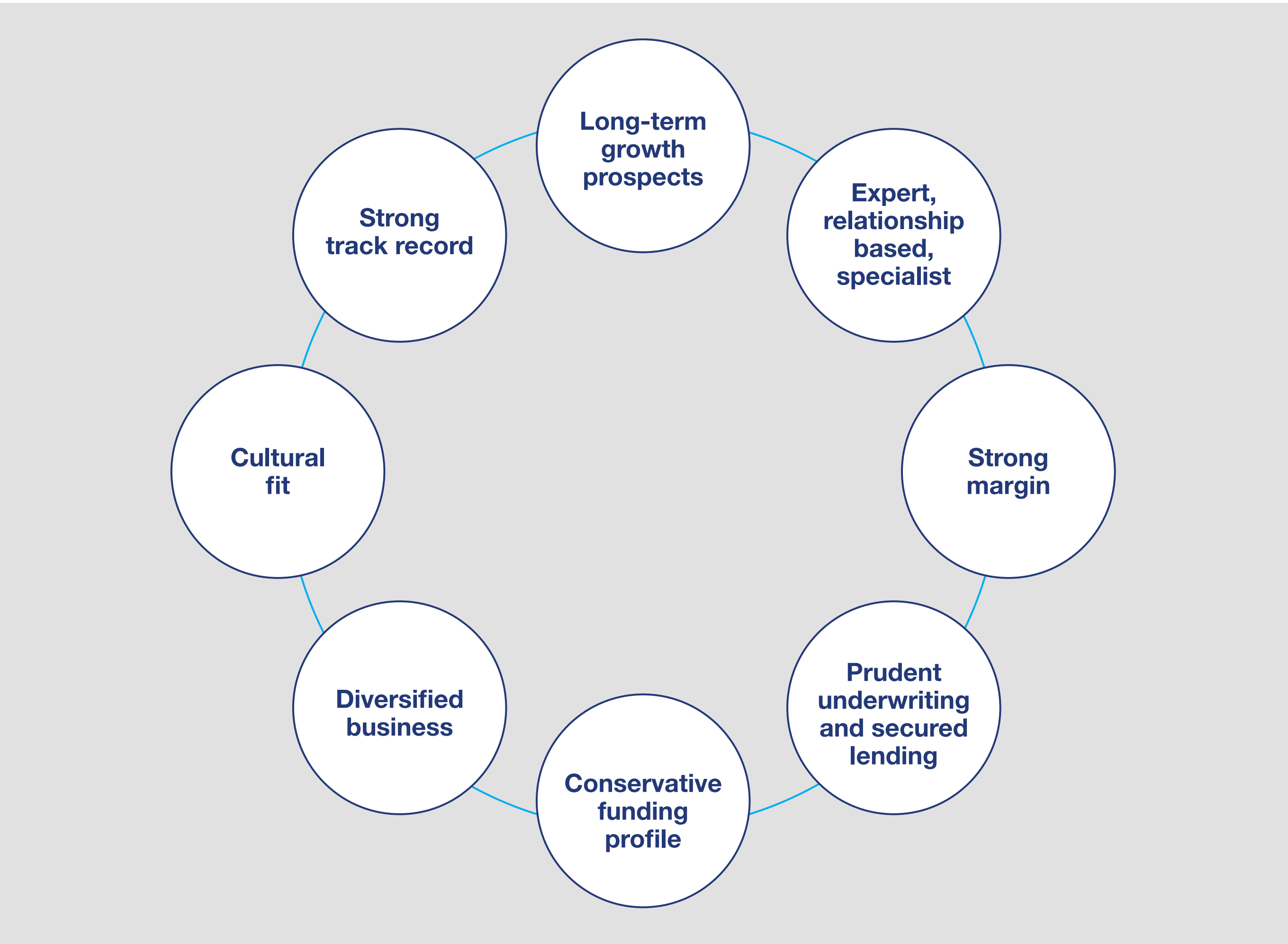
Maximising opportunities in existing and new markets
Our focus on delivering disciplined growth is critical in enabling us to protect the model, whilst still maximising opportunities and taking the business forward. It allows us to prioritise consistent and prudent underwriting criteria and maintain strong returns across our businesses. We do not manage the group to a growth target, with loan book growth remaining an output of the business model.

Whilst we remain operationally and strategically well positioned to continue supporting our customers and delivering for our shareholders, we continually assess existing and new markets for growth opportunities that fit with our model.

We have a long history of delivering disciplined growth and, to support us in building on this track record, we have developed our "Model Fit Assessment Framework". This framework supports our review of opportunities, assessing their fit with our model, culture and responsible way of doing business, alongside their suitability from a strategic perspective.

Ensuring the right fit
These eight criteria are all factors that we consider when assessing growth opportunities. They capture the key strengths of our model and so by taking these into account, it ensures we are following a disciplined approach to growth and preserving the attributes that generate value for our shareholders.

Model Fit Assessment Framework



To protect, grow and sustain our proven and resilient business model so that it continues to deliver in the long term.

Sustain
Doing it responsibly

Securing the long-term future of our business, customers and the world we operate in

Our long-term approach is embedded throughout our organisation and guides all of our decisions, so it is important that we evolve our business to sustain it for the long term.

For our customers, this involves recognising and responding to changes in their behaviour, adapting our business accordingly and improving our digital capabilities and the customer journey to enhance their user experience. We continue to value the importance of long-standing relationships with our customers, providing them with exceptional service and the deep industry knowledge and expertise of our people.

For our people, this means maintaining our focus on employee engagement to support the wellbeing and needs of our colleagues. We will continue to enable the ongoing development of our people, as we look to retain talent and support our succession planning, whilst also nurturing an inclusive culture where our people feel valued and respected.

We are also focused on our impact. We create value in our local communities by understanding the needs of SMEs and helping them achieve their ambitions, and by creating equal opportunities for all, regardless of background. We maintain our focus on reducing our environmental impact and responding to the risks and opportunities brought by climate change.

Strategy and Key Performance Indicators

Our long-term strategic approach focuses on ways to protect, grow and sustain our model, enabling us to continue delivering excellent stakeholder outcomes.

Protect
Keeping it safe

How we are Achieving This

- Maintaining a strong funding, liquidity and capital position
- Consistently applying our prudent business model through our disciplined approach to underwriting and pricing
- Balancing investment needs and cost discipline
- Maintaining regulatory compliance, whilst enhancing operational and cyber resilience

The Progress we are Making

- Effective response to Covid-19 through agility and operational and financial resilience, benefiting from playbooks and simulations run in preparation for a downturn.
- Strengthening of our funding base and active management of our capital position with a £350 million senior bond issuance and £200 million subordinated debt raise via Tier 2 notes, coupled with a liability management exercise.
- Submission of our initial IRB application to the PRA in December 2020.
- Investing in core technology, operational and cyber resilience whilst retaining rigorous focus on cost management.

Future Priorities

- Ongoing focus on pricing and underwriting discipline.
- Continue to maintain our strong funding, liquidity and capital position.
- Disciplined management of costs whilst continuing to invest in strategic programmes that help protect the key attributes of our model.
- Ongoing preparations for a transition to the IRB approach.
- Compliance with ongoing regulatory change.
- Continue to invest in our operational resilience, core technology and regulatory compliance.
- Monitor and mitigate external threats, including the ongoing impact of Covid-19 on the UK economy and competition from both established and emerging players.

Grow
Delivering disciplined growth

How we are Achieving This

- Maximising opportunities available to us in the current environment
- Capitalising on cyclical opportunities in each business
- Extending our product offering and launching new initiatives
- Assessing opportunities for disciplined growth in existing and new markets

The Progress we are Making

- Strong new business volumes in Banking, with over £800 million of loan book growth, making the most of demand in our core markets.
- Lent over £1.1 billion across more than 5,700 loans under government support schemes.
- Investing in new hires in CBAM, with one infill acquisition completed in the 2021 financial year.
- Capitalising on increasing trading volumes in Winterflood.
- Growth of Winterflood Business Services, with £6.2 billion of assets under administration.
- Expanded product range in Savings franchise, launching 35 Day Retail Notice Accounts and Cash ISAs.
- Decision to cease permanently the approval of lending to new customers across all of the products offered by Novitas following a strategic review, which concluded that the overall risk profile of the business is no longer compatible with our long-term strategy and risk appetite.

Future Priorities

- Continue to capitalise on cyclical and structural growth opportunities in each of our businesses.
- Assess opportunities in new and existing markets, in line with the "Model Fit Assessment Framework".
- Evaluating opportunities in sustainable finance, including renewables and Alternatively Fuelled Vehicles.
- Continuing to grow CBAM through hiring and selective acquisitions.
- Further growth of Winterflood Business Services and expansion of institutional sales trading.

Sustain
Doing it responsibly

How we are Achieving This

- Promoting an inclusive culture and supporting new ways of working and social mobility
- Reducing our impact on the environment and responding to the threats and opportunities of climate change
- Promoting financial inclusion, helping borrowers that might be overlooked and enabling savers and investors to access financial markets and advice to plan for their future
- Supporting our customers, clients and partners in the transition towards more sustainable practices

The Progress we are Making

- Strong employee engagement as reflected by the scores in our recent Employee Opinion Survey.
- On track to achieve our target of 36% of female senior managers by 2025.
- Supporting the wellbeing of our employees throughout Covid-19 with events and initiatives from internal networks, virtual workshops and online fitness classes.
- Adapting to new ways of working, offering flexible working arrangements and training focused on managing teams remotely.
- Refreshed our customer principles to clearly articulate the experience we strive to deliver for our customers and partners.
- Maintaining high levels of service as we continued to support our customers and partners through Covid-19.

Future Priorities

- Retain and attract staff and maximise productivity by engaging, training and developing our people, nurturing an inclusive and diverse culture and investing in tools and technology.
- Undertake an assessment of our indirect Scope 3 emissions to enable us to develop a transition roadmap.
- Meeting the recommendations of the Task Force on Climate-related Financial Disclosures ("TCFD").
- Achieve a net zero company car fleet by 2025 and become operationally net zero through our Scope 1 and 2 emissions by 2030.
- Continue to adapt to the evolving needs of our customers and clients and take into account the feedback they provide.

Key performance indicators

Creating long-term shareholder value

Common equity tier 1 capital ratio
Per cent

2021	**15.8**
2020	14.1
2019	13.0

Funding cover of loan book
Per cent

2021	**131**
2020	135
2019	129

Group return on opening equity
Per cent

2021	**14.5**
2020	8.0
2019	15.7

Net interest margin
Per cent

2021	**7.7**
2020	7.5
2019	7.9

Bad debt ratio
Per cent

2021	**1.1**
2020	2.3
2019	0.6

Banking expense/income ratio
Per cent

2021	**52**
2020	52
2019	50

Loan book growth
Per cent

2021	**11**
2020	0
2019	6

Net inflows
Per cent of opening AUM

2021	**7**
2020	9
2019	9

Adjusted basic earnings per share
Pence

2021	**140.4**
2020	74.5
2019	136.7

Employee engagement
Per cent

2021	**91**
2020	86
2019	88

Net promoter scores
Per cent

Retail Savings	**+72**
Property Finance[1]	**+87**
Asset Finance	**+72**
Motor Finance (dealer)	**+70**

Dividend per share
Pence

2021	**60.0**
2020	40.0
2019	66.0

Reduction in overall Scope 1 and 2 emissions
Per cent

2021	**23**
2020	23
2019	12

1 Property Finance NPS score excludes the Commercial Acceptances business.

Our Responsibility

Responsibility is key to our success

“Acknowledging this responsibility broadens our perspective and encourages us to look at how we operate our business and the decisions we take.”

Adrian Sainsbury Chief Executive

Our responsibility to help address the social, economic and environmental challenges facing our business, employees, customers and clients, now and into the future.

Acknowledging this responsibility and making it part of our DNA broadens our perspective and encourages us to look at how we operate our business and the decisions we take, in the best interests of all our stakeholders, the environment and the society we operate in.

In doing so, we can and will make a greater difference and a positive impact as a business every day, and we already have some great foundations and much to be proud of.

From an environmental perspective, we are supportive of the goals of the Paris Agreement and are targeting becoming operationally net zero through our Scope 1 and 2 carbon emissions by 2030. We have already lowered these emissions by 23% over the last financial year, an achievement which builds upon several consecutive years of reductions.

We take great pride in helping SMEs achieve their ambitions and recognise that putting customers' interests at the heart of our business is central to our success. By aiming to create long-term value and a lasting, positive impact on society, engaging with local communities is integral to how we operate and conduct business.

We recognise the value of a diverse and inclusive workplace, and have made commitments to further increase our diversity through signing up to the Women in Finance Charter, the 30% Club campaign and the Race at Work Charter. We are making great progress towards our targets in these areas, while our ongoing partnerships with organisations such as the Business Disability Forum continue to help us nurture our inclusive culture.

Social mobility is an issue that is closely linked to many other aspects of inclusion. I truly believe that recognising many are not afforded the opportunities of others, and trying to help level the playing field, is a remarkable thing to be able to do. That's why I am really proud that we, as a company, are partnering with organisations like the Social Mobility Foundation and UpReach, connecting us with a new pool of talented young people from disadvantaged backgrounds.

We are particularly proud of our charitable giving and following our donation of £1 million to NHS Charities Together last year we have continued to support those most severely impacted by the pandemic through more recent donations to Bookmark and The Trussell Trust.

Acting responsibly and sustainably is not a new concept for our business; it has always been our business. The last year has made it abundantly clear that we can do amazing things when we support each other and when we work together. But while this is not the beginning of our responsibility journey, it is one that I want to emphasise the importance of, as I firmly believe it will be one of the keys to our future long-term success.

Adrian Sainsbury

Pride in Our Charitable Giving

We are proud of the positive impact we have through our charitable partnerships, and to date we have collectively raised over £500,000 for Cancer Research as part of our long-standing partnership with them. In recognition of this achievement and being named joint Corporate Fundraising Team of the Year, Close Brothers received a Flame of Hope Award from Cancer Research UK. Thanks to staff efforts, we have also helped grant 49 wishes through the Make-A-Wish Foundation by donating over £122,000 over the last two years.

In addition to supporting our two main charity partners, we have increased our overall charitable commitment this year and made donations of £100,000 to two charities we feel faced significant challenges through the pandemic: the children's literacy charity Bookmark, which we have worked with for some time, and the foodbank The Trussell Trust. Both charities make a material difference to children's and families' lives throughout the UK and these donations enable us to help support some of the most vulnerable in our communities.

This year, we were proud to continue to support the NHS Charities Together, in recognition of the vital role that NHS frontline and support staff have in combating Covid-19, by encouraging staff to participate in the NHS' 73rd birthday celebrations and match fund donations from colleagues to this charity.

Sustainability Report

Sustainability is fundamental to our purpose

Our Sustainable Objectives

At Close Brothers, behaving responsibly is integral to our actions and decision-making and this is reflected across the sustainable objectives that we set ourselves as a business:

- Promoting an inclusive culture in everything we do, and supporting new ways of working and social mobility
- Reducing our impact on the environment and responding to the threats and opportunities of climate change
- Promoting financial inclusion, helping borrowers that might be overlooked by larger finance providers and enabling savers and investors to access financial markets and advice to plan for their future
- Supporting our customers, clients and partners in the transition towards more sustainable practices

During the year we have maintained a strong focus on progressing with our wide-ranging sustainability agenda, driving forward with programmes and initiatives that address key priorities such as inclusion, social mobility, supporting customer needs and responding to the threat of climate change.

We take a long-term approach to managing our business, with an ambition to make a lasting positive impact, both now and into the future. Our values encourage and support diversity and inclusion at all levels of our organisation, helping the communities we operate in and reducing our environmental impact.

Embedding Sustainability

We consistently strive to act responsibly, ethically and with integrity, and this commitment to sustainable behaviours is embedded within our corporate culture and supported by a wide range of policies and procedures.

Sustainability matters regularly appear on the senior management agenda, with dedicated group Executive Committee sessions on sustainable themes and scheduled quarterly environmental, social and governance ("ESG") updates presented to the board Nomination and Governance Committee. Topics covered include opportunities to expand our range of sustainable products and services, managing risks such as those posed by climate change, ensuring we remain compliant with current and upcoming regulation and our strategic approach to sustainability more broadly.

Our climate risk committee meets regularly to assess and determine our responses to the risks and opportunities of climate change, with ultimate oversight of climate risk matters from the group chief risk officer.

Within our Asset Management division, ESG considerations have been embedded into our in-house research since 2018 and form a key part of our formal stewardship code, voting strategy and responsible investment policy. We integrate ESG research into our investment processes at a firm-wide level, ensuring that material ESG factors are considered in all investment cases and that our investment managers can make fully informed investment decisions for our clients.

The division has offered several Socially Responsible Investment ("SRI") funds for a number of years now and continues to expand its ESG product offerings with two recently launched sustainable funds. We are signatories to the internationally recognised United Nations Principles for Responsible Investment ("UN PRI"), which demonstrates our commitment to responsible investment and aligns us with a global community seeking to build a more sustainable financial system.

At a group level, we participate in and engage with a number of external sustainability rating agencies and indices, including the CDP, DJSI and MSCI.

Sustainable Development Goals

Our sustainable priorities make reference to the United Nations Sustainable Development Goals ("SDGs"); a global framework that promotes action to address worldwide challenges related to poverty, inequality, climate and prosperity.

This framework guides our thinking and helps us better understand our impact and where our contributions can be most effective in supporting global goals for a more sustainable future.

Our Targets

Throughout the year we have continued to make good progress, as demonstrated by our performance against the targets we set ourselves last year. Going forward, we will continue to set stretching targets over the longer term to focus our efforts and maintain our momentum.

Our targets are also linked to executive pay through the sustainability objectives we set within our executives' Long-Term Incentive Plan.

Our Priorities	Our 2021 Targets[5]	Our Progress	Our Future Targets	Link to UN SDGs
Ensuring we are a diverse and inclusive employer	36% female senior managers[4] by 2025	32% female senior managers as at 31July 2021	36% female senior managers[4] by 2025	4 Quality Education; 8 Decent Work and Economic Growth; 10 Reduced Inequalities
	Increasing our ethnicity data disclosure to above 60% of our employees	75% ethnicity data disclosure level attained	14% of our managers to be of an ethnic minority background by 2025	
Reducing our impact on the environment and tackling climate change	Achieve a 10% reduction in group-wide overall Scope 1 and 2 emissions by 31 July 2021[1]	41% reduction in overall Scope 1 and 2 emissions vs 2019 financial year levels	Become operationally net zero through our Scope 1 and 2 emissions by 2030	9 Industry, Innovation and Infrastructure; 12 Responsible Consumption and Production; 13 Climate Action
	Achieve a further 10% reduction in average fleet vehicle CO_2 emissions by 31 July 2021[2]	25% reduction in average fleet vehicle CO_2 emissions vs 2020 financial year levels	Achieve a net zero company car fleet by 2025	
Serving the needs of our customers	Maintain or improve strong customer satisfaction scores across our businesses	Property Finance NPS[3] +87 Asset Finance NPS +72 Retail Savings NPS +72 Premium Finance NPS +63	Maintain or improve strong customer satisfaction scores across our businesses	4 Quality Education; 8 Decent Work and Economic Growth

1 Targeted overall emissions reductions against a benchmark of the 2019 financial year.
2 Targeted average fleet vehicle CO_2 emissions reductions against a benchmark of the 2020 financial year.
3 Excludes Commercial Acceptances.
4 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.
5 Targets for the 2021 financial year, measured at 31 July 2021 unless otherwise stated.

Sustainability Report continued

Our People

Valuing our Colleagues

Our people are fundamental to the continued success of our business and we place great focus on recognising and valuing their contributions; the expertise they share, the consistently high levels of service they deliver and the long-lasting relationships they build with our customers, clients and all our stakeholders. We celebrate diversity and are committed to creating an inclusive culture where all of our employees can feel proud to work for us, regardless of their gender, age, ethnicity, disability, sexual orientation or background.

We value our partnerships with leading diversity organisations, including Stonewall and the Business Disability Forum, to help inform our thinking and subsequent actions. We continue to run inclusive leadership training sessions for our managers, senior managers and group executives, highlighting how actions and behaviours can shape our inclusive culture. We deliver training around our group Code of Conduct, the Close Brothers Way, to ensure all colleagues understand what behaviours are expected to build and sustain our culture.

We want colleagues to feel comfortable speaking up and are delivering ongoing training around psychological safety to build the resilience of our people and ensure everyone feels included, valued and able to thrive.

We are committed to attracting a diverse talent pool through advertising our roles on more specialist job boards, ensuring that all of our job applications and adverts are inclusive and partnering with agencies that share our commitment to inclusion. We have also developed a psychometric tool with an external partner, focusing on the competencies and behaviours necessary for success, and to help remove subjectivity and reduce unconscious bias in our selection process.

We have established working groups and networks focused on each of our diversity and inclusion pillars. Each are chaired by an executive sponsor and take responsibility for driving our inclusion initiatives across the organisation.

Employee Engagement

Engaging with our colleagues has been more important than ever during the unprecedented times we have all experienced recently. As well as regular pulse surveys to understand how our people are feeling, in February 2021 we ran our latest full Employee Opinion Survey to gather feedback and ensure we are listening closely to the views of our colleagues.

Our latest group-wide survey results showed our engagement levels are high at 91% and above the external benchmark of 82%. Our response rate also remained strong at 89%, enabling us to draw meaningful insight from our results.

Overall results improved since our last survey with higher than benchmark scores in a number of areas including teamwork, leadership, wellbeing and acting in line with our values and business principles. Feedback supports our positive and inclusive culture with high scores against our cultural attributes and the Financial Services Culture Board characteristics. Results show 95% of our colleagues believe people of all cultures and backgrounds are respected and valued at Close Brothers and 97% of colleagues believe our culture encourages us to treat customers and clients fairly.

Racial Equality

Last year we became signatories to the Race at Work Charter to help direct our actions around race equality and ensure that we have representation of ethnic minorities across all levels of the organisation.

As part of this commitment, we set a target of increasing our ethnicity disclosure levels to cover 60% of our employees by July 2021. This also formed part of our Long-Term Incentive Plan objectives and we have exceeded this target with disclosure levels of over 70%, allowing us to more accurately measure our ethnic balance to inform our thinking and future actions. We are also working towards improving representation of colleagues of an ethnic minority background at all levels of the organisation, and are targeting at least 14% of our managers to be of an ethnic minority background by 2025.

We have also completed a successful reverse mentoring scheme led by our group-wide ethnicity working group. With positive feedback received from both mentors and mentees, the programme provided our senior leadership with valuable insight from the real-life experiences of our minority ethnic colleagues. Following the success of our working group, we have launched our first ever ethnic diversity network. We hope this will continue to give all of our colleagues the chance to take part in improving and progressing the ethnic diversity and inclusion agenda at Close Brothers.

We are committed to supporting the career progression of our ethnically diverse colleagues and place great focus on diversity throughout our talent and succession processes. We also prioritise inclusive talent acquisition and have partnered with the 10,000 Black Interns project to offer internship opportunities for students in our Asset Management division. The board continues to support the recommendations of the Parker Review and the composition of the board is in line with the advice to have at least one director of colour. The board will continue to take opportunities to further strengthen the diversity of backgrounds and experience among its directors as part of future board-level recruitment searches.

Employee engagement

91%

2020: 86%

Gender Diversity

	31 July 2021	
	Male	Female
Number of board directors[1]	6	4
Number of directors of subsidiaries[2]	61	14
Number of senior managers, other than board directors[3]	177	91
Number of employees, other than board directors and senior employees	1,874	1,641
Total	**2,118**	**1,750**

1 Includes non-executive directors, excluded from group headcount calculations.
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 37 male and eight female employees who are reported under directors or subsidiary directors.

Gender Diversity

As part of our commitment to maintaining our inclusive culture, we are focused on reducing our gender pay gap. The gender pay gap shows the difference in average earnings between women and men, which is an important differentiation to pay equality. We remain confident that women and men are paid equally for performing equivalent roles. Reducing our gender pay gap is one way in which we review our progress on improving gender balance across our organisation.

Our 2021 gender pay gap report shows our mean group-wide gender pay gap was 37.2% at 5 April 2020. At Close Brothers, the gap is predominantly driven by a higher proportion of male incumbents in our senior and front office roles. We are committed to improving our gender balance at all levels of the organisation and are pleased to continue to see an increase in female managers and females in higher pay ranges.

At Close Brothers, we recognise that gender identity is broader than male and female and, although the government regulations do not require us to report in this way, we want to affirm that we welcome colleagues of all gender identities.

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

As signatories of the Women in Finance Charter, we remain confident that we are on track to achieve 36% of senior manager roles being held by a female by 2025. At the end of the financial year 40% of our board members were female, exceeding the government's target of 33%, and we remain broadly in line with Hampton-Alexander gender targets for executives and their direct reports.

We have also created a gender balance network to further support the career progression of women through personal development and networking opportunities. In addition, we also focus on providing a range of training and mentoring programmes to support our talented females to thrive and accelerate their careers. Our partnerships help us continue to create diverse talent pools and further promote gender balance at all levels of the organisation. Our participation in the 30% Club's leading cross-company mentoring scheme is one such partnership.

We are also delighted to have had three winners, including our retail chief executive, at the latest Inspiring Automotive Women Awards organised by the Automotive 30% Club. We strive to achieve a 50:50 gender split for our entry level and formal training programmes including our Aspire school leaver programme, our graduate schemes and our summer internships.

Our workforce remains diverse, with 45% female employees, and we have a broad age range of employees, with 24% of our employees being under 30 years old and 19% over 50.

Developing our People

This year, we focused on supporting employees and line managers by running a number of virtual wellbeing workshops. Throughout the pandemic, we have adapted our programmes and initiatives to work effectively in a remote environment. All our staff have access to our learning portal, offering them a wide variety of practical tools, workshops and e-learning across a range of topics.

To adapt to new ways of working, we have upskilled our managers in relation to managing remote teams and have also focused on individual career development to ensure our colleagues remain engaged.

The average number of training hours across the group has increased by 52% to 14 hours per employee during the year. We require all staff to complete relevant regulatory training on an annual basis with further training offered when required and, this year, we again maintained a 100% completion rate of mandatory training by eligible employees.

We run several tailored junior training programmes across the business which are aimed at growing high potential individuals to progress into senior roles. To support inclusivity, we have opened up application processes for these talent programmes, rather than the previous approach reliant upon nominations. We have also relaunched our Sales Academy programme within our Commercial division.

To support our inclusive culture through further embedding our code of conduct, we launched our "Close Brothers Way" e-learning module for all employees, focusing on our cultural attributes and expected behaviours.

Supporting our People

Throughout the pandemic we have continued to prioritise the safety and wellbeing of our colleagues. By offering flexible working arrangements in combination with robust systems and technology, we have enabled the vast majority of our employees to work from home effectively, ensuring we have continued to deliver excellent service to our customers and clients.

We understand the impact Covid-19 has had on everyone and have ensured a range of support options have been available to colleagues. Our recent Employee Opinion Survey showed that 90% of participants felt well supported by Close Brothers through the pandemic, a score which was materially higher than the external benchmark of 76%.

Our internal networks have played vital roles in providing support to colleagues by creating communities to share experiences and resources. Our group-wide Working Parents and Carers Working Group, sponsored by our group legal counsel, collaborate on initiatives to ensure that our colleagues who balance family and caring responsibilities with working life feel supported. Our group-wide Mental Wellbeing Working Group, sponsored by the Close Brothers Asset Management chief executive, has continued to run webinars and panel discussions to raise awareness and encourage colleagues to speak up and reach out.

Maintaining the positive mental wellbeing of our colleagues is of great importance to us and we now have over 80 trained Mental Health First Aiders across the group as well as an employee assistance programme offering a range of confidential support.

It is important to us that we reward our staff fairly and openly, and we therefore strive to ensure that clear and transparent objectives link directly to remuneration across the group.

Sustainability Report continued

We are confident that our enhanced benefit package remains fit for purpose and satisfies the expectations of our employees.

The group continues to pay all staff at or above the national living wage, which is in excess of the national minimum wage. We have also made our group income protection provision available to all employees.

We offer both a Save As You Earn scheme as well as a Buy As You Earn share incentive plan, which allows employees to acquire shares on a monthly basis out of pre-tax earnings. Participation rates in our long-term ownership schemes remain strong at 51% of eligible employees.

The group continues to contribute 6% to its pension auto-enrolment, which is more than requirements. This ensures a minimum of 9% in total, without requiring our employees to contribute any more than their existing level of 3%.

Helping our customers thrive

The world has changed significantly over the last year, not least in terms of the speed of adoption of new, digital and emerging technologies. Consumers have rapidly been forced to interact in new ways and at Close Brothers, our core commitment of supporting customers, partners and clients to thrive remains fundamental to our purpose.

We believe in maintaining high standards of service, delivering specialist expertise and building long-lasting relationships with our customers and partners. This philosophy has guided our activities as we continue to deliver organisational resilience through Covid-19 and as we rapidly responded to changing customer needs since the onset of the pandemic.

Continuing to Support Customers

For the last year the impact of Covid-19 continued to create a challenging environment for many of our customers and partners. We continue to support them as they navigate through these uncertain times, and we continue to provide new processes or products to maintain our high levels of service in innovative ways.

For the past 18 months, we continued to offer a variety of government-backed loan schemes to support customers with access to first year interest-free loans. Further to what has already been offered, recently our Asset Finance business introduced the Recovery Loan Scheme to customers, which aims to aid economic recovery and improve the terms on offer to borrowers where they have been impacted by Covid-19.

During the last year we continued to support our customers and clients with a broad range of forbearance and other measures to assist those who found themselves in difficulty. The concessions we offer reflect our diverse products, sectors and customers, and we continue to tailor our support to ensure it remains most appropriate.

Our operational ways of working have been improved to enable more staff to service customers remotely, including enabling electronic signing across more areas of the Banking division. We have expanded our automation capability to include integration with web services and the use of SMS messaging for improved customer communication in Premium Finance.

Leading Through Purpose

Our purpose to help the people and businesses of Britain thrive over the long term is a fundamental commitment to our customers that we will be there for them in both the good times and the bad. Our purpose is underpinned by our group-wide "customer principles", which guide how we deliver experiences to our customers and partners, and the Close Brothers customer journey, which helps us measure how effectively we are performing across key touchpoints.

Listening to Our Customers and Improving Experience

We collect a broad range of customer satisfaction scores that help inform day-to-day changes as well as longer term strategic decisions to improve customer experience.

We continue to achieve strong net promoter scores ("NPS") across our businesses, and these evidence the strength of our relationships and the faith our customers place in us. The average NPS score in financial services is +50, which all our businesses surpass[1]. We also perform better than average in other metrics such as customer satisfaction scores ("CSAT").

1 Source: Customer Gauge 2019

Our Customer Principles

This year we refreshed our customer principles to clearly articulate the experience we strive to deliver for our customers and partners:

We do the right thing for customers, clients and partners

This principle is not only fundamental to us fulfilling our regulatory obligations but also critical in putting customers at the heart of what we do. A recent complaints benchmarking report revealed strong performance with our resolution times 17 days quicker than the average consumer finance firm and our uphold rate the lowest measured at 14.1%[1].

Recently we won gold for the "Best Use of Customer Insight and Feedback" at the UK Complaint Handling Awards, illustrating our strong focus on improving the complaint process and using customer insight to drive business improvements.

We are flexible, responsive and execute with speed

In responding to customer needs, this year our Savings business launched online self-service functionality for onboarding and account servicing. Key customer benefits include a simplified application process, reduced onboarding timescales from five days to one, immediate email confirmation and better use of SMS messaging and secure messaging online.

We make decisions informed by our specialist expertise

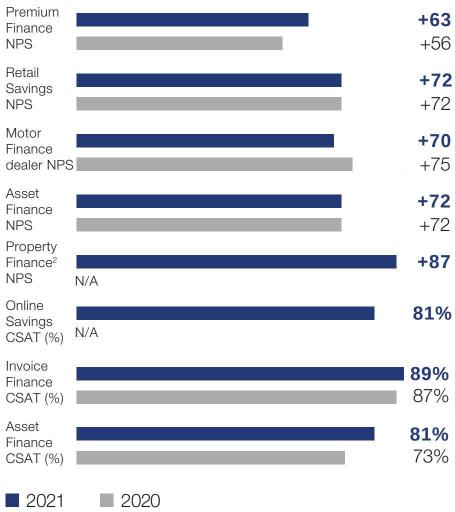
To remain constantly aware of how we can continue to help our customers and partners thrive in an ever-evolving landscape and to identify areas of improvement, we rely on our Voice of Customer programme to provide actionable insights across the group. The programme is also built into a broader feedback process linked to employee engagement.

In Invoice Finance we gather insight as part of an iterative process to implement business improvements. Examples include using customer feedback to alter processes to provide customers with greater clarity and product information at appropriate points in the journey.

We build relationships based on quality and trust

We continue to prioritise our high touch engagement model, and relationships with our customers, clients and partners are a key part of what we do. In our Property Finance business, we use our extensive knowledge of the market and expertise to build tailored finance solutions to fit the needs of our customers and their specific projects.

Customer Satisfaction Scores



Note: All scores as at June each year. Prior year scores not collected for Property Finance NPS or Online Savings CSAT.

We were also pleased to see continued strong repeat business, which increased to 82% in Property Finance, while Winterflood maintained strong investment company corporate client retention at 55 in total (2020: 56).

The investment expertise of our Asset Management division allowed us to navigate unprecedented volatility, dealing volumes and geopolitical uncertainty for the benefit of our clients during the last year, while primarily operating remotely.

The division delivered over 450 financial education events during the year, speaking to over 9,700 people. 87% of delegates stated they would recommend us to their colleagues and the majority reported that our services helped improve employee financial wellbeing within their organisation.

Looking Ahead

Our purpose of helping the people and businesses of Britain thrive has guided us through the good times and the bad for over 140 years. We continue to ensure we support our customers through unprecedented challenges, and looking to the future, we are committed to helping them recover and adapt to a world that is uncertain but open to opportunities.

We will continue to support our customers out of the pandemic and build an agile and adaptable organisation that is ready for whatever is on the horizon. The group will continue its unwavering focus on customers and partners in several key ways:

- Further embedding our customer operating framework which delivers clearer ownership and accountability and measurement of metrics for the various customer journeys and improvements
- Leveraging our market-leading expertise to provide tailored advice for our SME customers and partners on how to navigate their recovery efforts
- Continuing to augment traditional channels with digital self-service capabilities to give customers the flexibility to engage with us the way they want to, particularly by introducing improved chat functionality and self-service in some instances
- Providing fair financing options, considering customers' circumstances (including those that are vulnerable) and responding with empathy and compassion to all our customers who have suffered since the outset of the pandemic.

The group has put in place measures to review and enhance its arrangements to ensure good outcomes for customers in line with the FCA's guidance on vulnerable customers and associated legislation. We are also carefully considering future developments and are seeking to enhance areas such as employee training and information on customer outcomes.

Engaging our Suppliers

We engage with our most important suppliers on a regular basis to ensure that both parties are attaining optimum value from the relationship. Our annual survey of key suppliers who represent our most critical and strategic services was last conducted in January 2021 and remains anonymous to ensure we gather honest and candid feedback.

The 2020 survey focused upon how Close Brothers performs as a client, and how our suppliers feel about doing business with us. Results were positive throughout, demonstrating that our suppliers recognise the enhancements we are making, the transparency and fairness of our business dealings, and the benefits of our third party management framework and operating model. We were pleased that the majority of our suppliers would recommend us as a client, scoring 8.2 out of 10 for this measure.

Feedback indicates that our suppliers value greater transparency around our strategy and a holistic view of our businesses. With this in mind, going forward we have selected specific areas of focus around communication and harnessing the knowledge and innovation of our most strategic suppliers, to keep our suppliers informed.

Survey results show that our suppliers benefit from our frequent contact and reviews of service, with 78% of respondents rating our approach to transparency and fairness as good or excellent. 71% of suppliers feel positive about how we treat them as valued partners and rate this as good or excellent.

Our supplier relationships remain mainly long term, with over 60% spanning five years or more, and survey responses suggest that they are increasingly viewed by our suppliers as strategic and collaborative partnerships. We continue to share a strategic vision with our

1 Source: Huntswood Complaints Outlook Benchmarking Report, February 2021.
2 Excludes Commercial Acceptances.

Sustainability Report continued

suppliers to help them understand our direction and give greater clarity on our structure.

Recently, we have introduced a survey of sustainability matters covering suppliers' environmental and social governance, to help better inform our views of the progress each party is making towards improvements. A number of our contracts contain clauses measured against environmental key performance indicators, which include:

- Annual electricity, gas, water and waste statistics and audited energy meter readings
- On target carbon reduction objectives and waste management action plans
- Obtaining agreed energy and water reduction targets
- Environmental training for all personnel operating on the contract
- The use of materials and practices that conform to Close Brothers' Environmental Policy where reasonably practicable

We recognise that our suppliers form a key part of the service we provide and are committed to treating them fairly. We are therefore pleased to have maintained our Corporate Certification for Ethical Procurement from the Chartered Institute of Procurement and Supply ("CIPS").

Social responsibility in the community

A Lasting, Positive Impact on Society

Central to our purpose to help the people and businesses of Britain thrive over the long term is the close relationships and understanding we have of the customers and clients we serve. It is this familiarity and appreciation of the local communities and regions where they operate that sets us apart and is integral to how we operate and conduct business.

The creation of long-term, lasting value in the communities where we operate remains a key priority for the group. This sense of purpose underpins the growing range of programmes and initiatives we maintain to support the causes that benefit those around us.

Supporting SMEs

We take great pride in understanding the needs of SMEs and our ability to help them achieve their goals and realise their ambitions. By helping SMEs thrive in local communities across the UK we support the creation of jobs and opportunities in regions that may otherwise be overlooked by larger and less specialist finance providers.

Our specialist expertise and deep industry knowledge allow us to better understand the small businesses we work with, helping us to support their commercial plans and facilitate their ambitions for growth. By appreciating the unique and individual requirements of our customers and the communities in which they operate, our local teams can make fast, reliable lending decisions when our customers need them most.

The Close Brothers SME Apprentice Programme is a further example of our long-standing commitment to supporting SMEs and local regions and is now in its fifth phase. The programme continues to contribute to the funding of new apprentices in the manufacturing and transport sectors, and to date we have funded over 100 of these apprentices around the Midlands, helping SMEs to secure the skills they need for the future.

Supporting Social Mobility

We are proud to be an inclusive organisation that supports social mobility and creates equal opportunities for all, regardless of background. Social mobility is one of our inclusion pillars, with executive sponsorship from our Commercial chief executive.

We continue our partnership with UpReach; a charity committed to transforming social mobility. Our summer internship programme offers six-week placements for second or final year university students from lower socio-economic backgrounds. In the past, a number of individuals who have taken part in the scheme have also gone on to secure full-time roles within the organisation as graduates. In addition, we are running work experience placements for students through the Social Mobility Foundation.

To extend our commitment to social mobility, we are offering a number of mentoring opportunities to our current employees. Individuals will also be able to volunteer on a more informal basis through signing up to the Social Mobility Network as part of our UpReach partnership.

Our successful Aspire school leaver programme continues to run annually and provides those individuals not going to university with an opportunity to gain experience of different business lines on a rotation basis alongside being supported through professional qualifications. We are focused on optimising our diverse and inclusive talent pool to ensure we create equal opportunities for all who apply.

Our Employees in the Community

We are committed to creating a positive impact in our communities and recognise that employee volunteers are often the driving force behind many community and charity activities. We actively encourage our colleagues to fundraise and volunteer for the causes that are important to them and provide additional support to make this possible.

We are supportive of our colleagues giving their time and expertise to fulfill trustee roles for various charities. In return, employees gain board-level experience to support their personal development and career progression.

In support of the collective response to tackling Covid-19, a number of employees have volunteered to help with the vaccine rollout across the UK.

Charitable Activities

Within our regular employee opinion surveys, we ask our employees to choose their preferred community and health charity partners. After the 2021 colleague vote, these are once again Make-A-Wish Foundation, who grant wishes for children with life-threatening illnesses, and Cancer Research UK, which we have now supported for nine consecutive years.

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.

We match 50% of funds that our colleagues raise for charities under the Close Brothers Matched Giving Scheme. We also encourage our employees to collaborate on raising money for causes that are most meaningful to them by matching funds raised through locally organised fundraising events and activities. For every hour of voluntary time we donate £8 directly to the charity under our Matched Giving Scheme, and we also encourage people to take advantage of one paid volunteering day each year through our Employee Volunteering Policy.

Following a charitable donation of £100,000 to the children's literacy charity, Bookmark, we encouraged our employees to get involved through delivering voluntary reading sessions. Our colleagues have now delivered 180 sessions to children who have fallen behind with their reading during the pandemic and one of our colleagues has also now joined the Bookmark Advisory Board.

In addition, our Payroll Giving Scheme matches charitable contributions while allowing employee donations to be made directly from pre-tax salary. Approximately 13% of employees across the group are signed up to Payroll Giving as at 31 July 2021, achieving us an eleventh consecutive year of the Payroll Giving Quality Mark Gold Award and ensuring that we have achieved our target of maintaining this standard.

Climate

Our Climate Responsibilities

We recognise the importance of addressing the threat of climate change, and our ongoing work to identify the risks and opportunities it poses to our business model remains a key area of focus for the board and senior management.

We take our responsibility towards the environment seriously, and as a group we are supportive of the goals of the Paris Agreement to achieve net zero by 2050. We are conscious that the emissions impact of the assets and sectors that we finance can contribute to climate change, and as a financial services provider we recognise the role we have to play in supporting the climate agenda. Our efforts to reduce the impact of our operations on the environment continue at pace, and we strive to take actions that make a positive contribution to the world around us.

Careful consideration of environmental factors and potential risks plays an integral role in the actions we take, alongside thoughtful evaluation of where opportunities may arise for Close Brothers to make a meaningful difference through our business decisions.

Understanding and Disclosing Our Impact

In order to set out our own transition pathway towards lower emissions, we first need to understand the Scope 3 emissions impact of our supply chain and business activity. To support this objective, we intend to undertake an initial assessment of our indirect Scope 3 emissions during the first half of our next financial year. This will improve our visibility on the steps we can take and help shape our roadmap for lowering the emissions from our business activity.

We are also undertaking work to assess the climate exposure of our loan book, including scenario analysis for key areas across our business. This will support progress towards meeting the recommendations of the Taskforce on Climate-related Financial Disclosures ("TCFD"), which we plan to align with by the end of our next reporting period, in line with regulatory expectations.

The TCFD encourages consistent, reliable, and clear measurement and reporting of climate-related financial risks. Its recommendations provide an important framework for understanding and analysing how climate change impacts our customers, our own operations and our strategy. We recognise there is much work to be done and we are committed to making regular, transparent TCFD disclosures to communicate our progress as we develop our climate capabilities. We will continue to encourage our customers, suppliers and the industry to do the same.

Recognising Our Progress

Last year we set ourselves a target of reducing our group-wide Scope 1 and 2 emissions by 10% by 31 July 2021, benchmarked against the 2019 financial year. We are pleased that this year we comfortably exceeded this target. Our group-wide Scope 1 and 2 emissions totalled 2,616 tCO_2e and reduced 41% on the 2019 financial year, while also being a 23% reduction year-on-year.

In recognition of our support for the Paris net zero goals, this year we have committed to becoming operationally net zero through our Scope 1 and 2 emissions by 2030. As a nearer-term milestone on this journey, we are also now setting ourselves a target of achieving a net zero company car fleet by the end of 2025.

Total Scope 1 and 2 emissions reduction

23%

2020: 23%

As in prior years, we continue to participate in the CDP, which allows us to disclose our greenhouse gas emissions and our approach to managing climate-related impact on a voluntary basis. We were pleased to be awarded a B- in the latest CDP scores, in recognition of the positive ongoing progress we are making in addressing the threat of climate change.This year, we were also proud to be included in the inaugural Financial Times European Climate Leaders index, recognising our position as one of the top 300 European companies at reducing their Scope 1 and 2 emissions since 2014.

Our Journey Towards TCFD Alignment

Over the course of the last year we have continued to focus on the development of an effective and regulatory-compliant climate risk framework. Our climate programme has been expanded to better identify and manage climate risks and opportunities, and to embed climate consideration into policies, standards, processes and ways of working.

As part of our framework we are refining our credit assessment approach in the Banking division, with a view to ensuring appropriate consideration of climate risk as part of the underwriting process. Additionally, we are building climate stress testing and scenario analysis capabilities and are currently undertaking a pilot exercise across our Motor and Asset Finance businesses over a range of varying, long-term scenario pathways. Outputs from this exercise will deliver insights that support both our business strategy and risk decision making.

To support framework development, we recognise the need to further enhance data, modelling and infrastructure capabilities over time, and plan to achieve this by working collaboratively with our customers, suppliers and strategic partners.

Notwithstanding, the approach adopted to date will enable us to make further improvements over time, incorporating lessons learned, while providing the flexibility to address new and evolving standards. Going forward it will also enable us to embed climate considerations in core business strategy, customer engagement, and as part of financial and strategic planning processes.

Sustainability Report continued

Our impact on the environment

Our Environmental Business Decisions
We are an active provider of finance for the green energy and renewables sector, having lent over £750 million to schemes such as wind, solar and hydro power developments since 2014, and this market remains a key contributor to our Asset Finance business.

Our Motor Finance business already finances electric and hybrid vehicles and we expect this component of our portfolio to grow as these models filter through to our target price and age range of second-hand vehicles. We have close working relationships with our dealer partners and are well placed to help support the transition of this sector by providing thought leadership and guidance for our dealer partners on the various electric and hybrid vehicles on the market, features of the technology and considerations specific to alternative fuel vehicle ownership.

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 existing guidelines outline sectors where the group has limited or no appetite as well as industries or product groups where enhanced due diligence is required (including fossil fuel exposure, defence, chemicals and tobacco amongst others). We have negligible direct exposure to high carbon intensive industries such as oil and gas, which do not tend to fit with our typical loan sizes, risk and return lending criteria or terms of business, and we have no direct exposure to mining or fossil fuel extraction companies.

Reducing Our Operational Impact
We are pleased to have a growing number of initiatives and improvement programmes to continue lowering our emissions, reducing our energy use and enhancing our energy efficiency. This year we completed a significant phase of consolidating our London property footprint, bringing additional energy savings, efficiencies and water use reductions.

The effects of Covid-19 have not only benefited our overall emissions impact from reduced commuting in the year but have also allowed us to identify opportunities for optimising our office space and implementing flexible working, with associated environmental benefits. We are conscious of the environmental impact of staff travel, our supply chain and our office network, and we encourage our employees to make positive change by leasing low emission cars and participating in the cycle to work scheme.

We encourage waste recycling in all our offices and 100% of the waste contractors we use across our offices send zero waste to landfill. This year, we have continued to broaden our engagement with our supply chain on environmental matters, while working with those who share our ambitions to efficiently use resources and combat the adverse effects of climate change. We are extending the emissions data we collect from our suppliers and continue to explore ways in which we can incorporate carbon impact criteria into our choice of suppliers.

Our internal Environmental Policy outlines our continued efforts towards environmental sustainability, and includes:
- compliance with all environmental legislation and codes of practice throughout the different areas we operate in and, where possible, demonstrating best practice in environmental stewardship;
- continuing to monitor and report on our environmental footprint both internally and externally;
- reducing 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;
- minimising unnecessary consumption, improving rates of recycling and promoting the use of recycled materials wherever possible;
- in particular, focusing 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
- raising awareness of environmental issues and promoting 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

GHG Emissions and Energy Usage
We gather our environmental data and compile our greenhouse gas (“GHG”) emissions with the support of an independent third-party analytics and reporting consultant.

Electrifying Our Fleet

The improving emissions of our company car fleet continues to be a success story that we are proud of, with the majority of our vehicles now being plug-in hybrids or fully electric. We offer an increasing range of these options and incentivise our staff to return older and more polluting vehicles free of charge in exchange for an electric alternative. Pure petrol or diesel vehicles are no longer available options in our company car fleet, with hybrids and fully electric vehicles being the only choice available to employees. We expect to further restrict choices to only fully electric vehicles during the coming months, other than in exceptional circumstances.

Our Scope 1 fuel emissions from company fleet vehicles continue to fall, as a result of our significant efforts towards growing the number of fuel-efficient, electric and alternative fuel vehicles in the fleet over several years now. We are pleased to have lowered our associated vehicle emissions by 68% since the start of the 2021 financial year, continuing to benefit from both our increased range of hybrid and electric vehicles, as well as the reduction in staff travel due to UK lockdown periods.

In 2020, we set ourselves a target of reducing our average fleet vehicle CO_2 emissions by a further 10% on last year's levels by 31 July 2021. We are pleased that this year we comfortably exceeded this target, as the average CO_2 emissions from our vehicles reduced 25% on last year to 57.3 gCO_2/km (2020: 76.6 gCO_2/km), further benefiting from our removal of all pure petrol and diesel vehicle options from our company car fleet in August 2020.

These figures build on several consecutive years of reductions, with our associated Scope 1 fuel emissions down 89% since 31 July 2016 and our average fleet vehicle CO_2 emissions down 51% in the same period.

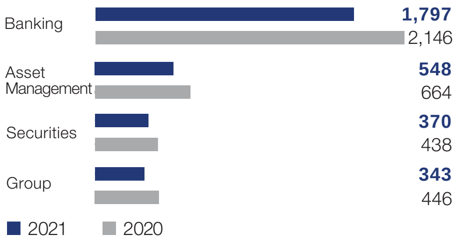
GHG Emissions and Energy Use Summary[3]

Scope	GHG emissions source	2021	2020
Scope 1 (tCO_2e)	Fuel (Buildings)	712	711
	Fuel (Owned vehicles)	345	1,069
Scope 2 (tCO_2e)	Electricity	1,502	1,633
	Company electric vehicles	57	–
Scope 3 (tCO_2e)	Employee vehicles	83	140
	Electricity transmission and distribution	129	141
	Other[4]	230	–
Total location based GHG emissions (tCO_2e)		**3,058**	**3,694**
Average number of employees		3,713	3,521
Total per employee (tCO_2e)		**0.82**	**1.05**
Total market based GHG emissions (tCO_2e)[1]		**2,972**	**3,765**
Total energy use (kWh)[2]		**16,661,583**	**17,223,864**

	2021		2020	
Geographic breakdown	UK	Overseas	UK	Overseas
Total GHG emissions (tCO_2e)	**2,946**	**112**	3,627	67
Total energy use (kWh)[2]	**16,399,765**	**261,818**	16,961,329	262,535

1 2020 market based emissions figure restated to reflect updated residual mix emissions factors
2 Energy use reported includes kWh from Scope 1, Scope 2 and Scope 3 employee vehicles only (as required by SECR standards)
3 This work is partially based on the country-specific CO_2 emission factors developed by the International Energy Agency, © OECD/IEA 2020 but the resulting work has been prepared by Close Brothers plc and Avieco Ltd and does not necessarily reflect the views of the International Energy Agency
4 Other Scope 3 categories calculated for the first time in 2021 consist of water, paper, waste, rail and flights

GHG Emissions by Division (tCO_2e)



This enables us to verify the accuracy of our data, while helping us monitor our performance and develop action plans based on strategic insights. We continue to meet the requirements of the Streamlined Energy and Carbon Reporting ("SECR") standards in our reporting for enhanced transparency in how we disclose our environmental impact.

Our methodology for calculating and disclosing our GHG emissions and energy use is in accordance with the requirements of the World Resources Institute GHG Protocol Corporate Standard and the SECR standards. We report on all material Scope 1 and 2 emissions associated with our operations. Scope 1 includes fuel emissions from buildings and company vehicles and Scope 2 includes our emissions from electricity. Our reported Scope 3 emissions include those related to employee vehicles and electricity transmission and distribution, with further categories such as water and waste calculated for the first time this year.

In the 2021 financial year, our total location based GHG emissions were 3,058 tonnes of carbon dioxide equivalent ("tCO_2e"), equating to 0.82 tCO_2e per employee, down 17% overall and 22% per employee since 2020. This year we saw the full impact of switching a number of our key sites to 100% renewable electricity sources, which has resulted in further reductions to our GHG emissions under a market based approach of 21% to 2,972 tCO_2e. Emissions in the year also continued to reflect lower usage arising from UK lockdown measures in response to Covid-19, resulting in the temporary closure of offices and reduced staff travel.

Our Scope 2 electricity consumption is our largest source of GHG emissions but continues to reduce on previous years, demonstrating our ongoing commitment to improving the energy efficiency of our offices.

Due to its relative size, the Banking division continues to account for the majority of our GHG emissions. A full breakdown of our 2021 GHG emissions and energy use, together with corresponding data for 2020, is shown in the table above.

Calculation

Our total GHG emissions are reported as tCO_2e, with our energy use reported in kWh, and are calculated in line with the GHG Protocol framework and SECR requirements. In addition to reporting our total Scope 1 and 2 emissions, we also disclose a number of Scope 3 emissions and emissions per employee as an intensity metric to enable a comparable analysis in future disclosures. Our GHG emissions and energy use reported here cover the Close Brothers group as a whole including all of its applicable subsidiaries under SECR.

Sustainability Report continued

Our Policies

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:

Dignity at Work Policy

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

We ensure equal opportunities for all, including having a commitment as part of our Dignity at Work Policy to ensure no employee is subject to discrimination. This applies to all work contexts, as well as all employee lifecycle events, for example in recruitment, training, promotion and flexible working requests.

As part of our Dignity at Work Policy, our colleagues with disabilities are encouraged to share their condition with us, to ensure any reasonable adjustments can be made. We are also members of the Business Disability Forum to support the hiring, retention, training, career development and promotion of employees with disabilities.

Whistleblowing Policy

We provide a simple, transparent and secure environment for our employees, shareholders and other stakeholders to raise concerns about any potential wrongdoing within the company.

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 Whistleblowing Policy.

Employee Health and Safety Policy

Our Health and Safety Policy demonstrates our commitment to ensuring our employees and visitors are safe and sets the framework for our safety culture. 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 103 incidents across all of our sites. Of these,15 were reportable and all arising from Covid-19 within the workplace reportable requirements. We continue to use an online risk assessment tool to manage site-specific risks as appropriate and our Display Screen Equipment risk assessment programme.

Privacy Policy

Our Privacy Policy codifies our approach to protecting personal information, in line with the General Data Protection Regulation and UK Data Protection Act 2018. It sets out our core principles for what personal information we collect and process, and the controls to which the data is subject through its lifecycle.

We have a nominated Data Protection Officer who is accountable for the firm's approach to privacy management, a Chief Information Security Officer accountable for our approach to cyber security, and a broader operating model in which the privacy and security requirements are embedded in operations throughout the organisation.

Financial Crime Policy

Our policies and standards are intended to prevent the group, employees, clients and any other associations or representatives from being used for the purposes of financial crime, including, but not limited to, money laundering, terrorist financing, facilitation of tax evasion and circumvention of financial sanctions.

We are committed to carrying out business fairly, honestly and openly, operating a zero-tolerance approach to bribery and corruption. We are dedicated to ensuring full 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 enable compliance across the organisation.

The Banking division has also committed to the CIPS Ethical Code of Conduct, which supports our commitment to preventing modern slavery from existing within our supply chain. Further details of our compliance with the Modern Slavery Act can be found on our group 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.

Non-Financial Information Statement

In line with the non-financial reporting requirements contained in Sections 414CA and 414CB of the Companies Act 2006, the table below 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 • Environmental Policy	• Our Responsibility, page 23 • Sustainability Report, pages 31 to 33 • Our Stakeholders and Board Engagement, pages 36 to 41
Employees	• Health and Safety Policy • Whistleblowing Policy • Key Customer Principles • Equal Opportunity and Dignity at Work Policy	• Business Model, pages 12 and 13 • The Foundations of our Business, page 14 • Our Culture, page 16 • Our Responsibility, page 23 • Our Stakeholders and Board Engagement, pages 36 to 41 • Sustainability Report, pages 26 to 28 and 34 • Corporate Governance Report, page 79
Social Matters	• Key Customer Principles • Bank Credit Policy Underwriting Standards	• Our Responsibility, page 23 • Sustainability Report, pages 30 and 31 • Our Stakeholders and Board Engagement, pages 36 to 41
Respect for Human Rights	• Human Rights and Modern Slavery Act • Privacy and Data Protection Policy • Cyber Security Policy	• Sustainability Report, page 34
Anti-Corruption and Anti-Bribery	• Anti-Money Laundering Policy • Anti-Bribery and Corruption Policy • Cyber Security Policy	• Sustainability Report, page 34
Description of Principal Risks and Impact of Business Activity		• Principal Risks, pages 60 to 64 • Emerging Risks and Uncertainties, pages 65 to 67 • Risk Committee Report, pages 89 and 90
Description of the Business Model		• Business Model, pages 12 and 13 • The Foundations of our Business, page 14 • Our Purpose, page 15 • Our Culture, page 16
Non-Financial Key Performance Indicators		• Strategy and Key Performance Indicators, pages 20 and 21 • Our Responsibility, page 23 • Sustainability Report, page 25

Our Stakeholder and Board Engagement

How Stakeholder Engagement Informs Our Decision-Making
At Close Brothers, we have a broad set of stakeholders with differing views and priorities, so it is important that we actively engage with each group to understand their perspective and take this into account when making decisions. We undertake a comprehensive programme of stakeholder engagement and consider the feedback provided, embedding this in the decision-making process both at a board level and throughout the group.

Our stakeholders and why we focus on them	Stakeholders' key priorities
Colleagues Close Brothers has over 3,700 employees around the UK, Ireland, the Channel Islands and Germany. We have a diverse and motivated workforce which delivers the highest levels of service to our customers, clients and partners. Engagement with employees helps to attract, build and retain a high calibre talent pool and ensure that our employees remain enthusiastic about their work and Close Brothers.	• A safe working environment • A fair, supportive, diverse and inclusive culture where employee feedback is valued • Ensuring appropriate rewards for their contributions • Opportunities for training and development • Long-term successful performance of the group
Customers, Clients and Partners The needs of our customers, clients and partners are at the heart of our business and are core to our purpose of helping the people and businesses of Britain thrive over the long term. The group has customers, clients and partners in the UK, Ireland, the Channel Islands, Germany and the US and is focused on upholding reliable, high quality services and a personal approach. Our long-term success depends on the strength of our relationships with customers, clients and partners, our specialist expertise and maintaining high standards of service. As such, central to all decision-making is understanding how our actions can help them and their businesses thrive.	• A customer-led proposition • A focus on treating customers fairly and doing the right thing • Strong personal relationships and specialist expertise • Consistent and supportive customer service whatever the market conditions • A responsive service with solutions that are flexible, responsive and executed with speed • Relationships are built on quality and trust
Suppliers Our business is supported by a large number of suppliers, enabling us to provide high standards of service to our customers, clients and partners, whilst also allowing them to access innovative products and services. Engagement with our suppliers enables the group to develop and maintain long-term and sustainable relationships. This engagement enables our suppliers to better understand and align to our risk management requirements and operate responsibly.	• Strong and sustainable relationships with Close Brothers • Fair and equitable conduct of business • Appropriate and clear payment procedures • An understanding of the group's purpose and strategy • Robust risk management framework
Regulators and Government The group values an open and transparent relationship with all our regulators, including the Financial Conduct Authority ("FCA") and the Prudential Regulation Authority ("PRA"), as well as government authorities and trade associations. It is important that we maintain a culture that is focused on retaining and encouraging high standards of business conduct and regulatory compliance and openness. Engaging with the relevant regulators and associations helps to ensure the business is aligned to the evolving regulatory framework.	• Fair treatment of customers and clients • Compliance with applicable regulation • Recognition of the importance of resilience and risk management • Provision of high quality information and regulatory reporting • Active consideration of risks relating to sustainability and other climate matters • Transparent group tax strategy
Communities and Environment Close Brothers is committed to contributing lasting value and making a positive impact on the society in which we operate and the environment more broadly. Engaging with local communities helps the board and our employees develop our understanding of our clients, customers and partners so that we can support them and help them to achieve their ambitions, whilst also building employee engagement. We firmly believe that environmental considerations should form an integral part of the decisions we make as a business and employees across the group are actively engaged on responsible behaviours and environmental issues.	• A suitable strategy for approaching sustainability issues • Support for community initiatives • Job creation and social mobility • A long-term focus on addressing the impacts of climate change
Investors The group is focused on generating long-term, sustainable value for its investors, while also maintaining a strong capital base and balance sheet. Our investors are the providers of capital to our business so it is important that we engage actively with them and listen and respond to their feedback.	• Strong returns and financial resilience through the cycle • Capital generation and distributions • Sustainable and consistent business model • Appropriate governance practices and regard to environmental and social responsibility

The table below outlines our key stakeholders, why they are important to us, their key priorities and some of the ways we are engaging with each group.

How we engage with them	Key group and business-level engagement during the year
Engagement with our colleagues takes place daily through line managers, with senior management regularly speaking at Town Halls and other business-wide forums. Listening to our colleagues and acting upon their feedback is essential to maintaining employee engagement, whether this is through undertaking regular employee opinion surveys or management leading engagement activities to provide updates on business performance. Training and mentoring programmes are in place to support the development of all employees.	As lockdown restrictions have changed, engaging with employees has been paramount. Throughout the year, our focus has been on employee wellbeing and morale, ensuring our employees feel supported and engaged, both at a team and business level given the challenges of remote working for many. An active programme of engagement has been in place that has included virtual wellbeing workshops, webinars and initiatives run by our internal networks, and online fitness classes. We also ran a full Employee Opinion Survey in February/March 2021 to gather feedback from our colleagues and ensure we are listening closely to their views. Read more about the ways we have engaged with our colleagues: See pages 26 to 28.
Consistent delivery of high quality service for customers, clients and partners by our specialist, expert teams is core to our business model. We ensure this is built around the needs of our customers, clients and partners and is aligned to our refreshed customer principles by conducting extensive research and analysis of feedback, captured through our customer and partner operating framework. This enables us to improve experiences in the moment as well as plan for changes to our service and proposition into the future.	Maintaining close contact with our customers, clients and partners throughout the year has been paramount as we continued to support those who have found themselves in difficulty through forbearance and other Covid-19 concessions. We regularly discussed our customers' positions with them to ensure we were best supporting their needs as they evolved. We have continued to provide new processes and products to maintain our high levels of service in innovative ways as we support our customers, clients and partners through these uncertain times. Read more about the ways we have engaged with our customers, clients and partners: See pages 28 and 29.
Our key supplier relationships are owned by dedicated relationship managers and are supported by our central third party management function, which includes regular meetings, as well as an annual survey to seek feedback on Close Brothers as a client.	Throughout the last year we have continued to maintain our frequent contact with our suppliers and conduct regular reviews of service. Our annual survey of key suppliers was last conducted in January 2021, focusing on how Close Brothers performs as a client and how our suppliers feel about doing business with us. We continue to share a strategic vision with our suppliers to help them understand our direction and provide clarity, while ensuring that we remain considerate of our suppliers and the impact of Covid-19 on our supplier relationships. Read more about the ways we have engaged with our suppliers: See pages 29 and 30.
We maintain a proactive dialogue with the PRA and the FCA and have a constructive relationship with HMRC to help ensure we are aligned with the relevant regulatory frameworks. We regularly interact with the trade bodies and business associations we are affiliated with to ensure we are engaged with issues impacting our industry, and have built a strong relationship with the Financial Ombudsman Service.	We have had close engagement with the regulators as part of our preparations for applying to use the Internal Ratings Based approach, with our application submitted to the PRA in December 2020 and initial interviews conducted in 2021. We have maintained an active dialogue with the regulator in relation to customer forbearance and have closely followed relevant regulatory guidance. We have also consulted with the regulator ahead of making decisions on dividend payments. Read about our decision to reinstate dividend payments: See page 40.
Many of our employees participate in group-wide committees established to drive forward a range of initiatives around diversity and inclusion, helping the environment and charitable and community activities, with our employee volunteers the driving force behind our successful community and charitable events. We have a range of partnerships with leading organisations dedicated to creating positive impact via diversity, inclusion and social mobility schemes, while our regular interactions with industry bodies and third party consultants help inform our strategy towards climate change and the environment.	During the year, we communicated our support for the ambitions of the Paris Agreement to reach net zero by 2050 and our target of reaching net zero by 2030 for our direct operational emissions (Scopes 1 and 2), alongside our plan to assess our indirect emissions impact (Scope 3). We continued to run our established social mobility programmes, supporting up-and-coming talent in local communities and providing access and opportunities for those from less-advantaged backgrounds. Read more about how we engage with our local communities and consider our impact on the environment: See pages 30 to 33.
We have an established programme of engagement for shareholders, debt capital providers and other market participants through our investor relations team, which includes regular dialogue with the executive team and chairman.	We maintained our regular programme of communication including investor roadshows, analyst presentations and keeping the market up to date in line with regulation. We hosted an Investor Event in June 2021, with presentations covering the group and its businesses and providing investors an opportunity to ask questions of the management team. We also engaged potential and existing fixed income investors during roadshows throughout the year, as well as communicating regularly with credit rating agencies, and provided investors with a channel to submit questions in the absence of a full AGM due to Covid-19 restrictions. Read more about engagement with our investors in the Corporate Governance Report on pages 76 to 88.

Our Stakeholder and Board Engagement continued

Section 172 Statement and Statement of Engagement with Employees and Other Stakeholders

Section 172(1) of the Companies Act 2006 requires a director of a company to act in a way that he considers, in good faith, would be most likely to promote the success of the company for the benefit of its members as a whole, and in doing so have regard (amongst other factors) to various other considerations and stakeholder interests:

- the likely consequences of any decision in the long term;
- the interests of the company's employees;
- the need to foster the company's business relationships with suppliers, customers and others;
- the impact of the company's operations on the community and the environment;
- the desirability of the company maintaining a reputation for high standards of business conduct; and
- the need to act fairly as between members of the company.

The board is responsible for establishing and overseeing the company's values, strategy and purpose, all of which centre around the interests of key stakeholders and other factors set out in section 172(1).

The directors are conscious that their decisions and actions have an impact on stakeholders, including employees, customers, suppliers, communities and investors, and they have had regard to stakeholder considerations and other factors in section 172(1) during the year.

Regular engagement with stakeholders, both directly and indirectly via management, has continued to be an important focus for the board and has ensured that the directors are aware of and have effective regard to the matters set out in section 172(1). Throughout the year, the board receives and discusses stakeholder insight and feedback and it ensures that stakeholder considerations are taken into account in the board's deliberations and decision-making.

Whilst the board acknowledges that, sometimes, it may have to take decisions that affect one or more stakeholder groups differently, it seeks to treat impacted groups fairly and with regard to its duty to act in a way that it considers would be most likely to promote the success of the company for the benefit of its members as a whole, having regard to the balance of factors set out in section 172(1).

Considerations relating to the factors in section 172(1) are an important part of governance processes and decision-making both at board and executive level, and more widely throughout the group. For example, the Schedule of Matters Reserved to the Board and the terms of reference for each of the board's committees emphasise the importance of decision-making with regard to relevant factors under section 172(1) and broader stakeholder considerations.

Necessarily in a large and regulated group, some decisions are taken by management or the directors of subsidiary companies. These decisions are taken within parameters set by the board and there is a robust framework that ensures ongoing oversight, monitoring and challenge by the board and its committees (including certain decisions and activities that are always reserved to the board or its committees). The board has regard to relevant factors set out in section 172 in its activities in these areas, including considerations relating to the potential impact of delegated decisions on the long-term success of the group as a whole, the group's reputation for high standards of business conduct and the consequences of local decisions on the group's stakeholders. Examples of the board's oversight of matters related to areas of delegated or subsidiary responsibility in the 2021 financial year include monitoring the development, strategy and performance of individual businesses and subsidiaries, considering management's response to regulatory initiatives and engagement, and oversight of activities relating to culture, conduct and employee engagement at local level. Once again during the year, the board's monitoring of the group's businesses and subsidiaries has been particularly focused on the impact of, and response to, Covid-19.

Further detail on the board's engagement with, and consideration of, the company's stakeholders can be found in the following pages, along with examples of decision-making that have had regard to the factors in section 172(1), employee interests, and the need to foster the company's business relationships with suppliers, customers and others, and the effect of that regard, including on principal decisions taken by the company during the financial year.

How the board engages with, and has regard to, each of our stakeholder groups

We have set out in the following pages examples of how the board engages with, and has regard to, the interests of stakeholders. Among other things, stakeholder considerations have been a key focus for the board during its oversight of the group's response to the Covid-19 pandemic.

Further information on the operation of the board, including the matters regularly considered, can be found on page 80 of the Corporate Governance Report.

Colleagues

- Regular updates on employee issues arising from Covid-19, including the response to lockdowns, the continuation of home working, reviewing wellbeing issues, the discussion of employee opinion surveys and return to workplace planning.
- Discussion of the group's activities to identify optimal future working practices for employees, having regard to customer needs and the control environment alongside a desire to encourage team collaboration and enable greater flexibility for colleagues.
- Regular communications with employees on financial, strategic and operational matters via emails and videos, participation in Town Halls and Q&A sessions by individual directors.
- Director attendance at committees and forums below board level to understand and discuss employee-related issues.
- Extensive consideration of employee-related issues connected with major projects and transformation programmes across the group.
- Review and discussion of a quarterly culture dashboard, providing an overview of matters relating to culture and values.
- Support for and attendance at development and training programmes attended by employees at different levels.
- Consideration of compensation and employee-related matters by the Remuneration Committee.
- Regular discussion by the board and Nomination and Governance Committee on the group's approach to diversity, including the activities of specific networks and working groups.
- Ongoing activity to encourage employee participation in the group's Save As You Earn ("SAYE") and Buy As You Earn ("BAYE") share schemes.
- Board oversight of, and at least half-yearly updates on, whistleblowing activity, supplemented by the appointment of a non-executive director as the group's whistleblowing champion.
- Annual review and approval of the group's gender pay gap reporting by the Remuneration Committee.

Customers, clients and partners

- Updates on, and consideration of, the impact of Covid-19 on customers, clients and partners, including regular updates on operational matters and reviews of information relating to the provision of forbearance and Covid-19 related concessions to customers of the Banking division and the roll-off of this support.
- Quarterly in-depth customer deep-dives by the board including review of customer metrics and engagement scores, and updates on a wide range of matters relating to customer issues, including complaints.
- Review of refreshed customer principles.

- Customer, client and operations updates in monthly business reports presented to the board by members of the Executive Committee.
- Discussion of customer, client and partner considerations in individual decisions to be made by the board, including major investment programmes.
- Consideration of customer and conduct-related issues during the year in relation to particular projects, for example the Risk Committee's oversight of the programme for the transition away from LIBOR, and risk and control issues arising from home working and "hybrid" home and office working.
- Oversight by the Audit Committee of relevant customer, client and partner-related items arising from reviews undertaken by the group's internal audit function.
- Regular discussion on sustainable commercial opportunities being considered for our customers, clients and partners, including at dedicated Executive Committee meetings.
- Attendance by directors at meetings of the Banking division's customer forum.
- Consideration of conduct matters as part of the quarterly culture dashboard reviewed by the board, together with a conduct risk dashboard reviewed by the Risk Committee at each scheduled meeting.

Suppliers

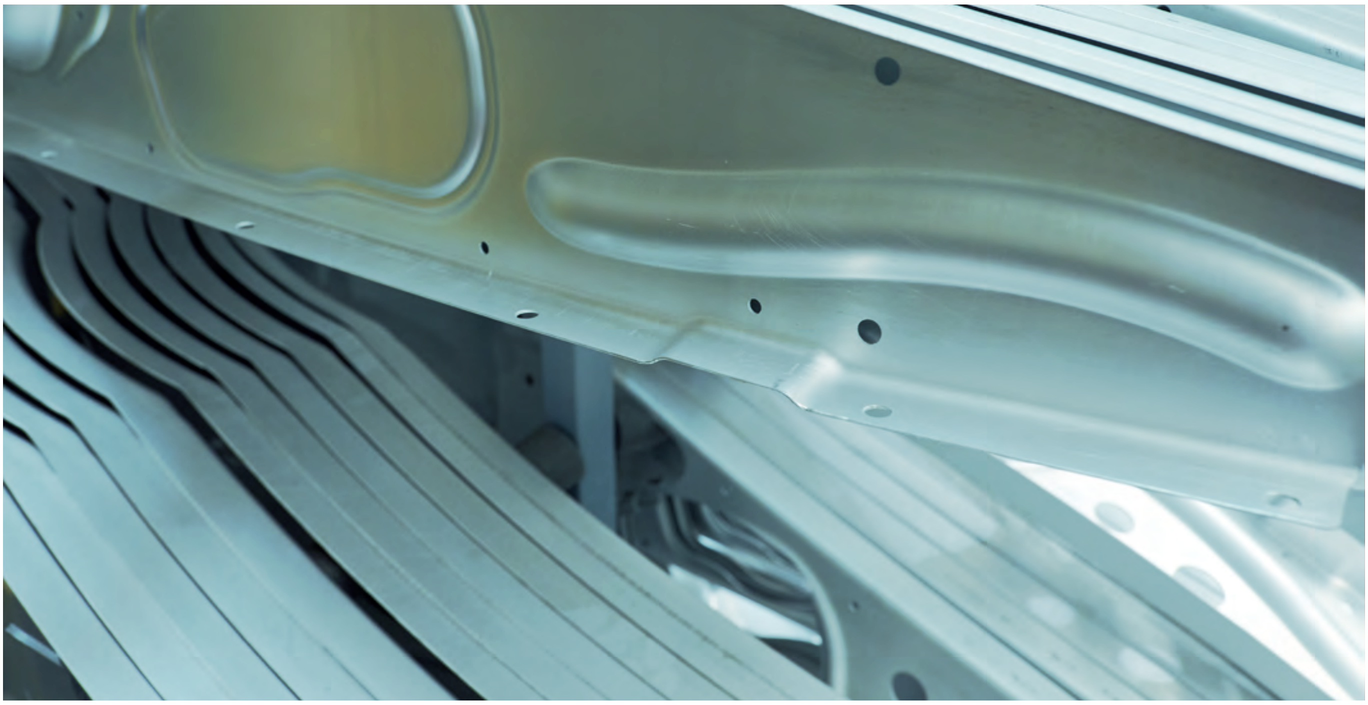
- Updates on, and consideration of, the impact of Covid-19 and lockdowns on suppliers and partners.
- Annual deep-dive supplier update to the board.
- Consideration and approval of material contracts with suppliers in line with the Schedule of Matters Reserved to the Board.
- Annual review of the group's Modern Slavery Statement.
- Updates on supplier considerations as part of monthly updates provided by senior management to the board.
- Oversight of relevant policies and internal processes, including updates on the group's anti-bribery procedures.
- Consideration of supplier issues as part of updates on transformation and investment programmes.
- Oversight and monitoring of key supplier relationships by the board and its committees, including engagement between the Audit Committee and the group's external auditors.

Regulators and government

- Regular updates on regulatory developments and interactions during Covid-19, including guidance in relation to customer forbearance and guardrails on dividend payments for large UK banks.
- Discussion with the PRA ahead of the dividend decisions for full year 2020, half year 2021 and full year 2021.
- Regular engagement with the regulator in relation to the group's IRB application.
- Updates on regulatory requirements in relation to ESG and sustainability and regular appraisal of the group's response, including progress towards disclosure requirements, such as the Task Force on Climate-related Financial Disclosures ("TCFD").
- Regular direct engagement between individual directors and regulators.
- Attendance by directors at wider industry/sector events with regulators.
- Updates on broader regulatory developments and compliance considerations during the year, including summaries of management's engagement with regulators, as part of the Head of Compliance's regular updates to the Risk Committee and the board.
- Engagement with regulators on non-executive director and senior manager appointments.
- Provision of regulatory correspondence to the board and relevant committees, including review by the board of resultant recommendations and actions.
- At least an annual update to the Audit Committee on taxation matters, including on engagement with HMRC.

Communities and environment

- Quarterly updates on matters relevant to our communities and the environment as part of broader ESG and sustainability updates provided to the Nomination and Governance Committee.
- Consideration of the significance of ESG matters to the group's activities, including the identification and assessment by the board of the significant ESG risks to the group, as well as consideration of opportunities that may arise.
- Regular discussion by the Nomination and Governance Committee on the group's sustainability targets and progress in achieving them, including those targets and initiatives relating to climate change and local communities.
- Regular updates to the Risk Committee on matters relating to climate risk and the group's response.



Our Stakeholder and Board Engagement continued

- Engagement with proxy advisers and other groups on ESG matters, including those relating to local communities and the environment, on which the Nomination and Governance Committee is updated.
- Consideration of environmental issues as part of board discussions on the group's London Property Programme.
- Updates to the board on the group's charity strategy, including individual donations during the year.
- Updates to the board on community engagement programmes, including the group's partnership with the social mobility charity, UpReach.
- Board participation in local charitable and volunteering activities.

Investors

- Frequent updates on shareholder engagement, results announcements and feedback as part of regular investor relations reporting.
- Comprehensive programme of investor engagement throughout the year including meetings between the chairman and major shareholders focusing on environmental, social and governance matters and engagement with current and potential investors and sell-side analysts following results announcements.
- Engagement with investors and sell-side analysts during the group's Investor Event, which included a Q&A session with the executive management team.
- Review of, and input into, the presentations for the Investor Event by the board, with feedback provided following the event.
- Remuneration policy consultation with investors as a result of CRD V requirements.
- Although this was not possible in 2020 due to Covid-19, directors typically attend the company's AGM in November each year, together with presentations from the chairman and chief executive, investor Q&A and voting on all resolutions.
- In the absence of a typical AGM in 2020, a review of company performance by the chief executive was made available on the company's website, with shareholders encouraged to submit questions ahead of the AGM.
- Extensive feedback on investor views and feedback in relation to the company's Tier 2 debt issuance completed in 2021.

Principal Board Decision:
Resumption of Dividend Payments

In September 2020, the board took the decision to recommend to shareholders the resumption of dividend payments in respect of the 2020 financial year, following the group's resilient performance in the second half of the year. This reflected the board's confidence in the business model and strong financial position.

This follows the decision taken by the board in April 2020 to cancel the payment of the company's 2020 interim dividend in recognition of the significant challenges being faced by businesses and individuals in response to Covid-19, and consistent with the company's purpose of helping the people and businesses of Britain.

The board had many factors to consider when making this decision, balancing the views of all stakeholders alongside their assessment of the group's financial performance for the year and their confidence in the company to continue executing its business model in an uncertain external environment. Ensuring that the company had sufficient resources to continue supporting customers, clients, partners and colleagues, whilst maximising opportunities, was of paramount concern.

In line with the requirements of section 172(1), the board had regard to the different interests of stakeholders, but with an overarching focus on acting in the way that would be most likely to promote the success of the company for the benefit of its members as a whole.

The board also undertook a similar process when determining if an interim and final dividend payment should be made in respect of the 2021 financial year.

How the board considered, and had regard to, the interests of key stakeholders and the requirements of section 172(1)

The board engaged in extensive discussions with management ahead of making its decision and considered the long-term viability of the group's position.

- On a regular basis, the board was updated on the company's performance and its capital, funding and liquidity position, as well as expectations for the group's financial resources in the following financial year, to understand the financial resources it had available and the impact a dividend payment would have in a range of scenarios.
- The board was regularly made aware of the position of customers and clients, including the evolution of the forbearance population and our provisioning levels.
- The board considered the broader market environment and the perception of UK banks resuming dividend payments, including the views of regulators, rating agencies and other stakeholders, and the guardrails on dividend payments provided to the UK's systemic banks. Dividend decisions of other FTSE 350 and high profile companies were also acknowledged.
- The board considered the position of the regulator and the group discussed its proposal with the PRA ahead of making any decision and recognised the regulator's interest in ensuring we could continue to support our customers and continue lending given the uncertainty and that any payment had to take into account stakeholder considerations.
- The expectation of shareholders was taken into account, with recognition given to the company's progressive dividend policy and strong track record of dividend payments prior to the cancellation of the 2020 interim dividend.
- The overall sentiment of employees was considered given the signal any decision would send and the impact a dividend payment may have on overall remuneration.
- The board acknowledges that a number of the group's employees are shareholders, whether through the SAYE, the BAYE or through general share ownership, and recognises the impact for them (and all shareholders) on whether a dividend is paid.
- In addition to these stakeholder groups, the board considered the broader economic uncertainty and its potential medium and longer-term impact on the group, as well as the commentary that should accompany any decision around future dividends.

The board's recommendation of a 40.0p per share dividend in respect of the 2020 financial year was submitted to shareholders for approval at the company's AGM in November 2020 and received approval from 100% of voting shareholders.

An interim dividend of 18.0p per share was declared at the half year 2021 results, reflecting the group's strong performance in the first half of the financial year and continued confidence in the business model and financial position.

The board has recommended a final dividend of 42.0p per share in respect of the 2021 financial year, resulting in a full-year dividend of 60.0p.

Principal Board Decision:
Evolution of Strategic Narrative

Following the appointment of Adrian Sainsbury as Chief Executive in September 2020, a review was undertaken with the objective of evolving the group strategy to reflect the focus on growth in line with the Close Brothers model, as well as incorporating the group's approach to responsibility and sustainability.

The board was involved in discussing and agreeing the formulation and refinement of both the broader strategy and how it should be articulated. It debated and provided constructive feedback and challenge on different proposals and iterations to ensure it accurately captured the strategic direction of the group, whilst taking appropriate consideration of different stakeholder views and perspectives.

As a result of this review, the framework for articulating the group's future strategic priorities evolved from "protect, improve, extend" to "protect, grow, sustain" to reflect our commitment to the delivery of disciplined growth and the sustainability of our business model over the long term.

To support the articulation of how the group plans to deliver disciplined growth, the "Model Fit Assessment Framework" was discussed. This demonstrates how we review opportunities, assessing their fit with the group's model, culture and responsible way of doing business. Although the filters within the framework are not all mutually exclusive, they ensure that we are following a disciplined approach to growth and preserving the attributes that generate value for all stakeholders.

How the board considered, and had regard to, the interests of key stakeholders and the requirements of section 172(1)

When considering the evolution of the strategy, the board had regard to the views and perspectives of our key stakeholder groups, for example discussing how the language used to communicate the strategy may be perceived by different parties and ensuring that the strategic priorities were aligned to the group's objectives and business model.

The board considered the likely views of investors, debating the language used to ensure the approach was well articulated and the strategic priority of "disciplined growth" would be understood. The board also acknowledged feedback from shareholders and analysts on the group's proven and well-established model.

Recognition was also given to risk, control and governance issues, ensuring that the strategic priority of "disciplined growth" was aligned to the group's current approach and risk appetite.

The board acknowledged that incorporating "sustain" as one of the group's strategic priorities gave recognition to the considerations paid to key stakeholders in the group's decision-making and the importance placed on operating sustainably and making a positive impact across the business. The board also highlighted the importance of incorporating further references to customers and clients to reflect the group's regard for their interests.

The board also considered the perspective of employees, highlighting the need to appropriately communicate the evolution of the strategy internally so it was well understood and embedded at all levels of the group's operations.

Financial Overview

Close Brothers delivered a strong performance in an evolving environment, making the most of opportunities as the economy recovers from the Covid-19 crisis.

Return on opening equity

14.5%

2020: 8.0%

Adjusted operating profit

£270.7m

2020: £144.0m

Summary Group Income Statement[1]

	2021 £ million	2020 £ million	Change %
Operating income	**952.6**	866.1	10
Adjusted operating expenses	**(592.1)**	(538.4)	10
Impairment losses on financial assets	**(89.8)**	(183.7)	(51)
Adjusted operating profit	**270.7**	144.0	88
Banking	**212.5**	99.2	114
Commercial	**52.8**	4.8	1,000
Retail	**71.9**	34.9	106
Property	**87.8**	59.5	48
Asset Management	**23.7**	20.4	16
Winterflood	**60.9**	47.9	27
Group	**(26.4)**	(23.5)	12
Amortisation and impairment of intangible assets on acquisition	**(14.2)**	(3.1)	358
Goodwill impairment	**(12.1)**	–	–
Exceptional item: HMRC VAT refund	**20.8**	–	–
Operating profit before tax	**265.2**	140.9	88
Tax	**(63.1)**	(31.4)	101
Profit after tax	**202.1**	109.5	85
Profit attributable to shareholders	**202.1**	109.5	85
Adjusted basic earnings per share[2]	**140.4p**	74.5p	88
Basic earnings per share[2]	**134.8p**	72.8p	85
Ordinary dividend per share	**60.0p**	40.0p	50
Return on opening equity	**14.5%**	8.0%	
Return on average tangible equity	**16.5%**	9.4%	

1 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; and any exceptional and other adjusting items which do not reflect underlying trading performance. Further detail on the reconciliation between operating and adjusted measures can be found in Note 3.
2 Refer to Note 8 for the calculation of basic and adjusted earnings per share.

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; and any exceptional and other adjusting items which do not reflect underlying trading performance. Please refer to page 43 for further details on items excluded from the adjusted performance metrics.

Operating Profit and Returns

Adjusted operating profit increased 88% to £270.7 million (2020: £144.0 million), primarily reflecting higher income across all divisions and significantly lower impairment charges in Banking, partially offset by increased costs. After exceptional and other adjusting items, statutory operating profit before tax increased by 88% to £265.2 million (2020: £140.9 million). The group delivered a strong return on opening equity of 14.5% (2020: 8.0%) and return on average tangible equity of 16.5% (2020: 9.4%).

Adjusted operating profit in the Banking division increased by 114% to £212.5 million (2020: £99.2 million) primarily due to lower impairment charges and strong income growth, partially offset by continued investment in the business. The Asset Management division achieved good net inflows of 7%, delivering adjusted operating profit of £23.7 million (2020: £20.4 million), 16% higher than the prior year, as growth in operating income more than offset the cost of continued investment to support the long-term growth potential of the business. Winterflood delivered a very strong trading performance, with operating profit up 27% to £60.9 million (2020: £47.9 million), as the business benefited from elevated market activity for most of the year. Group net expenses, which include the central functions such as finance, legal and compliance, risk and human resources, increased on the prior year at £26.4 million (2020: £23.5 million), primarily driven by higher performance-related compensation and share-based award payments.

Operating Income

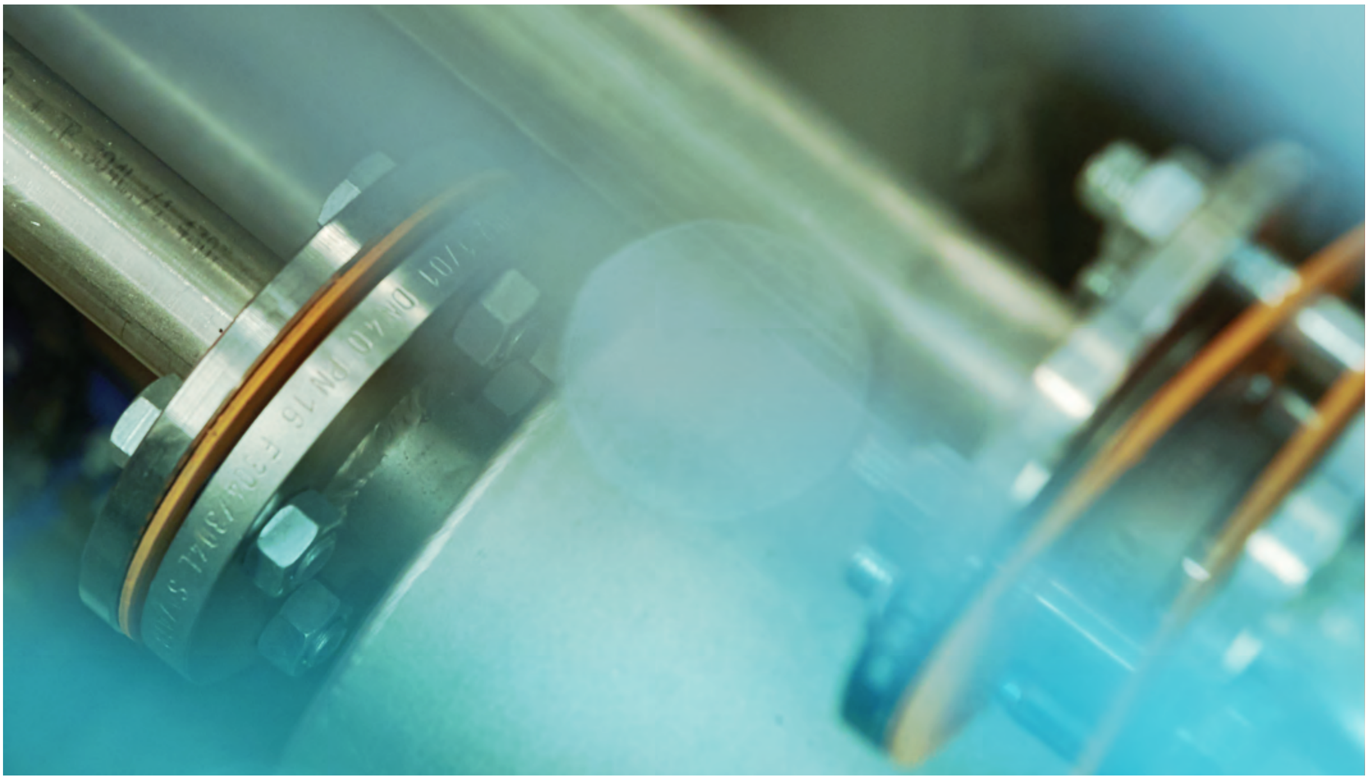
Operating income increased 10% to £952.6 million (2020: £866.1 million), with growth in all divisions. Income in the Banking division increased by 8%, reflecting high new business volumes and a strong net interest margin of 7.7% (2020: 7.5%). Income in the Asset Management division was up 9%, reflecting an increase in client assets. Income in Winterflood increased by 20% as a result of elevated trading volumes and very strong trading performance.

Adjusted Operating Expenses

Adjusted operating expenses increased 10% to £592.1 million (2020: £538.4 million), mainly driven by higher costs in Banking and Winterflood. In the Banking division, costs increased by 8%, mainly driven by continued investment to protect, grow and sustain the business. Costs increased 8% in the Asset Management division, primarily driven by continued hiring of portfolio managers and increases in variable costs, as well as investment in technology. Winterflood's operating expenses increased by 17% due to higher variable costs such as staff compensation and settlement costs. Overall, the group's expense/income ratio was in line with the prior year period at 62% (2020: 62%) and the group's compensation ratio increased marginally to 38% (2020: 37%). Statutory operating expenses increased to £597.6 million (2020: £541.5 million).

Impairment Charges and IFRS 9 Provisioning

Impairment charges decreased significantly in the year to £89.8 million (2020: £183.7 million), corresponding to a bad debt ratio of 1.1% (2020: 2.3%).



We experienced strong underlying credit performance across Commercial, Retail and Property as well as a reduction in Covid-19 provisions. The bad debt ratio of 1.1% reflected an increase in provisions against the Novitas loan book, which accounted for a significant portion of the impairment charge for the year.

Our approach to provisioning continues to reflect the application of our models overlaid with expert judgement to determine the appropriate allocation of loan book balances between stages, to macroeconomic scenario updates and weightings, and to provision coverage at the individual portfolio level.

We have revised the macroeconomic scenarios and the weightings assigned to them, with the resulting position being 20% upside (of which 10% was moved to the upside at 31 January 2021), 40% baseline, and 40% downside, to reflect a reduced level of economic uncertainty, the Covid-19 vaccination developments and easing of restrictions.

There was a marginal increase in overall provision coverage to 3.2% (31 July 2020: 3.0%) which included reductions in Covid-19 provisions, reflecting improved macroeconomic outlook and encouraging performance of the forborne loan book, more than offset by a significant increase in provisions against the Novitas loan book.

We believe this represents an appropriate level of provision, reflecting an improved but still uncertain economic outlook.

We remain confident in the quality of our loan book, which is predominantly secured, prudently underwritten, diverse and supported by the deep expertise of our people.

Exceptional and Other Adjusting Items

We have recognised an exceptional gain of £20.8 million reflecting a VAT refund from HMRC in relation to hire purchase agreements in the Motor Finance and Asset Finance businesses. This follows HMRC's new policy framework in respect of the judgment from the Court of Justice of the European Union regarding Volkswagen Financial Services (UK) Ltd and has been agreed with HMRC in respect of 2009 to 2020.

Following the strategic review of Novitas' products and services, the group decided to cease permanently the approval of lending to new customers across all of the products offered by Novitas. As a result of this decision and the impact on the future cash flow profile of the business, we recorded an impairment charge of £12.1 million relating to the full write down of goodwill allocated to Novitas and a £10.1 million impairment charge relating to the remaining value of intangible assets recognised on acquisition. These charges are recognised as other adjusting items in the presentation of the group's adjusted performance.

Tax Expense

The tax expense was £63.1 million (2020: £31.4 million), which corresponds to an effective tax rate of 23.8% (2020: 22.3%). The effective tax rate in the 2021 financial year is above the UK corporation tax rate primarily due to the surcharge applying to most of the group's profits, partly offset by a write-up in deferred tax assets, reflecting an increase in the UK corporation tax rate from 19% to 25% applying from April 2023 passed into law earlier this year.

The government has indicated that it will legislate in Finance Bill 2021-22 to ensure that the combined rate of tax on banks' profits, which comprises the standard corporation tax rate and banking surcharge, does not increase substantially from its current level. This legislation would partially reverse the abovementioned deferred tax asset increase, and income statement benefit, however the precise quantum and timing of such a reversal remains uncertain.

Earnings per Share

Prior to adjusting for exceptional and other items including the impairment of goodwill and intangible assets on acquisition and the VAT refund from HMRC, basic earnings per share ("EPS") increased 85% to 134.8p (2020: 72.8p). After adjusting for these items, adjusted EPS increased 88% to 140.4p (2020: 74.5p).

Dividend

The board is proposing a final dividend of 42.0p per share, resulting in a full-year dividend per share of 60.0p (2020: 40.0p), up 50% on the prior year. This reflects the group's strong performance in the year and continued confidence in our business model and financial position. Subject to approval at the Annual General Meeting, the final dividend will be paid on 23 November 2021 to shareholders on the register at 15 October 2021.

Financial Overview continued

Summary Group Balance Sheet

	31 July 2021 £ million	31 July 2020 £ million
Loans and advances to customers	**8,444.5**	7,616.7
Treasury assets[1]	**1,788.2**	1,733.9
Market-making assets[2]	**801.6**	719.1
Other assets	**1,000.2**	1,001.8
Total assets	**12,034.5**	11,071.5
Deposits by customers	**6,634.8**	5,917.7
Borrowings	**2,600.9**	2,591.2
Market-making liabilities[2]	**690.6**	622.8
Other liabilities	**538.9**	490.2
Total liabilities	**10,465.2**	9,621.9
Equity	**1,569.3**	1,449.6
Total liabilities and equity	**12,034.5**	11,071.5

1 Treasury assets comprise cash and balances at central banks and debt securities held to support the Banking division.
2 Market-making assets and liabilities comprise settlement balances, long and short trading positions and loans to or from money brokers.

Group Capital[1]

	31 July 2021 £ million	31 July 2020 £ million
Common equity tier 1 capital	**1,439.3**	1,254.0
Total capital	**1,662.7**	1,441.0
Risk weighted assets	**9,105.3**	8,863.2
Common equity tier 1 capital ratio	**15.8%**	14.1%
Total capital ratio	**18.3%**	16.3%
Leverage ratio	**11.8%**	11.2%

1 The group's capital, risk weighted assets and ratios are presented on a transitional basis after the application of IFRS 9 transitional arrangements and the Capital Requirements Regulations qualifying own funds arrangements in force at the time. Without their application, and excluding the benefit related to the current treatment of software assets, at 31 July 2021 the CET1 capital ratio would be 14.2% and total capital ratio 16.7% (31 July 2020: CET1 capital ratio 13.1% and total capital ratio 15.1%).

Balance Sheet

The group maintained a strong balance sheet and remains focused on its prudent approach to managing financial resources.

The fundamental structure of the balance sheet remains unchanged, with most of the assets and liabilities relating to our Banking activities. Loans and advances make up the majority of assets. Other items on the balance sheet include treasury assets held for liquidity purposes, and settlement balances in Winterflood. 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.

Total assets increased 9% to £12.0 billion (31 July 2020: £11.1 billion), but decreased marginally on the half year 2021 position (31 January 2021: £12.3 billion). This increase in total assets mainly reflected the strong loan book growth. Total liabilities were up 9% to £10.5 billion (31 July 2020: £9.6 billion) mainly driven by higher customer deposits. Both market-making assets and liabilities were up due to increased settlement balances reflecting the higher trading activity in Winterflood.

Total equity increased by 8% to £1.6 billion (31 July 2020: £1.4 billion), primarily reflecting the profit in the year, partially offset by dividend payments of £86.6 million (2020: £65.8 million). The group's return on assets increased to 1.7%, reflecting higher profitability in the year (2020: 1.0%).

Group Capital

The prudent management of capital is a core part of our business model and has been a key focus in the evolving environment so that the group can continue to support customers, clients and colleagues.

Common equity tier 1 ("CET1") capital increased 15% to £1,439.3 million (31 July 2020: £1,254.0 million) reflecting strong capital generation through £202.1 million of profit, a £50.2 million benefit from regulatory changes in the treatment of software assets and a £17.5 million transitional IFRS 9 capital add-back. This was partially offset by the regulatory deduction of dividends paid and foreseen of £89.5 million.

Risk weighted assets ("RWAs") increased modestly by 3% to £9.1 billion (31 July 2020: £8.9 billion) notwithstanding the 10.9% growth in the loan book, given the significant portion of government guaranteed loans under Coronavirus Business Interruption Loan Scheme ("CBILS") which attract a lower risk weighting and a reduction in the Property loan book due to high levels of repayments.

The CET1 capital ratio increased to 15.8% (31 July 2020: 14.1%), primarily due to higher profits and the benefit from regulatory changes to the treatment of software assets, partly offset by the increase in RWAs. The total capital ratio increased to 18.3% (31 July 2020: 16.3%), which also reflected our £200 million subordinated debt raised in the form of Tier 2 notes, replacing and concurrently repurchasing most of the outstanding securities.

At 31 July 2021, the applicable minimum CET1 and total capital ratio requirements, excluding any applicable PRA buffer, were 7.6% and 11.5%, respectively. Accordingly, we continue to have significant headroom of 820bps in the CET1 capital ratio, and 680bps in the total capital ratio, leaving us well placed to continue to help our customers and clients and in a position of strength to make the most of the opportunities in the current environment.

In line with the amended CRR ("CRR II"), effective on 23 December 2020, the CET1 capital ratio at 31 July 2021 includes a c.50bps benefit related to software assets which are exempt from the deduction requirement for intangible assets from CET1. The PRA published PS17/21 "Implementation of Basel standards" on 9 July 2021, confirming the reversal to the earlier position. This will result in the reversal of this benefit and reduction of the CET1 capital ratio upon implementation on 1 January 2022.

The group applies IFRS 9 regulatory transitional arrangements which allows banks to add back to their capital base a proportion of the IFRS 9 impairment charges during the transitional period. Our capital ratios are presented on a transitional basis after the

Group Funding[1]

	31 July 2021 £ million	31 July 2020 £ million
Customer deposits	**6,634.8**	5,917.7
Secured funding	**1,333.7**	1,418.2
Unsecured funding[2]	**1,539.5**	1,460.1
Equity	**1,569.3**	1,449.6
Total available funding	**11,077.3**	10,245.6
Total funding as % of loan book	**131%**	135%
Average maturity of funding allocated to loan book[3]	**24 months**	18 months

1 Numbers relate to core funding and exclude working capital facilities at the business level.
2 Unsecured funding excludes £22.7 million (31 July 2020: £7.9 million) of non-facility overdrafts included in borrowings and includes £295.0 million (31 July 2020: £295.0 million) of undrawn facilities.
3 Average maturity of total funding excluding equity and funding held for liquidity purposes.

Group Liquidity

	31 July 2021 £ million	31 July 2020 £ million
Cash and balances at central banks	**1,331.0**	1,375.8
Sovereign and central bank debt[1]	**192.5**	72.2
Certificates of deposit	**264.7**	285.9
Treasury assets	**1,788.2**	1,733.9

1 Included in sovereign and central bank debt is £90.2 million encumbered UK Gilts (31 July 2020: £nil).

application of these arrangements. Without their application, and excluding the benefit related to the current treatment of software assets, the CET1 and total capital ratios would be 14.2% and 16.7% respectively.

The leverage ratio, which is a transparent measure of capital strength, not affected by risk weightings, remains strong at 11.8% (31 July 2020: 11.2%). The leverage ratio increased on the position at the end of the 2020 financial year, reflecting the strong capital generation during the period.

We continue to make good progress on our preparations for a transition to the IRB approach and, as planned, the initial application to the PRA was submitted in December 2020. We are progressing through the first phase of the PRA application process and continue to work with the regulator to support their review. Our Motor Finance, Property Finance and Energy portfolios, where the use of models is most mature, have been submitted with our initial application, with other businesses to follow in future years.

Group Funding

The primary purpose of our treasury function is to manage funding and liquidity to support the Banking businesses and manage interest rate risk. Our conservative approach to funding is based on the principle of "borrow long, lend short", with a spread of maturities over the medium and longer term, comfortably ahead of a shorter average loan book maturity. It is also diverse, drawing on a wide range of wholesale and deposit markets including several public debt securities at both group and operating company level as well as a number of securitisations.

We increased total funding in the year to £11.1 billion (31 July 2020: £10.2 billion) which accounted for 131% (31 July 2020: 135%) of the loan book at 31 July 2021. The average cost of funding reduced to 1.4% (2020: 1.7%) largely driven by lower market rates, re-pricing of deposits and wholesale borrowings.

Customer deposits increased 12% overall to £6.6 billion (31 July 2020: £5.9 billion) with non-retail deposits increasing by 19% to £3.9 billion (31 July 2020: £3.3 billion) and retail deposits increasing by 3% to £2.7 billion (31 July 2020: £2.6 billion).

This has been another successful year for our online savings portal. The 35 Day Retail Notice Account and Fixed Rate Cash ISA were both launched this financial year, with c.39,000 customers, 40% of our retail customer base, registered for online banking. The online portal has proven a particularly valuable channel during Covid-19, mitigating the challenges of a postal offering whilst working remotely. We are focused on continuing to extend the product range, which will support us in growing and diversifying our retail deposit base and further optimise our cost of funding and maturity profile.

Secured funding reduced marginally to £1.3 billion (31 July 2020: £1.4 billion). Our range of secured funding facilities include securitisations of our Premium and Motor Finance loan books, and during the year we renewed our £500 million Premium Warehouse securitisation. We transitioned £262 million of drawings previously under the Bank of England's Term Funding Scheme ("TFS") to the Term Funding Scheme with additional incentives for SMEs ("TFSME") in October 2020, taking the total drawings under TFSME to £490 million, and no longer have any drawings under the TFS.

Unsecured funding, which includes senior unsecured bonds and undrawn facilities, remained broadly stable at £1.5 billion (31 July 2020: £1.5 billion). This was driven by the successful issuance of a £350 million, 10-year senior unsecured bond in December 2020 and the maturity of a £300 million unsecured bond in June 2021, as well as the renewal of our revolving credit facilities and issuing several private placements. We also successfully raised £200 million of Tier 2 debt capital in June 2021, replacing and concurrently repurchasing most of the outstanding securities via a liability management exercise.

We have maintained a prudent maturity profile. The average maturity of funding allocated to the loan book remained ahead of the loan book at 24 months (31 July 2020: 18 months), with the average loan book maturity at 17 months (31 July 2020: 15 months), in line with our "borrow long, lend short" principle.

Our strong credit ratings have been upgraded by Moody's Investors Services ("Moody's") and affirmed by Fitch Ratings ("Fitch") during the year. Moody's rates Close Brothers Group "A2/P1" and Close Brothers Limited "Aa3/P1" with a "negative" outlook. Fitch rates both Close Brothers Group and Close Brothers Limited "A-/F2", and has upgraded the outlook for both issuers to "stable", from "negative". This reflects the group's profitability, capital position, diversified business model and consistent risk appetite.

Group Liquidity

The group continues to adopt a conservative stance on liquidity, ensuring it is comfortably ahead of both internal risk appetite and regulatory requirements.

Against a backdrop of an improving but uncertain UK economic outlook, the group continued to deliberately maintain higher liquidity relative to historical levels, to provide additional flexibility as uncertainty persists whilst enabling us to maximise any opportunities available. Over the year, treasury assets increased 3% to £1.8 billion (31 July 2020: £1.7 billion) and were predominantly held on deposit with the Bank of England. The proceeds from the senior unsecured bond issued in December 2020, which contributed to further elevate the liquidity levels at the end of the first half, were deployed to repay the £300 million senior unsecured bond which matured in June 2021.

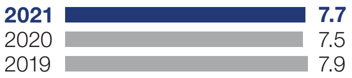
We regularly assess and stress test the group's liquidity requirements and continue to comfortably meet the liquidity coverage ratio ("LCR") regulatory requirements, with a 12-month average to 31 July 2021 LCR of 1,003% (2020: 823%).

Banking

Delivering disciplined growth

Key Performance Indicators

Net Interest Margin
Per cent



Bad debt ratio
Per cent

Return on net loan book
Per cent

Key Financials[1]

	2021 £ million	2020 £ million	Change %
Operating income	**631.7**	586.0	8
Adjusted operating expenses	**(329.1)**	(303.4)	8
Impairment losses on financial assets	**(90.1)**	(183.4)	(51)
Adjusted operating profit	**212.5**	99.2	114
Net interest margin	**7.7%**	7.5%	
Expense/income ratio	**52%**	52%	
Bad debt ratio	**1.1%**	2.3%	
Return on net loan book	**2.6%**	1.3%	
Return on opening equity	**13.7%**	6.5%	
Closing loan book	**8,444.5**	7,616.7	11
Average loan book and operating lease assets	**8,253.0**	7,854.3	5

1 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; and any exceptional and other adjusting items which do not reflect underlying trading performance. Further detail on the reconciliation between operating and adjusted measures can be found in Note 3.

A strong performance, delivering disciplined growth as we maximised market opportunities.

Return on opening equity

13.7%

2020: 6.5%

Banking adjusted operating profit increased 114% to £212.5 million (2020: £99.2 million), reflecting strong loan book growth at a strong net interest margin, rigorous cost discipline and a significant reduction in impairment charges. Statutory operating profit increased to £207.2 million (2020: £97.2 million) and includes adjusting items related to the impairment of goodwill and intangible assets on acquisition as a result of the strategic decision to permanently cease loan origination at Novitas, as well as the exceptional gain related to the VAT refund from HMRC.

The loan book grew 10.9% over the year to £8.44 billion (31 July 2020: £7.62 billion) driven by high new business volumes, particularly in the Asset Finance and Motor Finance businesses, and was further supported by the demand seen under the CBILS scheme. The return on net loan book increased significantly on the 2020 financial year to 2.6% (2020: 1.3%).

The reported net interest margin of 7.7% increased on the prior year (2020: 7.5%) reflecting our continued pricing discipline, as well as lower cost of funds. Our specialist, relationship-driven model and consistent, disciplined pricing position us well to maintain a strong net interest margin going forward.

As a result, operating income increased 8% to £631.7 million (2020: £586.0 million).

Adjusted operating expenses increased 8% to £329.1 million (2020: £303.4 million) as we continued to invest through the cycle to protect, grow and sustain our model whilst maintaining a rigorous focus on cost discipline. Business as usual ("BAU") costs increased by 3% to £255.1 million (2020: £248.3 million), primarily reflecting higher performance-driven compensation. Investment costs increased 34% to £74.0 million (2020: £55.2 million) as we progressed our strategic projects and incurred related depreciation charges.[2]

Our multi-year investment programmes include ongoing transformation projects in Motor Finance and Asset Finance and our transition to IRB, alongside enhancements to our operational and cyber resilience. We continue to exercise cost discipline and expect spend on investment programmes to stabilise over the next financial years, although related depreciation will continue to increase.

Overall, the compensation ratio increased marginally to 29% (2020: 28%) primarily driven by an increase in staff expenses related to higher performance-related costs. The expense/income ratio remained stable at 52% (2020: 52%).

Impairment charges decreased significantly to £90.1 million (2020: £183.4 million) as we experienced strong underlying credit performance across Commercial, Retail and Property, as well as a reduction in Covid-19 provisions. The bad debt ratio of 1.1% (2020: 2.3%) reflected an increase in provisions against the Novitas loan book, which accounted for a significant portion of the impairment charge for the year.

The performance of the forborne book continues to be encouraging. At 31 July 2021, the total balance of loans classified as forborne and subject to Covid-19 concessions had reduced to £455 million (31 July 2020: £1.4 billion).

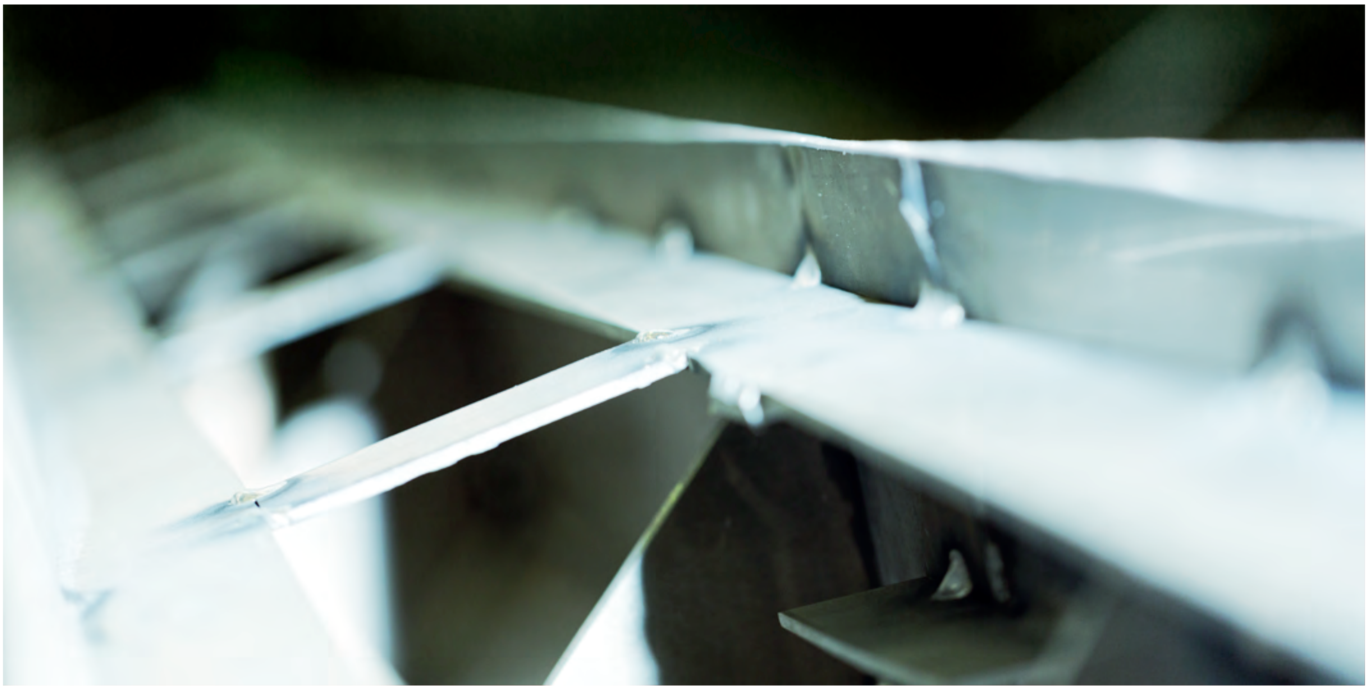
There was a marginal increase in overall provision coverage to 3.2% (31 July 2020: 3.0%) which included reductions in Covid-19 provisions, reflecting improved macroeconomic outlook and encouraging performance of the forborne loan book, more than offset by a significant increase in provisions against the Novitas loan book.

We believe this represents an appropriate level of provision, reflecting an improved but still uncertain economic outlook.

Return on opening equity increased significantly to 13.7% (2020: 6.5%) reflecting the strong performance of the business over the year, as we maximised market opportunities in the current environment to deliver disciplined growth.

2 Related ongoing costs resulting from investment projects are recategorised from investment costs to BAU costs after one year. For comparison purposes, £2.1 million has been recategorised from investment costs to BAU costs in the 2020 financial year to adjust for investment projects' ongoing costs that commenced prior to the 2021 financial year.

Banking continued



Loan Book Analysis

	31 July 2021 £ million	31 July 2020 £ million	Change %
Commercial	**3,968.1**	3,048.0	30
Asset Finance	**2,844.6**	2,167.4	31
Invoice and Speciality Finance	**1,123.5**	880.6	28
Retail	**2,974.3**	2,834.5	5
Motor Finance	**1,924.4**	1,749.4	10
Premium Finance	**1,049.9**	1,085.1	(3)
Property	**1,502.1**	1,734.2	(13)
Closing loan book	**8,444.5**	7,616.7	11
Operating lease assets[1]	**222.9**	221.9	–
Closing loan book and operating lease assets	**8,667.4**	7,838.6	11

1 Operating lease assets of £1.3 million (31 July 2020: £2.9 million) relate to Asset Finance and £221.6 million (31 July 2020: £219.0 million) to Invoice and Speciality Finance.

Loan book growth continues to be an output of our business model, as we focus on delivering disciplined growth whilst continuing to prioritise our margins and credit quality. We saw a strong year of growth following the initial Covid-19 impact, with the loan book up 10.9% in the year to £8.4 billion (31 July 2020: £7.6 billion), reflecting high levels of new business. Growth in the Commercial and Retail loan books was driven by strong customer demand, particularly in the Asset Finance and Motor Finance businesses, with the Property loan book contracting.

The Commercial loan book increased 30% to £4.0 billion (31 July 2020: £3.0 billion), reflecting growth across both businesses. The Asset Finance book grew strongly, up 31% to £2.8 billion (31 July 2020: £2.2 billion), driven by strong new business volumes, which were supported by demand under the CBILS government lending scheme.

At 31 July 2021, over £1.14 billion had been lent across more than 5,700 loans under the government support schemes in the Commercial and Property businesses, with the vast majority of lending via CBILS. In addition, £144 million across 686 CBILS loans has been credit approved and can be drawn down until 30 November 2021 for asset finance agreements. We are also approved to lend under the Recovery Loan Scheme, but anticipate volumes to be substantially lower than lending via CBILS.

The business is well positioned to capitalise on continued demand for asset financing.

Current growth initiatives in the Asset Finance business include those aligned with the increasing focus on green energy, electric car fleets and renewables.

The Invoice and Speciality Finance loan book increased to £1.1 billion (31 July 2020: £0.9 billion), reflecting good demand under the government schemes, and improving utilisation levels in line with the progressive reopening of the economy, albeit these remain below those seen prior to Covid-19. We expect the growth trajectory in Invoice Finance to follow the economic recovery.

The Retail loan book increased 5% to £3.0 billion (31 July 2020: £2.8 billion), with growth in Motor Finance more than offsetting a slight reduction in the Premium Finance loan book. The Motor Finance book increased 10% to £1.9 billion (31 July 2020: £1.7 billion) as we experienced high levels of new business during the year, with record volumes following the easing of lockdown restrictions. This reflected a combination of pent-up demand and an increasing use of finance in the second-hand car market, supported by our investment in the Motor 2020 programme. The Irish Motor Finance business accounted for 21% of the Motor Finance loan book (31 July 2020: 26%). The Irish market continues to recover from the initial Covid-19 impact, with new business volumes up year-on-year, albeit lower than pre-Covid-19 levels. We continue to see strong fundamentals in the second-hand car market and are exploring opportunities for growth through the shift to Alternatively Fuelled Vehicles.

Commercial adjusted operating profit

£52.8m

2020: £4.8m

Banking: Commercial[1]

	2021 £ million	2020 £ million	Change %
Operating income	**288.9**	246.6	17
Adjusted operating expenses	**(158.2)**	(142.6)	11
Impairment losses on financial assets	**(77.9)**	(99.2)	(21)
Adjusted operating profit	**52.8**	4.8	1,000
Net interest margin	**7.7%**	7.6%	
Expense/income ratio	**55%**	58%	
Bad debt ratio	**2.1%**	3.1%	
Closing loan book	**3,968.1**	3,048.0	30
Average loan book and operating leases	**3,730.5**	3,240.8	15

1 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; and any exceptional and other adjusting items which do not reflect underlying trading performance. Further detail on the reconciliation between operating and adjusted measures can be found in Note 3.

The Premium Finance book remained broadly stable at £1.0 billion (31 July 2020: £1.1 billion) as Covid-19 restrictions have impacted customer behaviour, with the suspension of driving tests and decline in the new car market reducing demand for car insurance policies. Following the removal of Covid-19 restrictions, we would expect demand for the funding of motor insurance policies to recover.

The Property loan book reduced to £1.5 billion (31 July 2020: £1.7 billion) as we saw high repayment levels, reflecting strong unit sales by borrowers due to the release of pent-up demand and buyers taking advantage of the Stamp Duty temporary reduced rates and Help to Buy incentives. This was more than offset by the uptick in drawdowns seen, particularly in the second half of the year, which were broadly in line with pre-Covid-19 average levels. Our pipeline of undrawn commitments remains solid and the Property loan book trajectory will continue to reflect the rate of repayments as well as new business volumes.

We remain confident in the quality of our lending, which is predominantly secured or structurally protected, prudently underwritten and diverse.

Commercial

The Commercial businesses provide specialist, predominantly secured lending principally to the SME market and include Asset Finance and Invoice and Speciality Finance.

Adjusted operating profit increased to £52.8 million (2020: £4.8 million), driven by strong levels of income and a decrease in impairment charges, following the elevated levels seen in 2020 as a result of Covid-19. Statutory operating profit was £35.9 million (2020: £3.1 million).

Operating income of £288.9 million (2020: £246.6 million) was 17% higher than the prior year, driven by the strong growth in the loan book across both Asset Finance and Invoice Finance. The net interest margin increased marginally to 7.7% (2020: 7.6%), primarily reflecting the lower cost of funds and increased fee income in the Invoice Finance business.

Adjusted operating expenses increased 11% to £158.2 million (2020: £142.6 million), mainly driven by higher volume and performance-driven compensation, increased headcount and investment in the Asset Finance transformation programme. The expense/income ratio decreased to 55% (2020: 58%) as growth in operating income more than offset the cost increase.

Impairment charges decreased 21% to £77.9 million (2020: £99.2 million), corresponding to a bad debt ratio of 2.1% (2020: 3.1%). A significant portion of the impairment charges reported in Commercial related to an increase in credit provisions against the Novitas loan book, reflecting the latest assumptions on the case failure and recovery rates in this business. The underlying credit performance of the rest of the Commercial loan book remains strong.

The provision coverage increased to 4.2% (31 July 2020: 3.9%) reflecting a significant increase in provisions against the Novitas loan book, which more than offset the benefits of loan book growth, improved macroeconomic scenarios and weightings and the encouraging performance of the forborne book.

In July 2021, the group decided to cease permanently the approval of lending to new customers across all of the products offered by Novitas, a wholly owned subsidiary of Close Brothers acquired in 2017, and withdraw from the legal services financing market.

We will remain focused on supporting Novitas' existing customers, working with their solicitors as well as insurers and intermediaries, to ensure we manage the existing book in the best interests of customers. As of 31 July 2021, Novitas had a loan book net of provisions of £181.5 million, representing 2.1% of the group's total loans. The future trajectory of the Novitas loan book will depend on the rate of drawdown on existing loan agreements, as well as the rate of repayment on outstanding loans.

The Commercial loan book is predominantly secured, with minimal exposure to higher risk sectors and those impacted most severely through the recent crisis, such as travel and leisure, hospitality or oil and gas. Our loans are conservatively underwritten with prudent LTVs, supported by our specialist expertise in the underlying assets and long-standing industry relationships.

At 31 July 2021, 7% of the Commercial loan book by value (31 July 2020: 26%) was classified as forborne and subject to Covid-19 related concessions, with balances of £287.4 million (31 July 2020: £832.8 million). These concessions are principally in the form of payment deferrals with fees and charges waived in the Asset Finance business, and flexing of repayments percentages and overpayments on invoice discounting and factoring facilities. The majority of those customers classified as forborne at 31 July 2021 and subject to Covid-19 related concessions had resumed payments.

Banking continued

Retail

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

Adjusted operating profit for Retail increased over 100% to £71.9 million (2020: £34.9 million), reflecting good levels of operating income and a significant reduction in impairment charges, following the Covid-19 related provision increase in the 2020 financial year. Statutory operating profit was £83.5 million (2020: £34.6 million).

Operating income increased 1% on the prior year to £219.8 million (2020: £218.4 million), in spite of a marginal decline in net interest margin to 7.6% (2020: 7.7%), largely reflecting lower rates as a result of broker consolidation in the insurance sector and the waiving of fees due to Covid-19 forbearance in Premium Finance.

Adjusted operating expenses increased 9% to £138.0 million (2020: £126.9 million) and the expense/income ratio increased to 63% (2020: 58%), reflecting volume-driven costs and ongoing investment in Motor Finance, as well as increased regulatory-driven expenditure. Good progress continues to be made with the Motor Finance transformation programme as it nears completion, with the programme aimed at improving the service proposition, enhancing operational efficiency, improving our credit acceptance process and increasing sales effectiveness.

Impairment charges decreased significantly to £9.9 million (2020: £56.6 million) with a bad debt ratio of 0.3% (2020: 2.0%), reflecting a strong credit performance. The provision coverage ratio decreased slightly on the position at the end of the last financial year to 2.2% (31 July 2020: 2.5%), which reflected the performance of the forborne loan book and strong new business volumes.

We remain confident in the credit quality of the Retail loan book. The Motor Finance loan book is predominantly secured on second-hand vehicles which are typically less exposed to depreciation or significant declines in value than new cars. Our core Motor Finance product remains hire-purchase contracts, with less exposure to residual value risk associated with Personal Contract Plans ("PCP"), which accounted for only c.12% of the Motor Finance loan book at 31 July 2021. The Premium Finance loan book benefits from various forms of structural protection including premium refundability and, in most cases, broker recourse for the personal lines product.

At 31 July 2021, 2% of the Retail loan book by value (31 July 2020: 9%) was classified as forborne and subject to Covid-19 related concessions, principally in the form of payment deferrals, with balances of £49.2 million (31 July 2020: £251.0 million). The majority of those customers classified as forborne at 31 July 2021 and subject to Covid-19 related concessions had resumed payments.

Retail adjusted operating profit

£71.9m

2020: £34.9m

Property operating profit

£87.8m

2020: £59.5m

Banking: Retail[1]

	2021 £ million	2020 £ million	Change %
Operating income	**219.8**	218.4	1
Adjusted operating expenses	**(138.0)**	(126.9)	9
Impairment losses on financial assets	**(9.9)**	(56.6)	(83)
Adjusted operating profit	**71.9**	34.9	106
Net interest margin	**7.6%**	7.7%	
Expense/income ratio	**63%**	58%	
Bad debt ratio	**0.3%**	2.0%	
Closing loan book	**2,974.3**	2,834.5	5
Average loan book	**2,904.4**	2,822.6	3

1 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; and any exceptional and other adjusting items which do not reflect underlying trading performance. Further detail on the reconciliation between operating and adjusted measures can be found in Note 3.

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.

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. We continue to see success from our regional initiative, with the regional loan book now making up over 50% of the Property Finance development portfolio.

The business delivered an operating profit of £87.8 million (2020: £59.5 million), up 48%, as impairment charges reduced significantly from their elevated level in 2020.

Operating income increased marginally to £123.0 million (2020: £121.0 million), in spite of the reduction in the loan book, as the net interest margin increased to 7.6% (2020: 6.8%), driven by an accounting reclassification, the unwind of modification losses, and lower cost of funds.

Operating expenses were 3% lower at £32.9 million (2020: £33.9 million) as we maintained our focus on cost discipline. The expense/income ratio reduced slightly to 27% (2020: 28%), as the decline in operating expenses through disciplined cost control more than offset the stable level of operating income.

Banking: Property

	2021 £ million	2020 £ million	Change %
Operating income	**123.0**	121.0	2
Operating expenses	**(32.9)**	(33.9)	(3)
Impairment losses on financial assets	**(2.3)**	(27.6)	(92)
Operating profit	**87.8**	59.5	48
Net interest margin	**7.6%**	6.8%	
Expense/income ratio	**27%**	28%	
Bad debt ratio	**0.1%**	1.5%	
Closing loan book	**1,502.1**	1,734.2	(13)
Average loan book	**1,618.2**	1,790.9	(10)

Impairment charges decreased to £2.3 million (2020: £27.6 million), resulting in a bad debt ratio of 0.1% (2020: 1.5%) reflecting a strong credit performance and improved macroeconomic forecasts, partially offset by an accounting reclassification. The provision coverage ratio remained broadly stable at 2.6% (31 July 2020: 2.5%).

The Property loan book is conservatively underwritten with a maximum LTV of 60% at origination on residential development finance, which accounts for the vast majority of the loan book. We work with experienced, professional developers, with a focus on mid-priced family housing, and have minimal exposure to the prime central London market.

At 31 July 2021, 50 customers (31 July 2020: 187 customers) accounting for 8% of the Property loan book by value (31 July 2020: 18%) were subject to Covid-19 related concessions, principally in the form of fee-free extensions for residential development loans where we remain confident in the quality of the underlying borrower and security.

Asset Management

Maximising long-term growth potential

Key Performance Indicators

Net Inflows
Per cent of opening AUM

2021	**7**
2020	9
2019	9

Operating margin
Per cent

2021	**17**
2020	16
2019	18

Return on opening equity
Per cent

2021	**32**
2020	29
2019	32

Revenue margin
bps

2021	**91**
2020	94
2019	93

Asset Management achieved good net inflows despite reduced face-to-face interaction with clients and continued to invest to support long-term growth.

Continued Focus on Maximising Long-Term Growth Potential
The Asset Management division provides financial advice and investment management services to private clients in the UK, including full bespoke management, managed portfolios and funds, distributed both directly via our own advisers and investment managers, and through third party financial advisers.

Equity markets have gained significantly over the year, following the lows of the early Covid-19 impact, as the actions of central banks and vaccine rollout programmes have improved confidence. Despite the improving market conditions, lower new client flows have been seen across the industry, as the ongoing impact of Covid-19 and reduced face-to-face interaction impacted client sentiment and inflows. Nevertheless, we performed well in the year, generating good net inflows of 7% and growing managed assets 24% to £15.6 billion.

Adjusted operating profit increased 16% to £23.7 million (2020: £20.4 million), as the growth in operating income more than offset the cost of continued investment in supporting the long-term growth potential of the business. The operating margin increased marginally to 17% (2020: 16%). Statutory operating profit before tax was £22.4 million (2020: £19.3 million).

Total operating income increased 9% to £139.4 million (2020: £128.2 million) as higher management and advice fees were generated from the growth in assets under management. The revenue margin decreased to 91bps (2020: 94bps) primarily driven by a higher level of flows into our lower margin products and lower initial advice and dealing fees.

Adjusted operating expenses increased 8% to £115.9 million (2020: £107.7 million) primarily driven by new hires, in line with our growth strategy, and an increase in performance-related compensation, as well as investment in our technology and systems.

Total managed assets

£15.6bn

2020: £12.6bn

As a result, the compensation ratio increased slightly to 56% (2020: 55%) and the expense/income ratio decreased to 83% (2020: 84%).

As we continue to invest in the business to deliver growth and scale, the cost trajectory will depend on the rate of hiring, with investment in technology projects expected to continue.

Good Net Inflows

Although equity markets have improved over the year, the ongoing impact of Covid-19 has influenced sentiment and inflows across the industry. Despite this, we achieved good net inflows of £917 million and a net inflow rate of 7% of opening managed assets. This reflected continued demand for both our investment management and integrated wealth services as well as good momentum from our recent portfolio manager hires, aided by improved conditions and confidence in the market.

Stronger equity markets meant positive market movements contributed £2.1 billion to managed assets in the year. The combined impact with positive net inflows resulted in managed assets increasing 24% overall to £15.6 billion (31 July 2020: £12.6 billion). Total client assets increased 24% overall to £17.0 billion (31 July 2020: £13.7 billion).

In July, we completed the acquisition of PMN Financial Management LLP ("PMN"), an IFA business with approximately £300 million of client assets. PMN's partners, advisers and support team joined CBAM as part of the acquisition, as we continue to deliver on our growth strategy of making selective infill acquisitions. The acquisition is reflected in CBAM's advised only assets, but has had no impact on managed assets in the 2021 financial year, although we would expect migration to our investment management services over time.

Fund Performance

Our funds and segregated bespoke portfolios are designed to provide attractive risk-adjusted returns for our clients, consistent with their long-term goals and investment objectives. Fund performance has been mixed over the last year, reflecting volatile equity markets. Over the three-year period to 31 July 2021, eight of our 14 multi-asset funds outperformed the relevant peer group average, with nine of the 14 funds outperforming over the five-year period to 31 July 2021. Our bespoke strategy composites continued to perform well, largely outperforming their respective peer groups over a one, three and five-year period, demonstrating a strong track record.

Key Financials[1]

	2021 £ million	2020 £ million	Change %
Investment management	**102.9**	91.4	13
Advice and other services[2]	**36.4**	35.5	3
Other income[3]	**0.1**	1.3	(92)
Operating income	**139.4**	128.2	9
Adjusted operating expenses	**(115.9)**	(107.7)	8
Impairment (losses)/gains on financial assets	**0.2**	(0.1)	(300)
Adjusted operating profit	**23.7**	20.4	16
Revenue margin (bps)	**91**	94	
Operating margin	**17%**	16%	
Return on opening equity	**31.7%**	28.7%	

1 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; and any exceptional and other adjusting items which do not reflect underlying trading performance. Further detail on the reconciliation between operating and adjusted measures can be found in Note 3.
2 Income from advice and self-directed services, excluding investment management income.
3 Other income includes net interest income and expense, income on principal investments and other income. Other income includes a £1.1 million gain on disposal of non-core assets in the 2020 financial year.

Movement in Client Assets

	31 July 2021 £ million	31 July 2020 £ million
Opening managed assets	**12,594**	11,673
Inflows	**2,284**	2,350
Outflows	**(1,367)**	(1,257)
Net inflows	**917**	1,093
Market movements	**2,077**	(172)
Total managed assets	**15,588**	12,594
Advised only assets	**1,435**	1,118
Total client assets[1]	**17,023**	13,712
Net flows as % of opening managed assets	**7%**	9%

1 Total client assets include £6.0 billion of assets (31 July 2020: £5.1 billion) that are both advised and managed.

Our Approach to ESG and Sustainability

Sustainable investment strategies remain a key focus area across the industry and our Socially Responsible Investment proposition continues to be well received. We have also launched two new sustainable funds this year (Close Sustainable Balanced Portfolio Fund and Close Sustainable Bond Portfolio Fund) which are gaining good traction.

Earlier this year we became signatories to the UN-supported Principles for Responsible Investment, further demonstrating our commitment to improving the way we measure, report and manage ESG issues throughout our investment activities. We have established a dedicated sustainability committee with oversight of the division's strategy, governance, reporting and operating model with regard to sustainability, and are developing a sustainable proposition for our bespoke investment managers to further embed ESG considerations into our offerings.

Well Positioned for Future Growth

We have remained committed to providing excellent service to our clients, and in spite of the challenges presented by Covid-19 and reduced face-to-face interactions, we have maintained high levels of contact with clients via email, telephone, video, our online portal and our mobile app.

We continue to invest in new hires and technology to support the long-term growth potential of the business and, during the year, have made significant progress in upgrading and consolidating our technology platform, which should further enhance our operating efficiency and improve its capacity, scalability and resilience, as well as providing client experience benefits.

Our vertically integrated multi-channel business model leaves us well positioned to benefit from proven, continued demand for our services and the structural growth opportunity presented by the wealth management industry. Given the attractive opportunities we see in the market, we will continue to invest to support the long-term growth potential of the business and to drive growth both organically and through the continued selective hiring of advisers and investment managers, and through infill acquisitions.

Securities

Maximising trading opportunities

Key Performance Indicators

Operating income
£m

2021	**182.0**
2020	151.9
2019	93.4

Operating margins
Per cent

2021	**33**
2020	32
2019	21

Bargains per day
'000

2021	**101**
2020	82
2019	56

Return on opening equity
Per cent

2021	**64**
2020	50
2019	21

Winterflood is a leading UK market maker, focused on delivering high quality execution services to stockbrokers, wealth managers and institutional investors.

Maximising Trading Opportunities in a Dynamic Market Environment
Winterflood is a leading UK market maker, delivering high quality execution services to stockbrokers, wealth managers and institutional investors, as well as providing corporate advisory services to investment trusts and outsourced dealing and custody services via WBS.

Winterflood delivered an exceptionally strong trading performance in the year, with our experienced traders successfully navigating the continued market volatility resulting from Covid-19 to deliver operating profit of £60.9 million (2020: £47.9 million).

Operating income increased 20% to £182.0 million, a 20-year high, with particularly strong activity across AIM, Small Cap and International markets.

The business experienced increased market volatility and heightened retail trading activity for much of the year, driven by lockdown restrictions and increasing investor optimism regarding the economic recovery, offset by concerns over inflation, central bank monetary policy and new Covid-19 variants.

Operating profit

£60.9m

2020: £47.9m

Return on opening equity

63.5%

2020: 50.4%

Key Financials

	2021 £ million	2020 £ million	Change %
Operating income	**182.0**	151.9	20
Operating expenses	**(121.2)**	(103.8)	17
Impairment (losses)/gains on financial assets	**0.1**	(0.2)	(150)
Operating profit	**60.9**	47.9	27
Average bargains per day ('000)	**101**	82	
Operating margin	**33%**	32%	
Return on opening equity	**63.5%**	50.4%	

The announcement of the successful trial results for the Pfizer-BioNTech vaccine in November resulted in a remarkable trading performance, with Winterflood achieving the highest daily trade volume on record, 227,000, surpassing the previous high of 186,000 in June 2020 and producing the highest daily trading revenue of the 2021 financial year.

Average daily bargains over the year increased 23% to 100,681 (2020: 82,003) and the team's experience and focus on managing risk resulted in only one loss day during the year despite significant market volatility (2020: seven loss days).

Trading volumes were exceptionally high for most of the financial year, albeit we have seen a slowdown in activity towards the end of the period.

Operating expenses increased 17% to £121.2 million driven by the variable nature of Winterflood's cost base, with the increased revenue performance and trading activity leading to higher staff compensation and settlement costs. The expense/income ratio marginally decreased to 67% (2020: 68%) as a result of the high levels of income in the year, partially offset by the corresponding increase in variable costs. The compensation ratio remained stable at 48% (2020: 48%).

We continued to make progress in expanding our institutional client base, particularly in the UK.

In investment trust, we also saw good levels of corporate activity over the year with several large transactions, including the $700 million share placing of the Baillie Gifford Schiehallion Fund.

WBS, which provides outsourced dealing and custody services for asset managers and platforms, has generated strong levels of income during the year and its assets under administration have increased significantly to £6.2 billion (2020: £4.1 billion) as a result of growth in its new and existing client base. We continue to see potential for strong growth in WBS' assets under administration in years to come, building on the momentum seen in 2021.

Winterflood has continued to trade successfully in the early part of the 2022 financial year, albeit with a continued slowing in volumes and moderation of trading performance. Due to the nature of the business, it remains sensitive to changes in the market environment.

Risk Report

The protection of our established business model is a key strategic objective. Effective management of the risks we face is central to everything we do.

Our Approach to Risk

The group faces a number of risks in the normal course of business providing lending, deposit taking, wealth management services and securities trading. To manage these effectively, a consistent approach is adopted based on a set of overarching principles, namely:

- adhering to our established and proven business model, as outlined on pages 12 to 14;
- 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 limits.

This Risk Report provides a summary of our approach to risk management, covering each of the key aspects of the firm's Enterprise Risk Management Framework. A summary of the group's principal risks is also included, together with an overview of emerging risks and uncertainties.

Role of the Board

The board retains overall responsibility for overseeing the maintenance of a system of internal control which ensures that an effective risk management framework and oversight process operates across the group. The risk management framework and associated governance arrangements are designed to ensure 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.

Risk management across the group is overseen by the Board Risk Committee. The Committee is responsible for reviewing risk appetite, monitoring the group's risk profile against this and reviewing the day-to-day effectiveness of the risk management framework. In addition, the Committee is responsible for overseeing the maintenance and development of an appropriate and supportive risk culture and for providing risk input into the alignment of remuneration with performance against risk appetite. The Committee's key areas of focus over the last financial year are set out on pages 89 and 90.

The group closely monitors its risk profile to ensure that it continues to align with its strategic objectives as documented on page 20. The board considers that the group's current risk profile remains consistent with its strategic objectives.

Risk Appetite

Risk appetite forms a key component of the group's risk management framework and refers to the sources and levels of risk that the group is willing to assume in order to achieve its strategic objectives and business plan. It is managed through an established framework that facilitates ongoing communication between the board and management with respect to the group's evolving risk profile. This enables key decisions concerning the allocation of group resources to be made on an informed basis.

Risk appetite is set on a top-down basis by the board with consideration to business requests and executive recommendation. Appetite measures, both qualitative and quantitative, are applied to inform decision-making, and monitoring and reporting processes. Early warning trigger levels are also employed to drive required corrective action before overall tolerance levels are reached.

The group conducts a formal review of its risk appetites annually, as part of the strategy-setting process. This aligns risk-taking with the achievement of strategic objectives. Adherence is monitored through the group's risk committees on an ongoing basis with interim updates to individual risk appetites considered as appropriate through the year.

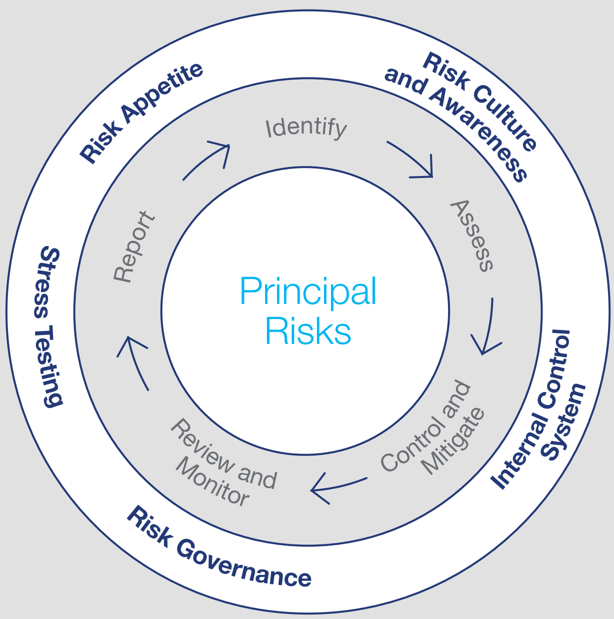
Enterprise Risk Management

The group employs an Enterprise Risk Management Framework to provide the board and senior management with oversight of the organisation's financial position as well as the risks that might adversely affect it.

The framework details the core risk management components and structures used across the firm, and defines a consistent and measurable approach to identifying, assessing, controlling and mitigating, reviewing and monitoring, and reporting risk – the risk process lifecycle. This sets out the activities, tools, techniques and organisational arrangements that ensure all principal risks facing the group are identified and understood; and that appropriate responses are in place to protect the group and prevent detriment to its customers and colleagues.

This enables the group to meet its goals and enhances its ability to respond to new opportunities. The framework is purposely designed to allow the capture of business opportunities whilst maintaining an appropriate balance of risk and reward within the group's agreed risk appetite.

Enterprise Risk Management Framework



Stress Testing

Stress testing represents another core component of the risk management framework and is employed, alongside scenario analysis, to support assessment and understanding of the risks to which the group might be exposed in the future. As such, it provides valuable insight to the board and senior management, playing an important role in the formulation and pursuit of the firm's strategic objectives.

Stress testing activity within the group is designed to meet three principal objectives:

1. Inform capital and liquidity planning – including liquidity and funding risk assessment contingency planning and recovery and resolution planning;

2. Support ongoing risk and portfolio management – including risk appetite calibration, strategic decisioning and planning, risk/reward optimisation and business resilience preparation; and

3. Provide a check on the outputs/accuracy of risk models – including the identification of non-linear effects when aggregating risks.

To support these objectives, stress testing is designed to cover the group's most material risks, with activity conducted at various levels, ranging from extensive group-wide scenario analysis to simple portfolio sensitivity analysis.

Stress testing also represents a critical component of both the firm's Internal Capital Adequacy Assessment ("ICAA") and Internal Liquidity Adequacy Assessment ("ILAA") processes with scenario analysis additionally employed as part of the group's Recovery Plan.

Risk Governance

The group's risk management approach is underpinned by a strong governance framework that it considers appropriate to both the size and strategic intentions of its businesses.

The framework is founded on a "three lines of defence" model, as set out below.

The key principles underlying this approach 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.

Aligned to these core principles, the governance framework operates through various delegations of authority from the board downwards. These cover both individual authorities as well as authorities exercised via the group's risk committee structure.

Three Lines of Defence

First line of defence	Second line of defence	Third line of defence
The Businesses	**Risk and Compliance**	**Internal Audit**
Group Risk and Compliance Committee (Reports to the Risk Committee)	**Risk Committee** (Reports to the board)	**Audit Committee** (Reports to the board)
The 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.	The 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, assurance 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.	The 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.

Risk Report continued

Risk Committee Structure

Group Board

Board Risk Committee

Executive Committees
- Group Risk and Compliance Committee
- Model Governance Committee
- Capital Adequacy Committee
- Asset and Liability Committee

Risk-Specific Committees
- Credit Risk Management Committee
- Group Credit Committee
- Impairment Adequacy Committee
- Operations and Technology Risk Committee

Divisional Committees
- Divisional Risk and Compliance Committees

Risk Committee Overview

Group Risk and Compliance Committee	Provides oversight of the group's risk profile, alignment to risk appetite and effectiveness of the risk management and compliance framework.
Model Governance Committee	Provides oversight of the group's exposure to model risk through the review, approval and monitoring of all high materiality models.
Capital Adequacy Committee	Monitors group and bank capital adequacy, incorporating capital planning, stress testing, governance, processes and controls.
Asset and Liability Committee	Provides oversight of risk management and internal control for the bank and its subsidiaries across liquidity, funding and market risk.
Credit Risk Management Committee	Monitors the group's credit risk profile, examining current performance and key portfolio trends, ensuring compliance with risk appetite.
Group Credit Committee	Reviews material credit transactions and exposures from a credit, reputational, funding structure and business risk perspective.
Impairment Adequacy Committee	Governs the bank's impairment process, reviewing the financial position relating to impairment and ensuring adequate coverage is held across the portfolio.
Operations and Technology Risk Committee	Monitors and oversees group-wide operational resilience, including technology, security, supplier and operational risk appetite, examining industry, regulatory and technical risks.
Divisional Risk and Compliance Committees	Provide oversight of risk profile, alignment to risk appetite and effectiveness of the risk management and compliance framework at a divisional or business level.

Together, these committees facilitate an effective flow of key risk information, as well as functioning to support appropriate risk management at each stage of the risk process lifecycle. They also provide an escalation channel for any risks or concerns, supporting the maintenance of an effective risk culture.

Over the past 12 months the group has continued to further strengthen its risk governance framework and specifically the organisation's risk and compliance committees, both at a group and divisional level. This has included the refinement of committee Terms of References and the continued evolution of reporting packs and MI suites. All committees continue to work efficiently and effectively.

Internal Control System

Aligned to the risk governance framework, oversight across the group is supported by the maintenance of a range of internal controls. These cover risk and financial management and reporting and control processes and are designed to ensure the accuracy and reliability of the firm's 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 controls are overseen by the Audit Committee.

The accounting policies form part of a broader policy framework, overseen by the board, that supports the foundation of a strong risk management structure. Group Policies are supported by Group Standards, Divisional/Business-level Policies and Procedures which, together, outline the way in which policy is implemented and detail the process controls in place to ensure compliance. Policies and Standards relating to the group's principal risks are fully covered within the framework, and include specific documents relating to financial crime compliance (e.g. anti-money laundering/anti-bribery and corruption) and whistleblowing.

This structure establishes a link between group strategy and day-to-day operations in a manner consistent with agreed risk appetite, while simultaneously facilitating board and executive-level oversight and assurance as to the application of said strategy via conformance with underlying policy and standard requirements.

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 also 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.

Risk Culture and Awareness

Maintenance of an effective risk management culture is integral to the group meeting its regulatory conduct requirements and assisting the accomplishment of key strategic goals. The risk culture:

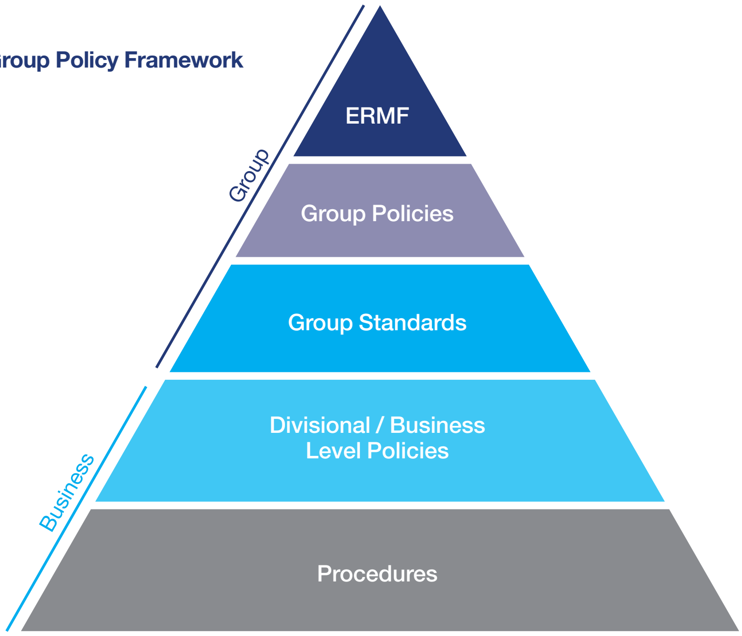
- supports the group and its directors in meeting their legal and regulatory obligations, particularly with respect to the identification and management of risks and the need for a robust control environment;
- underpins the group's purpose, strategy, cultural attributes and divisional values;
- provides enhanced awareness of risk in business operations by highlighting strengths and weaknesses and their materiality to the business and, in turn, facilitating informed decision-making;
- optimises business performance by facilitating challenge of ineffective controls and improving the allocation of resources;
- ensures allocation of capital for operational risk is proportionate for the risks identified;
- improves the group's control environment; and
- assists in the planning and prioritisation of key projects and initiatives.

Managers actively promote a culture in which risks are identified, assessed, managed and reported in an open, transparent and objective manner, and where appropriate staff conduct is viewed as critical.

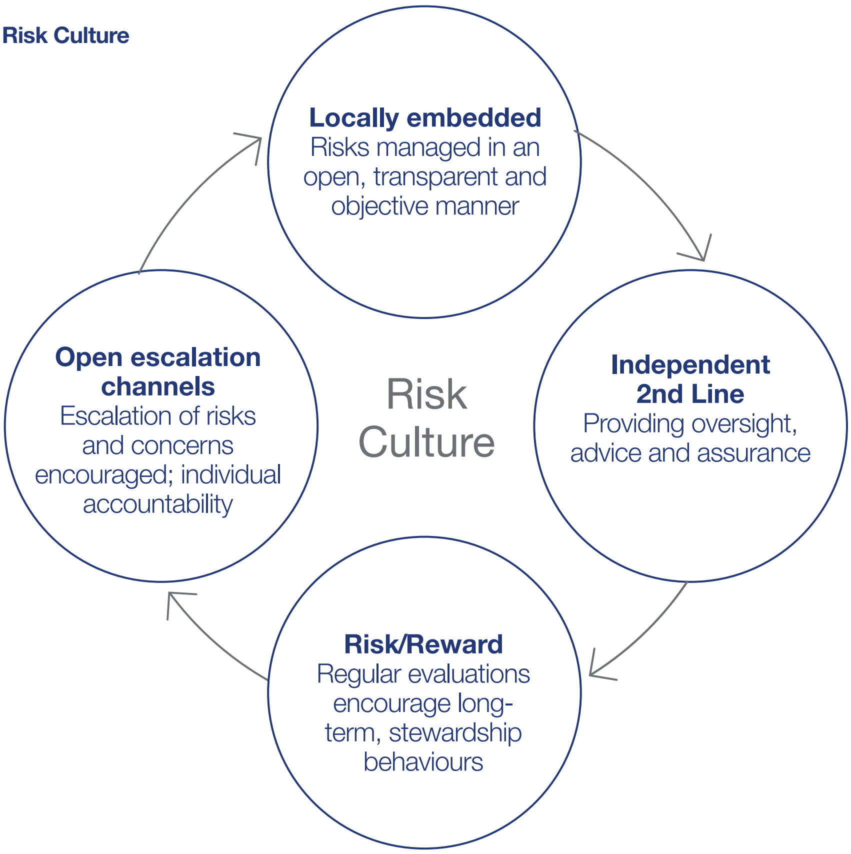
All members of staff are responsible for risk identification and reporting within their area of responsibility and are encouraged to escalate risks and concerns where necessary, either through line or business management or by following the provisions of the Group Whistleblowing Policy.

Group Risk Management operates independently of the business, providing oversight and advice on the operation of the risk framework, and assurance that agreed processes operate effectively and that a risk and conduct culture is embedded within the business.

Group Policy Framework



Risk Culture



The relationship between risk and reward is also a key priority with all staff evaluated against both agreed objectives (the what) and desired behaviours (the how).

This encourages long-term, stewardship behaviours together with a strong and appropriate risk and conduct culture.

For further information on our approach to remuneration for the group's directors see pages 97 to 125.

Risk Report continued

Principal Risks

The following pages set out the principal risks that may impact the group's ability to deliver its strategy, how we seek to mitigate these risks, and relevant key developments, both over the last year and anticipated for the next financial 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 that the group faces and our approach to mitigating them remain broadly consistent with prior years. This consistency has underpinned the group's track record of trading successfully and supporting our clients over many years.

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

Key: = No change ↘ Risk decreased ↗ Risk increased

Risk	Risk Management and Mitigation

Business Risk

The group operates in an environment where it is exposed to an array of independent factors. Its profitability is impacted by the broader UK economic climate, changes in technology, regulation and customer behaviour, cost movements and competition from traditional and new players, varying in both nature and extent across its divisions.

Changes in these factors may affect the bank's ability to write loans at its desired risk and return criteria, result in lower new business volumes in Asset Management, impact levels of trading activity at Winterflood or result in additional investment requirements/higher costs of operation.

The group's long track record of successful trading is supported by a consistent and disciplined approach to pricing and credit quality, both in competitive markets and through periods of heightened risk. This allows us to continue to support our customers at all stages in the financial cycle.

We build long-term relationships with our clients and intermediaries based on:

- speed and flexibility of services;
- our local presence and personal approach;
- the experience and expertise of our people; 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 businesses and product portfolio, which provides resilience against competitive pressure or market weakness in any one of the sectors we operate in.

Change/Outlook

=

Covid-19 has had a significant impact on the UK economy. While the near-term outlook has improved, there remains significant, ongoing uncertainty regarding the future economic trajectory and the resulting impact on our customers and clients.

A number of support measures for individuals and businesses introduced during the pandemic are planned to come to an end during the second half of 2021 and their long-term effectiveness and impact on the broader competitive environment remain uncertain.

The group has therefore planned for a range of different economic and business scenarios to ensure it has the resources and operational capability to continue to perform effectively through this period of uncertainty. We continue to focus on supporting our customers, maintaining underwriting standards and investing in our business.

Further commentary on the market environment and its impact on each of our divisions is outlined on pages 42 to 55. Our business model is set out on pages 12 to 14.

Risk	Risk Management and Mitigation

Capital Risk

The group is required to hold sufficient regulatory capital (including equity and other loss-absorbing debt instruments) to enable it to operate effectively. This includes meeting minimum regulatory requirements, operating within risk appetites set by the board and supporting its strategic goals.

Capital risk is measured using CET1, Tier 1 and total capital ratios, determined in line with regulatory capital adequacy requirements. These ratios, and associated metrics, are actively monitored, and reported quarterly to the regulator. They are also disclosed annually in the group's Pillar 3 disclosures as well as in the Annual Report – see pages 44 and 45.

Both actual and forecast capital adequacy is reported through the group's governance framework with oversight from the Capital Adequacy Committee. Annually, as part of the ICAAP, the group also undertakes its own assessment of its capital requirements against its principal risks (Pillar 2a) together with an assessment of how capital adequacy could be impacted in a range of stress scenarios (Pillar 2b). Under both assessments, the group ensures that it maintains sufficient levels of capital adequacy.

The group retains a range of capital risk mitigants, the most notable being its strong capital generating capacity, arising from its track record of sustained profitability. The group also maintains access to capital markets and during the year successfully renewed and increased its Tier 2 capital instruments.

Change/Outlook

While Covid-19 may continue to impact capital due to lower than expected profits, action by authorities to support lending through the use of CBILS and similar schemes has led to a reduction in RWAs. This is expected to continue in the near to medium term.

Further commentary on the group's capital is outlined in note 22 on pages 167 to 169.

Conduct Risk

The group's relationship-focused model amplifies the importance of exhibiting strong behaviours in order to ensure positive outcomes for our customers.

Failing to treat customers fairly, to safeguard client assets or to provide advice and products which are in clients' best interests, also 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.

The group is committed to treating all customers fairly and delivering appropriate customer outcomes.

We seek to mitigate conduct risk by:
- providing straightforward and transparent products and services to our clients and customers;
- maintaining a clear governance and approval process for both existing and new products to ensure they meet the needs for which they are designed;
- employing appropriate arrangements to confirm regulatory requirements and guidance aimed at ensuring positive client and customer outcomes are sufficiently embedded within business practices. A programme of risk-based monitoring is also employed to verify adherence; and
- utilising a range of regularly reviewed conduct risk measures to identify and respond to adverse thematic trends.

Change/Outlook

Regulatory focus and prioritisation of conduct risk continues to increase. Over the course of the last year legislation has been introduced for Debt Respite (Breathing Space) to be provided to qualifying customers while the FCA has finalised its guidance around vulnerable customers and issued proposals for a new Customer Duty, all of which directly impact the group. Workstreams have been established to ensure the group can meet all requirements and regulatory expectations.

Risk Report continued

Risk	Risk Management and Mitigation	
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 2021 the group had loans and advances to customers amounting to £8.4 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 or structurally protected 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 £1.3 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.
Change/Outlook =	Credit losses have reduced in the year to 31 July 2021, although uncertainty remains and we continue to closely monitor Covid-19 impacts. Forbearance levels have decreased from those observed at the peak of the pandemic; however, they remain above historical, pre-pandemic levels. Although the economic outlook has improved, the trajectory in the short to medium term remains uncertain. In addition, the cessation of various government support schemes could have an impact on both consumers and businesses and the impact of this on our customers will be closely observed. These factors could result in higher credit losses in the future.	Assumptions relating to the Novitas business provisions have been updated. Other counterparty exposures are broadly unchanged, with the majority of our liquidity requirements and surplus funding placed with the Bank of England. Further commentary on the credit quality of our loan book is outlined on pages 47 to 51. Further details on loans and advances to customers and debt securities held are in notes 11 and 12 on pages 155 to 159 of the financial statements. Our approach to credit risk management and monitoring is outlined in more detail in note 28 on pages 176 to 189.
Funding and Liquidity Risk 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 principles of "borrow long, lend short" and diversity by source and channel. This approach provides resilience and flexibility. Total available funding is kept well in excess of the loan book to ensure funding is available when needed.	A strong liquidity position is maintained to ensure that we remain comfortably within both internal risk appetites and regulatory requirements. Liquidity risk is assessed on a daily basis to ensure adequate liquidity is held and remains readily accessible in stressed conditions. Funding and liquidity risks are reviewed at each meeting of the bank's Asset and Liability Committee.
Change/Outlook =	While economic uncertainty 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. During the last year, a 10-year £350 million senior unsecured bond was issued, deepening our investor base and franchise into the debt capital market. Fixed Rate ISAs and further Notice Accounts were also launched to strengthen and broaden our savings proposition.	Elevated levels of liquidity have been maintained, predominantly via deposits placed with the Bank of England, to ensure the maintenance of sufficient headroom to both internal and external liquidity requirements. Liquidity has now started to normalise, trending towards pre-Covid-19 levels. Further commentary on funding and liquidity is provided on pages 44 and 45. Further financial analysis of our funding is shown in note 19 on page 166 of the financial statements.

Risk	Risk Management and Mitigation

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.

When measuring interest rate risk in the Banking book the following components are considered:
- repricing risk: the risk presented by assets and liabilities that reprice at different times and rates;
- embedded optionality risk: the risk presented by contract terms embedded in certain assets and liabilities; and
- basis risk: the risk presented when yields on assets, and costs on liabilities, are based on two different bases.

Two core measures are subsequently monitored on a monthly basis: Earnings at Risk ("EaR") and Economic Value ("EV").

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. Trading is predominantly short term, with most transactions settling within two days. Trading positions are monitored on a real time basis.

Change/Outlook

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Interest rate risk is broadly unchanged. Base rates remain low, though with reduced expectation of negative rates compared to this time last year.

The traded market risk environment continues to be affected by Covid-19 and its impact on the economy, although this is becoming less prominent with focus now shifting to emerging inflation risks.

Further detail on the group's exposure to market risk is outlined in note 28 on pages 186 to 188 of the financial statements.

The sensitivity analysis on interest rate exposures shown in note 28 on page 187 demonstrates the limited level of exposure to interest rate and foreign exchange movements.

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, models and systems, or as a result of external factors.

Impacts to the business, customers, third parties and the markets in which we operate are considered within a maturing framework for resilient delivery of important business services.

Legal and regulatory risks are also considered as part of operational risk. Failure to comply with existing legal or regulatory requirements, or to adapt to changes in these requirements in a timely fashion, may have negative consequences for the group. Similarly, changes to regulation can impact our financial performance, capital, liquidity and the markets in which we operate.

The group seeks to maintain its operational resilience through effective management of operational risks, including by:
- sustaining robust operational risk management processes, governance and management information;
- identifying key systems, third party relationships, processes and staff, informing investment decisions;
- investing in technology to provide reliable and contemporary customer service offerings and effective model outputs;
- attracting, retaining and developing high quality staff through the operation of competitive remuneration and benefit structures and an inclusive environment that embraces diversity and recognises behaviours aligned to our cultural attributes;
- investing in cyber security including expertise, tools and staff engagement;
- maintaining focus on personal data protection;
- adopting fraud prevention and detection capabilities aligned with our risk profile; and
- planning and rehearsing strategic and operational responses to severe but plausible stress scenarios.

Legal and regulatory risks are mitigated by:
- responding in an appropriate, risk-based and proportionate manner to any changes to the legal and regulatory environment as well as those driven by strategic initiatives;
- implementing appropriate and proportionate policies, standards and procedures designed to capture relevant regulatory and legal requirements;
- providing clear advice on legal and regulatory requirements, including in relation to the scope of regulatory permissions and perimeter guidance;
- delivering relevant training to all staff, including anti-money laundering, anti-bribery and corruption, conduct risk, data protection and information security. This is augmented by tailored training to relevant employees in key areas;
- deploying a risk-based monitoring programme designed to assess the extent to which compliant practices are embedded within the business;
- maintaining, where possible, constructive and positive relationships and dialogue with regulatory bodies and authorities; and
- maintaining a prudent capital position with headroom above minimum capital requirements.

Risk Report continued

Risk | **Risk Management and Mitigation**

Operational Risk continued

Change/Outlook

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The continued impacts of Covid-19 may lead to risks associated with people, third party suppliers, operational process execution, information security and fraud. The group continues to utilise its operational risk management framework to manage these risks with oversight by relevant risk committees.

The volume and complexity of regulatory and legal requirements applicable to the group continues to increase, with management focused on responding in a timely manner to changing expectations.

Notwithstanding these stresses, improvements continue to be made across the operational risk framework, including further enhancement of information security management and strengthening of the firm's operational resilience. Process improvements, including through the use of robotic process automation, continue to reduce the likelihood of manual errors occurring.

We continue to invest in experienced people and relevant systems and processes to help us navigate the increasingly complex regulatory and legal landscape. Arrangements in place to mitigate these risks continue to evolve in their sophistication, application and effectiveness.

Reputational Risk

Protection and effective stewardship of the group's reputation are fundamental to its long-term success.

Detrimental stakeholder perception could lead to impairment of the group's current business and future goals. This could arise from any action or inaction of the company, its employees or associated third parties.

Reputational risk monitoring and management are embedded throughout the organisation, including via:
- focus on employee conduct, with cultural attributes embedded throughout the group;
- supplier and intermediary conduct management through the relationship lifecycle;
- new product approval and existing product review processes for business products and services;
- a proactive approach to environmental, social and governance matters;
- embedding of reputational risk management within the management frameworks of other risk types; and
- proactive communication and engagement with investors, analysts and other market participants.

A key responsibility of the group's board is to define, promote and monitor the company's culture, and adherence to our cultural framework is reported regularly to the board via the group's culture dashboard; see page 85 of the Corporate Governance Report.

Change/Outlook

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The group's strong culture, consideration of all stakeholders and commitment to open and transparent communication continue to mitigate potential reputational risk, including the heightened business, conduct and operational risks arising from Covid-19. Our prudent business model also continues to act as a natural mitigant of reputational risk.

The group's focus on acting responsibly and sustainably enables it to respond and adapt to a range of stakeholder expectations with regard to sustainable practices and address heightened public interest in businesses taking a proactive, responsible approach to their operations, products and services. Internal oversight of matters relating to employees, the environment, wider society and community impact at both an operational and strategic level ensure the group gives due considerations to the reputational impact of its actions.

Note: While Defined Benefit Pension Obligation Risk, Tax Risk and Intra-Group Risk are also classified internally as Principal Risks, none are deemed sufficiently material to impact the group's ability to deliver its strategy. The group's defined benefit pension scheme was closed to new entrants in 1996 and to future accrual in 2012. For further information see note 25 on pages 171 and 172.

Emerging Risks and Uncertainties

In addition to day-to-day management of its principal risks, the group utilises an established framework to monitor its portfolio for emerging risks, consider broader market uncertainties, and support its organisational readiness to respond.

This incorporates input and insight from both a top-down and bottom-up perspective:

- Top-down: identified by directors and executives at a group level via the Group Risk and Compliance Committee and the board.
- Bottom-up: identified at a business level and escalated, where appropriate, via risk updates into the Group Risk and Compliance Committee.

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

Emerging risks and uncertainties currently tracked by the group are detailed below.

Risk	Mitigating Actions and Key Developments	Outlook
Economic Uncertainty	The group's business model aims to ensure that we are able to trade successfully and support our clients in a wide range of economic conditions. By maintaining a strong financial position we aim to be able to absorb short-term economic downturns, respond to any increase in activity or market demand, and in so doing, build long-term relationships by supporting our clients when it really matters. The group focuses on quality and returns rather than overall growth or market share and continues to invest in the business for the long term, to support our customers and clients through the cycle. 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. The group's strategic priorities are regularly reviewed and updated to ensure the group continues to focus on those that support the business model and adapt to changes in the external operating environment.	Covid-19 has notably impacted economic activity and there remains ongoing uncertainty regarding the future economic trajectory in the UK and across global markets more generally. Notwithstanding the resilience of our model, we are continuing to plan for a range of different economic and business scenarios to ensure we have the resources and capability to continue to perform effectively. Further commentary on the attributes and resilience of the group's diversified business model is shown on pages 12 to 14 with commentary on the market environment and its impact on each of our divisions outlined on pages 42 to 55.
Financial Loss Resulting from the Physical or Transitional Impacts of Climate Change	A multi-year programme of work is underway to implement an appropriate and regulatory-compliant climate risk framework, overseen by a Climate Risk Steering Committee. Regular updates are provided to the Risk Committee, which retains oversight responsibility, while senior management responsibility is assigned to the group chief risk officer. For further detail on the firm's action to date with regard to climate risk, see pages 31 to 33.	Climate risk represents an area of increasing focus, both within the group and across the industry more broadly. We continue to closely monitor regulatory developments as well as emerging best practice and are exploring various avenues to leverage this as appropriate to support framework development. The short-dated tenor of our lending book and strong resilience capabilities mitigate current risk exposure, however work to further review the risks and opportunities posed by climate change remains ongoing. This includes continued review of our credit assessment approach in the Banking division, with a view to ensuring appropriate consideration of climate risk as part of the underwriting process. Outputs from this review will further shape the group's strategic response and support our planned alignment with the evolving recommendations of the Task Force on Climate-related Financial Disclosures ("TCFD").

Risk Report continued

Risk	Mitigating Actions and Key Developments	Outlook
Transition from LIBOR	A programme is in place to transition the firm away from the use of LIBOR in loan documentation, Treasury transactions and other forms of contract in favour of alternative Risk-Free Rates ("RFRs"). The scope of this work encompasses both new contracts and existing contracts that mature after 31 December 2021, the deadline set by the Prudential Regulatory Authority and the Financial Conduct Authority.	We continue to make good progress in making relevant changes to loan documentation to move away from the use of LIBOR and, where necessary, have upgraded our processing systems. We will continue to support industry initiatives relating to the transition from LIBOR and remain on track to effect the necessary changes by 31 December 2021.
Disruption from Scottish Independence	Monitoring is in place to track changes in the political landscape with regard to Scottish independence. In the event that Scotland does vote for independence in a future referendum, we are confident that any resulting disruption can be managed effectively with minimal impact on business operations.	Various movements in the support for Scottish independence have been observed in opinion polls over the last year. We continue to monitor developments closely.
Legal and Regulatory Change	The group maintains an established horizon scanning and monitoring framework to identify regulatory and legal changes that could materially impact its operations, including legislative and regulatory reform, changes in regulatory practice and case law developments. The group engages regularly with regulators in the jurisdictions in which it operates, including the PRA and FCA in the UK, as well as industry bodies and external advisers to understand relevant changes. High-level gap and impact analyses are undertaken to assess new compliance requirements and identify any changes required to the group's systems and controls, processes and procedures, with programmes of work initiated to address any identified issues. The extent and nature of this work ranges from simple isolated remedial activity to large multi-year projects, depending on the complexity and scale of the change.	A sustained increase in legal and regulatory change has been experienced in recent years and this is expected to continue in the short to medium term, including as a result of the continued implementation of existing EU legislation into UK law, and possible future regulatory and legal divergence. Further change is also expected as governments and regulators continue to respond to the impact of Covid-19 and prepare for equivalent events that may occur in the future. Changes in regulation are also expected in other priority areas identified by regulators in the UK, the Republic of Ireland and other jurisdictions in which the group operates.
Evolving Working Practices	Colleagues not deemed essential workers have predominantly worked remotely since the onset of the Covid-19 pandemic, although teams are now coming back together, where permissible within local public health rules, on both an ad hoc and permanent working pattern basis. Notwithstanding, the group now assesses the appropriateness of its work patterns on an ongoing basis through consideration of four key principles: customer and client outcomes; risk appetite; culture and collaboration; and employee choice. Utilising this framework, hybrid patterns of office and remote working are now being supported for certain additional roles that did not regularly have this flexibility prior to the pandemic.	Public health requirements regarding the extent of allowable office-based working may require the company to continue adapting its approach over time. Extensive work has been completed to risk assess hybrid working patterns, enabling the identification and mitigation of any risks arising. Management continues to monitor market expectations regarding work patterns. Evolving colleague expectations may present competitive threats and/or opportunities regarding staff attraction, retention and engagement going forward.

Risk	Mitigating Actions and Key Developments	Outlook
Technological Change and New Business Models	Technological change and new business models have the potential to impact the group's market position and future profitability. While regulation remains a barrier to entry for many potential new competitors, consumer expectations continue to evolve, challenging existing capabilities and traditional approaches. Competitors are adapting in response, while new financial technology companies continue to develop alternative business models. Notwithstanding this, the group prides itself on its deep knowledge of its customers and clients and the industries/sectors in which they operate. Market developments are closely monitored to identify and understand emerging dynamics as well as the evolving preferences of our customers.	The group is continuing to invest in strategic data capabilities as part of our business and technology strategies. Data governance remains a key focus as part of this as we look to further manage and exploit our data assets. Our businesses, particularly within Retail, also continue to prioritise digital channels and messaging to enhance/improve the customer journey and associated experience. The group is also focused on upskilling current staff and strategic provider partnerships to support the digital transformation of our businesses where appropriate. Partnerships between existing financial institutions and large technology houses present an opportunity that the group can further explore.
Supply Chain Risk	The group's third party management framework ensures a risk-based approach is adopted with regard to the identification, classification and management of the many potential business impacts that can result from failures in the supply chain. Through the identification of inherent risks at the outset of all third party engagements, appropriate due diligence is completed prior to onboarding, suitably robust contracts are put in place and effective lifecycle management is implemented. Ongoing reporting of key risk and performance indicators coupled with periodic supplier reviews from our third party monitoring team help to manage supply chain risk. Oversight of all material suppliers is retained via the Group Risk and Compliance Committee while continuity of service is a key focus for all critical relationships through resilience and substitutability planning. The group is also continuing to build out its understanding of supply chain concentration risk across material third and fourth parties.	While Covid-19 has undoubtedly strained supply chains globally, this has proved more moderate in the Financial Services sector and less so for the group given its relatively low level of reliance on offshore service provision. Notwithstanding, further evolution of the group's third party management framework is required to keep pace with the evolving regulatory landscape over the short to medium term, noting this remains an area of heightened regulatory focus, particularly with respect to material suppliers. In addition, the group is currently responding to other related new/pending regulatory requirements including, but not limited to, operational resilience.

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

Adrian Sainsbury
Chief Executive

28 September 2021

Board of Directors

Mike Biggs N R
Chairman

Board Appointment
Mike Biggs was appointed as an independent non-executive director in March 2017 and became chairman of the board and of the Nomination and Governance Committee from 1 May 2017.

Background and Experience
Mike served as chairman of Direct Line Insurance Group plc from 2012 until August 2020. 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 an Associate of the Institute of Chartered Accountants in England and Wales.

Adrian Sainsbury
Chief Executive

Board Appointment
Adrian Sainsbury was appointed to the board as chief executive on 21 September 2020.

Background and Experience
From 2016 until September 2020, Adrian was managing director of Close Brothers' Banking division. Since August 2013 he has been a director of Close Brothers Limited, the group's banking subsidiary. Adrian has previously held executive roles at Barclays, RBS and Bank of Ireland and was chief executive of ANZ Bank in Europe. Adrian is a board member of UK Finance, the banking and finance industry body, and also served as chairman of the Asset Based Finance Association, the UK and Ireland industry body.

Mike Morgan
Group Finance Director

Board Appointment
Mike Morgan was appointed 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 from June 2019 to June 2021 was chair of the ICAEW Financial Services Faculty Board and an 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 RI A R N
Independent Non-executive Director

Board Appointment
Lesley Jones joined the board as an independent non-executive director in December 2013.

Background and Experience
Lesley is chair of Sainsbury's Bank and a non-executive director of Moody's Investors Service Limited and Moneysupermarket.com Group PLC. 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 was previously a non-executive director of N Brown Group plc, ReAssure Group plc (where she also chaired the Risk Committee) and Northern Bank Limited.

Bridget Macaskill R RI N
Independent Non-executive Director

Board Appointment
Bridget Macaskill joined the board as an independent non-executive director in November 2013.

Background and Experience
Bridget is a non-executive director of Jones Lang LaSalle Incorporated, and chairman of Cambridge Associates LLC. Bridget was formerly chairman of First Eagle Holdings, Inc. 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 Jupiter Fund Management plc, Prudential plc, Scottish & Newcastle plc, J Sainsbury plc, Hillsdown Holdings plc and of the Federal National Mortgage Association in the US.

Tesula Mohindra A RI
Independent Non-executive Director

Board Appointment
Tesula Mohindra joined the board as an independent non-executive director on 15 July 2021.

Background and Experience
Tesula is an independent non-executive director of NHBC (National House Building Council) and a trustee of Variety, the Children's Charity. She qualified as a chartered accountant with PricewaterhouseCoopers, and held managing director roles at JP Morgan and at UBS, specialising in corporate finance for financial institutions and pension fund risk management. She was also a founding member of the management team of Paternoster, the specialist bulk annuity insurer, where she was a member of the Executive Committee. Since then she has worked as an independent financial consultant on business plans and capital raising.

Mark Pain (RI) (R) (N)
Senior Independent Director

Board Appointment
Mark Pain joined the board as an independent non-executive director and senior independent director on 1 January 2021.

Background and Experience
Mark is currently a non-executive director of AXA UK plc, where he serves on the Audit, Investment, Remuneration & Nomination, and Risk Committees. He is chairman of London Square Limited and Empiric Student Property plc (where he is also chair of the Nominations Committee and a member of the Remuneration Committee). He has extensive finance, risk management and commercial experience, having held board positions at Barratt Developments plc and Abbey National Group. Mark has previously been a non-executive director of Yorkshire Building Society (where he served as senior independent director), Ladbrokes Coral Group plc, Punch Taverns plc, Spirit Pub Company plc, Johnston Press plc, and Aviva Insurance Limited, among others.

Patricia Halliday (A) (RI)
Independent Non-executive Director

Board Appointment
Patricia Halliday joined the board as an independent non-executive director on 1 August 2021.

Background and Experience
Patricia has over 30 years' experience in risk management across the investment, corporate and retail banking sectors. Patricia was chief risk officer ("CRO") of Santander UK with responsibility for risk management and oversight across retail and commercial banking. Prior to Santander, Patricia was CRO of GE Capital International Holdings Limited. She began her career at NatWest, followed by senior credit risk roles at Barclays Capital and then Deutsche Bank, including as Head of Leveraged and Structured Finance and Commercial Real Estate, and Chair of the Underwriting Committee, covering the UK, European and US markets.

Oliver Corbett (A) (RI) (N)
Independent Non-executive Director

Board Appointment
Oliver Corbett joined the board as an independent non-executive 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.

Sally Williams (A) (RI)
Independent Non-executive Director

Board Appointment
Sally Williams joined the board as an independent non-executive director in January 2020.

Background and Experience
Sally is also a non-executive director of Lancashire Holdings Limited and of Family Assurance Friendly Society Limited (OneFamily), where she chairs the Audit Committee. She is a member of the Institute of Chartered Accountants of England and Wales. Sally has extensive risk, compliance and governance experience, having held senior executive positions at Marsh, National Australia Bank and Aviva. Prior to that, Sally held a number of roles at PricewaterhouseCoopers LLP in both their risk management and audit teams over a period of 15 years.

Peter Duffy (RI) (R)
Independent Non-executive Director

Board Appointment
Peter Duffy joined the board as an independent non-executive director on 1 January 2019.

Background and Experience
Peter is chief executive officer of Moneysupermarket.com Group PLC and President of the Incorporated Society of British Advertisers. He previously served as chief executive officer of Just Eat Limited, having been interim chief executive officer and chief customer officer of Just Eat plc before that. 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.

(A) Audit Committee member
(RI) Risk Committee member
(R) Remuneration Committee member
(N) Nomination and Governance Committee member
● Committee chair

Executive Committee

Adrian Sainsbury
Chief Executive

Rebekah Etherington
Group Head of Human Resources

Mike Morgan
Group Finance Director

Philip Yarrow
Winterflood Chief Executive

Angela Yotov
Group General Counsel

Martin Andrew
Asset Management Chief Executive

Robert Sack
Group Chief Risk Officer

Martyn Atkinson
Group Chief Operating Officer

Rebecca McNeil
Chief Executive Officer Retail

Frank Pennal
Chief Executive Officer Property

Neil Davies
Chief Executive Officer Commercial

Directors' Report

The directors of Close Brothers Group plc (the "company") present their report for the year ended 31 July 2021.

The Strategic Report set out on pages 1 to 67 of this Annual Report, and the Corporate Governance Report, the committee reports and the Directors' Remuneration Report set out on pages 97 to 125 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 195 of this Annual Report.

Results and Dividends

The consolidated results for the year are shown on page 134 of the financial statements. The directors recommend a final dividend for the year of 42p (2020: 40p) on each ordinary share which, together with the interim dividend of 18p (2020: nil) paid in April 2021, makes an ordinary distribution for the year of 60p (2020: 40p) per share. The final dividend, if approved by shareholders at the 2021 Annual General Meeting ("AGM"), will be paid on 23 November 2021 to shareholders on the register at 15 October 2021. Further information on the final dividend recommended by the directors can be found on page 43 of this Annual Report.

Directors

The names of the directors of the company at the date of this report, together with biographical details, are given on pages 68 and 69 of this Annual Report. All the directors listed on those pages were directors of the company throughout the year, apart from Adrian Sainsbury, Mark Pain, Tesula Mohindra and Patricia Halliday, who were appointed as directors on 21 September 2020, 1 January 2021, 15 July 2021 and 1 August 2021, respectively. In addition, each of Preben Prebensen and Geoffrey Howe served as directors for part of the year, stepping down from the board on 21 September 2020 and 19 November 2020, respectively.

In accordance with the UK Corporate Governance Code, each of the current directors will retire at the 2021 AGM and offer themselves for reappointment at that meeting.

Adrian Sainsbury's appointment as a director and chief executive took effect at the end of the board's meeting held on 21 September 2020, having been announced by the company on 22 June 2020. Further details on the robust search process that resulted in Adrian's appointment can be found in the company's 2020 Annual Report. Following the announcement of Preben Prebensen's planned departure on 24 September 2019, Preben ceased to be chief executive and a member of the board with effect from the end of the board's meeting held on 21 September 2020.

As announced by the company on 22 September 2020, Geoffrey Howe did not submit himself for reappointment at the company's 2020 AGM, having informed the board of his decision to step down following nine years' service on the board.

During the year, the company announced the following appointments to the board, after formal and rigorous search processes overseen by the Nomination and Governance Committee:

- On 31 December 2020, the company announced that the board had decided to appoint Mark Pain as an independent non-executive director with effect from 1 January 2021. Mark is a member of the board's Nomination and Governance, Remuneration and Risk Committees and is also the company's senior independent director.
- On 9 July 2021, the company announced that Tesula Mohindra would join the board as an independent non-executive director with effect from 15 July 2021. Tesula is a member of the Audit and Risk Committees.
- On 23 July 2021, the company announced the appointment of Patricia Halliday as an independent non-executive director with effect from 1 August 2021. Patricia is a member of the Audit and Risk Committees.

Like each of the company's other independent non-executive directors, Mark, Tesula and Patricia are also directors of the group's Banking subsidiary, Close Brothers Limited. More information on the recruitment processes that resulted in the appointments of Mark, Tesula and Patricia can be found in the Report of the Nomination and Governance Committee on page 94 and 95 of this 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 97 to 125 of this Annual Report.

Directors' interests

The directors' interests in the share capital of the company at 31 July and 20 September 2021 are set out on pages 123 and 125 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 page 84 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 2021, 152,060,290 ordinary shares were in issue, of which 1,260,614 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 2020 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 £12,610,667;
- allot shares up to an aggregate nominal amount of £25,221,334 for the purposes of a rights issue;
- allot shares having a nominal amount not exceeding in aggregate £1,891,600 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 £1,891,600, for the purpose of financing a transaction determined by the directors to be an acquisition or other capital investment as 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 £4,729,000 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

Directors' Report continued

- make market purchases of up to 15,132,800 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 2020 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 pages 173 and 174 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 18 November 2021 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 735,545 Treasury Shares with an aggregate nominal value of £183,886.25, representing 0.48% of its issued share capital, for an aggregate consideration of £8.34 million. It transferred 208,756 shares out of treasury, to satisfy share option awards, for a total consideration of £2.5 million.

At 31 July 2021, the company held 1,260,614 Treasury Shares with a nominal value of £0.32 million. The maximum number of Treasury Shares held at any time during the year was 1,466,518 with a nominal value of £0.37 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 173 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 345,941 ordinary shares.

Substantial Shareholdings

Details of substantial shareholdings in the company are set out in the Corporate Governance Report on page 87 of this Annual Report.

Articles of Association

The company's articles of association may only be amended by a special resolution of the company's shareholders. They were last amended in November 2020, following shareholder approval at the 2020 AGM. The articles of association can be viewed at www.closebrothers.com/investor-relations/investor-information/corporate-governance.

Further details of the changes made to the articles of association in 2020 can be found in the 2020 Notice of AGM.

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 71 to 125 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 67 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

Information on the company's employment practices, including with respect to disabled employees and its approach to investing in and rewarding its workforce, is set out in the Sustainability Report on pages 24 to 34 of the Strategic Report.

Greenhouse gas emissions
Information on the group's greenhouse gas emissions, energy consumption and energy efficiency action, as well as the approach the company is taking to ensuring it manages this risk through its governance processes and internal control arrangements is set out in the Sustainability Report on pages 24 to 34 of the Strategic Report.

Employee engagement
The group acknowledges the importance of engaging with its employees and listening to their views. The board believes that engaged employees are more likely to remain enthusiastic about their work and the organisation, and is committed to ensuring that employees feel valued and supported. The company has chosen, in accordance with section 414C(11) of the Companies Act 2006, to include in its Strategic Report, information about how the directors have engaged with employees, and had regard to employee interests, and the effect of that regard, including on the principal decisions taken by the company during the financial year, that would otherwise be disclosed in this Directors' Report. Information about actions taken by the company to introduce, maintain or develop arrangements aimed at providing employees systematically with information on matters of concern to them as employees, regularly consult employees or their representatives to take account of their views in decision-making, encourage employee involvement in the company's performance and achieve awareness among employees of factors affecting the performance of the company can also be found in the Corporate Governance Report. Further details can be found on pages 36 to 41 of the Strategic Report and also on pages 87 and 88 of the Corporate Governance Report.

Business relationships
The group values the strong reputation it has built with customers, clients, partners and other stakeholders, which is critical to the long-term sustainability of the group's business.

The company has chosen, in accordance with section 414C(11) of the Companies Act 2006, to include in its Strategic Report, information about how the directors have had regard to the need to foster the company's business relationships with suppliers, customers and others, and the effect of that regard, including on the principal decisions taken by the company during the financial year, that would otherwise be disclosed in this Directors' Report. Further details can be found on pages 36 to 41 of the Strategic Report and also on page 87 of the Corporate Governance 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 26 to 27 of the Strategic Report. More information on diversity at board level and the board's oversight of diversity and inclusion initiatives can be found on pages 79 and 80 of the Corporate Governance Report and in the Report of the Nomination and Governance Committee on page 95 of this Annual 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 £1.6 billion at 31 July 2021 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 applicable, 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 141.

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 and the features of its internal control and risk management systems are described on pages 56 to 67 and the risks associated with the group's financial instruments are analysed in note 28 on pages 176 to 189 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 (2020: £nil).

Charitable Donations
Further information on the group's charitable activities, and on the charitable donations made in the year, can be found on pages 30 and 31 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 72

There are no other matters which the Company is required to report under Listing Rule 9.8.4R.

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 2021 AGM
The company's AGM will be held on 18 November 2021. Resolutions to be proposed at the AGM include the reappointment of directors, the approval of changes to the Directors' Remuneration Policy, 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 2021 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 auditor's 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.

Directors' Report continued

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's business activities, financial performance, capital levels, liquidity and funding position, and risk management framework, along with the principal and emerging risks likely to affect its future performance, are described in the Strategic Report and the Risk Report.

The group continues to have a strong, proven and conservative business model supported by a diverse portfolio of businesses, aiding profitability to return to pre-Covid-19 levels in the year. The group remains well positioned in each of its core businesses, and is strongly capitalised, soundly funded and has high levels of liquidity.

As part of the directors' consideration of the appropriateness of adopting the going concern basis in preparing the Annual Report, a range of forward-looking scenario analyses have been considered. This included a central scenario, an upside scenario and a plausible downside scenario.

The scenarios modelled are based on a range of economic assumptions, with consideration given to the ongoing impact of Covid-19, encompassing both severity and the period of assumed recovery. In all modelled scenarios it has been concluded that no significant structural changes to the company or group will be required. Further details of these scenarios are set out in the Viability Statement.

Under all scenarios the company and group continue to operate with sufficient levels of liquidity and capital for the next 12 months, with the group's capital ratios and liquidity comfortably in excess of regulatory requirements.

For each of the divisions, the directors have also considered the impact of the central, upside and downside scenarios on financial performance. For Banking these include expected customer demand that underpins loan book growth, material reduction in government support measures and the impact this will have on the bad debt ratio and net interest margin. For Asset Management, the level of markets and amount of net flows as a percentage of opening managed assets was considered. For Winterflood, the volume of trading activity within their markets and expected trading revenue was assessed. Across all the divisions, the impact of the selected downside scenario demonstrated the resilience of our business model.

The group acknowledges that the risk landscape is constantly evolving and as such continually reviews its principal and emerging risks. As part of this review, risks are assessed with robust oversight exercised at both a local business unit and group level through risk and compliance committees and the board. The group's strong risk assessment framework provides a solid foundation to assess going concern throughout the organisation on a regular and consistent basis.

In making this assessment, the directors have also considered the operational agility and resilience of the company and group, noting that the business has successfully adapted to new ways of working and that operational and system performance have been maintained, and are expected to continue to be.

In conclusion, the directors have determined that they have a reasonable expectation that the company and the group, as a whole, have adequate resources to continue as a going concern for a period of at least 12 months from the date of approval of the financial statements.

Accordingly, they continue to adopt the going concern basis in preparing the Annual Report.

Viability Statement

In accordance with provision 31 of the UK Corporate Governance Code, the board has assessed the prospects of the group and confirms that it has a reasonable expectation that the company and group will continue to operate and meet their liabilities, as they fall due, for the three-year period up to 31 July 2024.

The board considers three years to be an appropriate period for the assessment to be made. A period of three years has been chosen given the group's proven and resilient business model, prudent maturity profile and because it is the period covered by the group's well embedded strategic planning cycle. We continue to adopt a three-year period for our regulatory and internal stress testing processes, including: (i) group-wide internal forecasting and stress testing, which has undergone significant review and challenge, to confirm the viability of the group given the impact of Covid-19; (ii) the Internal Capital Adequacy Assessment Process ("ICAAP"), which assesses capital requirements; and (iii) the Internal Liquidity Adequacy Assessment Process ("ILAAP"), which identifies liquidity requirements.

In making its assessment, the board has identified and assessed the principal and emerging risks facing the group and these are highlighted on pages 60 to 67. The group's approach to monitoring and managing principal risks faced by the group's business, including financial, business, market and operational risks, have remained consistent given the group's activities, business model and strategy are unchanged.

The group utilises an established risk management framework to monitor its portfolio of emerging risks incorporating the group's "bottom up" and "top down" approach. These are monitored by the local and group risk and compliance committees with agreed actions regularly tracked. Key emerging risks include:

- economic uncertainty arising from the Covid-19 pandemic, with ongoing uncertainty regarding the future economic trajectory;
- financial loss resulting from climate change, ensuring the group is able to address the financial risks arising from the physical and transitional impacts of climate change;
- evolving working practices, ensuring extensive risk assessments over hybrid working patterns; and
- legal and regulatory changes as a result of the continued implementation of existing EU legislation into UK law, in addition to governmental and regulatory changes in response to Covid-19.

The group will continue to monitor and assess these risks, adhering to our established and proven business model, as outlined on pages 12 and 13; implementing an integrated risk management approach based on the concept of "three lines of defence"; and setting and operating within clearly defined and monitored risk appetites. The group's business model, supported by a solid track record and sustained profitability, has worked well through a range of economic, social and environmental conditions over multiple economic cycles and this is projected to continue over the medium to long term. Given the diversified portfolio of the businesses across the group, the board considers longer-term economic, social, environmental and technological trends at the individual business unit level as part of the strategic planning cycle. This includes focusing on the long-term strategic approach to protect, grow and sustain our business model, with key priorities outlined on page 20.

The board has also assessed the group's viability by considering regular forecasting and stress testing undertaken to reflect uncertainties in the economic environment. A range of forward-looking scenarios has been considered, with distinct social and economic assumptions encompassing both the severity of a downturn and the timing of any assumed recovery from the impact of Covid-19. Differing macroeconomic assumptions have been assessed across the scenarios including GDP growth, unemployment, residential house prices and equity prices. The modelling considers the group's future projections of profitability, cash flows, capital requirements and resources, and other key financial and regulatory ratios over the period. In the modelled scenarios, it has been assumed that no significant structural changes to the company or group will be required.

These scenarios have been built using the same principles as those in the going concern assessment, extended out over the three-year period:

- the central scenario presents our base case assuming a strong recovery, with lockdown restrictions lifted and normal working conditions allowed to resume, supporting GDP growth and falling unemployment rates;

- the downside scenario assumes weaker than expected economic recovery with continued Covid-19 local lockdowns, impairment losses front-loaded due to rising unemployment rates coupled with lower income in market-facing businesses as equity prices and market levels decline; and
- the upside scenario illustrates a very strong UK rebound designed to test the group's capital and liquidity resources with strong GDP growth, declining unemployment rates and recovery in market levels.

The group maintains capital ratios significantly above regulatory minima, which are currently set at a minimum common equity tier 1 ratio of 7.6% and a minimum total capital ratio of 11.5%, excluding any applicable Prudential Regulation Authority ("PRA") buffer. In all scenarios, the company and group continue to operate with sufficient levels of capital, with the group's capital ratios comfortably in excess of regulatory requirements and funding and liquidity positions well within appetite.

Across the divisions, the financial impact of each scenario demonstrates the resilience of our business model. In addition, the directors have reviewed the key management actions which would be taken in the event of a downside, in order to mitigate the stress, and the viability of these actions.

In making this assessment, the directors have considered a wide range of information, including:
- the board's risk appetite and robust assessment of the principal and emerging risks, which could impact the performance of the group, and how these are managed – please see the Risk Report on pages 56 to 67;
- the group's current financial position and prospects – please see the Financial Overview on pages 42 to 45; and
- the group's business model and strategy – please see Business Model on pages 12 to 13, and Strategy and Key Performance Indicators on pages 20 to 21.

The directors have also considered the results from the most recent version of the following reviews, which were conducted during the Covid-19 pandemic:
- the annual review of the Recovery Plan which included employing a number of scenarios to test our recovery plan, our wide range of risk indicators and the various recovery options available to the group;
- the 2020 ICAAP, which included both stress testing and scenario analysis. At a group level, one severe stress test scenario was assessed representing a protracted downside scenario. This took 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. As part of the ICAAP, reverse stress testing was also employed to support the identification of potential adverse circumstances and events; and
- the 2020 ILAAP, which was 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.

This forward-looking viability statement made by the board is based on information and knowledge of the group at 28 September 2021. Unexpected risks and uncertainties may arise from future events or conditions, such as economic changes and business conditions, which are beyond the group's control and could cause the group's actual performance and results to differ from those anticipated.

Directors' Responsibility Statement

The directors, whose names and functions are listed on pages 68 and 69, 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 accounting standards in conformity with the requirements of the Companies Act 2006 and the 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). Additionally, the Financial Conduct Authority's Disclosure Guidance and Transparency Rules require the directors to prepare the group financial statements in accordance with international financial reporting standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union.

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 company and of the profit or loss of the group and company for that period. In preparing the financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable international accounting standards in conformity with the requirements of the Companies Act 2006 and international financial reporting standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in 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 company financial statements (together the 'relevant financial reporting frameworks'), subject to any material departures disclosed and explained in the group and company financial statements;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the group and company financial statements on the going concern basis unless it is inappropriate to presume that the group and the company will continue in business.

The directors are responsible for safeguarding the assets of the group and company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are also responsible for keeping adequate accounting records that are sufficient to show and explain the group's and company's transactions and disclose with reasonable accuracy at any time the financial position of the group and company and enable them to ensure that the financial statements and the Directors' Remuneration Report comply with the Companies Act 2006.

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 company financial statements, which have been 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 company respectively;
- the Strategic Report, together with the Directors' Report and the Corporate Governance Report, includes a fair review of the development and performance of the business and the position of the group and 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's and company's position and performance, business model and strategy.

By order of the board

Alex Dunn
Company Secretary

28 September 2021

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 2021. The following pages explain the group's governance structure 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

Commitment to high standards of corporate governance

At Close Brothers we firmly believe in the important role that high standards of corporate governance and effective board oversight play in supporting the group's performance, the delivery of its strategy and achieving long-term sustainable success for the company's shareholders and other stakeholders. The board is committed to maintaining a robust and effective governance, control and risk management framework and I have been pleased once again this year to see the benefits of that framework.

This has been another year impacted by the pandemic and whilst opportunities to meet in person have been limited, our focus on robust corporate governance practices has enabled the board to continue to ensure effective oversight of the group's activities, together with challenge and support for senior management. Throughout the last year, stakeholder considerations relating to the pandemic have been central to the board's agenda with significant time spent monitoring the impact on the group's customers, clients, partners and employees. Further information on the operation of the board during the pandemic is set out later in this report.

Strategy, purpose and culture

The board plays an important role in setting the group's strategy, purpose, business model and culture, and the board spends time on each of these areas throughout the year. Among other things this year, the board considered and approved the evolution of the group's strategic objectives following the appointment of Adrian Sainsbury as chief executive. In these discussions, the board was keen to ensure consistency with the existing model and strategy whilst reflecting the need for evolution as the group matures and the external environment changes. Each of the directors recognises the role we have to play in setting the tone from the top and in monitoring how the group's culture and values are communicated and embedded. We also acknowledge the crucial link between culture, governance and leadership, and the role that decision-making plays as a key driver of culture. Once again this year, in my own engagement with employees, I have been pleased to see the group's strong and distinctive culture in action, as shown by the continuing commitment on the part of our employees to support customers, clients and partners during the pandemic.

Changes to the board

Since the start of the financial year under review, the board has been refreshed with the appointment of Adrian Sainsbury, who succeeded Preben Prebensen as chief executive on 21 September 2020, and the appointments of Mark Pain, Tesula Mohindra and Patricia Halliday, who became independent non-executive directors on 1 January 2021, 15 July 2021 and 1 August 2021, respectively. Information on Adrian's appointment was set out in last year's Annual Report. More detail on the robust and formal search processes led by the Nomination and Governance Committee that culminated in the appointments of Mark, Tesula and Patricia can be found on pages 94 and 95. The appointment of three new non-executive directors has further strengthened the range of skills, backgrounds and experience on the board and forms part of our orderly and proactive approach to succession planning. The board continues to be diverse, with directors from a range of backgrounds, and I am pleased that we comply with the recommendations of the Hampton-Alexander and Parker Reviews in terms of the composition of the board.

On 21 September 2020, Preben Prebensen stepped down after 10 years as chief executive and a member of the board. Geoffrey Howe did not submit himself for reappointment at the company's 2020 AGM, having informed the board of his decision to step down after more than nine years' service. Once again, I would like to thank Preben and Geoffrey for their contribution to the group over many years.

Board effectiveness

This year, in line with the UK Corporate Governance Code, the board appointed an external evaluator to review its effectiveness and performance. The review concluded that the board remains strong and effective, and that it has responded well to the challenges arising from the pandemic. The evaluation also acknowledged that the board has addressed each of the recommendations made in the previous external evaluation in 2018. The board welcomes the findings and we will work to consider opportunities for incremental improvements during the year ahead. Further detail on the evaluation can be found on page 86.

Stakeholder engagement

Stakeholder engagement remains a priority for the board. During the year 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. These discussions included consideration of stakeholders and their interests, as well as risks arising from the wider regulatory, economic and political environment. As part of the board's regular meetings and in sessions specifically focusing on strategy, the directors have spent considerable time assessing and having regard to the impact of individual decisions and the group's operations on different stakeholder groups. This has included extensive discussion of points arising from engagement with shareholders, customers, employees, regulators and other groups. You can find our formal statement in relation to section 172 of the Companies Act 2006, together with further detail about how the directors have engaged with, and had regard to the interests of, stakeholders in the Strategic Report on pages 36 to 41.

Sustainability and ESG

In the 2021 financial year, the board and its committees spent time on a broad range of sustainability considerations, including as part of strategy discussions and regular environmental, social and governance ("ESG") updates. I have been pleased to discuss the board's approach in this area as part of my regular meetings with shareholders. The board and the Nomination and Governance Committee have continued to monitor diversity and inclusion, both as part of ongoing board succession planning and in relation to activities aimed at developing a diverse and inclusive talent pipeline below board level. Further information on the board's approach to diversity and inclusion can be found on page 79. As part of wider sustainability discussions, the board has continued to focus on external and internal developments in relation to climate change. This has included discussion of the group's climate strategy and goals, together with oversight of progress towards disclosure requirements relating to the Task Force on Climate-related Financial Disclosures ("TCFD").

Executive remuneration

Executive remuneration remains an important topic, and I was pleased that our Directors' Remuneration Policy received the strong support of shareholders at last year's AGM. As a result of the implementation of the new CRD V directive, the Remuneration Committee has spent a large portion of its time reviewing our current policy and engaging with shareholders on proposed changes to reflect new regulatory requirements. The revised policy will be submitted to shareholders for approval at the forthcoming AGM. More detail on the proposed changes to the policy can be found as part of the Directors' Remuneration Report on pages 97 to 125.

Engagement with shareholders

Engagement and dialogue with shareholders continue to be a key focus for the board and I have been pleased to meet virtually with a number of our shareholders during the year to discuss a range of topics and to ensure that the board is aware of our shareholders' views. Unfortunately, last year we were required to hold a "closed AGM" due to Covid regulations. We provided alternative means for shareholders to engage with the board, including via written questions and a video presentation by our chief executive, Adrian Sainsbury, and I hope these were useful. This year, the board hopes to be able to return to a more typical AGM and, following the approval of new articles of association by shareholders at last year's AGM, it currently intends to hold a "hybrid" meeting that enables shareholders to attend and participate in the business of the meeting either in person or online. Further details will be set out in the Notice of AGM sent to shareholders in due course but we hope that this new form of meeting will allow more shareholders to participate and discuss the performance of the group with the board.

On behalf of the board, I would like to thank shareholders for their continued engagement and support. My fellow directors and I look forward to continued engagement with you in the year ahead, including at the AGM.

Michael N. Biggs
Chairman

28 September 2021

UK Corporate Governance Code

The UK Corporate Governance Code 2018, published by the Financial Reporting Council ("FRC") (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 applied the principles and complied with the provisions set out in the Code, with the exception of the two items noted below.

As explained in the 2020 Annual Report, the pension contribution rate of the former chief executive, Preben Prebensen, was higher than that of the general employee population in line with his service contract and the Directors' Remuneration Policy approved by shareholders in 2017 prior to publication of the Code. Preben served as chief executive for a small part of the 2021 financial year before stepping down on 21 September 2020. For this portion of the year in relation to Preben's pension, the company was not therefore compliant with provision 38 of the Code, which requires the pension contribution rates of executive directors to be aligned with those available to the workforce. The pension contribution rate of the group's current chief executive, Adrian Sainsbury, is (like that of the group finance director, Mike Morgan) aligned with the general employee population, and the group is therefore now fully compliant with provision 38 and has been since 21 September 2020.

During the 2021 financial year, an administrative error resulted in the inadvertent exercise of a vested 2017 LTIP award held by Preben Prebensen prior to the expiry of the applicable post-vesting holding period. This inadvertent exercise was not compliant with provision 36 of the Code, which requires a total vesting and holding period for such awards of five years or more. Further information can be found on page 124 of the Directors' Remuneration Report, including steps taken by the company and Preben following identification of the error to put alternative arrangements in place to largely replicate the overall vesting and holding schedule applicable to the LTIP award in question.

More information on the executive directors' remuneration can be found in the Directors' Remuneration Report that follows later in this Annual Report. Further detail and examples as to how the company has applied and complied with the Code are set out in the remainder of this Corporate Governance Report and in other sections of the Annual Report noted in the table overleaf.

Corporate Governance Report continued

Section 1: Board Leadership and Company Purpose	
Principle A: A successful company is led by an effective and entrepreneurial board, whose role is to promote the long-term sustainable success of the company, generating value for shareholders and wider society	Pages 23, 24 to 34, 38, 68, 69, 79, 81 and 82
Principle B: The board should establish the company's purpose, values and strategy, and satisfy itself that these and its culture are aligned. All directors must act with integrity, lead by example and promote the desired culture	Pages 5, 14, 16, 76 and 85
Principle C: The board should ensure that the necessary resources are in place for the company to meet its objectives and measure performance against them. The board should also establish a framework of prudent and effective controls	Pages 20, 21, 56 to 59 and 87
Principle D: In order for the company to meet its responsibilities to shareholders and stakeholders, the board should ensure effective engagement with, and encourage participation from, these parties	Pages 37, 40, 87 and 88
Principle E: The board should ensure that workforce policies and practices are consistent with the company's values and support its long-term sustainable success. The workforce should be able to raise any matters of concern	Pages 38, 85 and 86
Section 2: Division of Responsibilities	
Principle F: The chair leads the board and is responsible for its overall effectiveness in directing the company. The chair should demonstrate objective judgement throughout their tenure and promote a culture of openness and debate. In addition, the chair facilitates constructive board relations and the effective contribution of all non-executive directors and that directors receive accurate, timely and clear information	Pages 82 and 83
Principle G: The board should include an appropriate combination of executive and non-executive (and, in particular, independent non-executive) directors, such that no one individual or small group of individuals dominates the board's decision-making. There should be a clear division of responsibilities between the leadership of the board and the executive leadership of the company's business	Pages 5, 7, 68, 69, 79, 83 and 84
Principle H: Non-executive directors should have sufficient time to meet their board responsibilities. They should provide constructive challenge, strategic guidance, offer specialist advice and hold management to account	Pages 83 to 84
Principle I: The board, supported by the company secretary, should ensure that it has the policies, processes, information, time and resources it needs in order to function effectively and efficiently	Page 85
Section 3: Composition, Succession and Evaluation	
Principle J: Appointments to the board should be subject to a formal, rigorous and transparent procedure, and an effective succession plan should be maintained for board and senior management. Both appointments and succession plans should be based on merit and objective criteria and, within this context, should promote diversity of gender, social and ethnic backgrounds, cognitive and personal strengths	Pages 26, 27, 79, 80, 94 and 95
Principle K: The board and its committees should have a combination of skills, experience and knowledge. Consideration should be given to the length of service of the board as a whole and membership regularly refreshed	Pages 86, 94, 95 and 96
Principle L: Annual evaluation of the board should consider its composition, diversity and how effectively members work together to achieve objectives. Individual evaluation should demonstrate whether each director continues to contribute effectively	Page 86
Section 4: Audit, Risk and Internal Control	
Principle M: The board should establish formal and transparent policies and procedures to ensure the independence and effectiveness of internal and external audit functions and satisfy itself on the integrity of financial and narrative statements	Pages 56 to 59, 92 and 93
Principle N: The board should present a fair, balanced and understandable assessment of the company's position and prospects	Pages 74, 75 and 92
Principle O: The board should establish procedures to manage risk, oversee the internal control framework, and determine the nature and extent of the principal risks the company is willing to take in order to achieve its long-term strategic objectives	Pages 56 to 59, 89 and 90
Section 5: Remuneration	
Principle P: Remuneration policies and practices should be designed to support strategy and promote long-term sustainable success. Executive remuneration should be aligned to company purpose and values, and be clearly linked to the successful delivery of the company's long-term strategy	Pages 97 to 125
Principle Q: A formal and transparent procedure for developing policy on executive remuneration and determining director and senior management remuneration should be established. No director should be involved in deciding their own remuneration outcome	Pages 97 to 125
Principle R: Directors should exercise independent judgement and discretion when authorising remuneration outcomes, taking account of company and individual performance, and wider circumstances	Pages 97 to 125

The Board

Leadership of the board

The board's primary role is to provide effective leadership and direction for the group as a whole, and to ensure that the company is appropriately managed, delivers long-term shareholder value and contributes to wider society. It establishes the group's purpose and strategic objectives, and on an ongoing basis monitors management's performance against those objectives. The board also supervises the group's operations, with the aim of ensuring that it maintains a framework of prudent and effective controls which enables risks to be properly assessed and appropriately managed.

The board acknowledges its role in assessing the basis on which the group generates and preserves value over the long term. It spends time during the year, in scheduled board meetings, during its annual strategy discussions and in other sessions with senior management and stakeholders, considering how opportunities and risks to the future success of the group's business should be addressed, alongside discussions on the sustainability of the group's model. Further information on these considerations can be found in the Strategic Report on pages 1 to 67 of this Annual Report.

Another key function of the board is to define, promote and monitor the company's culture and values, setting the "tone from the top". It also ensures effective engagement with, and participation from, shareholders and other stakeholders. When making decisions, the board has regard to the interests of a range of stakeholders, including employees, customers, clients and shareholders, as well as its broader duties under section 172 of the Companies Act 2006. The company's formal section 172 statement can be found on page 40 of this Annual Report.

Board size and composition

The board has 11 members: the chairman, two executive directors and eight 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. The Nomination and Governance Committee monitors the overall size of the board and the balance between its executive and non-executive membership.

During the 2021 financial year, the board appointed three new non-executive directors as part of its proactive and orderly approach to succession planning. One of these was the appointment of a successor to the long-standing senior independent director who retired from the board during the year, whilst the remaining two were incremental appointments which resulted in an increase in the overall size of the board compared with the prior financial year. The overall size of the board has grown slightly in recent years as new directors have been appointed to bring additional and complementary knowledge, skills and experience, and to ensure continuity of membership and knowledge as other directors near the end of their terms in the years ahead. The board considers that the size and structure of the board remains appropriate given the company's operations, and the need to ensure an orderly succession and transition between directors.

The board considers that recent appointments have resulted in a valuable refreshing of the board, providing new perspectives and challenge which have further strengthened the board's effectiveness and the quality of its deliberations. As the membership of the board has evolved, it has also taken the opportunity to review and refresh the membership of its committees. During the year, new members were added to each of the board's committees and, following a review by the Nomination and Governance Committee, other changes were made to the membership of the Audit and Remuneration Committees. Further detail can be found on pages 94 and 95.

Details of the individual directors and their biographies are set out on pages 68 and 69.

Board and senior management diversity and inclusion

The board acknowledges the benefits that diversity and inclusion can bring to the board and to all levels of the group's operations. As such, the board is committed to the promotion of diversity and inclusion across the group and to ensuring that all employees are treated fairly.

The board maintains a board diversity and inclusion policy, which is reviewed annually by the Nomination and Governance Committee. The policy 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. Following review by the Nomination and Governance Committee and the board during the year, a small number of incremental changes were made to the policy.

The key aims and principles set by the board in its diversity and inclusion policy for board-level appointments and progress made include:

1. Maintaining female representation on the board of at least 30%

Whilst the board aims to maintain female representation of at least 30%, it recognises that due to its relatively small size, the appointment or departure of a single director can have a significant impact on the achievement of this aim. At the date of this report, five of the board's 11 members are women. At 45%, this means that female representation currently exceeds the recommendation of the Hampton-Alexander Review. Five of the company's nine non-executive directors are women.

2. Having at least one director of colour

The board acknowledges the importance of cultural and ethnic diversity and the benefits this can bring. At the date of this report, the composition of the board is in line with the recommendation of the Parker Review that a FTSE 250 board should have at least one director of colour. External search firms used by the Nomination and Governance Committee will continue to be instructed to consider candidates from a broad range of backgrounds and experiences when preparing long-lists for review by the Committee.

3. Engaging only external search firms which are signatories to the Voluntary Code of Conduct for Executive Search Firms

For board-level appointments, the Nomination and Governance Committee aims to engage only executive search firms which are signatories to the Voluntary Code of Conduct for Executive Search Firms. During the year, the Committee was supported in searches by Heidrick & Struggles and Russell Reynolds, both of which are signatories to the Voluntary Code.

The board remains committed to seeking to improve further its position on gender, cultural and ethnic diversity when appropriate opportunities arise, whilst continuing to make appointments based on merit, objective and defined criteria, and the particular skills and experience required for the role.

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 following rigorous 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. When considering board composition and appointments, the board and the Nomination and Governance Committee continue to have regard to relevant best practice and the findings of the Hampton-Alexander Review and the Parker Review.

The board regularly considers diversity and inclusion, including activities across the group to encourage a diverse pipeline, as part of discussions around succession planning and talent management

Corporate Governance Report continued

throughout the year. During the year, the Nomination and Governance Committee received updates in this area, including in relation to the activities of employee networks established to consider a broad range of discrete areas relating to diversity and inclusion matters. Further information on these initiatives can be found on pages 26 to 27 of the Strategic Report.

In line with the Code, further commentary on the diversity of the board, the Nomination and Governance Committee's oversight of diversity and inclusion matters, and future plans in this regard, is set out in the Nomination and Governance Committee Report on page 95. The board's diversity and inclusion policy is available on the Corporate Governance section of the company's website. The policy is subject to annual review by the Nomination and Governance Committee.

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.

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, the interests of the company's stakeholders, and any other relevant factors.

Board and committee meeting attendance in 2020/2021

During the year the board held seven regular scheduled meetings. In addition, all members of the board at the relevant dates attended strategy sessions with senior management in December 2020 and May 2021.

The attendance of directors at scheduled meetings of the board and the committees of which they were members during the 2021 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. This included attendance by the executive directors at all meetings of the Audit and Risk Committees during the year. Patricia Halliday did not join the board until the start of the 2022 financial year. She was not therefore eligible to attend any meetings in the 2021 financial year and, as such, is not listed in the table.

The board held 19 additional ad hoc meetings in the year to consider a number of matters, including the group's response to Covid-19 and proposed board appointments. The Audit Committee held two

	Board		Audit Committee		Remuneration Committee		Risk Committee		Nomination and Governance Committee	
	Attended	**Total**	Attended	**Total**	Attended	**Total**	Attended	**Total**	Attended	**Total**
Executive directors										
Adrian Sainsbury[1]	6	**6**								
Mike Morgan	7	**7**								
Preben Prebensen[2]	1	**1**								
Non-executive directors										
Mike Biggs[3]	7	**7**			3	**3**			5	**5**
Oliver Corbett[4]	7	**7**	5	**5**	2	**2**	6	**6**	5	**5**
Peter Duffy[5]	6	**7**			3	**3**	6	**6**		
Lesley Jones	7	**7**	5	**5**	5	**5**	6	**6**	5	**5**
Bridget Macaskill[6]	7	**7**	3	**3**	5	**5**	6	**6**	5	**5**
Tesula Mohindra[7]	1	**1**								
Mark Pain[8]	5	**5**			3	**3**	4	**4**	3	**3**
Sally Williams	7	**7**	5	**5**			6	**6**		
Geoffrey Howe[9]	2	**2**	2	**2**	1	**1**	2	**2**	2	**2**

1 Adrian Sainsbury joined the board as chief executive at the conclusion of the board's meeting on 21 September 2020 and was not therefore eligible to attend all board meetings during the 2021 financial year as a director. However, before becoming a director, he attended all board meetings in the year in his previous role as Banking division managing director.
2 Preben Prebensen ceased to be a director at the conclusion of the board's meeting on 21 September 2020 after deciding to step down as chief executive as previously announced on 24 September 2019.
3 Mike Biggs became a member of the Remuneration Committee with effect from 1 March 2021.
4 Oliver Corbett stepped down as a member of the Remuneration Committee with effect from 1 March 2021.
5 Peter Duffy was unable to attend one meeting of the board due to a pre-existing commitment prior to the finalisation of the board's schedule for 2021. Peter became a member of the Remuneration Committee on 1 March 2021.
6 Bridget Macaskill stepped down as a member of the Audit Committee with effect from 1 March 2021.
7 Tesula Mohindra was appointed as an independent non-executive director and a member of the Risk and Audit Committees with effect from 15 July 2021.
8 Mark Pain was appointed as an independent non-executive director and a member of the Nomination and Governance, and Risk Committees with effect from 1 January 2021 and a member of the Remuneration Committee with effect from 1 March 2021.
9 Geoffrey Howe stepped down as a director at the conclusion of the company's AGM on 19 November 2020, as announced by the company on 22 September 2020.

additional ad hoc meetings during the year to discuss progress on the 2020 Annual Report and review the group's Recovery Plan. The Nomination and Governance Committee held five additional ad hoc meetings during the year to discuss, among other things, the non-executive director recruitment processes, and to consider and recommend to the board the appointments of Mark Pain, Tesula Mohindra and Patricia Halliday. The Remuneration Committee held four additional ad hoc meetings during the year to discuss, among other things, matters relating to compensation planning and changes to the Directors' Remuneration Policy. The Risk Committee held two additional ad hoc meetings during the year to review, among other things, the 2020 ICAAP and key changes to the Internal Liquidity Adequacy Assessment Process. These additional meetings are not reflected in the table on the previous page. Further information on the operation of the board during the Covid-19 pandemic can be found below.

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.

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 during the year on an informal basis to discuss matters relevant to the group.

All non-executive directors receive the papers for meetings of those board committees of which they are not a member, and have a standing invitation to attend those meetings as an observer.

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. This year, many of these opportunities have taken place remotely, and include 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.

Operation of the board during the Covid-19 pandemic

The board met regularly via video conference during the Covid-19 pandemic specifically to monitor the development of the pandemic and its impact on the group and key stakeholders, and to oversee the group's response. In addition to scheduled board meetings in the period (included in the table on page 80), the board held 10 ad hoc meetings during the financial year to oversee the operation and performance of the group during the pandemic or to consider other specific issues relating to Covid-19. During earlier phases of the pandemic in the previous financial year, the board met weekly at times but this moderated during the 2021 year.

The board's focus and agenda evolved during these meetings as the pandemic and its impact on the group moved into different phases. Throughout, a key priority for the board was consideration of the impact of the pandemic on key stakeholder groups, including employees, customers, clients, partners, suppliers and shareholders, and the directors received regular updates on developments relating to individual stakeholder groups. The meetings were also used to provide information on senior management's regular engagement with regulators and other external stakeholders.

The main areas considered by the board during the pandemic included:
- reviewing the operational and financial performance of the group and each of its divisions;
- close monitoring of the group's liquidity, funding and capital positions;
- the impact of the pandemic on the group's model and strategy;
- oversight and discussion of the group's operational and technology response to lockdown and, subsequently, planning for the return of employees to the workplace in line with government guidance;
- monitoring the impact of the pandemic on employees, including discussion of the results of, and actions taken by management in response to, all-employee wellbeing surveys throughout the pandemic;
- consideration of customer, client and partner matters, including oversight of the Banking division's approach to customer forbearance, through regular reviews of management information and dashboards;
- the Banking division's participation in HM Government's coronavirus loan schemes;
- monitoring and oversight of the group's control and risk framework, including consideration of issues arising from home working by employees and a "hybrid" working model as employees began to return to the workplace;
- evolving government guidance and regulations relating to the pandemic, including the impact on field and office-based employees;
- updates on guidance published by, and on management's engagement with, regulators;
- the need to adapt the format of the 2020 AGM in response to rapidly changing government guidance; and
- the review and approval of scheduled trading updates to the market, and discussion of associated disclosure considerations.

In addition, the non-executive directors have continued to meet via video conference with senior management outside formal board meetings to discuss the group's response to the pandemic and relevant developments. These meetings have included, among others, regular sessions between the chairman and the chief executive, the chair of the Audit Committee and each of the group finance director and the group head of internal audit, and the chair of the Risk Committee and the group chief risk officer.

During the pandemic the regular flow of high quality information to the board has been maintained. As the group's response to the pandemic has evolved, additional metrics and reporting have been provided to the board to ensure that it has access to all relevant information to enable it to effectively oversee the group's response and to assess the impact of the pandemic on the group's performance. Examples of additional information provided to the board have included regular reporting and data on customer forbearance, information on the Banking division's participation in HM Government's coronavirus loan schemes and updates on the group's approach to home working and, subsequently, the gradual return to the workplace.

The effectiveness of the board during the pandemic was specifically considered as part of this year's external board and committee evaluation. The evaluation concluded that the board continued to perform effectively throughout the pandemic and that it responded well to the external business challenges arising from Covid-19 as well as to its effect on employees. Further detail on the evaluation can be found on page 86.

Further information on the group's broader response to Covid-19 can be found in the Strategic Report at the beginning of this Annual Report.

Role of the board in relation to strategy and purpose

The board recognises its responsibility for establishing and monitoring the strategy and purpose of the group. During the year, a range of activities enabled the board to focus on these areas. These included two strategy sessions: the usual session held in May 2021, but also an additional session in December 2020 which presented a first opportunity for the board to discuss strategic issues in detail at a discrete session with the new chief executive, Adrian Sainsbury. These sessions covered a broad range of strategic issues, including the group's three-year strategic plan, matters connected with the pandemic, shareholder feedback during the year, opportunities for

Corporate Governance Report continued

individual businesses and people-related issues, including the results of the recent employee opinion survey and plans in relation to future ways of working.

In addition, the board considers strategic issues and the group's model as part of regular meetings throughout the year. At each scheduled meeting, group and divisional executives provide updates on performance against strategic goals and relevant developments in the wider market, including from a competitor or regulatory perspective. During the year, the board has held a number of "deep-dive" strategy sessions, each focused on an individual business. The board aims to cover each of the group's businesses at such a session on a rolling two-year basis.

In the 2021 financial year, the board spent time with management discussing the introduction of Our Responsibility as a core component of the group's model. As part of this, the board considered the group's broader responsibility to help address the social, economic and environmental challenges facing its business, colleagues and customers. Throughout the year, the board and its committees have discussed the connection between the group's responsibility, wider stakeholder considerations and its long-term positioning, including the link to attracting and retaining talent at all levels of the group's operations, supporting customers, clients and partners, and the group's continuing efforts towards reducing its impact on the environment.

In addition, during the year, the board discussed with management actions to build on the core strengths of the group's successful and differentiated business model through the next stage of its development. Among other things, this resulted in the decision that the group's strategic approach would focus on three objectives: to protect, grow and sustain the group's business model. Further information on this and the board's discussions can be found on page 41.

The Nomination and Governance Committee also discussed the chief executive's plans, which took effect in late 2020, to make changes to the group executive team. These included bringing the leadership of the Motor Finance and Premium Finance businesses together under the Retail CEO, Rebecca McNeil, as well as appointing Neil Davies as Commercial CEO, with responsibility for Asset Finance and Invoice and Speciality Finance. Rebecca and Neil, along with Frank Pennal, Property CEO, joined the Executive Committee, with all of the group's businesses now represented at this level.

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 to reflect, among other things, recent industry guidance, best practice and changes in applicable legislation. The chair of each committee reports regularly to the board on matters discussed at committee meetings.

All members of the board have access to the papers of all committees, and have a standing invitation to attend any committee meeting.

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.

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. The board discusses performance, strategic initiatives and developments in each of the group's divisions, including updates from divisional chief executives on 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 schedule of agenda items includes regular "deep-dives" into particular areas of importance to the board. These include quarterly updates in relation to customers, IT and culture, and half-yearly updates on whistleblowing and the portfolio of major investment programmes across the group. A key feature of these 'deep-dives' is an assessment and consideration of relevant issues relating to key stakeholder groups, including the outputs from engagement by the board and senior management.

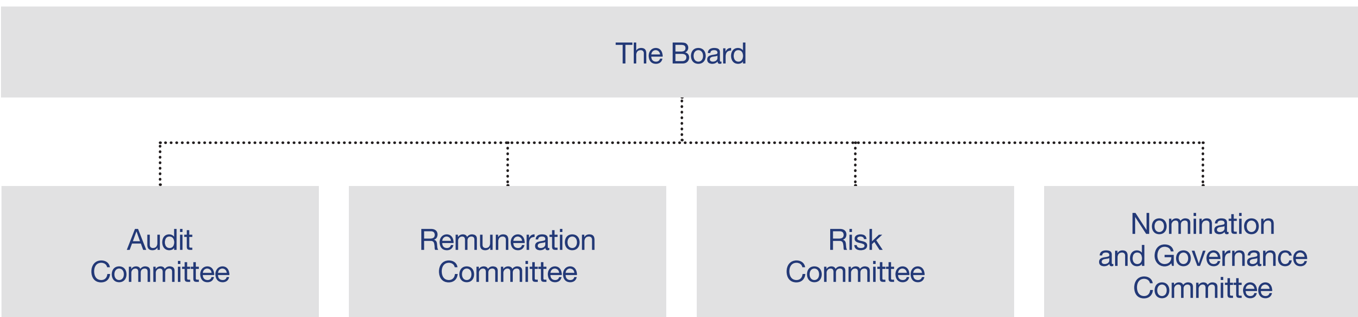
The directors receive detailed papers in advance of each board meeting. The board agenda is carefully structured by the chairman in consultation with the chief executive and the company secretary. Each director may review the agenda and propose items for discussion, with the chairman's agreement. Additional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

Each scheduled board meeting includes time for discussion between the chairman and the 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 group's response to, and the impact of, the Covid-19 pandemic;
- strategic aims and the performance of businesses across the Banking division, 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 requirements in relation to operational resilience;
- approval of the company's Tier 2 debt issuance;

Board Committee Structure



- review and approval of the group's budget and three-year strategic plan;
- strategic projects affecting the group and individual businesses, including the Motor Finance and Asset Finance transformation programmes, the group's LIBOR transition programme and the project to develop the models, systems and processes required to use the Internal Ratings Based approach for the calculation of regulatory capital requirements for credit risk;
- review and approval of the submission of the group's application to the PRA to use the Internal Ratings Based approach for the calculation of regulatory capital requirements for credit risk;
- updates on the progress of discrete workstreams arising out of the board's annual strategy days;
- consideration and approval of interim and final dividend proposals;
- oversight of developments relating to the company's subsidiary, Novitas including management's strategic review of the business;
- review and approval of the group's half-year and full-year results, together with quarterly trading updates to the market;
- IT and cyber matters, and associated projects;
- the group's culture and values 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 matters arising out of the Covid-19 pandemic;
- 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 external board and committee effectiveness evaluation.

Chairman and chief executive
In line with the UK Corporate Governance Code, the role of the 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 biography can be found on page 68. 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 Adrian Sainsbury, who succeeded Preben Prebensen at the end of the board's meeting held on 21 September 2020. His biography can be found on page 68. Adrian 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.

Adrian 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 70.

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 Oliver Corbett, Peter Duffy, Patricia Halliday, Lesley Jones, Bridget Macaskill, Tesula Mohindra, Mark Pain and Sally Williams. Mark, Tesula and Patricia joined the board on 1 January 2021, 15 July 2021 and 1 August 2021, respectively.

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 Mark Pain. 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 and senior management, 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 and time commitment
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.

As part of its consideration of non-executive independence, the board has given particularly rigorous consideration to the overlapping directorships held by Lesley Jones and Peter Duffy on the boards of the company and Moneysupermarket.com Group PLC. It has considered the nature of those directorships, and the character, behaviour, contribution and judgement of Lesley and Peter during the year. It has concluded that both Lesley and Peter continue to demonstrate independence as evidenced by, among other things, their contribution to board meetings and their continuing challenge of senior management.

Corporate Governance Report continued

The chairman, Mike Biggs, was considered to be independent on appointment in line with the provisions of the Code.

The company has 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 require them to seek prior board approval before they take on additional commitments.

Lesley Jones was appointed to the board of Sainsbury's Bank as chair on 29 January 2021, and joined the board of Moneysupermarket.com Group PLC on 1 September 2021 as an independent non-executive director. As required by the Code and in advance of Lesley taking on each directorship, the board reviewed the proposed role, including the time commitment and whether it presented any potential conflict of interest for the group. In each case following that review, the board was satisfied that neither of the proposed appointments would restrict Lesley from carrying out her duties and responsibilities as a director of the company (including as chair of the Risk Committee), and accordingly it approved the appointments.

During the year, the board also considered the proposed appointment of Adrian Sainsbury as a director of the financial services trade body, UK Finance. Among other things, the board considered the nature of the role and the anticipated time commitment. It was satisfied that the appointment would not adversely impact Adrian's role as chief executive and considered that there were benefits to the group from Adrian taking up the position. Accordingly, it approved the proposed appointment, which took effect on 1 February 2021. Adrian's role with UK Finance is not remunerated.

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 2020 AGM. Further detail regarding these authorisations is set out on pages 71 and 72.

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 non-executive directors' letters of appointment were reviewed by the Nomination and Governance Committee during the year to ensure compliance with the Code and best practice.

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 2021 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 be reappointed by shareholders at the 2021 AGM.

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, market, risk and governance framework within which it operates, and to meet any specific development requirements identified during the recruitment process. The company also provides bespoke inductions for directors when they are appointed as a committee chair 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' responsibilities and the Senior Managers Regime, together with a range of relevant current and historical information about the group and its business. A key aim of the induction is to ensure that new board members are equipped to contribute to the group and the work of the board as quickly as possible.

Directors provide input on how their individual inductions should be tailored both in terms of content and structure. The company secretary engages regularly with individual directors as their inductions progress, and, once they have served on the board for a period, seeks their input on any further induction or development requirements they may have. The chairman also discusses induction plans, and training and development more broadly, with new joiners as part of regular one-to-one meetings.

Tailored induction programmes have been completed or commenced for the three new non-executive directors who joined the board in the last year. Relevant activities are continuing for Tesula Mohindra and Patricia Halliday who only joined the board in July and August 2021, respectively. These programmes have included, or will include, detailed meetings and briefings with members of the board and the Executive Committee, the head of operational risk and compliance, the head of group internal audit, the chief credit risk officer, the director of investor relations and corporate development, and the group's external auditor. The new directors have also met other senior managers from across the central and control functions (including risk, finance and IT). Specific topics covered in these sessions include 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, they each 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.

There is a central training programme in place for the directors, which is reviewed at least annually 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, attendance at external seminars and dedicated briefings from management and external advisers covering topics such as climate change, regulatory developments and horizon-scanning, corporate governance changes, accounting updates, the regulatory Senior Managers Regime, cyber, changes in remuneration regulation and practice, and the Internal Ratings Based approach for the calculation of regulatory capital requirements for credit risk. 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.

Culture and Values

The board recognises the importance that culture and values play in the long-term success and sustainability of the group, and the role of the board in establishing, monitoring and assessing culture. The board also acknowledges the importance of individual directors, and the board as a whole, acting with integrity, leading by example and promoting the desired culture.

The ongoing assessment of the contribution of culture and values to the group's long-term success remains a key focus for the board. The board also spends time monitoring, and satisfying itself as to, the alignment of the group's purpose, values and strategy with its culture. During the year, the board monitored, assessed and promoted the group's culture, including in the following ways:

- review and discussion by the board of a quarterly culture dashboard, setting out an assessment of culture, and culture and conduct metrics, across the group and each of its divisions from the perspective of customers, people and control;
- regular updates to the board on external guidance and insight on culture, including from regulators and industry bodies, which are used by the board to benchmark the group's approach and plans;
- discussing feedback received from employees across the group in regular employee opinion surveys. This year, surveys included specific questions in the areas of culture and inclusivity, together with surveys during the Covid-19 pandemic on employee wellbeing;
- updates on activities across the group in relation to culture and values, including employee training programmes, activities in relation to the group code of conduct, the Close Brothers Way, and other initiatives;
- following the activities of employee networks considering discrete areas in relation to diversity and inclusion, including gender, ethnic diversity, LGBTQ+, disability, working parents and carers, mental wellbeing and social mobility;
- inclusion of culture-related objectives as part of the executive directors' balanced scorecard assessed by the Remuneration Committee, further detail on which can be found in the Directors' Remuneration Report later in this Annual Report;
- continuing to focus on rewarding and investing in the group's employees, including discussions by the Remuneration Committee in relation to gender pay reporting and a strong focus on employee considerations as part of board decision-making and oversight;
- consideration of culture, behaviour and conduct issues by the Remuneration Committee;
- discussion of cultural and behavioural attributes by the Nomination and Governance Committee as part of regular talent reviews and succession planning;
- reviewing the group's whistleblowing arrangements by which employees can raise concerns in confidence and, if they wish, anonymously;
- the Risk Committee's regular review of a conduct risk dashboard covering an assessment of relevant issues and developments for each of the group's divisions;
- considering the impact of Covid-19, including for employees working from home during the UK lockdown, on the group's culture and on the wellbeing of employees, together with oversight of actions taken by management to support employees and deliver great customer outcomes;
- discussing culture and conduct issues arising out of specific activities and programmes being undertaken by the group, including the conduct implications of the group's activities in relation to the transition away from LIBOR and the cultural implications of significant transformation programmes and other strategic initiatives;
- regular direct engagement with employees as part of the board's employee engagement programme, including site visits (whether in person or virtual) and participation in employee meetings;
- supporting and participating in training and development programmes for employees; and
- encouraging and enabling eligible employees to participate in schemes to promote share ownership. Eligible employees are able to participate in the group's Save As You Earn ("SAYE") and Buy As You Earn ("BAYE") schemes, which provide cost-effective opportunities for employees to acquire shares in the company.

The activities described above have allowed the board to monitor effectively the group's culture during the year and to ensure that culture continues to be aligned with the group's purpose, values and strategy. In the year, the board and its committees considered the role and impact of culture as part of individual decisions and its oversight of the group's operations. This included discussions in the context of investment planning, the response of the group and its employees to ongoing challenges presented by the pandemic and preparations for the gradual return of employees to the workplace in line with government guidance. Considerations relating to culture and values have also formed an important part of the board's discussions on the group's strategy, model and purpose, including in the context of M&A opportunities considered by the group.

Whistleblowing

The board has responsibility for oversight of the group's whistleblowing arrangements. It monitors the operation and effectiveness of these arrangements and ensures that processes are in place for the proportionate and independent investigation of matters raised through the mechanisms available to the workforce and for follow-up action.

Among other things, the board discharges this responsibility through the provision of at least half-yearly updates by the group head of compliance. These updates include:

- an overview of the group's whistleblowing arrangements and an assessment of their effectiveness;
- information on steps taken by the group to ensure the protection of those using the group's whistleblowing arrangements; and
- a summary of whistleblowing events, including outcomes and any follow-up actions.

In addition, the board appoints one of the directors to act as the group's whistleblowing champion. This is currently Oliver Corbett. As part of his role, Oliver engages with the group head of compliance regularly in relation to whistleblowing matters during the course of the year.

Corporate Governance Report continued

Board and Committee Effectiveness

Annual board and committee evaluation

The board undertakes a formal and rigorous evaluation of its effectiveness and the performance of the whole board, its individual directors and its committees annually. During the year, in accordance with the Code, the board appointed an external evaluator to carry out an independent review of its effectiveness and that of its committees. The Nomination and Governance Committee considered a short list of potential external evaluators drawn up by the company secretary and appointed Margaret Exley CBE of SCT Consultants to undertake the evaluation. Ms Exley also carried out the previous external evaluation in 2018, and the Committee agreed that, given her existing knowledge of the board and the group, it would be advantageous for her to carry out a further review in order to assess the development of the board in the intervening three years and to review progress against the recommendations she made in 2018. Ms Exley has a small shareholding in the company which she acquired prior to her engagement to carry out the 2021 evaluation, but otherwise neither Ms Exley nor SCT Consultants has any connections with the company.

The scope and timing of the evaluation were discussed by the Nomination and Governance Committee, and the chairman and company secretary then discussed the process to be followed with Ms Exley.

Each of the directors and the company secretary completed a confidential questionnaire and then held one-to-one interviews with Ms Exley. In advance of these sessions, Ms Exley was provided with a wide range of documents and other information in response to a request list and observed a meeting of the board.

The evaluation focused on a range of different areas relevant to board effectiveness and corporate governance, including:

- the role and composition of the board;
- strategy;
- oversight of business performance;
- culture, purpose and values;
- management of the work of the board;
- board behaviours;
- the operation of the board during the Covid-19 pandemic;
- the work and contribution of committees;
- stakeholder engagement and wider societal impact; and
- risk management.

Ms Exley presented her report to the board for discussion at its meeting in July 2021.

The overall conclusion of the evaluation was that the board and its committees remain strong and effective, with clarity on their role and purpose. Ms Exley noted the evolution of the board since her previous evaluation in 2018, and that its membership had been further strengthened. The evaluation noted that each of the recommendations raised in 2018 had been addressed and that, as a result, the board's practices had improved in a number of areas. Ms Exley observed that the board has responded well to the pandemic, with strong oversight of the resulting external business challenges and the impact of Covid on employees and other stakeholder groups.

In terms of the operation of the board, the evaluation found that the board is chaired well, demonstrating rigour and focus in its work, whilst creating an atmosphere of inclusivity and openness, combined with constructive challenge, which allows for diversity of opinion. Ms Exley found that board processes, including agenda management and follow-up actions, are very effective.

As regards the activity of the board, the evaluation concluded that the board has sustained high levels of performance in terms of its oversight of the business, strategy development and stakeholder engagement. Among other things, Ms Exley highlighted the board's strong focus in relation to culture and risk management.

The evaluation concluded that the board's committees are chaired very effectively and demonstrate deep professionalism in the way their work is managed. The report noted, in particular, actions taken since 2018 to streamline the membership of certain committees, which has enabled more focus and a better division of workload between directors.

The board welcomes the positive conclusions of the evaluation and will focus during the next financial year on the recommendations made by Ms Exley in a small number of areas, with the aim of further improving the effectiveness of the board and its committees in the years ahead. The recommendations made in this year's evaluation include: further enhancing the richness of customer-related data presented to the board about individual businesses; in addition to the existing strong work of the Nomination and Governance, and Remuneration Committees, including an annual review of the group's talent management strategy as part of the full board's agenda; continuing to inform and educate directors in relation to cyber risk, digitisation and the changing economic and financial context within which the group operates, as part of its ongoing training and development programme; and following changes to board committee membership, continuing to ensure that where committees do not have all non-executive directors sitting on them, a full report is provided to the full board on relevant discussion points and decisions.

The board also considers that improvements have been made in the areas identified for improvement in the internal evaluations undertaken in the previous two years, including in relation to the further streamlining of board and committee papers, the provision of additional training and development sessions in particular areas and in continuing to capture positive learnings from the operation of the board during the pandemic.

Directors' performance

During the financial year, the chairman holds regular meetings with individual directors at which, among other things, their individual performance is discussed. Informed by the chairman's continuing observation of individual directors during the year, 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, 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, group finance director and other members of senior management. 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. Consideration of matters relating to fitness and propriety also form an important part of the board's recruitment process for non-executive directors.

Risk, Audit and Internal Control

An explanation of how the board and the group comply with the requirements of the Code in relation to risk and control matters is set out in the Risk Report on pages 56 to 67 of this Annual Report.

The report of the Risk Committee, setting out further information on its role, responsibilities and key activities during the year, starts on page 89.

Acting under delegated authority from the board, the Audit Committee oversees matters relating to audit and financial control, including accounting policies, the board's relationship with the external auditor and oversight of the group's internal audit function. Further details on the Audit Committee's role, activities and its relationship with the external and internal auditors can be found in the Committee's report on pages 91 to 93 of this Annual Report. Further information on financial control matters can also be found in the Risk Report on page 58.

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.

	20 September 2021 Voting rights	31 July 2021 Voting rights
Standard Life Aberdeen plc	**13.64%**	13.64%
M&G plc	**5.73%**	5.73%
Aviva plc and its subsidiaries	**4.99%**	4.99%
Royal London Asset Management	**4.99%**	4.99%

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

Engagement with 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, partners, regulators, employees and suppliers.

Further detail on the company's stakeholders and examples of how the board has considered stakeholder interests, as well as the company's section 172 statement, can be found in the Strategic Report on pages 36 to 41.

The sections below describe the board's approach to engagement with employees and shareholders. Further information about how the directors have engaged with employees, and had regard to employee interests, and how the directors have had regard to the need to foster the company's business relationships with suppliers, customers and others, and the effect of this on the principal decisions taken by the company during the financial year, can be found in the Strategic Report on pages 36 to 41.

During the year, as part of the group's responsibility to wider society, the board discussed the group's charitable efforts and community activities, including donations of £100,000 each to two charities facing challenges in the wake of Covid-19: the children's literacy charity, Bookmark; and the foodbank charity, The Trussell Trust. Both charities make a material difference to children's and families' lives throughout the UK, and these donations were made in support of the vital role they play in helping some of the most vulnerable in our communities.

Engagement with Employees

As permitted by the Code, the board has 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 Code. The board believes that there is 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 is managed 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.

The board acknowledges the benefits of meaningful "two-way" engagement between the directors and senior management (on the one hand) and employees (on the other hand). To this end, the board and senior management provide employees with regular information on matters of interest or concern to them and consult with them or relevant representatives in order to take their views into account when making relevant decisions which are likely to affect their interests. Examples of engagement and consultation in the year have included considerations in relation to the group's preparations for the entry of the UK into lockdowns during the Covid-19 pandemic and planning for the return of employees to the workplace following the lifting of restrictions in line with government guidance. In addition, engagement with, and consideration of the interests of, employees continues to form a significant part of the board's oversight of major transformation programmes across the group.

The directors undertake a range of direct and indirect employee engagement activities during the year to ensure that they are aware of relevant issues and considerations as part of their decision-making and oversight activities. The directors have opportunities throughout the year to discuss their own observations following engagement activities and also to feed back comments raised with them by employees. The board considers that its employee engagement activities during the year have been effective.

Employee engagement activities undertaken by the board in the 2021 financial year included:
- detailed discussion of the results, themes and next steps arising out of the group's employee opinion survey, including pulse surveys conducted during the Covid-19 pandemic with a particular focus on employee wellbeing and health considerations;
- attendance at committees and other forums below board level to understand employee-related issues and priorities;
- reviewing the quarterly culture dashboard;
- site visits by non-executive directors to meet employees at different levels of the group's operations. Whilst fewer site visits have taken place this year due to the Covid-19 pandemic, the board looks forward to resuming fully its programme of visits when it is safe to do so in line with government guidance;
- participation by directors in programmes and initiatives operated for different groups of employees, including training and development programmes;
- participation by executive and non-executive directors in Q&A sessions with employees;
- attendance or participation in business and other functional Town Hall sessions; 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 and updates on the impact of Covid-19.

The board recognises that the activities above are important in helping to achieve a common awareness on the part of all employees of the financial and economic factors affecting the performance of the company, and in contributing to a better understanding of the group's activities, purpose and strategic aims, and ultimately, the long-term success of the company. Throughout the year, both as part of its oversight of business performance and developments, and in the context of strategic discussions, individual board members have provided insight from their own engagement with employees across the group. This insight makes a meaningful contribution to the board's discussions and decision-making. By way of example, the Remuneration Committee has considered points arising from the employee opinion survey undertaken in the year in its discussions in relation to compensation, and members of the Nomination and Governance Committee have discussed their own observations from employee engagement activity as part of the committee's oversight of diversity and inclusion initiatives around the group.

Corporate Governance Report continued

In addition, the board spent time in the year considering employee-related actions and proposals in response to the pandemic. These discussions were informed by the results of different employee engagement activities and included extensive consideration of the group's plans for future ways of working in light of the pandemic and other trends.

The board supports and encourages the involvement of employees in the company's performance through two types of share benefit operated by the group: a sharesave scheme (SAYE) and a share incentive plan (BAYE). Both schemes are open to eligible employees who have completed six months' continuous employment with the group. During the year, the Remuneration Committee has considered data showing the participation of employees in the schemes and discussed steps to further improve participation levels.

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 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 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 chief executive and group finance director engage with the group's major institutional shareholders on a regular basis. In addition, the chairman meets 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 chair of the Remuneration Committee takes part in consultations with major institutional shareholders on remuneration issues from time to time, including an extensive consultation in recent months with the company's major shareholders as part of the Committee's review of the Directors' Remuneration Policy to be submitted to shareholders for approval at this year's AGM. The chairs of the board's other committees will periodically seek engagement with shareholders on significant matters that arise relating to their areas of responsibility and are available for engagement with shareholders at other times.

Periodically, the group runs seminars covering different aspects of its business to provide additional detail to investors and analysts. In June 2021, the group hosted a group-wide online event for investors and analysts, in which the chief executive provided further details on the group's strategy and other members of the executive team presented on their businesses and how they are delivering the group's strategy. The session involved extensive Q&A with attendees, covering a wide range of areas. 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 engages with leading institutional shareholder bodies and proxy advisers during the year. Once again throughout the year, the IR team has responded to a range of enquiries and points of feedback raised by shareholders, including in relation to ESG issues.

Annual General Meeting

The directors regard the company's AGM as an important opportunity for shareholders to engage directly with the board. Unfortunately, in 2020 government restrictions during the pandemic meant that it was not possible for shareholders to attend the AGM other than those forming the minimum quorum which was facilitated by the company. At all times in relation to the 2020 AGM, the board's priority was to protect the wellbeing of employees, shareholders and the wider community. The board was mindful of the value that shareholders place on hearing presentations from the board on the group's performance and strategy. Accordingly, a video presentation from the chief executive was made available ahead of the meeting and shareholders were encouraged to submit questions about the business of the meeting to the company secretary. Each of the questions submitted received an individual response. In normal circumstances, all members of the board would typically attend the AGM; however in 2020 only the chairman attended, in line with government guidance. Shareholders were strongly encouraged to cast their votes on the AGM resolutions by proxy and it was pleasing to note that shareholders representing nearly 80% of the share register voted in this way.

The board hopes that the company will be able to return to a more typical AGM this year. The AGM is scheduled to take place on 18 November 2021. Following shareholder approval to amend the company's articles of association at the 2020 AGM, the company currently intends to hold a "hybrid" meeting that enables shareholders to attend and participate in the business of the meeting either in person or online. Further details will be set out in the Notice of AGM sent to shareholders in due course but the company believes that this new form of meeting will allow more shareholders to join the meeting and discuss the performance of the group with the board. The board acknowledges the importance of shareholders receiving presentations from the board at the meeting and being able to ask questions on the business of the AGM and the performance of the group. The company will provide a means for them to ask questions of the directors.

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.

By order of the board

Alex Dunn
Company Secretary

28 September 2021

Risk Committee Report

Lesley Jones Chair of the Risk Committee

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.

Chair's Overview

Looking back over the last 12 months, I am pleased with the way in which the group has been able to manage risk effectively as we continue to operate in this Covid environment. Notwithstanding all of the challenges associated with the pandemic, including home working and a heightened regulatory focus on customer outcomes which we have delivered upon, we have continued to progress against the broader regulatory agenda, in particular with regard to climate risk, conduct risk, operational resilience, cyber risk and outsourcing/third party risk.

During the year, we have leveraged our pre-prepared and business-tailored playbooks to good effect to support both risk management and business delivery in line with strategy. These playbooks continue to be refined and remain a key component of our risk management framework.

In common with other firms, we have matured in our approach to remote working as a steady state and have updated our control frameworks in response to the associated change in risk profile that this presents. The investment made over recent years to enhance our risk management systems and risk reporting infrastructure has continued to serve us well in this environment.

The Committee and the group board have continued to receive regular and timely updates on our operations, liquidity and balance sheet, supporting the ability of the directors to address the challenges presented by the pandemic. These include issues associated with elevated levels of forbearance, most notably ensuring positive customer outcomes and adhering to our conduct risk responsibilities.

I remain confident that we are well placed to meet the challenges and uncertainties ahead.

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).

The Committee undertakes a robust assessment of both the principal and emerging risks facing the group over the course of the year, and reviews reports from the risk and compliance function on the processes that support the management and mitigation of those risks. As part of the ongoing review process, a specific assessment of the principal risks and emerging risks and uncertainties facing the group is also carried out by the board, including those that would threaten its business model, future performance, solvency or liquidity. A summary of the group's principal risks and emerging risks and uncertainties is provided on pages 60 to 67.

Risk Committee Report continued

Membership and Meetings

The Committee comprises all Close Brothers Group independent non-executive directors and myself as chair.

In addition to the regular updates received by the Committee during the Covid-19 lockdown, eight meetings were held during the year (six scheduled and two ad hoc). Full details of attendance by the non-executive directors at scheduled meetings are set out on page 80. 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.

Committee Effectiveness

As described in more detail on page 86, an 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 results confirm that the Committee is operating effectively. 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 2021 Financial Year

The risk function continues to evolve with the three lines of defence model now well established and a mature and effective risk management framework in place. The risk design has been strengthened further with both the recruitment and development of additional skills and resource, particularly in the areas of conduct and compliance, operational resilience, data governance and cyber risk.

The Committee has delivered on all of its planned objectives for the year. In particular, the risk appetite framework continues to evolve, as does the quantitative analysis that 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.

Given the ongoing pandemic, the Committee has focused strongly on those areas most current to circumstance, in particular operational risk status, cyber protection, credit impairment/model performance and governance of third party risk.

The group's use of finance and risk models continues to evolve at pace with the ongoing development of credit and impairment models. This is in line with our IRB application which was submitted as planned during the financial year. We have also seen the continued embedding and use of the model risk framework and governance structure with particular focus at the Committee on the performance of our model suite at this point in the cycle. 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. Risk infrastructure is either in place or being developed to support this, including a data warehouse and model hosting platform.

Focus on cyber crime has increased as we remain alert to the risk, with the Committee receiving regular updates over the course of the year with the support of external parties where appropriate. We continue to upgrade our detection and monitoring capabilities and our overall posture.

We have also continued to review the risks presented by climate change and have received various updates throughout the year on the group's progress in developing a regulatorily-compliant climate risk framework. This remains an area of heightened focus, both within the group and across the industry more broadly, and we continue to track emerging best practice ahead of our planned alignment with TCFD recommendations in 2022.

Ensuring that we are fully compliant with the numerous and ever-changing regulatory requirements for financial services firms remains challenging. We 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. This is of particular importance in our retail businesses where customer conduct and affordability rules have increased their reach. Over the course of the last year we have continued to evolve our conduct risk reporting framework with regular updates provided to the Committee.

The Committee has also received an update on the status of the Senior Managers and Certification Regime ("SMCR") framework in place across the group, with work currently ongoing to further embed and enhance our practices in this area.

Over the course of 2021, the Committee has also exercised oversight of Novitas. This has included review of the effectiveness of local and group-level risk and control governance, together with challenge and discussion on both the financial and non-financial risks in the business.

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 2022

The year ahead promises to be another challenging one for the Committee. The longer-term outcomes of the pandemic, including associated economic impacts, remain uncertain and will require close attention. Notwithstanding, we will not lose sight of the longer-term plans that we have for continuous improvement, namely:

- Continuing the development of an effective and regulatorily-compliant climate risk framework, including alignment with TCFD recommendations.
- As part of the IRB programme, continued review and assessment of the group's modelling capabilities, including the further development of the models strategy.
- Close monitoring of operational risk impacts alongside refinement and advancement of the group's operational resilience framework.
- A focus on third party risk, including alignment with new and evolving regulation.
- Further evolution of the conduct risk framework and broader emphasis on ensuring positive customer outcomes.

Lesley Jones
Chair of the Risk Committee

28 September 2021

Audit Committee Report

Oliver Corbett Chair of the Audit Committee

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. The Audit Committee has a key role in ensuring oversight of financial reporting and the control environment.

Chair's Overview

The work undertaken by the Committee to discharge its responsibilities is set out below.

The Committee has again had a full agenda and continued to focus on the key matters across its principle roles and responsibilities, including overseeing the additional and ongoing impacts of the Covid-19 pandemic. Focus has been given to challenging the key accounting judgements across the group, assessing the integrity and fair presentation of the group's external financial reporting and reviewing the maintenance and effectiveness of the group's internal control framework. The Committee has also monitored the activities and performance of internal and external audit, along with oversight of non-audit services.

Further details on this work and other key areas are set out in the sections below.

Membership and Meetings

The Committee comprises solely of independent non-executive directors, being Lesley Jones who chairs the Risk Committee, Sally Williams, Tesula Mohindra who joined the Committee in July 2021, Patricia Halliday who joined the Committee in August 2021 and me as chair. During the year, at the Annual General Meeting in November 2020 Geoffrey Howe did not seek reappointment having served as a director for more than nine years, and in March 2021 Bridget Macaskill stepped down from the Committee as part of wider committee membership changes. More details on this change can be found on page 95. I would like to extend my thanks to Geoffrey and Bridget for their extensive contribution.

The qualifications of each of the members are outlined in the biographies on pages 68 and 69. The Committee brings a diverse range of experience in finance, risk, control and business, with particular experience in the financial services sector. The composition of the Committee satisfies the relevant requirements of the UK Corporate Governance Code. The board has confirmed that the members of the Committee have the necessary expertise required to provide effective challenge to management. The board also considers that I have the appropriate recent and relevant experience.

The Committee held five scheduled meetings during the year with dates fixed around the group's financial reporting schedule. In addition, it held two ad hoc meetings to consider an interim update on the 2020 Annual Report & Accounts and to review the group's 2020 recovery plan. Additional informal meetings and discussions were held as appropriate. Details of members' attendance are set out on page 80. I provide the board with a formal update on the key matters discussed at each meeting of the Committee.

In addition to the Committee members, standing invitations are extended to the chairman of the board and all other directors. The group head of internal audit, the group head of compliance, the group chief risk officer and the group financial controller also 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 page 86, an external evaluation of the board and its Committees was undertaken during the year in line with the requirements of the UK Corporate Governance Code. The results confirm that the Committee is operating effectively. The Committee considers that it continued to have access to sufficient resources to enable it to carry out its duties during the year.

Audit Committee Report continued

Activity in the 2021 Financial Year

Key accounting judgements

The Committee spent considerable time reviewing the interim report and Annual Report. The Committee discussed and challenged the key areas of accounting judgement taken by management in preparing the financial statements and the external auditor's work. This also included consideration of the internal controls over financial reporting. The Committee noted that there were no new material standards, or amendments to standards, relevant to the group that had become effective for the reporting period.

The key judgement areas were largely unchanged from the prior year, reflecting the group's adherence to its business model and consistency of its approach to financial reporting. Covid-19 has required the Committee to discuss at length with management the continued appropriateness of the conclusions reached during the 2020 financial year, and the implications on reporting in 2021.

The main areas of focus are outlined below. Each of these matters were discussed with the external auditor and, where appropriate, have been addressed in the external auditor's report.

IFRS 9

Given the materiality of the group's loan book, ensuring the group's expected credit loss ("ECL") models and the related IFRS 9 judgements and disclosures are appropriate remains a key priority for the Committee, particularly given the ongoing impacts of the Covid-19 pandemic. Regular updates were provided to the Committee.

During the year, and with consideration to Covid-19, the Committee challenged the level of provisions held by the group, and the judgements and estimates used to calculate these provisions. Particular focus was given to:

- the significant increase in provisions against the Novitas loan book reflecting updated assumptions for case failure and recovery rates in this business;
- the impact of lockdown restrictions, the reopening of the UK economy, government support measures and the planned end of such measures to the specific circumstances of the group's businesses and customers, including the distinction between retail and commercial portfolios;
- the ongoing use and approval of heightened levels of model adjustments, and the evolution of these adjustments during the course of the financial year;
- the high level of estimation uncertainty in setting forward-looking macroeconomic assumptions; and
- management's model enhancement plan which this year focused on the Asset Finance and Invoice Finance businesses.

Credit risk and provision disclosures were discussed to ensure they were clear and gave a transparent articulation of the group's credit risk profile, key drivers of the expected credit loss charge and the approach taken in light of Covid-19. In the next financial year, the Committee will continue to monitor IFRS 9 provisions and disclosures.

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.

Other Financial Reporting and Control Matters

Going concern and viability statement

The Committee assisted the board in determining the appropriateness of adopting the going concern basis of accounting and in performing the assessment of the viability of the group. The Committee reviewed a paper from management in support of the going concern basis and the longer-term viability of the group.

The Committee assessed the proven stability of the group's business model which is supported by a diverse portfolio of businesses, the results of internal stress testing, and that the group is strongly capitalised, soundly funded and has adequate access to liquidity.

The Committee discussed the group's principal risks as well as the Covid-19 pandemic which may affect the future development, performance and financial position of the group. The Committee considered whether a period of three years remained appropriate for the viability statement, particularly when taking into account changes in the economic, technological and regulatory environment.

Overall the Committee concluded that it remained appropriate to prepare the accounts on a going concern basis, advised the board that three years was a suitable period of review for the viability statement, and recommended the viability statement to the board for approval, set out on pages 74 and 75.

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. During this review the Committee carefully considered the clarity and coherence of disclosures made in respect of the impact of Covid-19, the strategic review of Novitas and resulting impairment, the significant increase in credit provisions in Novitas due to the latest case failure and recovery rate assumptions, the classification and disclosure relating to the VAT refund and climate risk.

The Committee considered the presentation of the financial statements and 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.

Impairment of goodwill and intangible assets acquired on acquisition

The Committee was presented with the annual goodwill impairment review and, except for Novitas, was satisfied that there were no impairment indicators. A detailed presentation on the impairment indicators, methodology and underlying assumptions used to determine the full impairment of goodwill and intangible assets acquired on acquisition in respect of Novitas was also reviewed. The Committee challenged the appropriateness of the assessment, including discussing the outcome with the group's auditor, and concluded the approach was reasonable.

Whistleblowing champion

I act as the group's Whistleblowing 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. Further information on the board's activities in this area can be found on page 85 of the Corporate Governance Report.

Restoring trust in audit and corporate governance

The Committee has, and will continue to, evaluate the impact of the Department for Business, Energy and Industry Strategy ("BEIS") consultation and resulting proposals for restoring trust in audit and corporate governance on the group.

Other policies

The Committee has also reviewed and approved the approach to hedging for share awards and the policy for the provision of non-audit services by the external auditor, as well as noting the group's tax policy.

Internal Audit
The Committee reviewed, challenged and approved the annual internal audit plan, and amendments made during the course of the year. It received regular reports on internal audit activities across the group detailing areas identified during audits for strengthening across the group's risk management and internal control framework. 26 audits were distributed to the Committee during the financial year. All audits were summarised at meetings of the Committee together with an update on the status of issues identified by internal audit.

The Annual Internal Audit Assessment, which found the governance and risk and control framework of the group to be generally effective, was received by the Committee in accordance with the Chartered Institute of Internal Auditors' guidance.

The Committee completed its annual review of the effectiveness of the internal audit function and its level of independence. The evaluation for the year under review was completed internally and supported by feedback from stakeholders across the group. The internal audit function was found to be working to all applicable internal auditing standards.

In addition to reviewing the internal audit function's effectiveness, the Committee assessed the level of internal audit resource and the appropriateness of the skills and experience of the internal audit function. The internal audit function appointed a head of technology and change auditor and recruited more auditors to reduce its reliance on the co-source provider for all but highly specialist knowledge and experience.

External Audit
The Committee oversees the relationship with PricewaterhouseCoopers LLP ("PwC"), its external auditor, covering engagement terms, fees and independence. Both the Committee and the external auditor have policies and procedures designed to protect the independence and objectivity of the external auditor.

Following a tender process in 2017, PwC has been auditor to the group since 1 August 2017. Mark Hannam has been the group's lead audit partner from this same date and attends all meetings of the Committee.

During the year the Committee reviewed the external audit plan as well as the resulting findings. Principal matters discussed with PwC are set out in their report on pages 126 to 133.

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;
- the senior leadership of the audit team;
- the quality of service including consistency of approach and responsiveness; and
- the response to Covid-19.

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 it was satisfied with the auditor's performance and recommended to the board a proposal for the reappointment of the auditor at the company's AGM.

Statutory Audit Services Compliance
The company confirms compliance with the provisions of the Statutory Audit Services for Large Companies Market Investigation (Mandatory Use of Competitive Tender Processes and Audit Committee Responsibilities) Order 2014 for the year to 31 July 2021.

Subject to shareholder approval, PwC will undertake the audit of the company and the group for the year ended 31 July 2022. There are no plans as at the date of this report to conduct a tender exercise for external audit services.

Non-Audit Services
The Committee oversees the group's policy on the provision of non-audit services by the external auditor, which incorporates the Financial Reporting Council's Revised Ethical Standard from March 2020.

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 the service complies with the group policy and where:
- the 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.

This year the regulatory cap on the annual value of non-audit services being 70% of the average of three years' audit fee has become mandatory, being the fourth financial year following the change of auditor.

During the year, total audit fees amounted to £2.6 million (2020: £2.0 million) while total non-audit fees including those relating to services required by legislation amounted to £0.7 million (2020: £0.5 million), representing 27% (2020: 26%) of the current year audit fee. This included non-audit services not required by law of £0.3 million (2020: £0.2 million), 12% (2020: 10%) of the audit fee, predominantly relating to the review of the group's interim financial statements and third party assurance over certain Asset Management division internal controls. 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
Chair of the Audit Committee

28 September 2021

Nomination and Governance Committee Report

Chair's Overview

On behalf of the board, I am pleased to present the report of the Nomination and Governance Committee for 2021. The report sets out an overview of the Committee's roles and responsibilities, and its key activities during the year.

In the 2021 financial year, non-executive succession and recruitment has been an important focus for the Committee. The Committee adopts a proactive and structured approach to succession planning. In the appointments made in the year it has remained mindful of board changes that will naturally occur in the years ahead as directors reach the end of their terms and the need to ensure continuity of knowledge and experience among the board as a whole.

During the year, the Committee oversaw the processes for the appointment of three new independent non-executive directors: Mark Pain, who joined the board on 1 January 2021; Tesula Mohindra, who joined the board on 15 July 2021; and Patricia Halliday, who joined the board on 1 August 2021. Mark joined the board as the company's senior independent director ("SID"), taking over from Geoffrey Howe who stepped down from the board at the AGM in November 2020 following more than nine years as a director. A description of the processes that resulted in the appointments of Mark, Tesula and Patricia can be found below. 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.

Following Mark's appointment as a director, the Committee reviewed the membership of the board's committees and recommended a number of changes. The board has moved away from its previous model which saw all non-executive directors serve on all of the board's committees. We consider this new approach to be more effective and the change is in line with a recommendation from the previous external evaluation of the board's effectiveness in 2018.

The Committee spent time considering succession planning and talent management for roles below board level. Once again this year, it has monitored activities and initiatives to develop the group's talent pipeline and improve gender and other diversity among senior management. The Committee reviewed the skills and experience of the non-executive directors to ensure that the board continues to be able to perform its role effectively. In light of this and other activities in the year, it recommended to the board that all serving directors be reappointed at the 2021 AGM.

The Committee has closely monitored sustainability and environmental, social and governance ("ESG") developments relevant to the group, including consideration of points arising from engagement with shareholders and other stakeholders in these areas. These will continue to be key areas for the Committee and the board as a whole in the coming years.

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 and time commitment of the non-executive directors.

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

Key Activities in the 2021 Financial Year

During the year the Committee's activities included:
- considering board composition and succession, including searches for a new SID and other non-executive roles;
- assessing the composition of each of the board's committees;
- reviewing talent and executive management succession planning, including oversight of activities to support and encourage the development of a diverse and inclusive talent pipeline;
- the annual review of the board diversity and inclusion policy;
- oversight of the external board and committee evaluation undertaken during the year;
- monitoring sustainability and ESG developments and considering the implications for the group;
- 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; and
- reviewing the non-executive directors' time commitment and independence.

Membership and Meetings

The Committee's membership changed during the year following the retirement of Geoffrey Howe from the board and the appointment of Mark Pain. It now comprises Mark Pain, the senior independent director, Oliver Corbett, Lesley Jones and Bridget Macaskill, who chair the Audit, Risk and Remuneration Committees respectively, and me as chair. 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 80. In addition, five ad hoc meetings were held to consider matters relating to specific board appointments during the year, including meetings to consider the nomination of Mark Pain, Tesula Mohindra and Patricia Halliday as members of the board, and to finalise the recommendation to the board regarding changes to the membership of its committees.

Overview of Main Activities During the Year

NED succession

During the year, the Committee oversaw the formal and robust search processes that culminated in the decisions by the board to appoint Mark Pain, Tesula Mohindra and Patricia Halliday as independent non-executive directors. The searches were part of the Committee's ongoing and orderly approach to succession planning. The resulting appointments will ensure that the board continues to be of an appropriate size and composition as other directors reach nine years' service in the years ahead.

In each case, the Committee reviewed and approved a detailed description for the role, having considered the particular skills, experience and background required for each role. As part of all board recruitment searches, the Committee assesses the balance of knowledge and expertise needed to ensure the continued effective leadership of the group, and the development and oversight of its strategy, purpose and culture. In identifying and recommending candidates for appointment to the board, the Committee considers candidates from a wide range of backgrounds, assessing them on merit against objective criteria and with due regard for the benefits of diversity on the board.

Each of the three searches was conducted in conjunction with an external search firm: Heidrick & Struggles, in the case of the search that resulted in Mark Pain's appointment; and Russell Reynolds, in the case of the searches that culminated in the appointments of Tesula Mohindra and Patricia Halliday. Both firms were instructed to consider candidates from a diversity of backgrounds and experiences. Neither firm is connected to the company in any way and each is a signatory to the Voluntary Code of Conduct for Executive Search Firms.

For all three searches, following the preparation of a long-list of candidates, a shortlist was selected by the Committee and interviews were held with the involvement of both non-executive and executive members of the board and members of senior management. As part of the process, the Committee considered the other commitments of candidates to ensure that they would have sufficient time to devote to their duties to the group. Following completion of the processes to the Committee's satisfaction (including, in Mark's case, receipt of all necessary regulatory approvals for his appointment as SID), it recommended the appointment of Mark, Tesula and Patricia to the board. The Committee also considered and recommended to the board their appointment to the various committees referred to in their biographies on pages 68 and 69.

Further details on Mark, Tesula and Patricia's experience can be found in their biographies. Each of them brings significant experience of financial services, and is a strong addition to the existing range of skills and expertise on the board.

Committee memberships

Following the appointment of Mark Pain to the Board in January 2021, the Committee reviewed the membership of the board's committees. It agreed that Mark's appointment, and the increase in the size of the board in recent years, presented an opportunity to refresh the membership of certain committees. Following its review, the Committee recommended a number of changes to the Audit and Remuneration Committees, which have seen the board move away from its previous model whereby all non-executive directors served as members of all committees. The new approach is considered to be more efficient and effective, and enables the work of committee members to be shared among the directors. The board approved the Committee's recommendation and the following changes took effect on 1 March 2021: Bridget Macaskill stepped down as a member of the Audit Committee; Oliver Corbett stepped down as a member of the Remuneration Committee; and Peter Duffy, Mark Pain and I joined the Remuneration Committee. The Committee will continue to monitor the composition of each of the board's committees.

Senior management talent development and succession planning

The Committee spent considerable time during the year reviewing talent and considering the group's succession planning at board and senior management level. Activities included a formal review by the Committee of senior management succession planning, looking at the capability and potential of incumbents in key roles and the succession pipeline across the group. The Committee also considered specific appointments to senior management roles at both group and divisional level. The Committee recognises the importance of talent development and ensuring that the group continues to attract, retain and develop skilled, high potential individuals, and this will remain an important focus in the year ahead.

During the year, the Committee was updated on the various initiatives in place across the group to support talent development at different levels of the group's operations. Among other things, it discussed a recently launched pilot rotational programme to improve the long-term leadership pipeline in the Banking division. Further information in relation to the group's activities in this area can be found on page 27 of the Sustainability Report.

Sustainability

The Committee recognises and welcomes the continuing focus on sustainability and the contribution that business makes to the wider community. On behalf of the board, during the year, the Committee regularly discussed sustainability considerations across a broad range of different areas, including diversity and inclusion, and ESG. Further details on each of these areas are set out below.

Diversity and inclusion

Diversity and inclusion remain 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 and inclusion have been discussed 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 undertook its annual review of the board diversity and inclusion policy, and recommended a number of incremental enhancements. The updated policy was subsequently approved by the board. Further information on the policy (including its objectives and progress against them) can be found on pages 79 and 80 of this Annual Report.

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. The Committee is pleased with the progress made in recent years to ensure that the board comprises individuals from a diversity of backgrounds. The board now comprises 45% women, and five of its nine non-executive directors are women. This continues to exceed the recommendation of the Hampton-Alexander Review. The board supports the recommendations set out in the Parker Review, and aims at all times to have at least one director of colour. Due to the relatively small size of the board, the Committee also recognises the impact that the retirement of an individual director can have on the overall composition of the board from a diversity perspective. As a result, diversity and inclusion at board level will continue to be an area of focus for the Committee, particularly as directors reach the end of their nine-year terms in the years ahead.

The Committee takes seriously its role in overseeing the development of a diverse pipeline for senior management positions and the link between diversity and inclusion and delivery of the company's purpose and strategic aims. To that end, it considered updates during the year in relation to diversity and inclusion initiatives across the group. Among other things, the Committee discussed the group's approach to recruitment, training and development programmes for employees, management's work with diversity and inclusion campaign groups, and activities of discrete employee networks including in the areas of gender, ethnic diversity, disability, LGBTQ+, working parents and carers, mental wellbeing and social mobility. During the year it also discussed a "deep-dive" update in relation to people-related sustainability issues, including a wide-ranging overview of the broad range of activities and initiatives across the group to ensure that it continues to meet its obligations to employees. The Committee recognises the importance, and the benefits to the group, of developing a diverse pipeline and it will continue to work with senior management in this area.

In line with the UK Corporate Governance Code, the Committee discloses that the gender balance of those in senior management (being the members of the Executive Committee and the company secretary) and their direct reports at 31 July 2021 was 33% (2020: 35%) female and 67% (2020: 65%) male. More detail on the group's approach to diversity and inclusion can be found in the Sustainability Report on pages 26 to 27.

Nomination and Governance Committee Report continued

Environmental, social and governance

Throughout the year, the Committee received and considered dedicated updates on ESG issues relevant to the group. The group's head of sustainability attends relevant parts of the Committee's meetings to present. The Committee's discussion of ESG issues covered a wide range of areas and was informed by, among other things, engagement with shareholders and other stakeholders, legislative and regulatory initiatives and wider market developments. Areas of focus this year included the group's sustainability strategy and targets (including progress in the year and future plans), the impact of Covid-19 on the broader sustainability agenda, wider market themes and trends including issues connected with the forthcoming UN Climate Change Conference of the Parties (COP26) later in 2021, and the group's progress towards disclosure requirements relating to the Task Force on Climate-related Financial Disclosures ("TCFD"). The Committee will continue to consider ESG and broader sustainability matters in the year ahead and make such recommendations to the board as it considers necessary.

Further information on the group's approach to sustainability can be found in the Sustainability Report starting on page 24 of this Annual Report.

Non-executive directors' skill sets

The Committee has considered and reaffirmed the skill sets and experience of the company's non-executive directors, including their extensive experience within financial services and in regulated or listed companies. Further information on the background and experience of each of the non-executive directors can be found in their biographies on pages 68 and 69.

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, suitability, time commitment and ability to continue to contribute to the board. Following this year's review in advance of the 2021 AGM, the Committee has recommended to the board that all serving directors be reappointed at the AGM.

Oliver Corbett, Lesley Jones and Bridget Macaskill 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 significant contribution that each of these directors makes, including with respect to the particular responsibilities they undertake as a committee chair. The Committee values the knowledge, experience and continuity that their continued appointments would bring.

Committee Effectiveness

As described in more detail on page 86, an external 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 was involved in determining the format, scope and timing of the evaluation, and in selecting the evaluator.

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. During the year, the Committee reviewed its terms of reference to ensure that they remain appropriate.

Michael N. Biggs
Chair of the Nomination and Governance Committee

28 September 2021

Directors' Remuneration Report

Bridget Macaskill Chair of the Remuneration Committee

This report sets out our approach to remuneration for the group's employees and directors for the 2021 financial year, and our new remuneration policy for the next three years.

The Directors' Remuneration Report is divided into three sections:
Annual Statement from the Remuneration Committee Chair, pages 97 to 99;
Directors' Remuneration Policy, pages 100 to 110; and
Annual Report on Remuneration, pages 110 to 125.

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 2021 financial year. This year we are presenting both our decisions for the 2021 financial year and a revised Remuneration Policy ("Policy") that will operate over the next three years. As a consequence of Capital Requirements Directive V ("CRD V") being fully adopted by the UK, a maximum 2:1 variable to fixed pay cap will apply to all the group's Material Risk Takers ("MRTs") that are in scope, including the executive directors, from 1 August 2021. We are therefore required to make changes to our Policy to ensure that we comply with CRD V and will be seeking shareholder approval for a new Policy at the 2021 Annual General Meeting ("AGM"). At the AGM, we will also be seeking formal shareholder approval to adopt a 2:1 variable to fixed pay cap, extending the mandated 1:1 ratio.

How the group performed during the 2021 financial year

The group performed strongly in the 2021 financial year, highlighting the benefits of its proven and resilient business model. Overall, the group reported an 88% increase in adjusted operating profit to £270.7 million (2020: £144.0 million), returning to pre-crisis levels and achieving a return on opening equity, our key financial measure, of 14.5%.The group's performance benefited from higher income levels across all divisions and significantly lower impairment charges in the lending business.

While Covid-19 continued to present challenges and dominate the external environment, the disciplined adherence to its resilient business model meant that the group was able to continue to support customers and colleagues while making the most of the growth opportunities in its core markets. The Banking division saw high new business volumes, with an increase in the loan book of 10.9% over the year while maintaining a strong net interest margin of 7.7% (2020: 7.5%). Impairment charges decreased significantly, reflecting strong underlying credit performance across Commercial, Retail and Property as well as a reduction in Covid-19 provisions. The bad debt ratio of 1.1% (2020: 2.3%) reflected an increase in provisions against the Novitas loan book, which accounted for a significant portion of the impairment charge for the year. Asset Management continued to grow assets under management and achieved a good net inflow rate of 7%, despite the impact of reduced face-to-face interaction with clients due to Covid-19 restrictions. Winterflood delivered a very strong trading performance as it benefited from exceptionally high levels of trading volumes for most of the year and the expertise of our traders, with only one loss day in a volatile market environment.

Following the appointment of the group's new chief executive, Adrian Sainsbury, in September 2020, the group introduced the evolution of its strategic priorities to "protect", "grow" and "sustain" the business model. A new "Model Fit Assessment Framework" was also introduced and included a set of criteria used to assess the group's initiatives. This framework was used as a key tool in the strategic review of Novitas, which concluded that the overall risk profile of the business is no longer compatible with the group's long-term strategy and risk appetite. As a result, in July 2021, the group decided to cease permanently the approval of lending to new customers across all of the products offered by Novitas, and to withdraw from the legal services financing market.

The group maintained a strong capital, funding and liquidity position. The CET1 capital ratio increased to 15.8% (31 July 2020: 14.1%) and remained well ahead of the applicable minimum regulatory requirements. This mainly reflected the group's strong capital generation through higher profit and the benefit from regulatory changes to the treatment of software assets as well as the significant amount of lending under the British Business Bank's CBILS Scheme, which attract a lower risk weighting. Our strong financial resources position us well to continue delivering on our strategy.

Directors' Remuneration Report continued

Following the group's strong performance in the year and to reflect the continued confidence in our business model and financial position, the board is proposing a final dividend of 42p per share, resulting in a full-year dividend per share of 60p, an increase of 50%.

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

Key performance indicator	2021	2020
Return on opening equity	**14.5%**	8.0%
Return on opening equity over three years[1]	**12.7%**	13.6%
CET1 capital ratio	**15.8%**	14.1%
Adjusted operating profit (£ million)	**270.7**	144.0
Adjusted earnings per share growth over three years[1]	**0.1%**	(43.4)%
Distribution to shareholders (£ million)[2]	**89.5**	59.8

1 For the three-year periods ended 31 July 2021 and 31 July 2020.
2 For the 2021 financial year, interim dividend paid and proposed final dividend.

Executive director remuneration outcomes for the 2021 financial year

As in previous years, the Remuneration Committee assessed the following factors when determining remuneration outcomes for the executive directors: how to maintain a fair balance between the interests of different stakeholders, including shareholders, employees and management; how to encourage and reward the behaviours that reflect our purpose and culture; and how to judge performance against objectives, including considering where the Remuneration Committee should apply discretion to adjust any formulaic outcomes.

Given the robust performance of the Group, the financial element of the executive directors' bonuses, which is linked to return on equity and the CET1 capital ratio, paid out at 82.5% of maximum. The year-end review of performance against the strategic scorecard (as detailed on pages 114 to 117) demonstrated that the management team has continued to progress key strategic priorities in spite of the continued uncertainties in the wider environment. The Remuneration Committee therefore determined to approve an annual bonus outcome of 73% for the strategic scorecard (see page 113 for further details).

The 2018 LTIP vested at 39.6% of maximum. Adjusted EPS growth over the three year period was 0.1% below the threshold and therefore this element did not vest. Average return on equity over the performance period was 12.7% and this element therefore vested 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 scored 95% and therefore vested at 28.5%. The overall level of the vesting of the LTIP has decreased from the previous year's award.

After consideration, the Remuneration Committee decided that these outcomes were appropriate and therefore did not require the application of discretion or further adjustment.

Recognising the continued progression in role of the group finance director

As disclosed at the time of his appointment in 2018, the group finance director's annual maximum bonus and LTIP opportunity were both set at 175% of salary initially, well within the 300% and 350% maximums respectively permitted within our approved Policy, and below the levels which had applied for the previous incumbent. This package reflected Mike Morgan's first-time appointment to group finance director. In recognition of Mike's significant progression in role since appointment, and in order to tilt the balance of his package towards long-term equity-based reward, the Remuneration Committee's intention had been to make a relatively modest increase in his LTIP opportunity from 175% of salary to 200% of salary for the 2022 financial year. As outlined above, the Remuneration Committee is required to make changes to the Remuneration Policy to reflect requirements under CRD V, and in particular the variable to fixed pay cap. In translating the group finance director's package into a CRD V compliant structure, the Remuneration Committee has therefore used an LTIP opportunity of 200% of salary to reflect the increase he would otherwise have received had we been able to continue with the current Policy.

Directors' Remuneration Policy and proposed implementation for the 2022 financial year

Our current Directors' Remuneration Policy was approved by shareholders at the 2020 AGM, with over 97% of the shareholders' votes cast in favour. Our intention was that this Policy would apply for a three-year period until the 2023 AGM unless material amendments to our executive remuneration structure were required to address regulatory changes. As noted above, it is necessary to amend the Policy that was approved by shareholders at the 2020 AGM in order to comply with requirements under CRD V, which will apply to the Company from the 2022 financial year onwards.

Given the strong support of our Remuneration Policy in 2020, our overarching principle in designing the new Policy has been to retain as many of the key features of the current Policy as possible whilst addressing the requirements of CRD V. We are therefore proposing the following decisions for our new Policy:

- No change will be made to the structure of the executive directors' pay elements, which includes salary, pension, annual bonus and LTIP. Changes will, however, need to be made to the quantum of fixed and variable pay elements to align with the variable to fixed pay cap.
- Pension contributions for executive directors will continue to be in line with the rate paid to all employees (currently equates to a 10% contribution).
- The current balance of the short to long-term variable pay opportunity will be retained to maintain alignment with shareholders.
- There will be no changes to deferral or retention periods for the annual bonus or LTIP. This reflects our Level 3 proportionality status.
- Malus and clawback provisions will continue to apply, allowing the Remuneration Committee to reduce awards in appropriate scenarios, and the period over which clawback provisions will apply will be extended in line with CRD V requirements.
- In-employment and post-employment shareholding requirements will remain at 200% of salary. This will require an increase in the absolute value of shareholdings due to the proposed increases in salary levels.
- The expected level of pay will be maintained for both executives at levels as close as possible to the current expected levels (though note the decisions made in relation to the group finance director's LTIP, as explained earlier). "Expected level of pay" is based on the average of the actual outcomes over the past five years.

In formulating these proposals the Remuneration Committee consulted extensively with shareholders, who welcomed this consistency in our approach. Shareholder feedback generally indicated that, in transitioning to a CRD V compliant structure, the proposed Policy was fair to executives, while continuing to be simple and effective in rewarding and incentivising outperformance.

Shareholders were supportive of the following changes we are making in order to ensure our Policy complies with CRD V, which are summarised below.

- From the 2022 financial year, the maximum annual bonus opportunity will be capped at 95% of salary and the maximum LTIP opportunity will be capped at 125% of salary, well below the current maximums of 300% and 350%.
- Increases to fixed pay will be applied to broadly maintain current expected pay levels within a CRD V compliant structure. The following salaries are proposed with effect from 1 August 2021:
  - Chief executive – Current: £550,000, proposed: £930,000.
  - Group finance director – Current: £400,000, proposed: £560,000.

- In order to compensate the executive directors fairly under CRD V, the rebalanced package should be targeted to match "expected level of pay", based on the average of the actual outcomes over the past five years. There will therefore be a reduction in the overall maximum value of the total compensation package while maintaining the "expected value" of the package for executive directors. In adopting this approach, the Remuneration Committee is comfortable that the last five years is sufficiently representative of our business cycle, and the experience of the executive directors in terms of pay outcomes, to be a reasonable point of reference.
- Whilst we will be maintaining the existing policy on executive directors' shareholding guidelines, as these are expressed as a percentage of base salary, in real terms the value of the shareholding requirement will in practice increase in line with the adjustments to salaries.
- Clawback period will be increased to seven years, extendable to 10 years, from award, in line with CRD V requirements.

We made enhancements to the draft policy based on helpful feedback from our shareholders and greatly appreciate the level of engagement and support that we received for these Policy changes, full details of which can be found on pages 100 to 110. We continue to believe these proposals are fair to both shareholders and the executive directors and reflect Close Brothers' responsible approach to executive pay and the fact that our remuneration framework has consistently delivered incentive payouts that have been well aligned with group and individual performance, and with the experience of our shareholders.

Changes to the board of directors during the year

As announced in last year's Annual Report, Adrian Sainsbury was appointed chief executive from 21 September 2020.

Preben Prebensen, our former chief executive, stepped down from his role on 21 September 2020. In recognition of his contribution during the period before he left, Preben has been awarded a time pro-rated bonus for the period of the 2021 financial year for which he was chief executive.

Group-wide employee remuneration

The responsibility for determining the reward practices on a group-wide basis lies with the Remuneration Committee. As in previous years, the Remuneration Committee continues to spend time in 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 111.

The average salary increase awarded across the group was a modest 1%, with an emphasis on supporting pay levels for junior employees. The group continues to pay all staff at or above the national living wage, which is in excess of the national minimum wage. However, following a c.30% decrease in bonus awards in the 2020 financial year, the average bonus for the 2021 financial year has increased by 21%.

CRD V also means that the pay arrangements of any staff member identified as a group and banking MRT will have to comply with the new regulations. As such, adjustments have been made to the compensation mix of impacted individuals in line with the same principles as those used for the executive directors.

Gender-pay disclosures

This year the Remuneration Committee has overseen the publication of our fourth gender pay gap report, which is published on our website. We are confident that men and women are paid equally for performing equivalent roles across our businesses and are committed to taking steps to reduce our gender pay gap, which is primarily driven by a lower proportion of women in senior and front office roles, where market rates are higher. Our focus on closing the gender pay gap is through increasing female representation at all levels by setting representation targets and supporting development programmes. At the end of the financial year we exceeded the government's target for 33% of board members to be women and remain broadly in line with Hampton-Alexander gender targets for executives and their direct reports.

Whilst gender pay provides the most direct link to remuneration, our broader focus on inclusion ensures we prioritise fairness and equality for all colleagues. We are signatories of the Women in Finance and Race at Work Charters and the Social Mobility Pledge. This year we have broadened our inclusion remit to focus on disability inclusion through joining the Valuable 500 initiative.

Our objectives to support inclusion are linked to executive pay through risk management objectives within our executives' long-term incentive plan. We are pleased that our colleagues continue to feel that we are an inclusive organisation, as demonstrated by responses in the latest employee opinion survey, and we continue to push forward and implement activities and initiatives in this sphere to ensure we support an inclusive environment where all our colleagues feel a sense of belonging and are proud to work for us.

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
Chair of the Remuneration Committee

28 September 2021

Directors' Remuneration Report continued

Directors' Remuneration Policy

This section of the report sets out the group's proposed Remuneration Policy for directors and explains each element and how it will operate. This Directors' Remuneration Policy will be subject to a binding shareholder vote at our AGM in November 2021 and, if approved, will apply from the date of the AGM.

As a consequence of the CRD V being implemented in the UK, a number of amendments are required to be made to the Policy. The Remuneration Committee discussed the detail of these amendments over a series of meetings, which considered the strategic priorities of the business and evolving market and regulatory practice. Input was sought from the management team, while ensuring that conflicts of interest were suitably mitigated. An external perspective was provided by our major shareholders and independent advisers.

This Policy remains largely unchanged from the policy approved by shareholders in 2020 other than the following updates which are required to comply with CRD V:

- From 1 August 2021, executive directors ("EDs") will be subject to a 2:1 cap on the ratio of variable to fixed remuneration; accordingly, EDs maximum annual bonus opportunity will be capped at 95% of base salary and the maximum LTIP opportunity will be capped at 125% of base salary provided that, taken together, an EDs variable remuneration does not exceed the 2:1 cap on fixed remuneration.
- Increase EDs base salary, from 1st August 2021, to broadly maintain current expected pay levels in compliance with the cap on variable remuneration required under CRD V.
- Clawback periods on awards increased to seven years, extendable to 10 years, from award.

The reward structure aims to:

- attract, motivate and retain high calibre EDs;
- reward good performance;
- promote the achievement of the group's annual plans and its long-term strategic objectives;
- align the interests of EDs with those of all key stakeholders, in particular our shareholders, clients and regulators; and
- support effective risk management and promote a positive corporate culture and appropriate conduct to both employees and clients.

Remuneration Policy for executive directors

Element and how it supports the group's short-term and long-term strategic objectives	Operation and maximum payable	Performance framework, recovery and withholding
Base salary Attracts and retains high calibre employees. Reflects the employee's role and experience.	Salaries are based on the individual's role and experience and external factors, as applicable. Paid monthly in cash. Salaries will be reviewed annually or when there is a change in role or responsibility. Any changes normally take effect from 1 August and will generally not exceed those for the broader employee population. Increases may be made above this level in certain circumstances, such as: • a change in the regulatory environment; • progression within the role; • increase in scope and responsibility of the role; • increase in experience where an individual has been recruited on a lower salary initially; and • increase in size and complexity of the company.	Not applicable.
Changes from previous policy Base salaries for the EDs will be increased, to £930,000 for the chief executive and £560,000 for the group financial director, to account for a reduction in the ratio of variable to fixed remuneration payable under CRD V.		
Benefits Enables the EDs to perform their roles effectively by contributing to their wellbeing and security. Provides competitive benefits consistent with the role.	Any benefit allowances will be paid monthly and will not form part of pensionable salary. Benefits may include: • private medical cover. • health screening. • life assurance cover. • income protection cover. • directors' and Officers' liability insurance. • allowance in lieu of a company car. The maximum allowance is £18,000 for the chief executive and £12,000 for other EDs. • other benefits or payments in lieu of benefits may also be provided in certain circumstances (such as relocation expenses).	Not applicable.
Changes from previous policy None.		
Pension Provides an appropriate and competitive level of personal and dependant retirement benefits.	EDs will receive a level of pension contribution (in the form of a cash allowance or contribution to a pension arrangement) that is in line with the wider workforce.	Not applicable.
Changes from previous policy None.		

Directors' Remuneration Report continued

Element and how it supports the group's short-term and long-term strategic objectives	Operation and maximum payable	Performance framework, recovery and withholding
Annual bonus Rewards good performance. Motivates employees to support the group's goals, strategies and values over both the medium and long term. Aligns the interests of senior employees and executives with those of key stakeholders, including shareholders, and increases retention for senior employees, through the use of deferrals.	60% of the annual bonus will usually be deferred into shares (in the form of nil cost options or conditional awards) and will usually vest in equal tranches over three years, subject to remaining in service. The remaining annual bonus will be delivered immediately in cash. The annual bonus is capped at 95% of base salary. At the Remuneration Committee's discretion, dividend equivalents will usually be paid in cash or additional shares when the deferred awards vest.	Individual bonuses are determined based on both financial and non-financial performance measures in the financial year, including adherence to relevant risk and control frameworks. At the Remuneration Committee's discretion, an element of the bonus may also be based on personal performance. Weightings At least 60% of the annual bonus opportunity will be based on financial performance. The non-financial element will be determined based on performance measured against a balanced scorecard, including (but not limited to): • strategic objectives; and/or • people and customer metrics; and/or • risk, conduct and compliance measures. The Remuneration Committee maintains discretion to vary the measures and their respective weightings within each category. The actual performance objectives will be set at the beginning of each financial year but will not be disclosed prospectively due to commercial sensitivity reasons. They will be designed to align the interests of EDs with the key stakeholders over the medium term, be challenging and also provide an effective incentive for the EDs. Performance against the objectives that comprise the balanced scorecard and their weightings will be disclosed retrospectively on an annual basis as part of the Annual Report on Remuneration. Amount payable for threshold performance No more than one third of maximum. Amount payable for target performance No more than 50% of maximum. Recovery and withholding The cash element is subject to clawback and the deferred element is subject to malus and clawback conditions, as outlined on pages 105 and 106.

Changes from previous policy

The cap on the annual bonus has been reduced from 300% to 95% of base salary.

The clawback period for the deferred element of the annual bonus will be increased to seven years from the date of award, extendable to 10 years at the discretion of the Remuneration Committee where there is an ongoing investigation.

Element and how it supports the group's short-term and long-term strategic objectives	Operation and maximum payable	Performance framework, recovery and withholding
Long-Term Incentive Plan Motivates executives to achieve the group's longer-term strategic objectives. Aids the attraction and retention of key staff. Aligns executive interests with those of shareholders.	Awards are made in the form of nil cost options or conditional awards and usually vest after three years subject to achieving performance conditions and remaining in service. On vesting, awards will usually be subject to a further two-year post-vesting retention period before options can be exercised by, or conditional awards paid to, EDs. At the Remuneration Committee's discretion, dividend equivalents will usually be paid in cash or additional shares when LTIP awards are released. EDs are eligible to receive an annual award of shares with a face value of up to 125% of base salary, excluding dividend equivalents.	Measures and weightings Individual awards vest based on performance against both financial and non-financial performance measures. At least 70% of the award will be based on performance against financial measures. The remainder will be based on non-financial performance. The Remuneration Committee maintains discretion to vary the measures and their respective weightings within each category. The choice of measures and their respective weightings will be disclosed annually as part of the Annual Report on Remuneration. The Remuneration Committee has an overriding discretion, in respect of awards granted on or after 15 November 2018, to adjust vesting outcomes where it considers the application of formulaic performance conditions to be inappropriate. Amount payable for threshold performance For each element of the award, vesting starts at 25% for threshold performance, rising on a straight-line basis to 100% for maximum performance. The target ranges set for the financial measures in each grant and performance against the targets at vesting will be reported in the Annual Report on Remuneration for the relevant financial years. Recovery and withholding LTIP awards are subject to malus and clawback provisions, as outlined on pages 105 and 106.
Changes from previous policy The cap on LTIP awards has been reduced from 350% to 125% of base salary. The clawback period for LTIP awards has been increased to seven years from the date of award, extendable to 10 years by the Remuneration Committee where there is an ongoing investigation.		
Save As You Earn ("SAYE") Aligns the interests of executives with those of shareholders through building a shareholding.	EDs have the option to save a fixed amount per month over a three or five-year timeframe. At the end of the period employees can withdraw all of their savings, or use some or all of their savings to buy shares at the guaranteed option price. The option price is set at the beginning of the participation period and is usually set at a 20% discount to the share price at invitation. EDs can make total maximum contributions of up to £6,000 per annum, or up to the maximum permitted by HMRC rules at any given time. The Remuneration Committee reserves the discretion to increase the maximum contributions in line with any HMRC rule changes during the period of the Policy.	Not applicable, as this is a voluntary scheme where EDs have invested their own earnings.
Changes from previous policy None.		

Directors' Remuneration Report continued

Element and how it supports the group's short-term and long-term strategic objectives	Operation and maximum payable	Performance framework, recovery and withholding
Share Incentive Plan ("SIP") Aligns the interests of executives with those of shareholders through building a shareholding.	EDs are able to contribute up to a maximum of £1,800 per annum from pre-tax income and national insurance earnings to buy Partnership Shares. At present the Remuneration Committee has determined that EDs have the ability to buy Partnership Shares. Currently there is no match, but the Remuneration Committee retains the discretion to offer Matching Shares of up to twice the number of Partnership Shares and/or award free shares. This will be on the same basis for all employees should the Remuneration Committee exercise this discretion. Dividends paid on shares held in the SIP are reinvested to acquire further Dividend Shares. The Remuneration Committee reserves the discretion to increase the maximum contributions in line with any HMRC rule changes during the period of the Policy.	Not applicable, as this is a voluntary scheme where EDs have invested their own earnings.
Changes from previous policy None.		
Shareholding requirement Aligns the interests of executives with those of shareholders.	EDs are expected to build and maintain a holding of company shares equal to at least 200% of base salary. EDs will normally be expected to maintain a minimum shareholding of 200% of base salary for the first two years after stepping down as an ED. The Remuneration Committee retains discretion to waive this guideline if it is not considered appropriate in the specific circumstances.	Not applicable.
Changes from previous policy None.		
Other	The group will pay legal, training and other reasonable and appropriate fees, including any relevant tax liabilities, incurred by the EDs as a result of doing their job.	
Changes from previous policy None.		

Additional details on the Directors' Remuneration Policy

The Remuneration Committee may amend the performance condition applying to an LTIP award if an event or a series of events happens as a result of which the Remuneration Committee considers it fair and reasonable to make the change, provided that the performance condition is not made either materially easier or materially more difficult to achieve than when the award was originally granted. The power to change includes the power to adjust the existing performance condition or to impose a new performance condition or objective condition. The Remuneration Committee will make full and clear disclosure of any such adjustments within the Annual Report on Remuneration for the relevant financial year.

The Remuneration Committee has an overriding discretion (in respect of awards granted on or after 15 November 2018), notwithstanding any performance conditions, to adjust vesting outcomes where it considers the application of formulaic performance conditions to be inappropriate. The Remuneration Committee will make full and clear disclosure of any such adjustments within the Annual Report on Remuneration for the relevant financial year.

The Remuneration Committee may make minor amendments to this Policy (for regulatory, exchange control, tax or administrative purposes, to correct clerical errors or to take account of a change in legislation) without obtaining shareholder approval for that amendment.

In the event of a variation of share capital, demerger, special dividend, distribution or any other corporate event which may affect the current or future value of a share award, the Remuneration Committee may adjust an award as appropriate.

Rationale for choice of performance conditions

The Remuneration Committee selects financial and non-financial performance measures that strengthen the alignment of the remuneration arrangements with the business model and the interests of our shareholders.

At maximum performance, the ratio of financial to non-financial measures for the chief executive and group finance director across the annual bonus and LTIP is approximately two-thirds. The Remuneration Committee believes this combination provides a good balance of financial and non-financial measures, supports the medium and long-term strategic objectives of the group, is consistent with regulatory requirements and provides alignment with shareholders' interests.

The actual performance targets will be set at the beginning of each financial year based on prior year performance, expected performance, strategic priorities for the year and other internal and external factors as appropriate. All targets will be set at levels that are stretching but remain achievable within the context of our model and the broader external environment.

Malus and clawback

The LTIP rules and the rules which apply to the deferred element of the annual bonus contain malus and clawback provisions that allow the Remuneration Committee to reduce or recover a payment or an award. The cash element of the annual bonus is also subject to clawback provisions.

Malus is the adjustment of LTIP awards or the deferred element of the annual bonus because of the occurrence of one or more circumstances listed below. The adjustment may result in the value being reduced, including to nil.

Clawback is the recovery of the cash element of the annual bonus, vested LTIP awards (including adjustments in respect of dividends) and/or vested awards over the deferred element of the annual bonus (including adjustments in respect of dividends) as a result of the occurrence of one or more circumstances listed below. Clawback may apply to all or part of a payment and may be effected, among other means, by requiring the transfer of shares, payment of cash or reduction of other awards or bonuses.

The company has extended the circumstances in which malus and clawback can be applied, to align the terms between the LTIP and annual bonus (cash and deferred elements). The company has applied the extended malus and clawback conditions for LTIP awards granted in 2020 onwards and intends to apply the extended malus and clawback conditions for the annual bonus awards from 2021 onwards. Please refer to the previous Directors' Remuneration Policy for details of the current malus and clawback triggers which apply to bonus awards and LTIP awards made prior to these dates.

In determining whether to exercise its discretion to apply malus and clawback, the Remuneration Committee will have regard to all relevant circumstances, which will typically include (where relevant) an assessment of the extent to which, the ED was responsible for the events in question.

The cash element of the annual bonus is subject to clawback for a period of three years from award. The deferred element vests in equal tranches over three years, and is subject to malus prior to vesting and clawback for seven years from the date of grant, extendable to 10 years by the Remuneration Committee where there is an ongoing investigation. LTIP awards are subject to malus for the three-year period to the point of vesting, and are subject to clawback for seven years from the date of grant (four years after vesting), extendable to 10 years by the Remuneration Committee where there is an ongoing investigation.

Directors' Remuneration Report continued

Malus triggers
The Remuneration Committee may apply malus to unvested LTIP awards granted on or after 21 September 2020 and to annual bonus awards granted on or after 23 September 2021 in the following circumstances:

- the assessment of any performance target or condition, the related bonus and/or the number of shares subject to an award was based on material error, or materially inaccurate or misleading information;
- the ED's employment is terminated for misconduct, or if the ED has been issued with a formal disciplinary warning for misconduct under the company's disciplinary policy (or, if the ED has left employment, the Remuneration Committee becomes aware of circumstances that would have led to their employment being terminated for misconduct or to the issue of a formal disciplinary warning for misconduct had the ED still been in employment);
- the company or a material proportion of the group become(s) insolvent or suffer(s) a corporate failure so that ordinary shares in the company no longer have material value, and for which the Remuneration Committee determines the ED was wholly or partly responsible;
- an event has occurred which has caused, or in the opinion of the Remuneration Committee is reasonably likely to cause, serious reputational damage to the company or any member of the group, and for which the Remuneration Committee determines the ED was wholly or partly responsible;
- the company suffers a material loss, financial or otherwise, where the ED has operated outside the risk parameters or risk profile applicable to their position and for which the Remuneration Committee determines the ED was wholly or partly responsible; and
- the payment of the award in whole or in part is not sustainable when assessing the overall financial viability of the company.

Clawback triggers
The Remuneration Committee may apply clawback to LTIP awards granted on or after 21 September 2020 and to annual bonus awards granted on or after 23 September 2021 in the following circumstances:

- discovery of a material misstatement 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, the related bonus and/or the number of shares subject to an award was based on material error, or materially inaccurate or misleading information;
- action or conduct which, in the reasonable opinion of the board, amounts to fraud or gross misconduct (or, if the ED has left employment, the Remuneration Committee becomes aware of circumstances that would have amounted to fraud or gross misconduct had the ED still been in employment);
- the company or a material proportion of the group become(s) insolvent or suffer(s) a corporate failure so that ordinary shares in the company no longer have material value, and for which the Remuneration Committee determines the ED was wholly or partly responsible;
- an event has occurred which has caused, or in the opinion of the Remuneration Committee is reasonably likely to cause, serious reputational damage to the company or any member of the group, and for which the Remuneration Committee determines the ED was wholly or partly responsible; and
- the Company suffers a material loss, financial or otherwise, where the ED has operated outside the risk parameters or risk profile applicable to their position and for which the Remuneration Committee determines the ED was wholly or partly responsible.

Consistency of ED remuneration with wider employee population

The pay and terms and conditions of employment of employees within the group were taken into consideration when setting the Policy and pay of the EDs. The Remuneration Committee does not formally consult with employees when setting the Policy, although the employee opinion survey conducted every year includes remuneration as one of the topics surveyed. The Remuneration Committee also receives feedback from engagement with, and communication to, employees on matters relating to remuneration issues, which it uses to inform its broader approach to remuneration, including with respect to the alignment between executive remuneration and the approach to compensation for employees across the group. At each scheduled meeting, the Remuneration Committee reviews a 'Remuneration Dashboard' containing metrics, analysis and other information, which the Committee uses as part of its decision-making, including as part of the annual compensation process. It covers a wide-range of areas throughout the year, such as workforce demographics, pay and reward at different levels across the group, gender pay and SAYE participation.

The principles of remuneration are applied throughout the group and are designed to support the group's key attributes across our businesses, which are expertise, service and relationships. Remuneration structures and arrangements for all employees are based on the individual's role, experience, performance and relevant market practice.

Annual bonuses are based on role, business performance, market conditions and individual performance. These bonuses are not capped; except for EDs and group and bank MRTs. All highly remunerated employees have a portion of their bonuses deferred.

A limited group of senior employees receive LTIP awards, generally on the same basis as the EDs, but the maximum face value of these awards is generally materially lower.

Members of the group Executive Committee who are not EDs are required to build and maintain shareholdings of at least one times base salary.

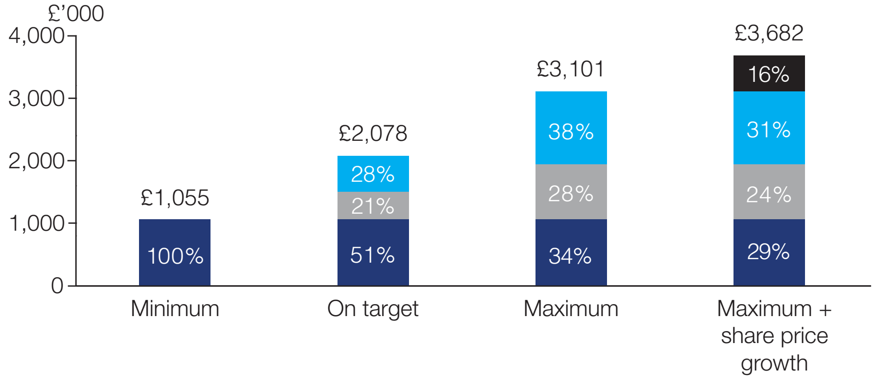
Employees receive the same level of pension contributions (in the form of a cash allowance or contribution to a pension arrangement) as EDs.

All UK employees are eligible to participate in the SAYE and SIP plans.

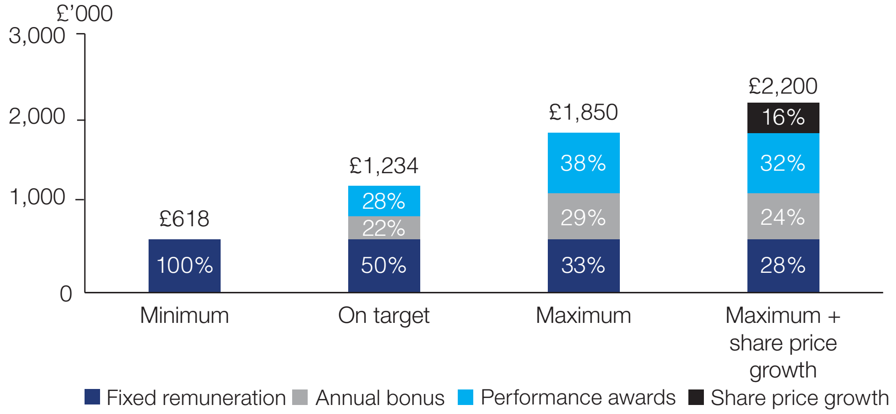
Illustrations of application of Remuneration Policy for EDs

The scenario charts below provide illustrations of potential remuneration outcomes for our EDs in 2022, based on the 2021 Remuneration Policy set out on pages 100 to 106, based on the assumptions provided in the table below.

Chief executive: Adrian Sainsbury



Group finance director: Mike Morgan



Element	Assumptions used
Fixed remuneration	Consists of 2022 base salary (chief executive £930,000; group finance director £560,000), 2022 benefits and 2022 pension allowance (10% of salary)
Minimum	No variable elements are awarded
On target	Annual bonus: Awarded at 47.5% of base salary for the chief executive and the group finance director (50% of maximum potential for 2022) LITP: Awards with face value of 125% of salary for the chief executive and the group finance director and assumed 50% vesting
Maximum	Annual bonus: Awarded at 95% of base salary for the chief executive and the group finance director (100% of maximum potential for 2022) LTIP: Awards with face value of 125% of salary for the chief executive and the group finance director and assumed 100% vesting
Maximum (with share price growth)	Maximum scenario with assumed 50% share price growth over the LTIP performance period
Other	No adjustment for dividend equivalents

Approach to recruitment remuneration

The remuneration package for new EDs will comply with the Policy for EDs outlined on pages 100 to 107 and the following paragraphs. The Remuneration Committee will seek to pay no more than is necessary to secure the right candidate.

The Remuneration Committee may, to the extent permitted by the Listing Rules and any other regulatory requirements to which the group is subject, seek to "buy out" remuneration or any other compensation arrangements with another employer that the ED forfeits as a result of joining the group. In such cases, the Remuneration Committee will seek to replace this with awards that match the quantum and terms of the forfeited awards as closely as possible. There may be situations where a new director has to relocate in order to take up the post with the group. In such situations, reasonable financial and/or practical support will be provided to enable the relocation. This may include the cost of any tax that is incurred as a result of the move.

In the event that an internal appointment is made, or where an ED is appointed as a result of transfer into the group on an acquisition of another company, the Remuneration Committee may continue with existing remuneration provisions for any such individual where appropriate.

If considered appropriate, the Remuneration Committee may apply different performance measures and/or targets to an ED's first incentive awards in their year of appointment.

Directors' Remuneration Report continued

In the event of an interim appointment being made to fill an ED role on a short term basis or if exceptional circumstances require that the Chairman or a non-executive director takes on an executive function on a short term basis, the Remuneration Committee retains discretion to make appropriate remuneration decisions outside the standard Policy to meet the individual circumstances of recruitment.

Legacy awards

The Remuneration Committee reserves the right to make any remuneration payments and/or payments for loss of office (including exercising any discretions available to it in connection with such payments) notwithstanding that they are not in line with the Policy set out above where the terms of the payment were agreed (i) before this Policy came into effect, provided that the terms of the payment were consistent with the shareholder-approved policy in force at the time they were agreed; or (ii) at a time when the relevant individual was not a director of the company and, in the opinion of the Remuneration Committee, the payment was not in consideration for the individual becoming a director of the company. For these purposes "payments" includes the Remuneration Committee satisfying awards of variable remuneration and, in relation to an award over shares, the terms of the payment are "agreed" at the time the award is granted.

Policy for payment on loss of office

Standard provision	Policy	Details
Notice period	12 months' notice from the company. 12 months' notice from the ED.	• EDs 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 EDs 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 ED.
Treatment of annual bonus on termination	No bonus is paid unless the ED is employed on date of payment (unless the Remuneration Committee determines otherwise).	• The Remuneration Committee may award a pro-rated bonus to EDs who work for part of the year or are "good leavers" (as determined by the Remuneration 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 Remuneration Committee has discretion to reduce the entitlement of a "good leaver" in line with performance, the circumstances of the termination, and the malus conditions applicable to the annual bonus. In determining the level of bonus to be paid, the Remuneration Committee may, at its discretion, take into account performance up to the date of cessation or over the financial year as a whole based on appropriate performance measures as determined by the Remuneration Committee. • The bonus may, at the Remuneration Committee's discretion, be paid entirely in cash.
Treatment of unvested deferred awards under the annual bonus plan	Deferred awards will usually be released on the normal release date, unless the Remuneration Committee elects to release the shares on an earlier date.	• An ED's deferred shares will lapse (unless the Remuneration Committee determines otherwise) if their employment ends for cause or by reason of their bankruptcy or because they join another financial services company within 12 months of termination. In all other circumstances, deferred shares will be released to a departing ED on the normal release dates (unless the Remuneration Committee elects to release the shares on an earlier date). • The deferred shares are released in full in the event of a change in control unless the Committee determines otherwise in circumstances specified in the incentive plan rules.
Treatment of the LTIP awards	Vested awards will usually be released on the normal release date, unless the Remuneration Committee elects to release the shares on an earlier date. Unvested awards lapse unless the individual is a "good leaver" (leaves employment because of death, retirement, ill-health, injury or disability, redundancy, their employing company transfers out of the group or the business for which the individual works transfers out of the group or otherwise at the discretion of the Remuneration Committee).	• For "good leavers", unvested awards are pro-rated for the period of employment during the performance period. The extent of vesting will be based on the original performance condition assessed over the full performance period (unless the Remuneration Committee elects to assess performance over an alternative period). • Unless the Remuneration Committee determines otherwise in circumstances specified in the incentive plan rules, in the event of a change in control, unvested awards will vest subject to time pro-rating and the achievement against the performance targets at that point (or such other date that the Remuneration Committee determines). However, the Remuneration Committee retains the discretion to decrease the extent to which any such unvested awards vest taking into consideration other relevant factors, including the circumstances of the change in control.
Outside appointments	EDs may accept external appointments.	• Board approval must be sought before accepting the appointment. • The fees may be retained by the director.

Standard provision	Policy	Details
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 Remuneration Committee reserves the right to make any other payments in connection with a director's cessation of office or employment where the payments are made in good faith in discharge of an existing legal obligation (or by way of damages for breach of such an obligation) or by way of a compromise or settlement of any claim arising in connection with the cessation of a director's office or employment. Any such payments may include, but are not limited to, paying any fees for outplacement assistance and/or the director's legal and/or professional advice fees and/or reasonable relocation costs in connection with cessation of office or employment.	
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 EDs' service contracts

Name	Date of service contract
Adrian Sainsbury	1 May 2020
Mike Morgan	15 November 2018
Preben Prebensen[1]	9 February 2009

1 Preben Prebensen stood down as chief executive and as a director at the conclusion of the board's meeting held on 21 September 2020.

Remuneration Policy for the chairman and 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 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. Additional fees may be payable for other additional board responsibilities and/or time commitments. 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 £1.25 million authorised by our articles of association. There is no performance framework, recovery or withholding.

Directors' Remuneration Report continued

Non-executive directors' appointment letters

Name	Date of appointment	Current letter of appointment start date
Mike Biggs	14 March 2017	21 September 2020
Lesley Jones	23 December 2013	21 November 2019
Geoffrey Howe[1]	4 January 2011	21 November 2019
Bridget Macaskill	21 November 2013	21 November 2019
Oliver Corbett	3 June 2014	21 November 2019
Peter Duffy	1 January 2019	21 November 2019
Sally Williams	1 January 2020	1 January 2020
Mark Pain	1 January 2021	1 January 2021
Tesula Mohindra	15 July 2021	15 July 2021
Patricia Halliday[2]	1 August 2021	1 August 2021

1 Geoffrey Howe stood down as a non-executive director on 19 November 2020.
2 Although Patricia Halliday is a non-executive director of the company at the date of this report, she did not join the board until the start of the 2022 financial year.

Consideration of shareholders' views

The chairman of the board consults our major shareholders on a regular basis on key issues, including remuneration. A formal consultation exercise was undertaken during 2021 with our major shareholders and shareholder advisory bodies as part of the process of reviewing this Policy.

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; • establish and maintain a competitive remuneration package to attract, motivate and retain high calibre executive directors and senior management across the group; • align senior executives' remuneration with the interests of shareholders; • 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; and • provide oversight of all the group's remuneration policies and practices, to ensure fair and equitable pay for all employees.	• 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; • approve the design and targets of any performance-related pay schemes operated by the group; • review the design of all-employee share incentive plans; • 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 with the group's risk appetite.

Membership

The Remuneration Committee comprises Bridget Macaskill as chair, together with Mike Biggs, Peter Duffy, Lesley Jones and Mark Pain. Geoffrey Howe and Oliver Corbett stepped down as Committee members on 19 November 2020 and 28 February 2021 respectively. Mike Biggs, Peter Duffy and Mark Pain joined the Committee effective 1 March 2021. A record of the Committee members' attendance at the five meetings held during the year is set out on page 80. There were two additional ad hoc meetings, firstly to finalise 2020 compensation awards in August 2020 and secondly to discuss changes to the Directors' Remuneration Policy required by CRD V in March 2021.

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

Membership activity in the 2021 financial year

There were seven 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:

	August 2020	September 2020	January 2021	March 2021	April 2021	June 2021	July 2021
Remuneration policy and disclosures							
Review and approval of Remuneration Policy Statement for 2020	•	•					
Review and approval of Directors' Remuneration Report for 2020		•					
Review and approval of the remuneration section of the Pillar 3 disclosure for 2020		•					
Review of Directors' Remuneration Policy for 2022			•	•	•	•	•
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 2021 awards		•					
Final review and approval of EDs' annual bonus targets and objectives		•					•
Review of performance testing results for vesting 2017 or 2018 LTIP awards	•	•				•	•
Review EDs' performance against their annual bonus targets and objectives	•		•				•
Review EDs' compensation packages based on the CRD V			•	•	•		
Review and approval approach to year-end compensation					•	•	
Year-end all-employee group-wide salary and bonus analysis/proposals for 2020 or 2021	•				•	•	•
Governance review of the sales incentive schemes					•		
Review and approval of the risk management objectives for the 2017 or 2018 LTIP vesting	•						•
Review proposed 2020 or 2021 compensation for Material Risk Takers	•					•	•
Initial review of EDs' annual bonus targets and objectives for 2021 or 2022	•						•
Review of sales incentive schemes and approval of schemes for 2022							•
Regulatory and external developments							
Review of revised Capital Requirements Directive rules			•				
Material Risk Takers identification for 2021		•	•		•		
Review and approve Material Risk Takers identification for 2022 based on the CRD V changes				•	•	•	
Gender pay gap review		•	•				
Special business							
Review and approval of CEO exit arrangements		•		•			
Approve Omnibus Scheme Rules changes			•				
Committee remit and effectiveness							
Review terms of reference							•

UK Corporate Governance Code

As detailed in the Directors' Remuneration Report last year, we continue to be compliant with the executive pay provisions of the 2018 UK Corporate Governance Code. Our pay arrangements are also consistent with the following principles set out in the Code:

- Clarity – this Directors' Remuneration Report provides open and transparent disclosure of our executive remuneration arrangements for our internal and external stakeholders.
- Simplicity and alignment to culture – incentive arrangements for our executives are straightforward, with individuals eligible for an annual bonus and, at more senior levels, a single long-term incentive plan. Performance measures used in these plans are designed to support delivery of the group's key strategic priorities and our commitment to adopt a responsible, sustainable business model, in line with our purpose and values.
- Predictability – our incentive arrangements contain maximum opportunity levels with outcomes varying depending on the level of performance achieved against specific measures. The charts on page 107 provide estimates of the potential total reward opportunity for the executive directors under our Policy.

Directors' Remuneration Report continued

- Proportionality and risk – our variable remuneration arrangements are designed to provide a fair and proportionate link between group performance and reward. In particular, partial deferral of the annual bonus into shares, five-year release periods for LTIP awards and stretching shareholding requirements that apply during and post-employment provide a clear link to the ongoing performance of the group and therefore long-term alignment with stakeholders. We are also satisfied that the variable pay structures do not encourage inappropriate risk-taking. Notwithstanding this, the Remuneration Committee retains an overriding discretion that allows it to adjust formulaic annual bonus and/or LTIP outcomes so as to guard against disproportionate out-turns. Malus and clawback provisions also apply to both the annual bonus and LTIP and can be triggered in circumstances outlined in the Policy.

Advice

During the year under review and up to the date of this report, the Remuneration 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 Remuneration Committee seeks advice from employees, this never relates to their own remuneration.

The Remuneration Committee's remuneration advisers are Deloitte LLP (a member of the Remuneration Consultants Group) and were appointed by the Remuneration Committee following a competitive tendering process. During the year, separate teams within Deloitte provided advice to the group on risk, cyber, IT, internal audit and related projects. The Remuneration Committee assesses the performance of Deloitte, the associated fees and the quality of remuneration advice provided, to ensure that it remains objective and independent of the provision of these other services. Total fees paid to Deloitte were £154,250 during the 2021 financial year, calculated on a time and material basis.

Slaughter and May provided legal advice on the company's equity scheme rules. Fees paid to Slaughter and May were £112,800, calculated on a time and material basis.

Statement of voting on the Directors' Remuneration Policy at the 2020 AGM

	For	Against	Number of abstentions
Directors' Remuneration Policy	97.1%	2.9%	461,438

Statement of voting on the Directors' Remuneration Report at the 2020 AGM

	For	Against	Number of abstentions
Annual Report on Remuneration	96.4%	3.6%	462,443

Implementation of the policy in 2021

Single total figure of remuneration for executive directors 2021 (Audited)

	Salary		Benefits		Pension		Total fixed remuneration		Annual Bonus[1]		Performance awards[2,3]		Total variable remuneration		Total remuneration	
	2021	2020	**2021**	2020	**2021**	2020	**2021**	2020	**2021**	2020	**2021**	2020	**2021**	2020	**2021**	2020
Name	**£'000**	£'000	**£'000**	£'000	**£'000**	£'000	**£'000**	£'000	**£'000**	£'000	**£'000**	£'000	**£'000**	£'000	**£'000**	£'000
Adrian Sainsbury[4,5]	**475**	–	**22**	–	**48**	–	**545**	–	**843**	–	**325**	–	**1,168**	–	**1,713**	–
Mike Morgan	**400**	400	**9**	2	**35**	35	**444**	437	**551**	218	**263**	379	**814**	597	**1,258**	1,034
Preben Prebensen[6]	**78**	550	**3**	19	**17**	124	**98**	693	**180**	660	**582**	690	**762**	1350	**860**	2,043

1 60% of Adrian Sainsbury's, Mike Morgan's and Preben Prebensen's annual bonus is deferred into shares
2 The figures for the performance awards for 2020 have been recalculated using the actual share price on the date of vesting for the LTIP of £10.55. The three-month average to 31 July 2020 was used for the 2020 report given that the awards were vesting after publication of the report.
3 The figures for the performance award for 2021 have been calculated using the three-month average to 31 July 2021. As this share price is lower than the grant date share price, none of this value relates to share price appreciation.
4 Adrian Sainsbury was appointed chief executive on the 21 September 2020. His salary, benefits, bonus and pension in the table relate to the period he was an executive director.
5 Adrian Sainsbury's performance awards were granted before he was appointed to the board. The full award relates to a vested LTIP that was subject to the performance criteria outlined on page 117.
6 Preben Prebensen stepped down as chief executive on the 21 September 2020 and his remuneration has been time pro-rated accordingly.

Link between reward and performance

The group delivered strong results in the 2021 financial year, maximising the opportunities as the economy recovers from the Covid-19 crisis. The board is now proposing payment of a 60p per share dividend in respect of the 2021 financial year, reflecting our confidence in the group's business model and strong financial position.

Overall, the group reported an increase in adjusted operating profit to £270.7 million (2020: £144.0 million), resulting in a solid return on opening equity of 14.5% (2020: 8.0%), which has been reflected in the EDs' bonuses, with this element vesting at 65% of the potential maximum. The CET1 measure, introduced this financial year, has increased to 15.8% (2020: 14.1%) and is vesting at 100%. The resulting combined overall vesting of the two financial measures is 82.5% of the potential maximum. The executive directors continued to demonstrate a high level of progress against specified objectives, and this resulted in strong performance scores against the strategic scorecard (see pages 114 to 117 for further details).

For the 2018 Long-Term Incentive Plan vesting this year, 70% of the vesting is based on financial goals and 30% is based on risk, compliance and control objectives. For the financial goals, the adjusted earnings per share growth of 0.1% over the last three years was below the threshold performance target of 10% growth and consequently the adjusted earnings per share element of the LTIP has not vested. The average annual return on equity of 12.7% per annum has exceeded the threshold target of 12.0% per annum, meaning the return on opening equity element contributed 11.1% to the overall vesting. 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 95%, contributing 28.5% to the overall vesting. As a result, the LTIP vested at 39.6% overall this year (see page 117 for further details).

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 Remuneration 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 executive directors during the 2021 financial year, whilst the average increase for the general employee population is 1%.

Benefits

Adrian Sainsbury and Preben Prebensen received an £18,000 allowance in lieu of a company car (time pro-rated for period in executive director role). Mike Morgan does not receive an allowance in lieu of a company car. 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

Adrian Sainsbury and Mike Morgan received a pension allowance equivalent to 10% of base salary, the same percentage as the general employee population. Preben Prebensen received a monthly cash pension allowance equivalent to 22.5% of base salary.

Annual bonus

Maximum bonus potential for the 2021 financial year was 225% of salary for Adrian Sainsbury (time pro-rated for period in executive director role), 175% of salary for Mike Morgan and 300% of salary for Preben Prebensen (time pro-rated for period as executive director). The bonuses for executive directors were determined with reference to RoE and CET1 targets and a group-wide strategic scorecard. Details of the achievements and targets are outlined below.

Summary of annual bonus achievement

	Financial target (RoE)				Financial target (CET1)				Group-wide strategic scorecard				
	Weighting	Potential maximum £'000s	**Actual per cent of maximum**	**Actual amount awarded £'000s**	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**
Adrian Sainsbury[1]	30%	321	**65%**	**209**	30%	321	**100%**	**321**	40%	428	**73%**	**313**	**843**
Mike Morgan	30%	210	**65%**	**137**	30%	210	**100%**	**210**	40%	280	**73%**	**204**	**551**
Preben Prebensen[2]	30%	68	**65%**	**45**	30%	68	**100%**	**68**	40%	91	**73%**	**67**	**180**

1 Adrian Sainsbury's potential maximum for all elements of the annual bonus award are time pro-rated based on his appointment as chief executive on the 21 September 2020.
2 Preben Prebensen's potential maximum for all elements of the annual bonus award are time pro-rated based on him stepping down as chief executive on the 21 September 2020.

The RoE for the 2021 financial year was 14.5% against a target range of 10% to 18%, warranting an award of 65% of the potential maximum bonus for this element.

The CET1 capital ratio for the 2021 financial year was 15.8% against a target range of 12.6% to 15.6%, warranting an award of 100% of the potential maximum bonus for this element.

Financial measures

Financial measure	Threshold 33.3% of maximum potential	Target 50% of maximum potential	Maximum 100% of maximum potential	**Actual financial element achieved**	**Percentage of financial element paid**
RoE	10.0%	13.0%	18.0%	**14.5%**	**65%**
CET1 capital ratio	12.6%	14.1%	15.6%	**15.8%**	**100%**

For Adrian Sainsbury, Mike Morgan and Preben Prebensen, 60% of any annual bonus is deferred into group shares vesting in equal tranches over three years in line with the 2020 Remuneration Policy.

Group-wide performance and executive directors' objectives for the 2021 financial year (Audited)

Covid-19 continued to present challenges this year and management's priority has been to ensure the group remained in a strong position to support customers and colleagues while making the most of the opportunities as the economy recovers.

The group continued to support employees with a constant focus on their wellbeing. The recent employee opinion survey achieved strong scores and showed high levels of employee engagement, demonstrating the strength of Close Brothers' culture. The group offered a range of forbearance measures to assist customers during the crisis with most of them now resuming payments or no longer in forbearance. The continued focus on customers and clients is demonstrated by the strong customer satisfaction scores achieved. The playbooks and simulations run in prior years benefited the group's agile response to this changing environment.

The disciplined application of the group's business model was highlighted by this year's strong financial performance. The Banking division saw high new business levels and made the most of the cyclical growth opportunities, while maintaining its underwriting and pricing discipline, with a consistent strong net interest margin, which remains well ahead of the peer group average. Strong new business volumes were supported by demand for loans issued under the UK government support schemes. The group made a strategic decision to focus on CBILS over the Bounce Back Loan Scheme ("BBLS"), as it enabled it to apply normal underwriting and pricing discipline. Impairment charges reduced significantly as the group experienced strong underlying credit performance across the Commercial, Retail and Property businesses, as well as a reduction in Covid-19 provisions. The bad debt ratio of 1.1% (2020: 2.3%) included the impact of a significant increase in credit provisions against the Novitas loan book within the Commercial business.

Directors' Remuneration Report continued

Asset Management achieved good net inflows and Winterflood delivered a strong trading performance, highlighting the benefits of the group's diverse portfolio of businesses and variety of profit streams.

The group maintained a strong balance sheet, with a prudent funding and liquidity position. The capital levels remain significantly above the applicable minimum requirements. In addition, two successful debt issuances took place in the year, reflecting the group's prudent approach to managing funding and liquidity.

The multi-year investment programmes, which included the submission of our initial IRB application to the PRA in December, progressed well in the year and continued to deliver tangible benefits and to protect the business.

The group progressed well on the delivery of its sustainability objectives over the past year and announced its support for the Paris Agreement on net zero goals and its commitment to become operationally net zero through its Scope 1 and Scope 2 carbon emissions by 2030.

The group remains well positioned to continue to make the most of the opportunities arising in the current environment and to continue supporting employees and customers as the economy recovers.

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 objectives.

The table on pages 114 to 117 sets out examples of the strategic scorecard objectives which were in place in 2021, performance metrics against these objectives where appropriate, and an overview of the factors that the Remuneration Committee has taken into account when assessing the performance of the executives.

The Remuneration 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.

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

Key: ✓ Performance objective has been achieved | = Satisfactory outcome, further progress to be made

X Performance objective has not been met

Objective	Assessment of performance against objectives including performance metrics
Delivering in the Covid environment ✓	Performance metrics • Net interest margin at 7.7% (2020: 7.5%) • Bad debt ratio of 1.1% (10-year range: 0.6%-2.3%) • Strong loan book growth of 10.9% (10-year range: 0%-20%) • Return on net loan book of 2.6% (10-year range: 1.3%-3.7%) • Return on opening equity of 14.5% (2020: 8.0%) • Over 90% of the loan book is secured or has some form of structural protection • Average loan book maturity of 17 months (31 July 2020: 15 months) • Average maturity of funding allocated to loan book of 24 months (31 July 2020: 18 months) • £1.8 billion of treasury assets (31 July 2020: £1.7 billion), predominantly held on deposit with the Bank of England • CET1 capital ratio of 15.8% (31 July 2020: 14.1%) • Leverage ratio of 11.8% (31 July 2020: 11.2%) • Group's strong credit ratings have been upgraded by Moody's Investors Services ("Moody's") and affirmed by Fitch Ratings ("Fitch") in the 2021 financial year
Effective management of Covid-19 related concessions, bad debt and collections ✓	Assessment • The performance of the forborne book remains encouraging. At 31 July 2021, the total balance of loans classified as forborne and subject to Covid-19 concessions reduced to £0.46 billion (31 July 2020: £1.4 billion) • As the pandemic progressed, the impact on customers and their ongoing performance and requirements have been monitored, including the uptake of concessions, payment performance, the resumption of normal payment terms and the requirement for further concessions • Conservative and appropriate cure periods associated with these concessions have been determined based on in-depth knowledge of portfolios and sub-portfolios

Objective	Assessment of performance against objectives including performance metrics
Maintain the group's pricing and underwriting discipline, in line with the overall credit risk appetite set by the group board	Assessment • Firm adherence to lending model with continued underwriting and pricing discipline • Strong new business volumes, particularly in Asset Finance and Motor Finance • Loan book growth has been supported by strong demand for loans issued under CBILS • Strategic decision to focus on CBILS over BBLS, as it enabled the group to apply normal underwriting and pricing discipline • Strategic decision to withdraw from the legal services financing market. This follows a strategic review of Novitas, which concluded that the overall risk profile of the business is no longer compatible with the group's long-term strategy and risk appetite • 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
Creating and implementing a return to the workplace approach	Assessment • Covid-secure working environment established in over 95% of the group's locations prior to the national lockdown in January 2021 • In Banking, most field-based employees have now resumed face-to-face interaction with customers • Additional Winterflood trading floor established, providing enhanced contingency • Extensive work has been completed to risk assess hybrid working patterns, enabling the identification and mitigation of any risks arising • The group is in the process of adapting to and implementing future ways of working, taking into account the different needs of customers and each of the group's businesses, to suit its diverse nature
Developing and implementing the group's strategic narrative and priorities	Assessment • Following a review with the objective of evolving the group's strategy, the framework for articulating the group's future strategic priorities evolved from "protect, improve, extend" to "protect, grow, sustain" to reflect our commitment to the delivery of disciplined growth and the sustainability of the group's business model over the long term • To support the articulation of how the group plans to deliver disciplined growth, the "Model Fit Assessment Framework" was introduced • The evolved objectives were further articulated and presented at the group's recent Investor Event, with positive feedback received from shareholders and analysts • The group's strategic narrative was is also well understood internally following several Town Hall meetings attended by over 1,700 colleagues
Delivering for the future Recognising and responding to changes in customer behaviour	Assessment • High level review across all businesses of Covid-related changes in customer behaviours and macroeconomic environment conducted • Continued investment in technology, as a way of supporting the group's human-fronted approach, making its experts even more valuable • Investments in Motor and Asset enabled front ends to be implemented in an agile way which facilitated record volumes and allowed those businesses to respond and adapt to recent challenges of Covid-19 • In the Savings business, the online savings portal now has c.39,000 customers, representing 40% of retail customer base, registered for online banking. This has also been particularly valuable in a Covid-19 environment, as it has mitigated the challenges of offering a postal channel whilst working remotely • Motor Finance completed the initial phase of their external market review, setting out how the business is adapting to customers moving on line and looking to partner with disrupters
Investing to maintain the value of the model Progressing multi-year investment programmes	Assessment • Good progress on all multi-year investment programmes, with minor Covid-19 related delays • Preparations for a transition to the IRB approach remain on track, with the initial application to the PRA submitted in December 2020 • The group is progressing through the first phase of the PRA's IRB review process and continues to work with the regulator to support their review • Motor Finance transformation programme nearing completion, with the programme delivering improvements in the service proposition, enhancing operational efficiency, improving credit acceptance process and increasing sales effectiveness

Directors' Remuneration Report continued

Objective	Assessment of performance against objectives including performance metrics
Delivering disciplined growth	Assessment • Strong year of growth in the Banking division following the initial Covid-19 impact • Loan book up 10.9%, reflecting high levels of activity and supported by strong demand for CBILS loans • At 31 July 2021, over £1.14 billion had been lent across more than 5,700 loans under the government support schemes in the Commercial and Property businesses • Strategic decision to focus on CBILS over BBLS, as it enabled the group to apply normal underwriting and pricing discipline • Approved to lend under the Recovery Loan Scheme, but anticipate volumes to be substantially lower than lending via CBILS • Continued growth in Asset Management with net inflows of 7% despite reduced face-to-face interaction with clients due to Covid restrictions • Completed the acquisition of PMN Financial Management, an IFA business with c.£300 million assets under administration, in line with the group's plans to maximise long-term growth potential in the Asset Management business • Winterflood delivered an exceptionally strong trading performance and capitalised on increased trading volumes for most of the year • Winterflood Business Services has continued to grow its assets under administration, now at £6.2 billion (31 July 2020: £4.1 billion), capitalising on the trend for outsourcing
People Succession planning for key senior management team	Assessment • Smooth transition of chief executive • Implemented and embedded new group Executive Committee structure leading to simplification of management structure and reallocation of SMR responsibilities • Recruitment and smooth transition of group treasurer
Maintain strong employee engagement and reinforce position as employer of choice	Performance metrics • 91% employee engagement, above external benchmark of 82% • 96% of colleagues believe their immediate team work well together • 93% say colleagues go the extra mile to meet the needs of customers and clients
	Assessment • Employee opinion survey confirms continued strong employee engagement • Employee engagement score above external benchmark
Customers Maintain focus on the end customer	Performance metrics • All businesses scored above average net promoter score ("NPS") in financial services (+50) with scores ranging from +60 to +87 in the 2021 financial year
	Assessment • Continued support for our customers as the economy recovered from the Covid-19 crisis • Focused strongly on client needs and servicing • Maintained strong key customer metrics across the Banking businesses • Implemented government lending schemes in Asset Finance and Invoice Finance to support customer needs • New complaints dashboard introduced and successfully being used to track performance and focus effort on improvement areas
Support customers through forbearance and enhance strong long-term relationships	Performance metrics • Over 130,000 customer payment deferrals and other Covid-19 related concessions offered since the beginning of the pandemic
	Assessment • Wide range of forbearance measures offered across all businesses and in-line with regulatory guidance

Objective	Assessment of performance against objectives including performance metrics
Risk conduct and compliance Operate within risk appetite, preserve compliance with legal and regulatory obligations, maintain strong control framework and overall operational resilience	Assessment • Continued development of operational risk framework, which was significantly tested and shown to be effective during the Covid-19 crisis • Cyber security strategy enhanced and agreed with Board Risk Committee, with investments delivering significant improvements, particularly in technology • Internal audit reviews confirm businesses continue to operate within established and embedded credit and operational risk appetite, reflecting mature and transparent risk management practices • Maintained key regulatory and compliance controls • Short-term risks from the current working environment continue to be coordinated and monitored on an ongoing basis. Longer-term risks and opportunities being considered through a working group

Long-term performance awards (Audited)

The performance awards in the single total figure of remuneration include the 2018 LTIP grant. This will vest on 2 October 2021, and the overall vesting is outlined in the table below.

Details of the overall vesting for the LTIP

Performance measure	Threshold target[1]	Maximum target	Actual achieved	Overall vesting
Adjusted EPS growth[2] (35% weighting)	10%	30%	**0.1%**	**0.0%**
RoE[3] (35% weighting)	12%	20%	**12.7%**	**11.1%**
Risk management objectives ("RMO") (30% weighting)	n/a	n/a	**95.0%**	**28.5%**
Overall vesting				**39.6%**

1 25% of the awards vest for satisfying the threshold target.
2 Over three years.
3 Average over three-year performance period.

In addition to the overall vesting of the performance measures, both share price and dividend equivalents affect the payout from the LTIP.

The share price during the relevant performance period for the LTIP decreased by 2.9% 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 2021 was 1,570p from 1 May 2021 to 31 July 2021, which was the performance measurement period. The 2018 LTIP award was originally granted at 1,589.0p.

The performance awards also include the amount (in cash or shares) equal to the dividend 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

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 2019 and 2020 Directors' Remuneration Reports respectively. The year three performance assessment is detailed on the following page.

Directors' Remuneration Report continued

Year three performance assessment against risk management objectives

Key: Performance objective has been achieved — Satisfactory outcome, further progress to be made — 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 14.1% to 15.8%, providing a significant headroom above the above the applicable minimum regulatory requirement of 7.6% excluding any PRA buffers.
	Dividend	• Interim dividend, 2021 of 18p declared and paid, reflecting the group's strong performance in the first half of the financial year and confidence in our business model and financial position. • The board is proposing a final dividend of 42p, resulting in a full-year dividend per share of 60p, reflecting the group's strong performance in the year and continued confidence in our business model and financial position.
	Funding	• Average maturity of funding allocated to loan book is 24 months, well in excess of the loan book at 17 months.
	Liquidity	• Continue to comfortably meet the liquidity coverage ratio requirement with a 12-month average to 31 July 2021 LCR of 1,003% (2020: 823%).
Risk, compliance and controls	Internal Ratings Based approach	• Achieved all key objectives and milestones with the initial formal application submitted to the PRA, as planned, in December 2020. • Concluded phase/module one of PRA application process with initial interviews conducted in May 2021. • The various workstreams under the project to transition to IRB led to a continued positive relationship with the regulator.
	Conduct and Culture	• Approach to enhancing the Conduct Risk Framework and dashboard developed, approved and currently being piloted in certain businesses prior to group-wide roll out in the next financial year. • Overall cultural assessment for the group remains positive with strong scores on culture achieved in the latest employee opinion survey completed. • Positive employees feedback received around how Close Brothers supported colleagues through the pandemic. • Broadened our inclusion remit to focus on disability inclusion through joining the Valuable 500 initiative and signing up to the Mental Health at Work commitment. • At 31 July 2021, 32% of our senior managers were female. This reflects a slight drop from 33% in June but we remain confident in our overall progress to achieve our 2025 target of 36%. • Increased our ethnicity data disclosure to 75%, exceeding our target of 60%.
	Sustainability	• Sustainability targets met, exceeded or on track. These include the achievement of a 23% reduction in group-wide overall Scope 1 and 2 emissions, maintenance of strong customer satisfaction scores across all our businesses, and a 25% improvement in fleet vehicle emissions. • Significant progress was made during the year in advancing and externally articulating the group's strategy on sustainability and the group's identified focus areas, objectives and associated measures of performance. • The group has announced that it is supportive of the goals of the Paris Agreement towards achieving net zero by 2050, reinforced by a new target of becoming operationally net zero through our Scope 1 and 2 emissions by 2030. • A qualitative review of climate risks was completed and a process to embed climate risk identification and risk methodology within the group's risk framework is being undertaken. • Assessment of our indirect Scope 3 emissions over the coming year in order to set out our own transition pathway to lower emissions.

Element	Measure	Extent to which the Committee determined the target has been met
	Operational resilience	• The group's operational resilience framework, standards and roadmap have been agreed with the Board Risk Committee. • A roadmap of investment in operational resilience has been confirmed with key resources and capabilities identified, including a group-wide resilience investment prioritisation in line with regulatory compliance timelines. • Repeatable methodology for defining important business services and defining impact tolerances agreed with the Board Risk Committee. Initial stress testing and monitoring of results under way. • Continued delivery of cyber improvement programme/framework with an independent assessment confirming the appropriateness of the group's approach to cyber security.

The table below summarises the Remuneration 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%	95%	100%	98.3%
Risk, compliance and controls	90%	95%	90%	91.7%
Overall vesting				**95.0%**

Implementation of the policy in 2022

Base salary

	Salary effective from 1 August 2021[1]	Increase
Chief executive – Adrian Sainsbury	£930,000	–
Group finance director – Mike Morgan	£560,000	–

1 Subject to shareholder approval at the November 2021 AGM.

No merit base or cost of living increase has been given to the executive directors although base salaries will increase from £550,000 to £930,000 for the group chief executive and £400,000 to £560,000 for the group finance director as part of a compensation mix adjustment required by the implementation of the bonus cap introduced as part of CRD V. The salary increases are subject to shareholder approval at the 2021 AGM and will be backdated to the 1 August 2021, if approved. The average salary increase across the wider employee population was 2%, effective from 1 August 2021.

Adrian Sainsbury and Mike Morgan's allowance in lieu of pension will be 10% of base salary, which is in line with the level of benefit offered to the general employee population.

The executive directors will receive benefits in line with those outlined in the remuneration policy table on page 101.

There will be no other increases to allowances or benefits other than any potential increase in the cost of providing them.

2022 annual bonus (i.e. bonus awarded in respect of the 2022 performance year)

RoE continues to be a long-standing metric for the financial element of the executive directors' remuneration framework. The Remuneration Committee considers it to be a significant key performance indicator, as it provides strong evidence of adherence to the group's business model. At the start of the 2021 financial year, CET1 capital ratio was included as a complementary financial measure as the Remuneration Committee viewed this metric as particularly important given the uncertain environment as a result of Covid-19. As the economic outlook improved and uncertainty in the external environment has reduced, the Remuneration Committee has determined that the weighting within the financial measures should be reviewed, with a higher emphasis on returns, to reflect the group's commitment to delivering disciplined growth.

Nature of measures	Choice of measures	Targets	Percentage of bonus opportunity	Vesting ranges
Financial	RoE	10% to 18%	40%	Threshold – 33%[2]
	CET1 capital ratio	12.6% to 15.6%	20%	Maximum – 100%
Non-financial	Strategic scorecard: Strategic, People, Customers and risk, Conduct and compliance objectives	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 2022 Annual Report on Remuneration.
2 Performance below threshold in the financial measures would result in zero vesting of the financial measure.

Adrian Sainsbury and Mike Morgan have a proposed maximum bonus potential of 95% of salary that is subject to the new Remuneration Policy being approved at the 2021 AGM.

Directors' Remuneration Report continued

2021 LTIP (i.e. LTIP awarded in respect of the 2022 to 2024 cycle)

The 2021 LTIP awards due to be granted in November 2021 are shown in the table below.

	Chief executive **Adrian Sainsbury**	Group finance director **Mike Morgan**
2021 LTIP award	£1,162,000	£700,000
Percentage change in LTIP award from 2020	(23)%	0%
2021 LTIP award as a percentage of proposed 2022 salary	125%	125%

As the performance period for the 2021 LTIP awards commences from the 2022 financial year, the Remuneration Committee has proposed awards for the executive directors at the revised maximum level of 125% of their 2022 base salary under the new Remuneration Policy. These awards are subject to shareholder approval at the 2021 AGM.

The 2021 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	10% to 18%[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 Remuneration Committee believes these targets are appropriately stretching and effectively align the executive directors' interests with those of shareholders.

For the 2022 financial year, an additional measure relating to operational risk has been added to the four risk management objectives in the prior year and are detailed in the following table.

Measure
Further progress our plans towards an Internal Ratings Based ("IRB") approach
Evolve the oversight of the conduct and culture framework and extend the diversity and inclusion strategy
Develop our sustainability strategic position and manage the financial risks and opportunities associated with climate change
Continue to build out our operational resilience strategy and framework
Continue to enhance effectiveness of our operational risk control environment

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 spend on pay

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

	2021 £ million	2020 £ million
Remuneration paid	**363.2**	322.7
Distributions to shareholders[1]	**89.5**	59.8

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

Change in remuneration of the directors and all employees

The following table shows how the remuneration of the directors changed compared to the average employee population for the 2021 financial year. The year-on-year movement in salary and fees for the directors and employees reflects the annual review implemented in August 2020 and changes throughout the financial year ending 31 July 2021. Non-executive directors fees have not changed during the 2021 financial year however, there were a number of changes to the board and committees which are reflected in the salary figures below. The reduction in Preben Prebensen's figures reflect he was only in the position of chief executive for part of the year. Mike Morgan's bonus increased as a result of the significant improvement in the performance of the financial elements within the executive directors' annual bonus. The average increase in bonus for the general population is supported by the improved business performance. Adrian Sainsbury, Mark Pain and Tesula Mohindra were appointed directors during the 2021 financial year and have been omitted from the table below as there are no year on year remuneration comparisons.

	Executive directors[2]						Chairman and non-executive directors[3]													
	Average Employee[1]		Preben Prebensen		Mike Morgan[4]		Mike Biggs		Lesley Jones		Bridget Macaskill		Oliver Corbett		Geoffrey Howe[5]		Peter Duffy		Sally Williams	
	2021	2020	**2021**	2020	**2021**	2020	**2021**	2020	**2021**	2020	2021	2020	**2021**	2020	2021	2020	2021	2020	**2021**	2020
Salary	**0%**	1.8%	**(85.9)%**	0%	**0%**	0%	**0%**	0%	**0%**	5.6%	(1.8)%	5.6%	**(0.1)%**	5.6%	(69.9)%	2.9%	2.8%	0%	**0%**	–
Benefits	**0%**	1.8%	**(86.0)%**	0%	**479.8%**	0%	**119.5%**	(25.7)%	**(0.4)%**	(57.0)%	33.5%	(50.5)%	**0%**	0%	(36.0)%	32.6%	0%	0%	**(85.3)%**	–
Bonus	**21.2%**	13.1%	**(72.8)%**	(51.3)%	**152.2%**	(54.7)%	**–**	–	**–**	–	–	–	**–**	–	–	–	–	–	**–**	–

1 Calculated by dividing staff cost related to salaries, bonus and benefits by the average number of employees.
2 Calculated using the data from the single figure table in the annual report on remuneration.
3 Calculated using the fees and taxable benefits from the single figure table for non-executive directors on page 124.
4 Mike Morgan's 2021 benefits have increased by £7,000 as it includes the gain for the SAYE scheme joined during the year.
5 Geoffrey Howe stepped down as a non-executive director on 19 November 2020 and this is reflected in his 2021 figures.

Pay ratios

The table below compares the chief executive's single total remuneration figure to the remuneration of the group's UK employees over the last two financial years. The Remuneration Committee is satisfied that the median ratio is consistent with the pay, reward and progression policies for our employee population.

The chief executive's single total remuneration figure is Adrian Sainsbury's and Preben Prebensen's combined 2021 single figures. The combine figure over states the performance awards as it includes both individuals' awards that vest in the 2021 financial year.

Year	Method	25th Percentile	Median	75th Percentile
2021	Option A	79 : 1	47 : 1	29 : 1
2020	Option A	64 : 1	38 : 1	23 : 1

Our ratios have been calculated using the most robust methodology option "A" prescribed under the UK Companies (Miscellaneous Reporting) Regulations 2018. Under this option, the ratios are calculated using the following:
- the full-time equivalent salaries and allowances for employees in the UK;
- pensions and benefits paid during the financial years;
- annual bonus awarded for the financial years;
- actual and projected gains realised from exercising awards from taxable employee share plans;
- sales incentives paid during the financial years; and
- projection of vested performance awards.

The 2021 total remuneration value for the employee at the 25th percentile, median and 75th percentile was £32,437, £54,729 and £89,927 respectively, of which the salary component made up £28,820, £38,500 and £70,000 respectively.

Chief executive: Historical information

	2012	2013	2014	2015	2016	2017	2018	2019	2020[1]	**2021[2]**
Preben Prebensen										
Single figure of total remuneration ('000)[3]	£2,496	£5,748	£7,411	£5,962	£3,995	£3,337	£2,541	£2,770	£2,043	**£860**
Annual bonus against maximum opportunity	90%	100%	100%	98%	95%	91%	86%	82%	40%	**78%**
LTIP, SMP and Matching Share Award vesting[4]	25%	79%	95%	97%	68%	51%	19%	30%	42%	**40%**

1 The figures for the performance awards for 2020 have been recalculated using the actual share price on the dates of vesting for the LTIP of £10.55. In the 2020 report, the three-month average to 31 July 2020 was used, given that the awards were vesting after publication of the report.
2 Preben Prebensen's remuneration for the 2021 financial year has been time pro-rated to 21 September 2021, the day he stepped down as chief executive.
3 The figures for 2012 to 2014 include the Matching Share Awards that were granted in 2009 at the time of Preben Prebensen's appointment as chief executive.
4 SMP and Matching Share Awards were last granted in the 2016 financial year.

	2021[1]
Adrian Sainsbury	
Single figure of total remuneration ('000)	**£1,713**
Annual bonus against maximum opportunity	**78%**
LTIP vesting	**40%**

1 Adrian Sainsbury was appointed chief executive on 21 September 2021 and his remuneration included in the single figure has been time pro-rated accordingly.

LTIP vesting for the last eight years

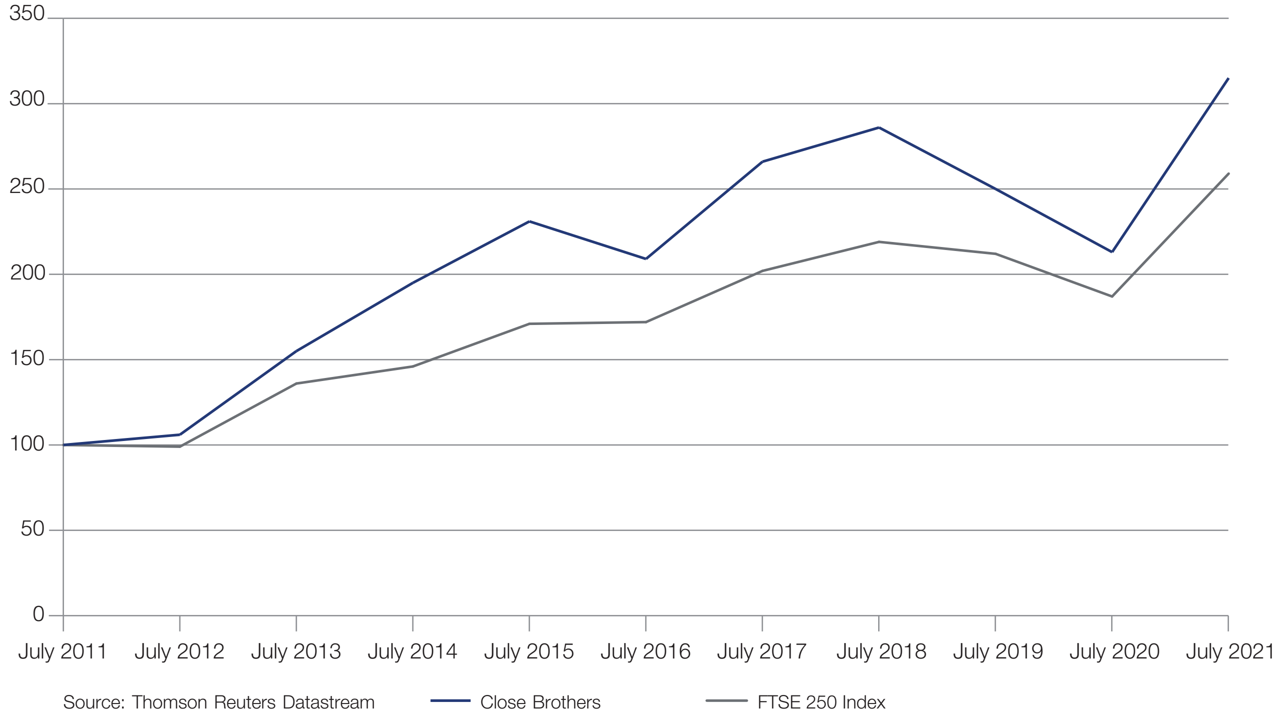
		Vesting percentage				
Year awarded	Year vested	Adjusted EPS	TSR	RoE	RMO	Total
2011[1]	2014	100%	100%	–	85%	95%
2012[2]	2015	100%	100%	–	87%	97%
2013[2]	2016	100%	25%	–	89%	68%
2014[2]	2017	56%	26%	–	92%	51%
2015[2]	2018	0%	0%	–	93%	19%
2016[2]	2019	0%	28%	–	94%	30%
2017[3]	2020	0%	–	38%	94%	42%
2018[3]	2021	0%	–	32%	95%	40%

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.
3 Vesting was subject to 35% adjusted EPS, 35% RoE and 30% risk management objectives for the 2017 and 2018 awards.

Directors' Remuneration Report continued

Performance graph

The graph below shows a comparison of TSR for the company's shares for the 10 years ended 31 July 2021 against the TSR for the companies comprising the FTSE 250 Index.



Note:
This graph shows the value, by 31 July 2021, of £100 invested in Close Brothers Group plc on 31 July 2011 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 30 July 2021 was 1.543p and the range during the year was 946p to 1,685p.

Scheme interests awarded during the year (Audited)

The face value and key details of the share awards granted in the 2021 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 £9.88, the average mid-market closing price for the five days prior to grant (28 September 2020).

Name	Award type[1]	Vesting period	Performance conditions	Face value '000	Percentage vesting at threshold	Number of shares	Vesting/ performance period end date
Adrian Sainsbury	DSA[2]	1-3 years	No	£70	n/a	7,086	29-Sept-23
	LTIP[3,4]	3 years	Yes	£1,500	25%	151,838	29-Sept-23
Mike Morgan	DSA[2]	1-3 years	No	£131	n/a	13,265	29-Sept-23
	LTIP[3,4]	3 years	Yes	£700	25%	70,858	29-Sept-23
Preben Prebensen	DSA[2]	1-3 years	No	£396	n/a	40,086	29-Sept-23

1 The awards are all delivered as nil cost options.
2 The DSA vests in equal tranches over three years.
3 Performance conditions are detailed on page 120.
4 LTIPs vested from 2020 have an additional two-year holding period.

External appointments

Preben Prebensen received £ 9,904.47 in non-executive director fees (2020: £71,687) from The British Land Company plc for the period he was chief executive.

Payments to departing directors (Audited)

The treatment of Preben Prebensen's compensation arrangements was determined last year and set out in full on pages 112 and 113 in the 2020 Directors' remuneration report. In accordance with these arrangements, Preben Prebensen has been awarded a time pro-rated bonus for the period of the 2021 financial year he was chief executive in recognition of his performance until date of leaving and for his role in the smooth transition of the new chief executive. Preben Prebensen did not receive a termination payment upon departure.

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 2021 are set out below:

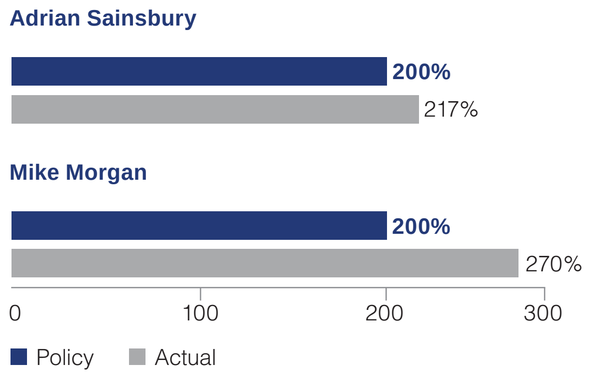
Name	Shareholding requirement at 31 July 2021[1]	**Number of shares owned outright[2] 2021**	Outstanding share awards not subject to performance conditions[3]		Outstanding share awards subject to performance conditions[4]		Outstanding options[5]	
			2021	2020	**2021**	2020	**2021**	2020
Adrian Sainsbury	71,290	**77,180**	**22,784**	–	**275,596**	–	**2,146**	–
Mike Morgan	51,848	**69,955**	**23,573**	15,620	**172,632**	135,699	**3,778**	2,505
Preben Prebensen[6]	114,286	**103,303**	**97,652**	116,625	**122,113**	386,819	**–**	1,458

1 Based on the closing mid-market share price of 1,543p on 31 July 2021.
2 This includes shares owned outright by closely associated persons.
3 This includes DSA.
4 This includes LTIP awards.
5 These are comprised of SAYE options.
6 Preben Prebensen's shareholding is as at 21 September 2020, the day he stepped down as chief executive.

No executive directors held shares that were vested but unexercised at 31 July 2021. There were no changes in notifiable interests between 1 August 2021 and 20 September 2021, other than the purchase of shares by Adrian Sainsbury within the SIP which increased his shareholding to 77,199 shares.

Executive directors' shareholding

The chart below compares the current executive directors' shareholding versus shareholding policy, as a percentage of salary.



Details of executive directors' share exercises during the year (Audited)

Name	Award type	Held at 1 August 2020	Called[1]	Lapsed	Market price on award p	Market price on calling p	Total value on calling[1] £	Dividends paid on vested shares £
Adrian Sainsbury	2017 DSA	5,712	5,712	–	1,459.0	1,014.0	57,920	11,938
	2018 DSA	4,721	4,721	–	1,588.8	1,014.0	47,871	6,987
	2019 DSA	5,489	5,489	–	1,366.4	1,014.0	55,658	4,611
	2015 LTIP Special[2]	22,148	22,148	–	1,446.0	1,014.0	224,581	72,079
Mike Morgan	2018 DSA	315	315	–	1,588.8	1,022.0	3,219	340
	2019 DSA	4,997	4,997	–	1,366.4	1,022.0	51,069	2,199
	2015 LTIP Special[2]	10,374	10,374	–	1,446.0	1,022.0	106,022	29,612
	2015 LTIP Special[2]	6,697	6,697	–	1,493.4	1,022.0	68,443	19,116
Preben Prebensen	2017 DSA	21,343	21,343	–	1,459.0	1,401.6	299,143	44,607
	2018 DSA	17,863	17,863	–	1,588.8	1,401.6	250,368	26,437
	2019 DSA	19,853	19,853	–	1,366.4	1,401.6	278,260	16,677
	2017 LTIP	129,541	53,889	75,652	1,459.0	1,401.6	755,308	112,628

1 These are the actual number of shares and values realised on calling. Any variances in totals are due to rounding.
2 The 2015 LTIP Special Awards are performance awards granted to the individuals before they were appointed to the board. The awards were conditional on continued employment and positive EPS growth between grant and vesting.

Directors’ Remuneration Report continued

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 and LTIP 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 and LTIP 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 spread over the vesting period for the LTIP award.

As previously disclosed, the former chief executive, Preben Prebensen, was granted nil cost awards in 2017 under the Company’s Long-Term Incentive Plan. Those awards vested in respect of 53,889 company shares at the end of the three-year performance period (ending on 3 October 2020), with the remainder lapsing. After vesting, the award was subject to a further two-year holding period, during which time the Award should not have been capable of exercise until 3 October 2022. Due to an administrative error on the part of the company, Preben’s nil cost awards were exercised in December 2020, with the underlying shares being sold in the market, the proceeds of sale used to account for deductible taxes, and the net proceeds being remitted to Preben. On discovery of the administrative error, Preben cooperated fully with the company and has agreed to defer the vesting of awards over 51,076 shares in the company, held under the company’s Deferred Annual Bonus Plan, that are due to vest in October 2021. These awards will instead be released on 3 October 2022 (being the date on which Preben’s 2017 LTIP awards would have been released). Preben has also purchased an additional 2,813 shares in the company, and has agreed not to sell or transfer those shares until 3 October 2022. These steps have been taken with the intention of largely replicating the overall vesting and holding schedule applicable to the 2017 LTIP awards referred to above.

Details of executive directors’ option exercises during the year (Audited)

Name	Award type	Held at 1 August 2020	Exercised	Lapsed	Exercise price	Market price on exercise	Gain on calling
Adrian Sainsbury	2017 SAYE (Spring)	729	729	–	1,234.0	1,313.4	579
	2017 SAYE (Autumn)	774	774	–	1,162.0	1,313.4	1,172
Mike Morgan	–	–	–	–	–	–	–
Preben Prebensen	2017 SAYE (Spring)	1,458	1,458	–	1,234.0	1,313.4	1,158

Single total figure of remuneration for non-executive directors (Audited)

	2021						2020					
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**	–	–	–	**8**	**308**	300	–	–	–	4	304
Lesley Jones	**70**	**33**	**10**	–	**1**	**114**	70	33	10	–	1	114
Geoffrey Howe[3]	**21**	–	**5**	**6**	–	**32**	70	–	15	20	–	105
Bridget Macaskill	**70**	**33**	**8**	–	**7**	**118**	70	33	10	–	5	118
Oliver Corbett[4]	**70**	**33**	**8**	**2**	–	**113**	70	33	10	–	–	113
Peter Duffy	**70**	–	**7**	–	–	**77**	70	–	5	–	–	75
Sally Williams	**70**	–	**10**	–	–	**80**	41	–	6	–	1	48
Mark Pain	**41**	–	**5**	**19**	–	**65**	–	–	–	–	–	–
Tesula Mohindra[5]	–	–	–	–	–	–	–	–	–	–	–	–

1 Non-executive director fees were last increased with effect from 1 August 2019.
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 Geoffrey Howe stepped down as a non-executive director on 19 November 2020.
4 Oliver Corbett was appointed interim senior independent director for the period 19 November 2020 to 31 December 2020.
5 Tesula Mohindra was appointed a non-executive director on 15 July 2021 and not paid during the 2021 financial year.

Notes to the single total figure of remuneration for non-executive directors

The fees payable to non-executive directors for the 2021 and 2022 financial years are as follows. All fees with the exception of the chairmans' fee are increasing with effect from 1 August 2021. The committee membership fee is increasing for the first time since 2010.

Role	2022	2021
Chairman[1]	**£300,000**	£300,000
Non-executive director	**£71,000**	£70,000
Supplements		
Senior independent director[2]	**£34,000**	£33,000
Chair of Audit Committee	**£34,000**	£33,000
Chair of Remuneration Committee	**£34,000**	£33,000
Chair of Risk Committee	**£34,000**	£33,000
Committee membership[3]	**£6,000**	£5,000

1 The chairman receives no other fees for chairmanship or membership of board committees.
2 The senior independent director fee increased from £24,000 to £33,000 effective 1 January 2021.
3 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 2021	Shares held beneficially at 31 July 2020
Mike Biggs	**500**	500
Lesley Jones	**–**	–
Geoffrey Howe[1]	**5,000**	5,000
Bridget Macaskill	**2,500**	2,500
Oliver Corbett	**–**	–
Peter Duffy	**848**	848
Sally Williams	**–**	–
Mark Pain	**–**	–
Tesula Mohindra	**–**	–

1 Geoffrey Howe's shareholding is at 19 November 2020, the day he left the company.

There were no changes in notifiable interests between 1 August 2021 and 20 September 2021.

This report was approved by the board of directors on 28 September 2021 and signed on its behalf by:

Bridget Macaskill
Chair 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 company financial statements (the "financial statements") give a true and fair view of the state of the group's and of the company's affairs as at 31 July 2021 and of the group's profit and the group's cash flows for the year then ended;
- the group financial statements have been properly prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006;
- the 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.

We have audited the financial statements, included within the Annual Report, which comprise: the consolidated and company balance sheets as at 31 July 2021; 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.

Separate opinion in relation to international financial reporting standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union

As explained in Note 1 to the financial statements, the group, in addition to applying international accounting standards in conformity with the requirements of the Companies Act 2006, has also applied international financial reporting standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union.

In our opinion, the group financial statements have been properly prepared in accordance with international financial reporting standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union.

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.

Other than those disclosed in Note 5, we have provided no non-audit services to the company or its controlled undertakings in the period under audit.

Our audit approach

Overview

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 evaluating entity level controls, testing information technology general controls and analytical review procedures to mitigate the risk of material misstatement in the residual components.

Key audit matters

- Impact of COVID-19 (group and company)
- Application of effective interest rate ("EIR") accounting (group)
- Determination of expected credit losses on loans and advances to customers (group)

Materiality

- Overall group materiality: £13,200,000 (2020: £11,200,000) based on 5% of profit before tax (2020: 5% of the 3 year average profit before tax).
- Overall company materiality: £11,100,000 (2020: £10,000,000) based on 1% of total assets.
- Performance materiality: £9,900,000 (group) and £8,325,000 (company).

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.

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.

The key audit matters below are consistent with last year.

Key audit matter	How our audit addressed the key audit matter
Impact of COVID-19 (group and company) The COVID-19 global pandemic resulted in unprecedented economic conditions and government support programmes and regulatory interventions to support businesses and people. It has also changed the way that the group operates its business, with one of the substantial impacts being transition to remote working. Our audit team has also been working remotely for much of the period during which we performed the audit. Consistent with the prior year, as a result of the pandemic there are significant judgements and assumptions that impact financial reporting that management have considered and the areas of our audit most impacted by COVID-19 include: **Going concern** The Directors considered the impact of the pandemic on the group's and company's ability to continue as going concerns. We focused on the appropriateness of using a going concern basis of accounting given the uncertainty about the long-term economic outlook and potential impact on the business model as a result of the economic and social impacts of COVID-19. The ability of the company and group to continue as going concerns is dependent on the business model resilience and maintenance of adequate liquidity and capital resources. Relevant references: • The "Other financial reporting and control matters" section of the Audit Committee Report on page 92. • The "Going concern" section of the Directors Report on page 74. **Determination of expected credit losses on loans and advances to customers (group)** Refer to the separate Key Audit Matter "Determination of expected credit losses on loans and advances to customers".	In assessing the Directors' consideration of the impact of COVID-19 on the financial statements, we have undertaken the following audit procedures: **Going concern** In assessing the Directors' going concern assessment, we: • Evaluated and challenged management's assessment of the impact of COVID-19 on their financial plans, liquidity and capital position, and operating arrangements; • Evaluated the stress testing performed by management and considered whether these were adequate and met relevant accounting requirements; and • Substantiated the nature and existence of the group's financial resources and liquidity financing facilities. **Determination of expected credit losses on loans and advances to customers (group)** Refer to the separate Determination of expected credit losses on loans and advances to customers Key Audit Matter. As a result of these procedures, we concluded that the impact of COVID-19 has been appropriately evaluated and reflected in the preparation of the financial statements.
Application of effective interest rate ("EIR") accounting (group) Interest income on loans and advances is recognised using the EIR method whereby any fees or costs that are an integral part of the financial instrument are included in the EIR as an EIR adjustment. We consider that portfolios with material manually determined EIR adjustments present a significant risk of material misstatement due to fraud or error.	We have understood management's processes for revenue recognition, identifying areas which present a heightened risk of error, as described in the left column.

Independent Auditors' Report to the Members of Close Brothers Group plc continued

Key audit matter	How our audit addressed the key audit matter
Relevant references: • Note 1, significant accounting policies that includes the group's revenue recognition policy on page 141.	In those areas, we performed the following testing: • Critically assessed which fees and costs were included in the determination of EIR; • Agreed a sample of inputs to underlying agreements and cash receipts; and • Reperformed the calculation of the EIR adjustment for a sample of loans. Based on the evidence obtained, we found that the calculations, models and data used were appropriate.
Determination of expected credit losses on loans and advances to customers (group) The determination of expected credit loss ("ECL") allowances is subjective and judgmental, including the degree of judgement and inherent uncertainty in the assumptions arising from the impact of COVID-19. During the year, developments in the Novitas business have required management to significantly revise the assumptions made in determining the ECL, leading to a material increase in the ECL for that business. 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, litigation case failure, 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. The expected credit loss provision includes additional judgements to capture the economic impact of COVID-19. These have included reassessment of the economic scenarios and their respective weightings, refinements to the determination of significant increase in credit risk, consideration of how COVID-19 related concessions cure, including new concessions granted in the year, and consideration of the impact of COVID-19 on individually assessed expected loss provisions. Relevant references: • Note 2, Critical accounting estimates and judgements on page 145; • Note 11, Loans and advances to customers on page 155, and • Note 28c, Financial risk management on page 179.	We understood and critically assessed the appropriateness of the impairment policy (including management's definitions of default and a significant increase in credit risk) including how management considered the impact of COVID-19 in its 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; 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. 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 evaluated management's model to derive the Novitas ECL, we critically assessed the assumptions used by management and we performed our own sensitivity analysis using plausible scenarios derived from available experience. We used our economist experts to assess the reasonableness of management's selected economic scenarios and associated probability weightings, giving specific consideration to the economic volatility and uncertainty caused by COVID-19. We used credit risk modelling specialists to support the audit team in the performance of these audit procedures.

Key audit matter	How our audit addressed the key audit matter
	Individually assessed provisions We performed the following procedures to test the completeness of the identification of defaulted loans requiring individual assessment: • Critically assessed the criteria for determining whether a default event had occurred; and • Tested a haphazardly-selected 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 values and ranges of potential outcomes were appropriate given the borrowers' circumstances; • 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; and • Considered the extent to which the exposure is impacted by the economic conditions caused by COVID-19 and whether these factors had been appropriately reflected in the ECL provision. We performed testing over the measurement of the post model adjustments recorded by management, including those which were used to account for the impact COVID-19 has had, focusing on the larger adjustments and those which we considered to represent the greatest level of audit risk. We assessed the appropriateness of methodologies used to determine and quantify the post model adjustments required and the reasonableness of key assumptions. Based on our knowledge and understanding of the limitations in management's models and industry emerging risks, we critically assessed the completeness of the post model adjustment overlays proposed by management. Based on the evidence obtained, we concluded that the methodologies, modelled assumptions, management judgements, the data used and collective and individual assessed expected credit losses were appropriate.

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 company, the accounting processes and controls, and the industry in which they operate.

The group is structured into three primary segments being Banking, Winterflood Securities and Asset Management. The Bank 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').

Independent Auditors' Report to the Members of Close Brothers Group plc continued

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 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. Our scoping also 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 or 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 other 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.

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:

	Financial statements – group	Financial statements – company
Overall materiality	£13,200,000 (2020: £11,200,000).	£11,100,000 (2020: £10,000,000).
How we determined it	5% of profit before tax rounded down to nearest £100,000 (2020: 5% of the 3 year average profit before tax)	1% of total assets rounded down to the nearest £100,000 (2020: the same basis)
Rationale for benchmark applied	Profit before tax (PBT) 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. The global pandemic resulted in volatility in profits in prior years due to which we used a three years average PBT in the prior year to adjust for such volatility. However, in the current year as the group had returned to its normal earnings level, we therefore deemed it appropriate to use the current year PBT as the benchmark.	We have selected total assets as an appropriate benchmark for company materiality. Profit based benchmarks were not considered appropriate for company materiality as the company is an investment holding company and is not a trading company.

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 £2.9 million and £11.1 million. Certain components were audited to a local statutory audit materiality that was also less than our overall group materiality.

We use performance materiality to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds overall materiality. Specifically, we use performance materiality in determining the scope of our audit and the nature and extent of our testing of account balances, classes of transactions and disclosures, for example in determining sample sizes. Our performance materiality was 75% of overall materiality, amounting to £9,900,000 for the group financial statements and £8,325,000 for the company financial statements.

In determining the performance materiality, we considered a number of factors – the history of misstatements, risk assessment and aggregation risk and the effectiveness of controls – and concluded that a haircut of 25% was appropriate.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £500,000 (group audit) (2020: £500,000) and £500,000 (company audit) (2020: £500,000) as well as misstatements below those amounts that, in our view, warranted reporting for qualitative reasons.

Conclusions relating to going concern

Our evaluation of the directors' assessment of the group's and the company's ability to continue to adopt the going concern basis of accounting included:
- A detailed risk assessment to identify factors that could impact the going concern basis of accounting, including the effect of COVID 19;
- Evaluation of management's going concern assessment as well as the ICAAP and ILAAP submissions to the PRA;
- Evaluation of stress testing performed by management and consideration of whether the stresses applied are appropriate for assessing going concern;

- Evaluation of the Group's forecast financial performance, liquidity and capital positions over the going concern period including an evaluation of the impact of COVID-19 on the financial outlook of the Group;
- Read the credit rating agency ratings and actions.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the group's and the company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

However, because not all future events or conditions can be predicted, this conclusion is not a guarantee as to the group's and the company's ability to continue as a going concern.

In relation to the directors' reporting on how they have applied the UK Corporate Governance Code, we have nothing material to add or draw attention to in relation to the directors' statement in the financial statements about whether the directors considered it appropriate to adopt the going concern basis of accounting.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this 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 our work undertaken in the course of the audit, the Companies Act 2006 requires us also to report certain opinions and matters as described below.

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 2021 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the group and 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.

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.

Corporate governance statement

The Listing Rules require us to review the directors' statements in relation to going concern, longer-term viability and that part of the corporate governance statement relating to the company's compliance with the provisions of the UK Corporate Governance Code specified for our review. Our additional responsibilities with respect to the corporate governance statement as other information are described in the Reporting on other information section of this report.

Based on the work undertaken as part of our audit, we have concluded that each of the following elements of the corporate governance statement is materially consistent with the financial statements and our knowledge obtained during the audit, and we have nothing material to add or draw attention to in relation to:

- The directors' confirmation that they have carried out a robust assessment of the emerging and principal risks;
- The disclosures in the Annual Report that describe those principal risks, what procedures are in place to identify emerging risks and an explanation of how these are being managed or mitigated;
- The directors' statement in the financial statements about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them, and their identification of any material uncertainties to the group's and company's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements;
- The directors' explanation as to their assessment of the group's and company's prospects, the period this assessment covers and why the period is appropriate; and
- The directors' statement as to whether they have a reasonable expectation that the company will be able to continue in operation and meet its liabilities as they fall due over the period of its assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

Independent Auditors' Report to the Members of Close Brothers Group plc continued

Our review of the directors' statement regarding the longer-term viability of the group was substantially less in scope than an audit and only consisted of making inquiries and considering the directors' process supporting their statement; checking that the statement is in alignment with the relevant provisions of the UK Corporate Governance Code; and considering whether the statement is consistent with the financial statements and our knowledge and understanding of the group and company and their environment obtained in the course of the audit.

In addition, based on the work undertaken as part of our audit, we have concluded that each of the following elements of the corporate governance statement is materially consistent with the financial statements and our knowledge obtained during the audit:
- The directors' statement that they consider the Annual Report, taken as a whole, is fair, balanced and understandable, and provides the information necessary for the members to assess the group's and company's position, performance, business model and strategy;
- The section of the Annual Report that describes the review of effectiveness of risk management and internal control systems; and
- The section of the Annual Report describing the work of the Audit Committee.

We have nothing to report in respect of our responsibility to report when the directors' statement relating to the 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.

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, 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 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 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.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below.

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 consumer credit and unethical and prohibited business practices, securities markets, trading and other financial products and services including conduct of business, principally those determined by the Prudential Regulation Authority ("PRA") and the Financial Conduct Authority ("FCA"), 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 financial statements such as the Companies Act 2006, UK tax legislation and the Listing Rules of the 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 manual journal entries to manipulate financial performance, management bias through judgements and assumptions in significant accounting estimates and significant one-off or unusual transactions. 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:
- Discussions with management and those charged with governance including consideration of known or suspected instances of non-compliance with laws and regulation and fraud.
- 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 allowance for ECL.
- Identifying and testing journal entries, in particular any manual journal entries posted by unexpected or unusual users, manual journals posted with descriptions indicating an increased risk of override of controls, and manual journals posted to unusual account combinations considering those with a potentially favourable impact on financial performance.
- Performing testing over material period end adjustments.
- Incorporating unpredictability into the nature, timing and/or extent of our testing.
- Reviewing key correspondence with the FCA and PRA.

There are inherent limitations in the audit procedures described above. We are less likely to become aware of instances of non-compliance with laws and regulations that are not closely related to events and transactions reflected in the financial statements. 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.

Our audit testing might include testing complete populations of certain transactions and balances, possibly using data auditing techniques. However, it typically involves selecting a limited number of items for testing, rather than testing complete populations. We will often seek to target particular items for testing based on their size or risk characteristics. In other cases, we will use audit sampling to enable us to draw a conclusion about the population from which the sample is selected.

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 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 obtained all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the 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 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 4 years, covering the years ended 31 July 2018 to 31 July 2021.

Mark Hannam (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London

28 September 2021

Consolidated Income Statement
for the year ended 31 July 2021

	Note	2021 £ million	2020 £ million
Interest income	4	**656.8**	629.1
Interest expense	4	**(119.3)**	(135.1)
Net interest income		**537.5**	494.0
Fee and commission income	4	**246.1**	230.2
Fee and commission expense	4	**(16.1)**	(17.6)
Gains less losses arising from dealing in securities		**165.2**	142.6
Other income	4	**89.4**	83.4
Depreciation of operating lease assets and other direct costs	16	**(69.5)**	(66.5)
Non-interest income		**415.1**	372.1
Operating income		**952.6**	866.1
Administrative expenses	4	**(592.1)**	(538.4)
Impairment losses on financial assets	11	**(89.8)**	(183.7)
Total operating expenses before amortisation and impairment of intangible assets on acquisition, goodwill impairment and exceptional item		**(681.9)**	(722.1)
Operating profit before amortisation and impairment of intangible assets on acquisition, goodwill impairment and exceptional item		**270.7**	144.0
Amortisation and impairment of intangible assets on acquisition	15	**(14.2)**	(3.1)
Goodwill impairment	15	**(12.1)**	–
Exceptional item: HMRC VAT refund	6	**20.8**	–
Operating profit before tax		**265.2**	140.9
Tax	7	**(63.1)**	(31.4)
Profit after tax		**202.1**	109.5
Profit attributable to shareholders		**202.1**	109.5
Basic earnings per share	8	**134.8p**	72.8p
Diluted earnings per share	8	**133.6p**	72.5p
Interim dividend per share paid	9	**18.0p**	–
Final dividend per share	9	**42.0p**	40.0p

Consolidated Statement of Comprehensive Income
for the year ended 31 July 2021

	2021 £ million	2020 £ million
Profit after tax	**202.1**	109.5
Other comprehensive income/(expense) that may be reclassified to income statement		
Currency translation losses	**(1.1)**	(0.4)
Gains/(losses) on cash flow hedging	**7.4**	(1.9)
Gains/(losses) on financial instruments classified at fair value through other comprehensive income:		
Sovereign and central bank debt	**0.9**	(0.6)
Tax relating to items that may be reclassified	**(1.2)**	1.0
	6.0	(1.9)
Other comprehensive (expense)/income that will not be reclassified to income statement		
Defined benefit pension scheme gains	**0.5**	0.9
Tax relating to items that will not be reclassified	**(0.6)**	(0.3)
	(0.1)	0.6
Other comprehensive income/(expense), net of tax	**5.9**	(1.3)
Total comprehensive income	**208.0**	108.2
Attributable to		
Shareholders	**208.0**	108.2

Consolidated Balance Sheet
at 31 July 2021

	Note	**31 July 2021 £ million**	31 July 2020 £ million
Assets			
Cash and balances at central banks		**1,331.0**	1,375.8
Settlement balances		**699.6**	619.7
Loans and advances to banks	10	**136.3**	125.8
Loans and advances to customers	11	**8,444.5**	7,616.7
Debt securities	12	**477.3**	382.5
Equity shares	13	**31.9**	30.0
Loans to money brokers against stock advanced		**51.1**	45.8
Derivative financial instruments	14	**18.3**	39.9
Intangible assets	15	**232.6**	240.1
Property, plant and equipment	16	**309.9**	297.2
Current tax assets		**36.4**	41.2
Deferred tax assets	7	**56.0**	47.3
Prepayments, accrued income and other assets	17	**209.6**	209.5
Total assets		**12,034.5**	11,071.5
Liabilities			
Settlement balances and short positions	18	**690.6**	604.9
Deposits by banks	19	**150.6**	152.8
Deposits by customers	19	**6,634.8**	5,917.7
Loans and overdrafts from banks	19	**512.7**	497.9
Debt securities in issue	19	**1,865.5**	1,870.3
Loans from money brokers against stock advanced		**–**	17.9
Derivative financial instruments	14	**21.3**	20.8
Current tax liabilities		**–**	1.3
Accruals, deferred income and other liabilities	17	**367.0**	315.3
Subordinated loan capital	20	**222.7**	223.0
Total liabilities		**10,465.2**	9,621.9
Equity			
Called up share capital	21	**38.0**	38.0
Retained earnings		**1,555.5**	1,435.0
Other reserves		**(23.2)**	(22.4)
Total shareholders' equity		**1,570.3**	1,450.6
Non-controlling interests		**(1.0)**	(1.0)
Total equity		**1,569.3**	1,449.6
Total liabilities and equity		**12,034.5**	11,071.5

The consolidated financial statements were approved and authorised for issue by the board of directors on 28 September 2021 and signed on its behalf by:

Michael N. Biggs
Chairman

Adrian J. Sainsbury
Chief Executive

Registered number: 520241

Consolidated Statement of Changes in Equity
for the year ended 31 July 2021

			Other reserves						
	Called up share capital £ million	Retained earnings £ 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 2019	38.0	1,392.5	0.7	(18.2)	(1.2)	(4.4)	1,407.4	(1.0)	1,406.4
Profit for the year	–	109.5	–	–	–	–	109.5	–	109.5
Other comprehensive income/(expense)	–	0.6	(0.5)	–	(0.1)	(1.3)	(1.3)	–	(1.3)
Total comprehensive income/(expense) for the year	–	110.1	(0.5)	–	(0.1)	(1.3)	108.2	–	108.2
Dividends paid (note 9)	–	(65.8)	–	–	–	–	(65.8)	–	(65.8)
Shares purchased	–	–	–	(8.0)	–	–	(8.0)	–	(8.0)
Shares released	–	–	–	11.9	–	–	11.9	–	11.9
Other movements	–	(1.9)	–	(1.3)	–	–	(3.2)	–	(3.2)
Income tax	–	0.1	–	–	–	–	0.1	–	0.1
At 31 July 2020	38.0	1,435.0	0.2	(15.6)	(1.3)	(5.7)	1,450.6	(1.0)	1,449.6
Profit for the year	–	202.1	–	–	–	–	202.1	–	202.1
Other comprehensive (expense)/income	–	(0.1)	0.6	–	–	5.4	5.9	–	5.9
Total comprehensive income for the year	–	202.0	0.6	–	–	5.4	208.0	–	208.0
Dividends paid (note 9)	–	(86.6)	–	–	–	–	(86.6)	–	(86.6)
Shares purchased	–	–	–	(12.1)	–	–	(12.1)	–	(12.1)
Shares released	–	–	–	10.0	–	–	10.0	–	10.0
Other movements	–	3.7	–	(4.7)	–	–	(1.0)	–	(1.0)
Income tax	–	1.4	–	–	–	–	1.4	–	1.4
At 31 July 2021	**38.0**	**1,555.5**	**0.8**	**(22.4)**	**(1.3)**	**(0.3)**	**1,570.3**	**(1.0)**	**1,569.3**

Consolidated Cash Flow Statement
for the year ended 31 July 2021

	Note	2021 £ million	2020 £ million
Net cash inflow from operating activities	27(a)	**119.1**	429.4
Net cash (outflow)/inflow from investing activities			
Purchase of:			
Property, plant and equipment		**(8.9)**	(5.3)
Intangible assets – software		**(47.9)**	(44.3)
Subsidiaries	27(b)	**(2.9)**	(4.6)
Sale of:			
Subsidiaries	27(c)	**2.3**	0.5
		(57.4)	(53.7)
Net cash inflow before financing activities		**61.7**	375.7
Financing activities			
Purchase of own shares for employee share award schemes		**(12.1)**	(8.0)
Equity dividends paid		**(86.6)**	(65.8)
Interest paid on subordinated loan capital and debt financing		**(13.6)**	(14.3)
Payment of lease liabilities		**(14.7)**	(14.6)
Net issuance of subordinated loan capital		**40.6**	–
Net (decrease)/increase in cash		**(24.7)**	273.0
Cash and cash equivalents at beginning of year		**1,461.3**	1,188.3
Cash and cash equivalents at end of year	27(d)	**1,436.6**	1,461.3

Company Balance Sheet
at 31 July 2021

	Note	2021 £ million	2020[1] £ million
Fixed assets			
Intangible assets	15	**–**	0.1
Property, plant and equipment	16	**11.5**	5.4
Investment in subsidiary	30	**287.0**	287.0
		298.5	292.5
Current assets			
Amounts owed by subsidiaries due within one year		**434.8**	416.8
Amounts owed by subsidiaries due after more than one year		**363.4**	312.6
Corporation tax receivable		**4.6**	3.2
Deferred tax assets	7	**–**	0.1
Other debtors		**8.9**	10.9
Cash at bank		**1.2**	0.9
		812.9	744.5
Creditors: Amounts falling due within one year			
Debt securities in issue	19	**1.8**	1.8
Subordinated loan capital		**0.6**	–
Provisions	17	**1.2**	1.1
Deferred tax liability	7	**0.8**	–
Other creditors		**0.8**	1.5
Accruals		**9.5**	7.7
		14.7	12.1
Net current assets		**798.2**	732.4
Total assets less current liabilities		**1,096.7**	1,024.9
Creditors: Amounts falling due after more than one year			
Debt securities in issue	19	**249.3**	248.9
Subordinated loan capital		**221.5**	174.6
Provisions	17	**1.8**	2.2
Net assets		**624.1**	599.2
Capital and reserves			
Called up share capital	21	**38.0**	38.0
Profit and loss account		**608.5**	576.8
Other reserves		**(22.4)**	(15.6)
Shareholders' funds		**624.1**	599.2

1 Restated – see note 1(c).

The company reported a profit for the financial year ended 31 July 2021 of £116.0 million (2020: £81.1 million).

The company financial statements were approved and authorised for issue by the board of directors on 28 September 2021 and signed on its behalf by:

Michael N. Biggs
Chairman

Adrian J. Sainsbury
Chief Executive

Company Statement of Changes in Equity
for the year ended 31 July 2021

			Other reserves	
	Share capital £ million	Profit and loss account £ million	Share-based payments reserve £ million	Shareholders' funds £ million
At 1 August 2019	38.0	563.0	(18.2)	582.8
Profit for the year	–	81.1	–	81.1
Other comprehensive income	–	0.7	–	0.7
Total comprehensive income for the year	–	81.8	–	81.8
Dividends paid (note 9)	–	(65.8)	–	(65.8)
Shares purchased	–	–	(8.0)	(8.0)
Shares released	–	–	11.9	11.9
Other movements	–	(2.2)	(1.3)	(3.5)
At 31 July 2020	38.0	576.8	(15.6)	599.2
Profit for the year	–	116.0	–	116.0
Other comprehensive expense	–	(0.1)	–	(0.1)
Total comprehensive income for the year	–	115.9	–	115.9
Dividends paid (note 9)	–	(86.6)	–	(86.6)
Shares purchased	–	–	(12.1)	(12.1)
Shares released	–	–	10.0	10.0
Other movements	–	2.4	(4.7)	(2.3)
At 31 July 2021	**38.0**	**608.5**	**(22.4)**	**624.1**

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 (2020: 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.

The accounting policies of the company are the same as those of the group set out in this note except for (l) Leases. For the company, rental costs under operating leases are charged to the income statement in equal instalments over the period of the lease.

(b) Compliance with International Financial Reporting Standards

The consolidated financial statements have been prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006. The consolidated financial statements also comply with IFRSs adopted pursuant to Regulation (EC) No 1606/2002 as it applies in 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.

The group has early adopted the IASB's Interest Rate Benchmark Reform Phase 2 amendments, which are effective for accounting periods beginning on or after 1 January 2021. These amendments, which address the impact on financial reporting during the reform of an interest rate benchmark, do not have a material impact on the group's financial results.

In the year ended 31 July 2020, the group adopted IFRS 16 Leases, which replaced IAS 17 Leases and was effective from 1 August 2019.

Future accounting developments

Minor amendments to IFRSs effective for the group from 1 August 2021 have been issued by the IASB. These amendments are expected to have no or an immaterial impact on the group.

(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 and all derivative financial instruments ("derivatives").

The financial statements are prepared on a going concern basis as disclosed in the Directors' Report.

The prior year company balance sheet has been restated to reflect the derecognition of a right of use asset of £18.3 million and an associated lease liability in compliance with FRS 102.

(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) 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 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.

(f) 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. 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.

The Notes continued

1. Significant Accounting Policies continued

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.

(g) Adjusted measures

Adjusted measures exclude amortisation and impairment of intangible assets on acquisition, goodwill impairment and exceptional items. Amortisation and impairment of intangible assets on acquisition and goodwill impairment are excluded to present the performance of the group's acquired businesses consistent with its other businesses. 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.

(h) 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 are recognised in other comprehensive income, except for impairment gains and losses, until the financial asset is either sold or matures, at which time the cumulative gain or loss is recognised in the income statement. Impairment gains and losses 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 contractual rights to receive cash flows from the financial assets have expired or where the group has transferred the contractual rights to receive cash flows and 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 or liability carrying value is adjusted to reflect the present value of modified cash flows discounted at the original EIR. The adjustment is recognised within income on the income statement.

(i) Impairment of financial assets

Expected credit losses

In accordance with IFRS 9, 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, financial assets are considered to be in Stage 1 and a provision is recognised for 12 months of expected credit losses. If a significant increase in credit risk since initial recognition occurs, these financial assets are considered to be in Stage 2 and a provision is made for the lifetime expected credit losses. As a backstop, all financial assets 30 days past due are considered to have experienced a significant increase in credit risk and are transferred to 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 is returned to Stage 1. At a minimum this means that all payments must be up-to-date, the quantitative probability of default assessment trigger is no longer met, and the account is not evidencing qualitative assessment triggers.

When objective evidence exists that a financial asset is credit impaired, such as the occurrence of a credit default event or identification of an unlikeliness to pay indicator the financial asset is considered to be in Stage 3. As a backstop, all financial assets 90 days or more past due are considered to be credit impaired and transferred to Stage 3.

For certain portfolios, a cure definition is in operation where financial assets in Stage 3 can move back to Stage 2, subject to Stage 3 indicators no longer being in effect, and meeting the appropriate cure period. For other portfolios, financial assets will only be considered as cured once repaid or written off.

In all circumstances loans and advances to customers are written off against the related provisions when there are no reasonable expectations of further recovery. This is typically 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 a 12-month or lifetime basis, is based on the probability of default ("PD"), the exposure at default ("EAD") and the loss given default ("LGD"), and includes forward looking macroeconomic information where appropriate.

Different model-based approaches to estimate PDs are employed across Retail, Commercial and Property, which represent the likelihood of a borrower defaulting on its financial obligation. The framework applied typically includes an economic response model to quantify the impact of macroeconomic forecasts and a risk ranking mechanism (e.g. a scorecard) to quantify obligor level likelihood of default.

EAD is based on the amounts expected to be owed at the time of default, and is estimated using an amortising schedule or a credit conversion factor, depending on the nature of lending. LGD represents an expectation of the extent of loss on a defaulted exposure after taking into account cash recoveries, including the value of collateral held. LGD estimates vary and can include estimates for the likelihood of collateral recovery and a separate calculation for the likely loss on recovery, and for some businesses LGDs are estimated using liquidation curves based on historical cashflows. EADs and LGDs are adjusted to account for the impact of discounting using the effective interest rate.

Risk models are estimated using historical data wherever possible, and in the absence of sufficient loss history, an expert judgment approach is considered for some parameters.

Notwithstanding staging, 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.

Expected credit losses are assessed against actual loss experience via a series of provision adequacy reviews. These reviews also incorporate management judgement to ensure that our ECL coverage ratios remain appropriate.

By their nature, limitations in the group's expected credit loss 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 or quantitative back-testing to ensure expected credit loss provisions adequately reflect all known information. These adjustments are generally determined by considering the attributes or risks of a financial asset which are not captured by existing expected credit loss model outputs. Management adjustments are actively monitored, reviewed, and incorporated into future model development where applicable.

At 31 July 2021, £38.9 million of the expected credit loss provision was attributable to adjustments (31 July 2020: £34.2 million). Across 2020 and 2021, the use and quantum of adjustments has been at a higher level than typically employed, driven by the unique circumstances emerging from the Covid-19 pandemic.

During the course of the financial year, the nature and granularity of adjustments have evolved to incorporate the developing and uncertain macroeconomic environment and its potential impact on our customers, where not fully captured in our expected credit loss models.

In particular, adjustments have been required to capture the macroeconomic uncertainty due to the pandemic and the associated government response, the 80% guarantee under government lending schemes and our on-going monitoring of Covid-19 related forbearance. Adjustments also reflect the application of expert management judgement to determine the appropriate allocation of some loan balances between Stages 1 and 2 and the review of provision coverage at the individual and portfolio level. This approach has incorporated our experience, knowledge of our customers, the sectors in which they operate, and the assets which we finance.

We will continue to monitor the use or need of adjustments as new information emerges.

Separate from the ongoing impact of Covid-19, during the year, a number of changes were made to the IFRS 9 models used for the calculation of expected credit losses in the Asset Finance and Invoice Finance businesses. The changes were made to ensure modelled provisions better reflect future loss emergence. The impact of model changes to the expected credit loss provision are disclosed in note 11b.

(j) 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.

(k) 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.

(l) Leases

Lessor

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, which comprises the lease payments receivable and any unguaranteed residual value, discounted at its implicit interest rate. Finance charges on finance leases are taken to income in proportion to the net funds invested.

An operating lease is a lease that does not transfer substantially all the risks and rewards incidental to ownership of an asset to the lessee. 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.

Lessee

A lease liability and right of use asset are recognised on the balance sheet at the lease commencement date. The lease liability is measured at the present value of future lease payments. The discount rate is the rate implicit in the lease, or if that cannot be determined, the group's incremental borrowing rate appropriate for the right of use asset. The right of use asset is measured at cost, comprising the initial lease liability, payments made at or before the commencement date less lease incentives received, initial direct costs, and estimated costs of restoring the underlying asset to the condition required by the lease.

Lease payments are allocated between the liability and finance cost. The finance cost relating to the lease liability is charged to the consolidated income statement over the lease term. The right of use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight line basis.

The Notes continued

1. Significant Accounting Policies continued

(m) 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.

(n) 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 (h).

(o) 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.

(p) Derivatives and hedge accounting

On adoption of IFRS 9 Financial Instruments in 2018, the group elected to continue applying hedge accounting under IAS 39 Financial Instruments: Recognition and Measurement.

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.

(q) 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.

(r) 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	1 to 5 years

(s) 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.

(t) 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.

(u) Share-based payments to employees

At 31 July 2021, 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.

(v) 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.

(w) 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 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.

(x) 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.

(y) 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, estimates and assumptions that are reasonable. The group's estimates and assumptions are based on historical experience and reasonable 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.

Expected credit losses

At 31 July 2021 the group's expected credit loss provision was £280.4 million (31 July 2020: £238.7 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, which requires judgement, is unbiased, probability weighted and uses both actual and forward-looking information.

In general, the group assesses whether a significant increase in credit risk has occurred based on a quantitative and qualitative assessment, with a 30 day past due backstop. Due to the diverse nature of the group's lending businesses, the specific indicators of a significant increase in credit risk vary by business and may include some or all of the following factors. The credit risk of a financial asset is considered to have significantly increased when any of the following triggers are met:

- Quantitative assessment: the lifetime PD has increased by more than an agreed threshold relative to the equivalent at origination. Thresholds are based on a fixed number of risk grade movements which are bespoke to the business to ensure that the increased risk since origination is appropriately captured;
- Qualitative assessment: events or observed behaviour indicate credit distress. This includes a wide range of information that is reasonably available including individual credit assessments of the financial performance of borrowers as appropriate during routine reviews, plus forbearance and watch list information; or
- Backstop criteria: the 30 days past due backstop is met.

Due to the impact and complexity of Covid-19, and to reflect the ongoing uncertainty in the external environment, a number of enhancements were made to the above-mentioned staging approach during the course of the 2020 financial year. These incorporate the effects of Covid-19 into the significant increase in credit risk assessment and continue to be in operation.

Note 28c sets out the approach to Covid-19 related concessions, including staging assumptions and cure periods. Additional monitoring of this cohort of customers continues to be in place until the relevant cure period has expired, upon which, standard staging triggers are applied.

Definition of default

The definition of default is an important building block for expected credit loss models and is considered a key judgement. A default is considered to have occurred if any unlikeliness to pay criteria are met or when a financial asset meets a 90 days past due backstop. While some criteria are factual (e.g. administration, insolvency, or bankruptcy), others require a judgmental assessment of whether the borrower has financial difficulties which are expected to have a detrimental impact on their ability to meet contractual obligations. A change in the definition of default may have a material impact on the expected credit loss provision.

The Notes continued

2. Critical Accounting Estimates and Judgements continued

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 wide range of factors, could result in a material adjustment to the carrying amounts of assets and liabilities in the next financial year.

The accuracy of the expected credit loss provision can be impacted by unpredictable effects or unanticipated changes to model estimates. In addition, forecasting errors could also occur due to macroeconomic scenarios or weightings differing from actual outcomes observed. Regular model monitoring, validations and provision adequacy reviews are key mechanisms to manage estimation uncertainty across model estimates.

A representation of the core drivers of the macroeconomic scenarios that are deployed in our models are outlined on page 147. In some instances, our underlying business expected credit loss models use a range of other macroeconomic metrics and assumptions which are linked to the underlying characteristics of the business.

Model estimates

Across the Banking Division, expected credit loss provisions are outputs of models which are based on a number of assumptions. The assumptions applied involve judgement and as a result are regularly assessed.

During the year, the calculation of the expected credit loss provision for Novitas, which forms part of Commercial, has required the group to update a number of assumptions. This year a significant portion of the expected credit loss provision reported in Commercial relates to the Novitas loan book.

Novitas provides funding via intermediaries to individuals who wish to pursue legal cases. The majority of the Novitas portfolio, and therefore provision, relates to civil litigation cases. To help protect customers in the event that their case fails, a standard loan condition is that an individual purchases an insurance policy which covers loan capital and varying levels of interest. Across the portfolio there are insurance policies from a number of well rated insurers.

The key sources of estimation uncertainty for the portfolio's expected credit loss provision are case failure rates and recovery rates. Case failure rates represent a forward-looking probability assessment of successful case outcomes informed by actual case failure rates. Recovery rates represent the level of interest and capital that is expected to be covered by an insurance policy, once a case fails. In addition an assessment is also undertaken reflecting potential insurer insolvency risk with resultant expected credit losses held for this.

Assumptions are informed by the latest credit performance data, with management judgement applied to reflect expected outcomes and uncertainties. In addition, the provision is informed by sensitivity analysis to reflect the level of uncertainty. More detailed credit performance data continues to develop as the portfolio matures, which over time will reduce the level of estimation uncertainty.

Based on this methodology, and using the latest information available, the expected credit loss provision for the Commercial division has seen a significant uplift, reflecting the latest assumptions on case failure and recovery rates in Novitas. Further details on provisions are included in note 11b.

Given these assumptions represent sources of estimation uncertainty, management has assessed and completed sensitivity analysis when compared to the expected credit loss provision for Commercial of £172.4 million. At 31 July 2021, a 5% absolute deterioration or improvement in case failure rates would increase or decrease the expected credit loss provision by £8.2 million. Separately, a 5% absolute deterioration or improvement in recovery rates would increase or decrease the expected credit loss provision by £4.2 million.

Forward-looking information

Determining expected credit losses under IFRS 9 requires the incorporation of forward-looking macroeconomic information that is reasonable, supportable and includes assumptions linked to economic variables that impact losses in each portfolio. The introduction of macroeconomic information introduces additional volatility to provisions. In order to calculate forward-looking provisions, Moody's Baseline and Alternative Scenarios are externally sourced and include forecast economic data and scenarios which are used to project potential credit conditions for each portfolio. Management exercises judgement in estimating future economic conditions which are incorporated into provisions through the modelling of these multiple scenarios.

Economic scenarios are assigned a probability weighting using a combination of quantitative analysis and expert judgement. Five different projected economic scenarios are currently considered to cover a range of possible outcomes, reflecting upside and downside relative to the baseline forecast economic conditions. The economic scenarios are generated to capture a range of possible economic outcomes to facilitate the calculation of unbiased and expected credit losses. Non-linearity of losses is considered by management when assessing provision adequacy at an individual portfolio level.

The impact of forward-looking information varies across the group's lending businesses because of the differing sensitivity of each portfolio to specific macroeconomic variables. The modelled impact of macroeconomic scenarios and their respective weightings is overlaid with expert judgement in relation to stage allocation and coverage ratios at the individual and portfolio level, incorporating management's experience and knowledge of customers, the sectors in which they operate, and the assets financed. The Credit Risk Management Committee ("CRMC") including the group finance director and group chief risk officer meets monthly, to review and, if appropriate, agree changes to the economic scenarios and probability weightings assigned thereto. In light of the Covid-19 pandemic, this review has been conducted on a monthly basis. The decision is subsequently noted at the Group Risk and Compliance Committee ("GRCC"), which includes the aforementioned roles in addition to the group chief executive officer.

At 31 July 2020, the scenario weightings were 40% baseline and 60% downside, reflecting the uncertainty and elevated risk resultant from the pandemic. At 31 January 2021, 10% weighting was moved from the downside to the upside, reflecting the more optimistic outlook. At 31 July 2021, the level of economic uncertainty had reduced, given the lifting of lockdown restrictions, continued successful vaccine deployment, and falling case numbers. It was therefore approved to increase the upside weighting, with the resulting position being 20% upside, 40% baseline, 15% downside (mild), 15% downside (moderate) and 10% downside (protracted).

In line with the approach taken at the start of the pandemic, refreshed scenario forecasts are deployed in the IFRS 9 macroeconomic models on a monthly basis. As at 31 July 2021, the latest baseline scenario forecasts GDP growth of 6.2% in 2021, with unemployment of 5.8%.

The baseline Moody's scenario is focused on continued low Covid-19 case numbers, preventing a further lockdown, with economic recovery through the second half of 2021. Unemployment spikes at the end of 2021 as a result of the furlough scheme ending. House price growth is expected to ease following the end of the stamp duty holiday scheme, alongside the softening in employment.

The table below shows the key UK economic assumptions within each scenario, and the weighting applied to each at 31 July 2021. The numbers shown are the forecasts for 2021, 2022, and an average over the five-year period from 2021 to 2025. A further table is set out below to show the peak to trough range across the key metrics for the scenarios utilised over the five-year period.

These periods have been included as they demonstrate the short, medium and long-term outlook for the key macroeconomic indicators which form the basis of the scenario forecasts. The portfolio has an average residual maturity of 17 months, with c.98% of loan value having a maturity of five years or less.

	Baseline		**Upside (strong)**		**Downside (mild)**		**Downside (moderate)**		**Downside (protracted)**	
	2021	**2022**	**2021**	**2022**	**2021**	**2022**	**2021**	**2022**	**2021**	**2022**
At 31 July 2021										
UK GDP Growth	6.2%	6.3%	7.4%	8.7%	5.1%	4.2%	4.6%	2.0%	4.1%	0.8%
UK Unemployment	5.8%	6.3%	5.7%	5.4%	5.9%	7.3%	6.0%	8.0%	6.1%	8.9%
HPI Growth	5.3%	(1.8)%	7.2%	7.1%	5.0%	(5.4)%	4.4%	(7.9)%	3.1%	(11.6)%
BoE Base Rate	0.1%	0.2%	0.1%	0.3%	0.1%	0.1%	0.1%	0.1%	0.0%	(0.1)%
Weighting	**40%**		**20%**		**15%**		**15%**		**10%**	

	Baseline		Upside (strong)		Downside (mild)		Downside (moderate)		Downside (protracted)	
	2020	2021	2020	2021	2020	2021	2020	2021	2020	2021
At 31 July 2020										
UK GDP Growth	(8.5)%	2.8%	(7.2)%	4.7%	(9.4)%	1.6%	(9.5)%	0.3%	(10.0)%	(0.6)%
UK Unemployment	7.1%	8.4%	6.8%	6.9%	7.4%	9.3%	7.8%	10.6%	7.9%	11.4%
HPI Growth	(6.9)%	(12.1)%	(5.9)%	(6.9)%	(7.7)%	(16.4)%	(8.8)%	(21.3)%	(9.3)%	(24.5)%
BoE Base Rate	0.2%	0.1%	0.3%	0.4%	0.2%	0.1%	0.2%	0.1%	0.2%	0.1%
Weighting	**40%**		**0%**		**20%**		**25%**		**15%**	

	Five year average (2021 – 2025)				
	Baseline	**Upside (strong)**	**Downside (mild)**	**Downside (moderate)**	**Downside (protracted)**
At 31 July 2021					
UK GDP Growth	3.9%	4.4%	3.7%	3.5%	3.1%
UK Unemployment	5.5%	4.8%	6.3%	7.1%	7.7%
HPI Growth	4.0%	6.0%	2.7%	0.4%	(1.3)%
BoE Base Rate	0.6%	0.8%	0.2%	0.1%	0.0%
Weighting	**40%**	**20%**	**15%**	**15%**	**10%**

	Five year average (2020 – 2024)				
	Baseline	Upside (strong)	Downside (mild)	Downside (moderate)	Downside (protracted)
At 31 July 2020					
UK GDP Growth	1.2%	1.8%	1.0%	0.7%	0.5%
UK Unemployment	7.5%	6.3%	8.1%	9.4%	10.3%
HPI Growth	(0.2)%	1.3%	(1.1)%	(3.2)%	(5.1)%
BoE Base Rate	0.3%	0.8%	0.1%	0.1%	0.1%
Weighting	**40%**	**0%**	**20%**	**25%**	**15%**

The Notes continued

2. Critical Accounting Estimates and Judgements continued

The tables below provide a summary for the subsequent five-year period (31 July 2021 – 31 July 2025) of the peak to trough range of values of the key UK economic variables used within the economic scenarios at 31 July 2021 and 31 July 2020:

	Baseline		Upside (strong)		Downside (mild)		Downside (moderate)		Downside (protracted)	
	Peak	Trough	Peak	Trough	Peak	Trough	Peak	Trough	Peak	Trough
At 31 July 2021										
UK GDP Growth	12.2%	0.9%	14.3%	0.9%	11.6%	0.4%	10.6%	(0.9)%	10.3%	(2.1)%
UK Unemployment	6.6%	4.9%	6.3%	4.2%	7.5%	5.7%	8.2%	5.8%	9.2%	5.9%
HPI Growth	6.9%	(5.1)%	10.2%	2.6%	6.7%	(8.0)%	6.4%	(14.4)%	6.5%	(19.9)%
BoE Base Rate	1.4%	0.1%	1.7%	0.1%	0.4%	0.1%	0.1%	0.1%	0.1%	(0.1)%
Weighting	**40%**		**20%**		**15%**		**15%**		**10%**	

	Baseline		Upside (strong)		Downside (mild)		Downside (moderate)		Downside (protracted)	
	Peak	Trough	Peak	Trough	Peak	Trough	Peak	Trough	Peak	Trough
At 31 July 2020										
UK GDP Growth	13.2%	(12.3)%	17.4%	(10.5)%	10.5%	(12.4)%	8.9%	(13.1)%	7.3%	(14.0)%
UK Unemployment	8.5%	6.4%	8.3%	5.4%	9.4%	6.9%	10.7%	8.4%	11.7%	9.4%
HPI Growth	9.9%	(19.3)%	8.3%	(14.6)%	11.8%	(21.4)%	12.4%	(24.6)%	12.4%	(28.2)%
BoE Base Rate	0.8%	0.1%	1.4%	0.2%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%
Weighting	**40%**		**0%**		**20%**		**25%**		**15%**	

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 as follows:

- For the majority of our portfolios the modelled Stage 1 and 2 expected credit loss provision has been recalculated under the upside strong and downside protracted scenarios described on the prior page, applying a 100% weighting to each scenario in turn. The change in provision is driven by the movement in risk metrics under each scenario and the resulting impact on stage allocation and provision measurement.
- Across the businesses adjustments have typically been excluded from the analysis, given a range of outcomes are considered when determining the appropriate level of adjustment.
- In Retail:
  - For some loans a specific sensitivity approach has been adopted to assess short tenor loans' response to modelled macroeconomic forecasts. For these short tenor loans, PD has been extrapolated from emerging default rates and then proportionally scaled to reflect a sharp recovery in the upside scenario and a much slower recovery in a downside scenario;
  - The sensitivity analysis excludes expected credit loss provisions on loans and advances to customers in Stage 3 because the measurement of expected credit losses is considered more sensitive to credit factors specific to the borrower than macroeconomic scenarios; and
  - In certain portfolios adjustments are dynamic in nature and are flexed in line with the sensitivity analysis.
- In Property and Commercial the majority of modelled expected credit losses are included in the sensitivity analysis, except where individually assessed provisions are in place, or for certain sub portfolios which are also deemed more sensitive to credit factors than the macroeconomic scenarios.

Based on the above analysis, at 31 July 2021, application of a weighting to the upside strong scenario would decrease the expected credit loss by £12.5 million (31 July 2020: £18.3 million) whilst application to the downside protracted scenario would increase the expected credit loss by £22.7 million (31 July 2020: £23.7 million) driven by the aforementioned changes in risk metrics and stage allocation of the portfolios.

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 should not be taken to represent the lower or upper range of possible and actual expected credit loss outcomes. The recalculated ECL provision 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 28c. The modelled impact presented is based on gross loans and advances to customers at 31 July 2021; it does not incorporate future changes relating to performance, growth or credit risk. In addition, given the change in the macroeconomic conditions, as well as the underlying modelled provisions and methodology, comparison between the sensitivity results at 31 July 2021 and 31 July 2020 is not appropriate.

The economic environment remains uncertain and future impairment charges may be subject to further volatility (including from changes to macroeconomic variable forecasts) depending on the impact of the Covid-19 pandemic on consumers and businesses, as well as the withdrawal of government support measures.

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 (2020: 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 2021							
Net interest income/(expense)	218.1	198.8	122.6	(0.1)	(1.4)	(0.5)	537.5
Non-interest income	70.8	21.0	0.4	139.5	183.4	–	415.1
Operating income/(expense)	288.9	219.8	123.0	139.4	182.0	(0.5)	952.6
Administrative expenses	(139.1)	(118.6)	(29.1)	(110.8)	(118.1)	(24.1)	(539.8)
Depreciation and amortisation	(19.1)	(19.4)	(3.8)	(5.1)	(3.1)	(1.8)	(52.3)
Impairment (losses)/gains on financial assets	(77.9)	(9.9)	(2.3)	0.2	0.1	–	(89.8)
Total operating expenses before amortisation and impairment of intangible assets on acquisition, goodwill impairment and exceptional item	(236.1)	(147.9)	(35.2)	(115.7)	(121.1)	(25.9)	(681.9)
Adjusted operating profit/(loss)[1]	52.8	71.9	87.8	23.7	60.9	(26.4)	270.7
Amortisation and impairment of intangible assets on acquisition	(12.2)	(0.7)	–	(1.3)	–	–	(14.2)
Goodwill impairment	(12.1)	–	–	–	–	–	(12.1)
Exceptional item: HMRC VAT refund	7.4	12.3	–	–	–	1.1	20.8
Operating profit/(loss) before tax	35.9	83.5	87.8	22.4	60.9	(25.3)	265.2
External operating income/(expense)	343.1	258.7	142.3	139.4	182.0	(112.9)	952.6
Inter segment operating (expense)/income	(54.2)	(38.9)	(19.3)	–	–	112.4	–
Segment operating income	288.9	219.8	123.0	139.4	182.0	(0.5)	952.6

1 Adjusted operating profit/(loss) is stated before amortisation and impairment of intangible assets on acquisition, goodwill impairment, exceptional item and tax.

	Banking						
	Commercial £ million	Retail £ million	Property £ million	Asset Management £ million	Securities £ million	Group[2] £ million	Total £ million
Summary balance sheet information at 31 July 2021							
Total assets[1]	4,191.0	2,974.3	1,502.1	139.7	897.9	2,329.5	12,034.5
Total liabilities	–	–	–	78.1	806.5	9,580.6	10,465.2

1 Total assets for the Banking operating segments comprise the loan book and operating lease assets only.
2 Balance sheet includes £2,299.0 million assets and £9,677.8 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 £8,667.4 million, in addition to assets and liabilities of £2,299.0 million and £9,677.8 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	1,288.6	61.6	91.4	127.7	1,569.3

	Banking						
	Commercial	Retail	Property	Asset Management	Securities	Group	Total
Other segmental information for the year ended 31 July 2021							
Employees (average number)[1]	1,276	1,163	187	706	300	77	3,709

1 Banking segments are inclusive of a central function headcount allocation.

The Notes continued

3. Segmental analysis continued

	Banking			Asset Management £ million	Securities £ million	Group £ million	Total £ million
	Commercial £ million	Retail £ million	Property £ million				
Summary income statement for the year ended 31 July 2020							
Net interest income/(expense)	180.0	194.0	120.9	(0.1)	(1.0)	0.2	494.0
Non-interest income/(expense)	66.6	24.4	0.1	128.3	152.9	(0.2)	372.1
Operating income	246.6	218.4	121.0	128.2	151.9	–	866.1
Administrative expenses	(126.2)	(110.8)	(28.2)	(102.4)	(100.7)	(21.7)	(490.0)
Depreciation and amortisation	(16.4)	(16.1)	(5.7)	(5.3)	(3.1)	(1.8)	(48.4)
Impairment losses on financial assets	(99.2)	(56.6)	(27.6)	(0.1)	(0.2)	–	(183.7)
Total operating expenses before amortisation of intangible assets on acquisition, goodwill impairment and exceptional item	(241.8)	(183.5)	(61.5)	(107.8)	(104.0)	(23.5)	(722.1)
Adjusted operating profit/(loss)[1]	4.8	34.9	59.5	20.4	47.9	(23.5)	144.0
Amortisation of intangible assets on acquisition	(1.7)	(0.3)	–	(1.1)	–	–	(3.1)
Goodwill impairment	–	–	–	–	–	–	–
Exceptional item: HMRC VAT refund	–	–	–	–	–	–	–
Operating profit/(loss) before tax	3.1	34.6	59.5	19.3	47.9	(23.5)	140.9
External operating income/(expense)	302.2	261.8	147.0	128.3	151.9	(125.1)	866.1
Inter segment operating (expense)/income	(55.6)	(43.4)	(26.0)	(0.1)	–	125.1	–
Segment operating income	246.6	218.4	121.0	128.2	151.9	–	866.1

1 Adjusted operating profit/(loss) is stated before amortisation of intangible assets on acquisition, goodwill impairment, exceptional item and tax.

	Banking			Asset Management £ million	Securities £ million	Group[2] £ million	Total £ million
	Commercial £ million	Retail £ million	Property £ million				
Summary balance sheet information at 31 July 2020							
Total assets[1]	3,269.9	2,834.5	1,734.2	115.7	779.7	2,337.5	11,071.5
Total liabilities	–	–	–	54.8	707.6	8,859.5	9,621.9

1 Total assets for the Banking operating segments comprise the loan book and operating lease assets only.
2 Balance sheet includes £2,305.7 million assets and £8,930.1 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]	1,214.2	60.9	72.1	102.4	1,449.6

1 Equity of the Banking division reflects loan book and operating lease assets of £7,838.6 million, in addition to assets and liabilities of £2,305.7 million and £8,930.1 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 2020							
Employees (average number)[1]	1,215	1,080	176	699	281	70	3,521

1 Banking segments are inclusive of a central function headcount allocation.

4. Operating Profit before Tax

	2021 £ million	2020 £ million
Interest income[1]		
Cash and balances at central banks	**1.6**	5.2
Loans and advances to banks	**–**	0.3
Loans and advances to customers	**652.9**	619.9
Other interest income	**2.3**	3.7
	656.8	629.1
Interest expense		
Deposits by banks	**–**	(0.1)
Deposits by customers	**(66.3)**	(82.6)
Borrowings	**(38.7)**	(41.6)
Other interest expense	**(14.3)**	(10.8)
	(119.3)	(135.1)
Net interest income	**537.5**	494.0

1 Interest income calculated using the effective interest method.

	2021 £ million	2020 £ million
Fee and commission income		
Banking	**88.2**	92.3
Asset Management	**141.2**	128.6
Securities	**16.7**	9.3
	246.1	230.2
Fee and commission expense	**(16.1)**	(17.6)
Net fee and commission income	**230.0**	212.6

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 £88.2 million (2020: £92.3 million) and £13.5 million (2020: £15.4 million) respectively.

Fee income and expense arising from trust and other fiduciary activities amounted to £141.2 million (2020: £128.6 million) and £1.9 million (2020: £1.7 million) respectively.

	2021 £ million	2020 £ million
Other income		
Operating lease assets rental income	**75.4**	69.1
Other	**14.0**	14.3
	89.4	83.4

	2021 £ million	2020 £ million
Administrative expenses		
Staff costs:		
Wages and salaries	**297.0**	269.2
Social security costs	**44.7**	36.6
Share-based awards	**5.7**	2.1
Pension costs	**15.8**	14.8
	363.2	322.7
Depreciation and amortisation	**52.3**	48.4
Other administrative expenses	**176.6**	167.3
	592.1	538.4

The Notes continued

5. Information Regarding the Auditor

	2021 £ million	2020 £ million
Fees payable		
Audit of the company's annual accounts	**0.4**	0.2
Audit of the company's subsidiaries pursuant to legislation	**2.2**	1.8
Audit related services	**0.7**	0.5
	3.3	2.5

The auditor of the group was PricewaterhouseCoopers LLP (2020: PricewaterhouseCoopers LLP).

6. Exceptional Item

During the year, the group recorded an exceptional gain of £20.8 million, reflecting a VAT refund from HMRC in relation to hire purchase agreements in the Motor Finance and Asset Finance businesses. This follows HMRC's policy in Revenue and Customs Brief 8 (2020) published in June 2020. The Brief advised businesses who supply goods by way of hire purchase agreements of HMRC's suggested method for apportionment of VAT incurred on overheads (and so the reclaimable portion of such VAT). This follows the Court of Justice of the European Union's judgement regarding Volkswagen Financial Services (UK) Ltd.

The group submitted refund claims in respect of the period from 2009 to 2020. HMRC agreed the claims and repayment was made to the group in June 2021. In line with the group's accounting policy set out in Note 1, this has been presented as an exceptional item as it is material by size and nature and non-recurring.

7. Taxation

	2021 £ million	2020 £ million
Tax charged/(credited) to the income statement		
Current tax:		
UK corporation tax	**75.1**	35.4
Foreign tax	**1.5**	0.2
Adjustments in respect of previous years	**(3.4)**	(10.0)
	73.2	25.6
Deferred tax:		
Deferred tax credit for the current year	**(13.6)**	(3.1)
Adjustments in respect of previous years	**3.5**	8.9
	63.1	31.4
Tax on items not (credited)/charged to the income statement		
Current tax relating to:		
Share-based payments	**–**	(0.1)
Deferred tax relating to:		
Cash flow hedging	**2.0**	(0.6)
Defined benefit pension scheme	**0.6**	0.3
Financial instruments classified as fair value through other comprehensive income	**0.3**	(0.1)
Share-based payments	**(1.4)**	–
Currency translation losses	**(1.1)**	(0.3)
Acquisitions	**1.0**	(0.2)
	1.4	(1.0)
Reconciliation to tax expense		
UK corporation tax for the year at 19.0% (2020: 19.0%) on operating profit before tax	**50.4**	26.8
Effect of different tax rates in other jurisdictions	**(0.3)**	(0.2)
Disallowable items and other permanent differences	**2.9**	1.6
Banking surcharge	**19.8**	7.2
Deferred tax impact of increased tax rates	**(9.8)**	(2.9)
Prior year tax provision	**0.1**	(1.1)
	63.1	31.4

The standard UK corporation tax rate for the financial year is 19.0% (2020: 19.0%). However, an additional 8% surcharge applies to banking company profits as defined in legislation. The effective tax rate of 23.8% (2020: 22.3%) is above the UK corporation tax rate primarily due to the surcharge applying to most of the group's profits partly offset by a write-up in deferred tax assets reflecting an increase in the UK corporation tax from 19% to 25% applying from April 2023 passed into law in the year.

In the Chancellor of the Exchequer's Budget 2021 announcement on 3 March 2021, it was indicated that the government intends to legislate in Finance Bill 2021-22 to ensure that the combined rate of tax on banks' profits, which comprises the standard corporation tax rate and banking surcharge, does not increase substantially from its current level. This legislation would have the impact of partially reversing the abovementioned deferred tax asset increase, and income statement benefit, however the precise quantum of such a reversal remains uncertain.

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 2019	34.7	(1.4)	8.3	12.7	1.5	(3.3)	(0.3)	52.2
(Charge)/credit to the income statement	(3.5)	–	0.6	(3.2)	–	0.1	0.2	(5.8)
Credit/(charge) to other comprehensive income	0.3	(0.3)	–	–	0.6	–	0.1	0.7
Credit to equity	–	–	–	–	–	–	–	–
Acquisitions	–	–	–	–	–	–	0.2	0.2
At 31 July 2020	31.5	(1.7)	8.9	9.5	2.1	(3.2)	0.2	47.3
Credit/(charge) to the income statement	3.5	0.1	5.2	(0.7)	–	2.5	(0.5)	10.1
Credit/(charge) to other comprehensive income	1.1	(0.6)	–	–	(2.0)	–	(0.3)	(1.8)
Credit to equity	–	–	1.4	–	–	–	–	1.4
Acquisitions	–	–	–	–	–	(1.0)	–	(1.0)
At 31 July 2021	**36.1**	**(2.2)**	**15.5**	**8.8**	**0.1**	**(1.7)**	**(0.6)**	**56.0**

	Capital allowances £ million	Pension scheme £ million	Share-based payments and deferred compensation £ million	Total £ million
Company				
At 1 August 2019	0.2	(1.4)	2.6	1.4
Charge to the income statement	(0.2)	–	(0.8)	(1.0)
Charge to other comprehensive income	–	(0.3)	–	(0.3)
At 31 July 2020	–	(1.7)	1.8	0.1
(Charge)/credit to the income statement	(0.6)	0.1	0.2	(0.3)
Charge to other comprehensive income	–	(0.6)	–	(0.6)
At 31 July 2021	**(0.6)**	**(2.2)**	**2.0**	**(0.8)**

As the group has been and is expected to continue to be consistently profitable, the full deferred tax assets have been recognised.

The Notes continued

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.

	2021	2020
Basic	**134.8p**	72.8p
Diluted	**133.6p**	72.5p
Adjusted basic[1]	**140.4p**	74.5p
Adjusted diluted[1]	**139.1p**	74.2p

1 Excludes amortisation and impairment of intangible assets on acquisition, goodwill impairment, exceptional item and their tax effects.

	2021 £ million	2020 £ million
Profit attributable to shareholders	**202.1**	109.5
Adjustments:		
Amortisation and impairment of intangible assets on acquisition	**14.2**	3.1
Goodwill impairment	**12.1**	–
Exceptional item: HMRC VAT refund	**(20.8)**	–
Tax effect of adjustments and exceptional item	**2.9**	(0.5)
Adjusted profit attributable to shareholders	**210.5**	112.1

	2021 million	2020 million
Average number of shares		
Basic weighted	**149.9**	150.4
Effect of dilutive share options and awards	**1.4**	0.7
Diluted weighted	**151.3**	151.1

9. Dividends

	2021 £ million	2020 £ million
For each ordinary share		
Final dividend for previous financial year paid in November 2020: 40.0p (November 2019: 44.0p)	**59.8**	65.8
Interim dividend for current financial year paid in April 2021: 18.0p (April 2020: 0.0p)	**26.8**	–
	86.6	65.8

A final dividend relating to the year ended 31 July 2021 of 42.0p, amounting to an estimated £62.7 million, is proposed. This final dividend, which is due to be paid on 23 November 2021 to shareholders on the register at 15 October 2021, 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 2021	**121.9**	**1.0**	**2.2**	**10.5**	**0.7**	**136.3**
At 31 July 2020	98.5	12.0	10.3	2.9	2.1	125.8

11. Loans and Advances to Customers

(a) Maturity analysis of loans and advances to customers

The following table sets out a maturity analysis of loans and advances to customers. At 31 July 2021 loans and advances to customers with a maturity of two years or less was £6,326.6 million (31 July 2020: £6,031.6 million) representing 72.5% (31 July 2020: 76.8%) of total 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	Total gross loans and advances to customers £ million	Impairment provisions £ million	Total net loans and advances to customers £ million
At 31 July 2021	**71.8**	**2,276.6**	**2,289.1**	**1,689.1**	**2,242.8**	**155.5**	**8,724.9**	**(280.4)**	**8,444.5**
At 31 July 2020	78.1	2,174.0	2,348.2	1,431.3	1,680.5	143.3	7,855.4	(238.7)	7,616.7

(b) Loans and advances to customers and impairment provisions by stage

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 2021						
Gross loans and advances to customers						
Commercial	**3,417.2**	**549.4**	**74.0**	**623.4**	**99.9**	**4,140.5**
Retail	**2,817.0**	**175.3**	**6.4**	**181.7**	**43.2**	**3,041.9**
Property	**1,200.1**	**100.5**	**54.6**	**155.1**	**187.3**	**1,542.5**
	7,434.3	**825.2**	**135.0**	**960.2**	**330.4**	**8,724.9**
Impairment provisions						
Commercial	**55.6**	**30.3**	**33.6**	**63.9**	**52.9**	**172.4**
Retail	**22.1**	**13.3**	**1.9**	**15.2**	**30.3**	**67.6**
Property	**2.3**	**5.0**	**0.1**	**5.1**	**33.0**	**40.4**
	80.0	**48.6**	**35.6**	**84.2**	**116.2**	**280.4**
Provision coverage ratio						
Commercial	**1.6%**	**5.5%**	**45.4%**	**10.3%**	**53.0%**	**4.2%**
Retail	**0.8%**	**7.6%**	**29.7%**	**8.4%**	**70.1%**	**2.2%**
Property	**0.2%**	**5.0%**	**0.2%**	**3.3%**	**17.6%**	**2.6%**
	1.1%	**5.9%**	**26.4%**	**8.8%**	**35.2%**	**3.2%**

		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 2020						
Gross loans and advances to customers						
Commercial	1,913.4	1,110.9	21.1	1,132.0	126.4	3,171.8
Retail	2,604.9	208.1	49.4	257.5	43.4	2,905.8
Property	1,388.3	125.3	59.4	184.7	204.8	1,777.8
	5,906.6	**1,444.3**	**129.9**	**1,574.2**	**374.6**	**7,855.4**
Impairment provisions						
Commercial	18.1	59.9	1.5	61.4	44.3	123.8
Retail	28.4	11.1	7.5	18.6	24.3	71.3
Property	11.1	6.6	0.7	7.3	25.2	43.6
	57.6	**77.6**	**9.7**	**87.3**	**93.8**	**238.7**
Provision coverage ratio						
Commercial	0.9%	5.4%	7.1%	5.4%	35.0%	3.9%
Retail	1.1%	5.3%	15.2%	7.2%	56.0%	2.5%
Property	0.8%	5.3%	1.2%	4.0%	12.3%	2.5%
	1.0%	**5.4%**	**7.5%**	**5.5%**	**25.0%**	**3.0%**

The Notes continued

11. Loans and Advances to Customers continued
Stage allocation of loans and advances to customers has been applied in line with the definitions set out on page 142, with staging adjustments made based on management judgement and for Covid-19 related forbearance.

During the year the staging profile of loans and advances to customers has improved. At 31 July 2021, 85.2% (31 July 2020: 75.2%) of loans and advances to customers were Stage 1 primarily as a result of strong new business growth in Commercial and the encouraging performance of our forborne book. Stage 2 loans and advances to customers reduced to 11.0% (31 July 2020: 20.0%) reflecting ongoing repayment or settlement of Stage 2 balances, notably Covid-19 forborne loans. These have more than offset migrations into Stage 2 associated with a significant increase in credit risk. The remaining 3.8% (31 July 2020: 4.8%) of loans and advances to customers was deemed to be credit impaired and classified as Stage 3.

At the same time, overall impairment provisions increased to £280.4 million (31 July 2020: £238.7 million), following regular reviews of staging and provision coverage for individual loans and portfolios. The movement in impairment provisions reflects the benefit of strong underlying credit performance across Retail, Commercial and Property as well as strong new business volumes in Commercial much of which attract guarantees under the government lending support schemes, improved macroeconomic scenarios and weightings and the encouraging performance of our forborne book. Coverage on the residual Stage 2 Covid-19 forborne loan book continues to be monitored and adjusted where appropriate. While these factors reduced provisions overall, this was more than offset by a significant increase in provisions against Novitas, across all stages, due to the latest case failure and recovery rate assumptions.

As a result, there has been a marginal increase in provision coverage to 3.2% (31 July 2020: 3.0%).

Provision Coverage Analysis by Business
In Commercial, the impairment coverage ratio increased to 4.2% (31 July 2020: 3.9%) reflecting a significant increase in provisions in Novitas. These were partly offset by strong new business volumes associated with the government lending support schemes, observed performance of the Covid-19 forborne loan book and the impact of an improving macroeconomic environment. The significant increase in credit provisions against the Novitas loan book reflects the latest assumptions on case failure and recovery rates.

In Retail at 31 July 2021, the impairment coverage ratio decreased slightly to 2.2% (31 July 2020: 2.5%) reflecting the performance of the forborne loan book and strong new business volumes.

In Property the impairment coverage ratio remained broadly stable at 2.6% (31 July 2020: 2.5%) reflecting increased individually assessed provisions on Stage 3 loans, offset by the favourable impact of changes in the macroeconomic forecasts.

(c) Reconciliation of loans and advances to customers and impairment provisions
Reconciliations of gross loans and advances to customers and associated impairment provisions are set out below.

New financial assets originate in Stage 1 only, and the amount presented represents the value at origination.

Subsequently, a loan may transfer between stages, and the presentation of such transfers is based on a comparison of the loan at the beginning of the year (or at origination if this occurred during the year) and the end of the year (or just prior to final repayment or write off).

Repayments relating to loans which transferred between stages during the year are presented within the transfers between stages lines. Such transfers do not represent overnight reclassification from one stage to another. All other repayments are presented in a separate line.

ECL model methodologies may be updated or enhanced from time to time and the impacts of such changes are presented on a separate line. Enhancements to our model suite during the course of the financial year are a contributory factor to ECL movements and such factors have been taken into consideration when assessing any required adjustments to modelled output and ensuring appropriate provision coverage levels.

A loan is written off when there is no reasonable expectation of further recovery following realisation of all associated collateral and available recovery actions against the customer.

	Stage 1 £ million	Stage 2 £ million	Stage 3 £ million	Total £ million
Gross loans and advances to customers				
At 1 August 2020	**5,906.6**	**1,574.2**	**374.6**	**7,855.4**
New financial assets originated	**6,980.2**	**–**	**–**	**6,980.2**
Transfers to Stage 1	**640.0**	**(639.6)**	**(11.2)**	**(10.8)**
Transfers to Stage 2	**(1,054.5)**	**912.4**	**(15.0)**	**(157.1)**
Transfers to Stage 3	**(133.3)**	**(113.4)**	**178.6**	**(68.1)**
Net transfers between stages and repayments[1]	**(547.8)**	**159.4**	**152.4**	**(236.0)**
Repayments while stage remained unchanged and final repayments	**(4,907.6)**	**(781.4)**	**(106.5)**	**(5,795.5)**
Changes to model methodologies	**6.3**	**9.8**	**(16.0)**	**0.1**
Write offs	**(3.4)**	**(1.8)**	**(74.1)**	**(79.3)**
At 31 July 2021	**7,434.3**	**960.2**	**330.4**	**8,724.9**

	Stage 1 £ million	Stage 2 £ million	Stage 3 £ million	Total £ million
Gross loans and advances to customers				
At 1 August 2019	6,864.0	703.7	186.2	7,753.9
New financial assets originated	5,859.1	–	–	5,859.1
Transfers to Stage 1	105.4	(164.7)	(14.3)	(73.6)
Transfers to Stage 2	(2,206.1)	1,670.5	(0.8)	(536.4)
Transfers to Stage 3	(303.0)	(157.9)	365.9	(95.0)
Net transfers between stages and repayments[1]	(2,403.7)	1,347.9	350.8	(705.0)
Repayments while stage remained unchanged and final repayments	(4,511.7)	(386.5)	(57.8)	(4,956.0)
Changes to model methodologies	100.9	(89.4)	(11.5)	–
Write offs	(2.0)	(1.5)	(93.1)	(96.6)
At 31 July 2020	**5,906.6**	**1,574.2**	**374.6**	**7,855.4**

1 Repayments relate only to financial assets which transferred between stages during the year. Other repayments are shown in the line below.

The gross carrying amount before modification of loans and advances to customers which were modified during the year while in Stage 2 or 3 was £293.9 million (2020: £689.4 million). A loss of £0.8 million (2020: £3.4 million) was recognised as a result of these modifications. The gross carrying amount at 31 July 2021 of modified loans and advances to customers which transferred from Stage 2 or 3 to Stage 1 during the year was £237.9 million (31 July 2020: £52.8 million).

	Stage 1 £ million	Stage 2 £ million	Stage 3 £ million	Total £ million
Impairment provisions on loans and advances to customers				
At 1 August 2020	**57.6**	**87.3**	**93.8**	**238.7**
New financial assets originated	**45.0**	**–**	**–**	**45.0**
Transfers to Stage 1	**4.0**	**(15.7)**	**(1.0)**	**(12.7)**
Transfers to Stage 2	**(15.7)**	**63.4**	**(2.4)**	**45.3**
Transfers to Stage 3	**(2.2)**	**(13.3)**	**67.6**	**52.1**
Net remeasurement of expected credit losses arising from transfers between stages and repayments[1]	**(13.9)**	**34.4**	**64.2**	**84.7**
Repayments and ECL movements while stage remained unchanged and final repayments	**(9.0)**	**(35.9)**	**(5.0)**	**(49.9)**
Changes to model methodologies	**0.9**	**(0.2)**	**(2.8)**	**(2.1)**
Charge to the income statement	**23.0**	**(1.7)**	**56.4**	**77.7**
Write offs	**(0.6)**	**(1.4)**	**(34.0)**	**(36.0)**
At 31 July 2021	**80.0**	**84.2**	**116.2**	**280.4**

	Stage 1 £ million	Stage 2 £ million	Stage 3 £ million	Total £ million
Impairment provisions on loans and advances to customers				
At 1 August 2019	24.9	27.1	52.3	104.3
New financial assets originated	28.1	–	–	28.1
Transfers to Stage 1	0.9	(4.1)	(0.1)	(3.3)
Transfers to Stage 2	(13.9)	69.1	(0.1)	55.1
Transfers to Stage 3	(2.5)	(8.5)	82.9	71.9
Net remeasurement of expected credit losses arising from transfers between stages and repayments[1]	(15.5)	56.5	82.7	123.7
Repayments and ECL movements while stage remained unchanged and final repayments	3.6	3.0	(0.3)	6.3
Changes to model methodologies	16.9	1.3	(3.6)	14.6
Charge to the income statement	33.1	60.8	78.8	172.7
Write offs	(0.4)	(0.6)	(37.3)	(38.3)
At 31 July 2020	**57.6**	**87.3**	**93.8**	**238.7**

1 Repayments relate only to financial assets which transferred between stages during the year. Other repayments are shown in the line below.

The Notes continued

11. Loans and Advances to Customers continued

	2021 £ million	2020 £ million
Impairment losses relating to loans and advances to customers:		
Charge to income statement arising from movement in impairment provisions	**77.7**	172.7
Amounts written off directly to income statement, net of recoveries and other costs	**10.2**	7.8
	87.9	180.5
Impairment losses relating to other financial assets	**1.9**	3.2
Impairment losses on financial assets recognised in income statement	**89.8**	183.7

The contractual amount outstanding at 31 July 2021 on financial assets that were written off during the period and are still subject to recovery activity is £19.0 million (31 July 2020: £12.4 million).

(d) Finance lease and hire purchase agreement receivables

	31 July 2021 £ million	31 July 2020 £ million
Loans and advances to customers comprise		
Hire purchase agreement receivables	**3,554.6**	2,998.0
Finance lease receivables	**567.1**	474.8
Other loans and advances	**4,322.8**	4,143.9
At 31 July	**8,444.5**	7,616.7

The following table shows a reconciliation between gross investment in finance lease and hire purchase agreement receivables included in the table above to present value of minimum lease and hire purchase payments:

	31 July 2021 £ million	31 July 2020 £ million
Gross investment in finance leases and hire purchase agreement receivables due:		
One year or within one year	**1,632.6**	1,461.1
>One to two years	**1,772.0**	1,520.6
>Two to three years	**865.8**	660.3
>Three to four years	**427.2**	309.9
>Four to five years	**175.9**	102.7
More than five years	**48.9**	72.0
	4,922.4	4,126.6
Unearned finance income	**(682.6)**	(546.6)
Present value of minimum lease and hire purchase agreement payments	**4,239.8**	3,580.0
Of which due:		
One year or within one year	**1,405.5**	1,267.9
>One to two years	**1,527.3**	1,320.7
>Two to three years	**747.2**	573.8
>Three to four years	**368.1**	268.7
>Four to five years	**149.7**	88.6
More than five years	**42.0**	60.3
	4,239.8	3,580.0

The aggregate cost of assets acquired for the purpose of letting under finance leases and hire purchase agreements was £6,775.3 million (2020: £6,183.4 million). The average effective interest rate on finance leases approximates to 9.8% (2020: 10.2%). 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.

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	**20.1**	**–**	**–**	**20.1**
Certificates of deposit	**–**	**–**	**264.7**	**264.7**
Sovereign and central bank debt	**–**	**192.5**	**–**	**192.5**
At 31 July 2021	**20.1**	**192.5**	**264.7**	**477.3**

	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	24.4	–	–	24.4
Certificates of deposit	–	–	285.9	285.9
Sovereign and central bank debt	–	72.2	–	72.2
At 31 July 2020	24.4	72.2	285.9	382.5

Movements on the book value of sovereign and central bank debt comprise:

	2021 £ million	2020 £ million
Sovereign and central bank debt at 1 August	**72.2**	48.3
Additions	**313.7**	22.7
Redemptions	**(191.0)**	–
Currency translation differences	**(5.2)**	(0.8)
Movement in value	**2.8**	2.0
Sovereign and central bank debt at 31 July	**192.5**	72.2

13. Equity Shares

	31 July 2021 £ million	31 July 2020 £ million
Long trading positions	**30.8**	29.2
Other equity shares	**1.1**	0.8
	31.9	30.0

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 2021			31 July 2020		
	Notional value £ million	**Assets £ million**	**Liabilities £ million**	Notional value £ million	Assets £ million	Liabilities £ million
Exchange rate contracts	**104.5**	**0.2**	**0.2**	99.2	1.0	0.4
Interest rate contracts	**3,267.8**	**18.1**	**21.1**	3,132.8	38.9	20.4
	3,372.3	**18.3**	**21.3**	3,232.0	39.9	20.8

Notional amounts of interest rate contracts totalling £2,849.6 million (31 July 2020: £2,130.2 million) have a residual maturity of more than one year.

The Notes continued

14. Derivative Financial Instruments continued

Included in the derivatives above are the following cash flow and fair value hedges:

	31 July 2021			31 July 2020		
	Notional value £ million	**Assets £ million**	**Liabilities £ million**	Notional value £ million	Assets £ million	Liabilities £ million
Cash flow hedges						
Interest rate contracts	**780.7**	**2.2**	**1.2**	747.1	–	8.4
Fair value hedges						
Interest rate contracts	**1,483.5**	**14.7**	**17.8**	1,234.3	35.3	7.9

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 five (2020: six) 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**
Fair value hedges							
Interest rate risk							
31 July 2021	**–**	**70.8**	**41.3**	**1.0**	**482.9**	**887.5**	**1,483.5**
31 July 2020	–	4.9	40.5	382.1	404.6	402.2	1,234.3

Fair value hedges have an average fixed rate of 1.9% (31 July 2020: 2.7%).

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 2021 £ million	**Hedge ineffectiveness recognised in income statement 2021 £ million**	Changes in fair value of hedging instrument used for calculating hedge ineffectiveness 2020 £ million	Hedge ineffectiveness recognised in income statement 2020 £ million
Cash flow hedges				
Interest rate risk	**8.9**	**0.1**	(2.0)	(0.1)
Fair value hedges				
Interest rate risk	**(29.0)**	**(0.1)**	4.8	0.1

The carrying amount of hedging interest rate swaps is held within derivative financial instruments and the hedge ineffectiveness is held within other income.

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 2021			
Fair value hedges			
Assets			
Debt securities	**192.5**	**4.5**	**1.2**
Loans and advances to customers and undrawn commitments	**88.5**	**1.8**	**(2.5)**
	281.0	**6.3**	**(1.3)**
Liabilities			
Deposits by customers	**21.2**	**0.1**	**1.5**
Debt securities in issue	**842.6**	**(0.5)**	**27.6**
Subordinated loan capital	**222.7**	**0.8**	**1.1**
	1,086.5	**0.4**	**30.2**

	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 2020			
Fair value hedges			
Assets			
Debt securities	72.2	3.3	0.5
Loans and advances to customers and undrawn commitments	83.4	4.4	2.0
	155.6	7.7	2.5
Liabilities			
Deposits by customers	176.8	1.6	0.4
Debt securities in issue	759.5	27.1	(6.4)
Subordinated loan capital	176.6	1.9	(1.1)
	1,112.9	30.6	(7.1)

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	Loss on discontinued hedges recognised in other comprehensive income £ million	Gains/(losses) from changes in value of hedging instrument recognised in other comprehensive income £ million	Amounts reclassified from reserves to income statement[1] £ million
Cash flow hedges				
Interest rate risk				
31 July 2021	**(8.8)**	**(1.5)**	**8.9**	**(0.3)**
31 July 2020	1.9	–	(1.9)	–

1 Amounts have been reclassified to other income since hedged cash flows will no longer occur.

The Notes continued

15. Intangible Assets

	Goodwill £ million	Software £ million	Intangible assets on acquisition £ million	Group total £ million	Company software £ million
Cost					
At 1 August 2019	150.8	201.2	67.5	419.5	0.4
Additions	2.3	46.9	–	49.2	0.1
Disposals	(0.1)	(14.8)	–	(14.9)	–
At 31 July 2020	153.0	233.3	67.5	453.8	0.5
Additions	2.0	46.2	4.2	52.4	–
Disposals and write offs	(12.1)	(6.7)	(20.7)	(39.5)	(0.1)
At 31 July 2021	**142.9**	**272.8**	**51.0**	**466.7**	**0.4**
Amortisation and impairment					
At 1 August 2019	47.9	105.0	47.2	200.1	0.4
Amortisation charge for the year	–	25.3	3.1	28.4	–
Impairment charge for the year	–	–	–	–	–
Disposals	–	(14.8)	–	(14.8)	–
At 31 July 2020	47.9	115.5	50.3	213.7	0.4
Amortisation charge for the year	–	29.4	3.0	32.4	–
Impairment charge for the year	12.1	–	11.2	23.3	–
Disposals and write offs	(12.1)	(2.5)	(20.7)	(35.3)	–
At 31 July 2021	**47.9**	**142.4**	**43.8**	**234.1**	**0.4**
Net book value at 31 July 2021	**95.0**	**130.4**	**7.2**	**232.6**	**–**
Net book value at 31 July 2020	105.1	117.8	17.2	240.1	0.1
Net book value at 1 August 2019	102.9	96.2	20.3	219.4	–

Software includes assets under development of £60.1 million (31 July 2020: £65.4 million).

Intangible assets on acquisition relate to broker and customer relationships and are amortised over a period of eight to 20 years.

In the 2021 financial year £3.0 million (2020: £3.1 million) of the amortisation charge is included in amortisation of intangible assets on acquisition and £29.4 million (2020: £25.3 million) of the amortisation charge is included in administrative expenses shown in the consolidated income statement. An impairment charge of £11.2 million relating to intangible assets on acquisition is excluded from administrative expenses shown in the consolidated income statement.

Impairment tests for goodwill

At 31 July 2021, goodwill has been allocated to eight (31 July 2020: nine) individual CGUs. Six (31 July 2020: seven) are within the Banking division, one is the Asset Management division and the remaining one is the Securities division. The number of CGUs with goodwill decreased by one during the year following full impairment of the goodwill allocated to the Novitas CGU (further detail at the end of this note). 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 three year plans to determine the recoverable amount of each CGU. These three year plans include the expected impact of Covid-19. 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% (2020: 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 2021, the results of the review, which includes careful consideration of the impact of Covid-19, indicate there is no goodwill impairment except for the abovementioned impairment relating to Novitas. 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 to the carrying value of any CGU to exceed its recoverable amount.

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:

Cash generating unit	**31 July 2021** Goodwill £ million	**31 July 2021** Pre-tax discount rate %	31 July 2020 Goodwill £ million	31 July 2020 Pre-tax discount rate %
Close Brothers Asset Management	**40.2**	**7.1**	38.3	9.0
Winterflood Securities	**23.3**	**12.0**	23.3	12.3
Novitas	**–**	**–**	12.1	12.1
Other	**31.5**	**9.8-10.9**	31.4	12.1-13.4
	95.0		105.1	

Impairment of goodwill and intangible assets on acquisition

During the year, the group recorded an impairment charge of £12.1 million relating to the full impairment of goodwill allocated to Novitas, a CGU within the group's Commercial segment. In addition, a total impairment charge of £11.2 million was recorded relating to intangible assets on acquisition, of which £10.1 million related to Novitas.

These impairments reflect the value in use of the Novitas CGU and intangible assets on acquisition falling below carrying value, driven by lower expected future cash flows following strategic decisions made by management. At 31 July 2021, the value in use of the CGU and intangible assets on acquisition was £192.4 million and £3.1 million respectively, and the pre-tax discount rate used in the impairment calculations was 9%.

16. Property, Plant and Equipment

	Leasehold property £ million	Fixtures, fittings and equipment £ million	Assets held under operating leases £ million	Motor vehicles £ million	Right of use assets[1] £ million	Total £ million
Group						
Cost						
At 1 August 2019	27.1	55.5	314.1	0.1	44.8	441.6
Additions	0.7	10.8	54.6	–	16.3	82.4
Disposals	(2.3)	(6.2)	(27.3)	–	(0.7)	(36.5)
At 31 July 2020	25.5	60.1	341.4	0.1	60.4	487.5
Additions	1.1	17.2	60.6	0.1	17.6	96.6
Disposals	(1.4)	(2.5)	(41.3)	–	(6.3)	(51.5)
At 31 July 2021	**25.2**	**74.8**	**360.7**	**0.2**	**71.7**	**532.6**
Depreciation						
At 1 August 2019	14.6	40.2	93.7	0.1	–	148.6
Depreciation and impairment charges for the year	2.4	7.5	44.3	–	13.2	67.4
Disposals	(2.2)	(4.8)	(18.5)	–	(0.2)	(25.7)
At 31 July 2020	14.8	42.9	119.5	0.1	13.0	190.3
Depreciation and impairment charges for the year	2.3	6.8	44.8	–	13.8	67.7
Disposals	(1.4)	(2.2)	(26.5)	–	(5.2)	(35.3)
At 31 July 2021	**15.7**	**47.5**	**137.8**	**0.1**	**21.6**	**222.7**
Net book value at 31 July 2021	**9.5**	**27.3**	**222.9**	**0.1**	**50.1**	**309.9**
Net book value at 31 July 2020	10.7	17.2	221.9	–	47.4	297.2
Net book value at 1 August 2019	12.5	15.3	220.4	–	–	248.2

1 Right of use assets primarily relate to the group's leasehold properties.

The Notes continued

16. Property, Plant and Equipment continued

There was a gain of £2.6 million from the sale of assets held under operating leases for the year ended 31 July 2021 (2020: £nil).

	31 July 2021 £ million	31 July 2020 £ million
Future minimum lease rentals receivable under non-cancellable operating leases		
One year or within one year	**44.3**	43.8
>One to two years	**28.5**	28.5
>Two to three years	**14.6**	15.9
>Three to four years	**4.0**	6.7
>Four to five years	**1.9**	2.2
More than five years	**1.2**	1.3
	94.5	98.4

	Leasehold property £ million	Fixtures, fittings and equipment £ million	Total[1] £ million
Company			
Cost			
At 1 August 2019	2.7	1.1	3.8
Additions	0.3	5.1	5.4
Disposals	(1.9)	(0.7)	(2.6)
At 31 July 2020	1.1	5.5	6.6
Additions	–	6.7	6.7
Disposals	(0.8)	(0.4)	(1.2)
At 31 July 2021	**0.3**	**11.8**	**12.1**
Depreciation			
At 1 August 2019	2.7	1.1	3.8
Charge for the year	–	–	–
Disposals	(1.9)	(0.7)	(2.6)
At 31 July 2020	0.8	0.4	1.2
Charge for the year	–	0.6	0.6
Disposals	(0.8)	(0.4)	(1.2)
At 31 July 2021	**–**	**0.6**	**0.6**
Net book value at 31 July 2021	**0.3**	**11.2**	**11.5**
Net book value at 31 July 2020	0.3	5.1	5.4
Net book value at 1 August 2019	–	–	–

1 Prior year comparatives restated – see note 1(c).

The net book value of leasehold property comprises:

	Group		Company	
	31 July 2021 £ million	31 July 2020 £ million	31 July 2021 £ million	31 July 2020 £ million
Long leasehold property	**1.5**	1.6	**0.3**	0.3
Short leasehold property	**8.0**	9.1	**–**	–
	9.5	10.7	**0.3**	0.3

17. Other Assets and Other Liabilities

	31 July 2021 £ million	31 July 2020 £ million
Prepayments, accrued income and other assets		
Prepayments	**134.6**	140.7
Accrued income	**15.7**	14.2
Trade and other receivables	**59.3**	54.6
	209.6	209.5
Accruals, deferred income and other liabilities		
Accruals	**182.8**	156.3
Deferred income	**4.1**	3.4
Trade and other payables	**158.3**	139.8
Provisions	**21.8**	15.8
	367.0	315.3

Provisions movement in the year:

	Claims £ million	Property £ million	Other £ million	Total £ million
Group				
At 1 August 2019	0.3	5.9	11.7	17.9
Additions	0.2	0.5	5.8	6.5
Utilised	(0.5)	–	(6.0)	(6.5)
Released	–	(0.3)	(1.8)	(2.1)
At 31 July 2020	–	6.1	9.7	15.8
Additions	6.2	0.8	5.9	12.9
Utilised	(0.4)	(0.1)	(2.9)	(3.4)
Released	–	–	(3.5)	(3.5)
At 31 July 2021	**5.8**	**6.8**	**9.2**	**21.8**

	Property £ million	Other £ million	Total £ million
Company			
At 1 August 2019	0.4	4.4	4.8
Additions	–	0.8	0.8
Utilised	–	(1.1)	(1.1)
Released	–	(1.2)	(1.2)
At 31 July 2020	0.4	2.9	3.3
Additions	–	0.7	0.7
Utilised	–	(1.0)	(1.0)
Released	–	–	–
At 31 July 2021	**0.4**	**2.6**	**3.0**

Provisions are made for claims and other items which arise in the normal course of business. Claims relate to legal and regulatory cases, while other items largely relate to property dilapidations and employee benefits. For such matters, a provision is recognised where it is determined that there is a present obligation arising from a past event, payment is probable, and the amount can be estimated reliably. The timing and/or outcome of these claims and other items are uncertain.

The Notes continued

18. Settlement Balances and Short Positions

	31 July 2021 £ million	31 July 2020 £ million
Settlement balances	**674.2**	587.5
Short positions in:		
Debt securities	**7.0**	8.3
Equity shares	**9.4**	9.1
	16.4	17.4
	690.6	604.9

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	**2.1**	**37.7**	**110.8**	**–**	**–**	**–**	**150.6**
Deposits by customers	**576.3**	**1,547.9**	**3,343.6**	**729.8**	**437.2**	**–**	**6,634.8**
Loans and overdrafts from banks	**22.7**	**–**	**–**	**–**	**490.0**	**–**	**512.7**
Debt securities in issue[1]	**(0.6)**	**57.0**	**161.2**	**655.2**	**327.5**	**665.2**	**1,865.5**
At 31 July 2021	**600.5**	**1,642.6**	**3,615.6**	**1,385.0**	**1,254.7**	**665.2**	**9,163.6**

1 Debt securities in issue of £(0.6) million due on demand include an adjustment relating to the group's fair value hedges. See note 14 for further information.

	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	25.5	123.3	4.0	–	–	–	152.8
Deposits by customers	543.3	1,103.9	2,799.2	1,151.8	319.5	–	5,917.7
Loans and overdrafts from banks	6.9	1.0	–	262.0	228.0	–	497.9
Debt securities in issue	27.1	37.1	914.9	212.4	407.7	271.1	1,870.3
At 31 July 2020	602.8	1,265.3	3,718.1	1,626.2	955.2	271.1	8,438.7

At 31 July 2021, the parent company held £251.1 million (31 July 2020: £250.8 million) debt securities in issue.

As discussed in note 28(c) at 31 July 2021 the group accessed £490.0 million cash under the Bank of England's Term Funding Scheme with Additional Incentives for SMEs (31 July 2020: £228.0 million under the Term Funding Scheme with Additional Incentives for SMEs and £262.0 million under the Term Funding Scheme). Cash from the schemes and repurchase agreements is included within bank loans and overdrafts. Residual maturities of the schemes 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 2021	**–**	**–**	**–**	**–**	**490.0**	**–**	**490.0**
At 31 July 2020	–	–	–	262.0	228.0	–	490.0

20. Subordinated Loan Capital

	Prepayment date	Initial interest rate	31 July 2021 £ million	31 July 2020 £ million
Final maturity date				
2026	2021	7.42%	**–**	15.5
2026	2021	7.62%	**–**	31.0
2027	2022	4.25%	**23.5**	176.5
2031	2026	2.00%	**199.2**	–
			222.7	223.0

At 31 July 2021, the parent company held £23.5 million (31 July 2020: £176.5 million) and £199.2 million (31 July 2020: £nil) of subordinated loan capital with final maturity dates of 2027 and 2031 respectively.

21. Called Up Share Capital and Distributable Reserves

	31 July 2021		31 July 2020	
	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

At 31 July 2021, the company's reserves available for distribution under section 830(2) and 831(2) of the Companies Act 2006 were £417.5 million (2020: £392.6 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 9.0%, of which 5.1% 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 1.0%, of which 0.6% 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, which are unaudited, 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 7.6% and a minimum total capital ratio of 11.5%. 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% effective rate for the group, for both CET1 capital and total capital) and exclusive of any applicable PRA buffer.

A full analysis of the composition of regulatory capital and Pillar 1 risk weighted assets ("RWAs"), a reconciliation between equity and CET1 capital after adjustments 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 2021, the group's CET1 capital ratio was 15.8% (31 July 2020: 14.1%). CET1 capital increased to £1,439.3 million (31 July 2020: £1,254.0 million) primarily due to retained profit and the benefit from regulatory changes to the treatment of software assets.

RWAs, calculated using the standardised approaches, increased modestly to £9,105.3 million (31 July 2020: £8,863.2 million) notwithstanding the 10.9% growth in the loan book, given the significant portion of government guaranteed loans under CBILS which attract a lower risk weighting and a reduction in the Property loan book due to high levels of repayments. The primary driver of the overall rise in RWAs is the increase in operational risk RWAs due to higher average levels of income in Winterflood and average loan book balance.

The Notes continued

22. Capital continued

	31 July 2021 £ million	31 July 2020 £ million
CET1 capital		
Called up share capital	**38.0**	38.0
Retained earnings	**1,555.5**	1,435.0
Other reserves recognised for CET1 capital	**13.1**	17.2
Adjustments to CET1 capital		
Intangible assets, net of associated deferred tax liabilities[1]	**(180.7)**	(236.9)
Foreseeable dividend[2]	**(62.7)**	(59.8)
Investment in own shares	**(36.0)**	(33.9)
Pension asset, net of associated deferred tax liabilities	**(5.4)**	(5.7)
Prudent valuation adjustment	**(0.3)**	(0.2)
IFRS 9 transitional arrangements[3]	**117.8**	100.3
CET1 capital[4]	**1,439.3**	1,254.0
Tier 2 capital – subordinated debt	**223.4**	187.0
Total regulatory capital[4]	**1,662.7**	1,441.0
RWAs (notional)[5] – unaudited		
Credit and counterparty credit risk	**7,945.8**	7,789.0
Operational risk[5]	**1,038.5**	945.7
Market risk[5]	**121.0**	128.5
	9,105.3	8,863.2
CET1 capital ratio[4] – unaudited	**15.8%**	14.1%
Total capital ratio[4] – unaudited	**18.3%**	16.3%

1 In line with the amended Capital Requirements Regulation ("CRR II"), effective on 23 December 2020, the CET1 capital ratio at 31 July 2021 includes a c.50bps benefit related to software assets which are exempt from the deduction requirement for intangible assets from CET1. The PRA published PS17/21 'Implementation of Basel standards' on 9 July 2021, confirming the reversal to the earlier position. This will result in the reversal of this benefit and reduction of the CET1 capital ratio upon implementation on 1 January 2022.
2 Under the Regulatory Technical Standard on own funds, a deduction has been recognised at 31 July 2021 and 31 July 2020 for a foreseeable dividend, being the proposed final dividend as set out in note 9.
3 The group has elected to apply IFRS 9 transitional arrangements for 31 July 2021, which allow the capital impact of expected credit losses to be phased in over the transitional period.
4 Shown after applying IFRS 9 transitional arrangements and the CRR transitional and qualifying own funds arrangements in force at the time. Without their application, and excluding the benefit related to the current treatment of software assets, at 31 July 2021 the CET1 capital ratio would be 14.2% and total capital ratio 16.7% (31 July 2020: CET1 capital ratio 13.1% and total capital ratio 15.1%).
5 Operational and market risk include an adjustment at 8% in order to determine notional RWAs.

The following table shows a reconciliation between equity and CET1 capital after adjustments:

	31 July 2021 £ million	31 July 2020 £ million
Equity	**1,569.3**	1,449.6
Regulatory adjustments to equity:		
Intangible assets, net of associated deferred tax liabilities	**(180.7)**	(236.9)
Foreseeable dividend[1]	**(62.7)**	(59.8)
IFRS 9 transitional arrangements[2]	**117.8**	100.3
Pension asset, net of associated deferred tax liabilities	**(5.4)**	(5.7)
Prudent valuation adjustment	**(0.3)**	(0.2)
Other reserves not recognised for CET1 capital:		
Cash flow hedging reserve	**0.3**	5.7
Non-controlling interests	**1.0**	1.0
CET1 capital	**1,439.3**	1,254.0

1 Under the Regulatory Technical Standard on own funds, a deduction has been recognised at 31 July 2021 and 31 July 2020 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 2021, which allow the capital impact of expected credit losses to be phased in over the transitional period.

The following table shows the movement in CET1 capital during the year:

	2021 £ million	2020 £ million
CET1 capital at 1 August	**1,254.0**	1,169.2
Profit in the period attributable to shareholders	**202.1**	109.5
Dividends paid and foreseen	**(89.5)**	(59.9)
Change in software assets treatment[1]	**50.2**	–
IFRS 9 transitional arrangements	**17.5**	55.7
Decrease/(increase) in intangible assets, net of associated deferred tax liabilities	**6.0**	(20.8)
Other movements in reserves recognised for CET1 capital	**0.9**	(3.0)
Other movements in adjustments to CET1 capital	**(1.9)**	3.3
CET1 capital at 31 July	**1,439.3**	1,254.0

1 In line with CRR II effective on 23 December 2020, the CET1 ratio at 31 July 2021 includes a c.50bps benefit related to software assets which are exempt from the deduction requirement for intangible assets from CET1. The PRA published PS17/21 'Implementation of Basel standards' on 9 July 2021, confirming the reversal to the earlier position. This will result in the reversal of this benefit and reduction of the CET1 capital ratio upon implementation on 1 January 2022.

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 2021 £ million	31 July 2020 £ million	**31 July 2021 £ million**	31 July 2020 £ million
Guarantees and irrevocable letters of credit	**112.5**	163.7	**107.0**	153.9

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. The earliest period in which these guarantees could be called is within one year.

Commitments

Undrawn facilities, credit lines and other commitments to lend

	31 July 2021 £ million	31 July 2020 £ million
Within one year[1]	**1,310.3**	1,195.2
	1,310.3	1,195.2

1 Includes both revocable and irrevocable commitments.

Other commitments

Subsidiaries had contracted capital commitments relating to capital expenditure of £88.4 million (2020: £28.9 million).

Operating lease commitments

During the year, the company recognised lease payments as an expense of £2.1 million (2020: £2.1 million). At 31 July 2021, the company had future minimum lease payments under non-cancellable operating leases relating to property of £2.1 million within one year, £8.3 million between one and five years, and £8.4 million after more than five years, totalling £18.8 million (31 July 2020: £2.1 million, £8.3 million, and £10.5 million respectively, totalling £20.9 million).

The Notes continued

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 97 to 125.

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:

	2021 £ million	2020 £ million
Emoluments		
Salaries and fees	**4.6**	4.0
Benefits and allowances	**0.4**	0.4
Performance related awards in respect of the current year:		
Cash	**5.3**	3.6
Deferred	**2.5**	1.5
	12.8	9.5
Share-based awards	**2.6**	0.9
	15.4	10.4

Gains upon exercise of options by key management personnel, expensed to the income statement in previous years, totalled £3.5 million (2020: £4.2 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 2021 attributable, in aggregate, to key management were £0.2 million (31 July 2020: £0.3 million).

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 £15.5 million (2020: £14.5 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 2021 this scheme had 28 (31 July 2020: 33) deferred members and 53 (31 July 2020: 52) 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:

	2021 %	2020 %
Inflation rate (Retail Price Index)	**3.6**	3.1
Inflation rate (Consumer Price Index)	**3.2**	2.4
Discount rate for scheme liabilities[1]	**1.6**	1.4
Expected interest/expected long-term return on plan assets	**1.6**	1.4
Mortality assumptions[2]:		
Existing pensioners from age 65, life expectancy (years):		
Men	**24.0**	23.9
Women	**25.7**	25.6
Non-retired members currently aged 50, life expectancy from age 65 (years):		
Men	**24.9**	24.8
Women	**27.0**	26.9

1 Based on market yields at 31 July 2021 and 2020 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 (2020: SAPS S2 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 (2020: CMI 2017) 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.

	2021 £ million	2020 £ million	2019 £ million	2018 £ million	2017 £ million
Fair value of scheme assets[1]:					
Equities	**9.4**	14.0	13.1	12.7	20.9
Bonds	**33.6**	32.3	29.9	28.7	20.6
Cash	**0.2**	0.3	0.2	0.1	0.3
Total fair value of scheme assets	**43.2**	46.6	43.2	41.5	41.8
Present value of scheme liabilities	**(35.6)**	(39.2)	(36.5)	(36.4)	(38.2)
Surplus	**7.6**	7.4	6.7	5.1	3.6

1 There are no amounts included within the fair value of scheme assets relating to the financial instruments of Close Brothers Group plc.

The Notes continued

25. Pensions continued

Movement in the present value of scheme liabilities during the year:

	2021 £ million	2020 £ million
Carrying amount at 1 August	**(39.2)**	(36.5)
Interest expense	**(0.5)**	(0.8)
Past service cost	**(0.1)**	–
Benefits paid	**5.6**	1.3
Actuarial losses	**(1.4)**	(3.2)
Carrying amount at 31 July	**(35.6)**	(39.2)

Movement in the fair value of scheme assets during the year:

	2021 £ million	2020 £ million
Carrying amount at 1 August	**46.6**	43.2
Interest income	**0.6**	0.9
Benefits paid	**(5.6)**	(1.3)
Administrative costs paid	**(0.3)**	(0.3)
Return on scheme assets, excluding interest income	**1.9**	4.1
Carrying amount at 31 July	**43.2**	46.6

Historical experience of actuarial gains/(losses) are shown below:

	2021 £ million	2020 £ million	2019 £ million	2018 £ million	2017 £ million
Experience gains on scheme assets	**1.9**	4.1	3.3	1.3	3.7
Experience gains on scheme liabilities	**–**	–	1.3	–	–
Impact of changes in assumptions on scheme liabilities	**(1.4)**	(3.2)	(2.7)	0.4	(1.0)
Total actuarial (losses)/gains on scheme liabilities	**(1.4)**	(3.2)	(1.4)	0.4	(1.0)
Total actuarial gains/(losses)	**0.5**	0.9	1.9	1.7	2.7

Total actuarial gains have been recognised in other comprehensive income. Income of £0.1 million (2020: £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 2021 and 2020 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)			
		2021		2020	
Key assumption	Sensitivity	%	£ million	%	£ million
Discount rate	0.25% increase	**(4.4)**	**(1.6)**	(4.2)	(1.6)
Price inflation (RPI and CPI)	0.25% increase	**1.8**	**0.6**	1.8	0.7
Mortality	Increase in life expectancy at age 65 by one year	**4.0**	**1.4**	4.0	1.6

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 22% in global quoted equities, 78% in quoted bonds and 0% in cash (2020: 30% global equities, 69% bonds and 1% cash) 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 (2020: 17 years).

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 100 to 110.

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 2021, 1.3 million (31 July 2020: 0.7 million) and 1.5 million (31 July 2020: 1.7 million) of these shares were held respectively and in total £36.0 million (2020: £33.9 million) was recognised within the share-based payments reserve. During the year £10.0 million (2020: £11.9 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 £13.6 million (2020: £18.3 million). The share-based awards charge of £5.7 million (2020: £2.1 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 2019	1,157,394	–	1,269,230	–	785,611	–	330,773	–
Granted	1,635,667	933.7p	451,925	–	391,315	–	–	–
Exercised	(212,792)	1,114.2p	(124,951)	–	(325,610)	–	(208,397)	–
Forfeited	(654,673)	1,132.4p	(19,447)	–	(13,751)	–	–	–
Lapsed	(4,490)	1,157.2p	(203,638)	–	(746)	–	(122,376)	–
At 31 July 2020	**1,921,106**	**–**	**1,373,119**	**–**	**836,819**	**–**	**–**	**–**
Granted	1,385,804	829.5p	502,283	–	146,223	–	–	–
Exercised	(208,013)	1174.2p	(147,807)	–	(423,915)	–	–	–
Forfeited	(801,716)	923.9p	(213,100)	–	(4,697)	–	–	–
Lapsed	(61,176)	1208.5p	(260,721)	–	(6,932)	–	–	–
At 31 July 2021	**2,236,005**	**–**	**1,253,774**	**–**	**547,498**	**–**	**–**	**–**
Exercisable at:								
31 July 2021	**11,336**	**1,141.0p**	**73,936**	**–**	**9,645**	**–**	**–**	**–**
31 July 2020	93,424	1,232.5p	1,334	–	7,742	–	–	–

The table below shows the weighted average market price at the date of exercise:

	2021	2020
SAYE	**1,451.2p**	1,484.7p
LTIP	**1,286.9p**	1,355.9p
DSA	**1,291.3p**	1,373.8p
SMP	**0.0p**	1,351.6p

The Notes continued

26. Share-based Awards continued

The range of exercise prices and weighted average remaining contractual life of awards and options outstanding are as follows:

	2021 Options outstanding		2020 Options outstanding	
	Number outstanding	Weighted average remaining contractual life Years	Number outstanding	Weighted average remaining contractual life Years
SAYE				
Between £7 and £8	**1,244,571**	**3.5**	–	–
Between £8 and £9	**610,912**	**2.7**	1,245,235	4.0
Between £9 and £10	**114,155**	**2.3**	150,010	3.2
Between £11 and £12	**107,211**	**1.5**	426,893	1.7
Between £12 and £13	**68,999**	**1.1**	98,968	0.5
Between £13 and £14	**90,157**	**3.7**	–	–
LTIP				
Nil	**1,253,774**	**3.7**	1,373,119	2.1
DSA				
Nil	**547,498**	**1.7**	836,819	1.8
Total	**4,037,277**	**3.1**	4,131,044	2.6

For the share-based awards granted during the year, the weighted average fair value of those options at 31 July 2021 was 453.3p (31 July 2020: 581.0p). 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 2023 to 31 May 2024	992.5p	794.0p	31.0%	3	3.8%	0.0%
1 Dec 2025 to 31 May 2026	992.5p	794.0p	29.0%	5	3.8%	0.0%
1 Jun 2024 to 30 Nov 2024	1648.8p	1319.0p	32.0%	3	2.5%	0.2%
1 Jun 2026 to 30 Nov 2026	1648.8p	1319.0p	30.0%	5	2.5%	0.4%
LTIP						
2 Oct 2023 to 1 Oct 2024	987.9p	–	31.0%	3	3.8%	0.0%
DSA						
2 Oct 2022 to 1 Oct 2023	987.9p	–	–	–	–	–
2 Oct 2023 to 1 Oct 2024	987.9p	–	–	–	–	–
01 Apr 2022 to 31 Mar 2023	1612.0p	–	–	–	–	–

Expected volatility was determined mainly by reviewing share price volatility for the expected life of each option up to the date of grant.

27. Consolidated Cash Flow Statement Reconciliation

	2021 £ million	2020 £ million
(a) Reconciliation of operating profit before tax to net cash inflow from operating activities		
Operating profit before tax	**265.2**	140.9
Tax paid	**(69.7)**	(86.6)
Depreciation, amortisation and impairment	**123.4**	95.8
Decrease/(increase) in:		
Interest receivable and prepaid expenses	**4.6**	(14.5)
Net settlement balances and trading positions	**8.5**	(12.9)
Net loans from money brokers against stock advanced	**(23.2)**	0.3
Increase/(decrease) in interest payable and accrued expenses	**27.2**	15.2
Net cash inflow from trading activities	**336.0**	138.2
Decrease/(increase) in:		
Loans and advances to banks not repayable on demand	**9.6**	(13.3)
Loans and advances to customers	**(906.6)**	(87.8)
Assets let under operating leases	**(43.9)**	(45.6)
Certificates of deposit	**21.2**	(45.2)
Sovereign and central bank debt	**(126.6)**	(22.7)
Other assets less other liabilities	**74.8**	142.6
Increase/(decrease) in:		
Deposits by banks	**3.9**	93.4
Deposits by customers	**745.1**	284.3
Loans and overdrafts from banks	**14.8**	(21.4)
Net (redemption)/issuance of debt securities	**(9.2)**	6.9
Net cash inflow from operating activities	**119.1**	429.4
(b) Analysis of net cash outflow in respect of the purchase of subsidiaries and non-controlling interests		
Cash consideration paid	**(2.9)**	(4.6)
(c) Analysis of net cash inflow in respect of the sale of subsidiaries		
Cash consideration received	**2.3**	0.5
	2.3	0.5
(d) Analysis of cash and cash equivalents[1]		
Cash and balances at central banks	**1,314.7**	1,362.8
Loans and advances to banks	**121.9**	98.5
At 31 July	**1,436.6**	1,461.3

1 Excludes £30.7 million of Bank of England and other cash reserve accounts.

During the year ended 31 July 2021, the non-cash changes on debt financing amounted to £18.2 million (31 July 2020: £16.2 million) arising largely from interest accretions and fair value hedging movements.

The Notes continued

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 Report on pages 56 to 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.

	Derivatives designated as hedging instruments £ million	Fair value through profit and loss £ million	Fair value through other comprehensive income £ million	Amortised cost £ million	Total £ million
At 31 July 2021					
Assets					
Cash and balances at central banks	–	–	–	1,331.0	1,331.0
Settlement balances	–	–	–	699.6	699.6
Loans and advances to banks	–	–	–	136.3	136.3
Loans and advances to customers	–	–	–	8,444.5	8,444.5
Debt securities	–	20.1	192.5	264.7	477.3
Equity shares	–	31.9	–	–	31.9
Loans to money brokers against stock advanced	–	–	–	51.1	51.1
Derivative financial instruments	16.9	1.4	–	–	18.3
Other financial assets	–	0.1	–	62.4	62.5
	16.9	53.5	192.5	10,989.6	11,252.5
Liabilities					
Settlement balances and short positions	–	16.4	–	674.2	690.6
Deposits by banks	–	–	–	150.6	150.6
Deposits by customers	–	–	–	6,634.8	6,634.8
Loans and overdrafts from banks	–	–	–	512.7	512.7
Debt securities in issue	–	–	–	1,865.5	1,865.5
Loans from money brokers against stock advanced	–	–	–	–	–
Subordinated loan capital	–	–	–	222.7	222.7
Derivative financial instruments	19.0	2.3	–	–	21.3
Other financial liabilities	–	–	–	194.8	194.8
	19.0	18.7	–	10,255.3	10,293.0

	Derivatives designated as hedging instruments £ million	Fair value through profit and loss £ million	Fair value through other comprehensive income £ million	Amortised cost £ million	Total £ million
At 31 July 2020					
Assets					
Cash and balances at central banks	–	–	–	1,375.8	1,375.8
Settlement balances	–	–	–	619.7	619.7
Loans and advances to banks	–	–	–	125.8	125.8
Loans and advances to customers	–	–	–	7,616.7	7,616.7
Debt securities	–	24.4	72.2	285.9	382.5
Equity shares	–	30.0	–	–	30.0
Loans to money brokers against stock advanced	–	–	–	45.8	45.8
Derivative financial instruments	35.3	4.6	–	–	39.9
Other financial assets	–	2.7	–	51.1	53.8
	35.3	61.7	72.2	10,120.8	10,290.0
Liabilities					
Settlement balances and short positions	–	17.4	–	587.5	604.9
Deposits by banks	–	–	–	152.8	152.8
Deposits by customers	–	–	–	5,917.7	5,917.7
Loans and overdrafts from banks	–	–	–	497.9	497.9
Debt securities in issue	–	–	–	1,870.3	1,870.3
Loans from money brokers against stock advanced	–	–	–	17.9	17.9
Subordinated loan capital	–	–	–	223.0	223.0
Derivative financial instruments	16.3	4.5	–	–	20.8
Other financial liabilities	–	–	–	172.0	172.0
	16.3	**21.9**	–	9,439.1	9,477.3

(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 2021		31 July 2020	
	Fair value £ million	**Carrying value £ million**	Fair value £ million	Carrying value £ million
Subordinated loan capital	**226.5**	**222.7**	227.0	223.0
Debt securities in issue	**1,908.9**	**1,865.5**	1,885.8	1,870.3

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").

Instruments classified as Level 1 predominantly comprise sovereign and central bank debt and liquid listed equity shares. The fair value of these instruments is derived from quoted prices in active markets.

Instruments classified as Level 2 predominantly comprise less liquid listed equity shares, investment grade corporate bonds and over-the-counter derivatives. The fair value of equity shares and bonds are derived from quoted prices in less active markets in comparison to level 1. Over-the-counter derivatives largely relate to interest rate and exchange rate contracts (see note 14 for further information). The valuation of such derivatives includes the use of discounted future cash flow models, with the most significant input into these models being interest rate yield curves developed from quoted rates.

Instruments classified as Level 3 predominantly comprise contingent consideration payable and receivable in relation to the acquisitions and the disposal of subsidiaries.

The Notes continued

28. Financial Risk Management continued

The fair value 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 2021 and 2020.

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 2021				
Assets				
Debt securities:				
Long trading positions in debt securities	**19.0**	**1.1**	**–**	**20.1**
Sovereign and central bank debt	**192.5**	**–**	**–**	**192.5**
Equity shares	**6.2**	**25.4**	**0.3**	**31.9**
Derivative financial instruments	**–**	**18.3**	**–**	**18.3**
Contingent consideration	**–**	**–**	**0.1**	**0.1**
	217.7	**44.8**	**0.4**	**262.9**
Liabilities				
Short positions:				
Debt securities	**5.7**	**1.3**	**–**	**7.0**
Equity shares	**3.2**	**6.2**	**–**	**9.4**
Derivative financial instruments	**–**	**21.3**	**–**	**21.3**
Contingent consideration	**–**	**–**	**3.0**	**3.0**
	8.9	**28.8**	**3.0**	**40.7**

	Level 1 £ million	Level 2 £ million	Level 3 £ million	Total £ million
At 31 July 2020				
Assets				
Debt securities:				
Long trading positions in debt securities	23.1	1.3	–	24.4
Sovereign and central bank debt	72.2	–	–	72.2
Equity shares	6.1	23.6	0.3	30.0
Derivative financial instruments	–	39.9	–	39.9
Contingent consideration	–	–	2.7	2.7
	101.4	64.8	3.0	169.2
Liabilities				
Short positions:				
Debt securities	6.3	2.0	–	8.3
Equity shares	3.1	6.0	–	9.1
Derivative financial instruments	–	20.8	–	20.8
Contingent consideration	–	–	3.5	3.5
	9.4	28.8	3.5	41.7

Movements in financial instruments categorised as Level 3 were:

	Equity shares £ million	Contingent consideration £ million
At 1 August 2019	0.3	(3.9)
Total gains recognised in the consolidated income statement	–	0.7
Purchases and issues	–	(0.6)
Sales and settlements	–	3.0
At 31 July 2020	0.3	(0.8)
Total gains recognised in the consolidated income statement	–	2.6
Purchases and issues	–	(2.4)
Sales and settlements	–	(2.3)
At 31 July 2021	**0.3**	**(2.9)**

The losses recognised in the consolidated income statement relating to instruments held at the year end amounted to £0.1 million (2020: £0.4 million).

(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. Details of average tenor and loan size by business can be found on page 2 of the strategic report. This ensures concentration risk is controlled in both the loan book and associated collateral. Currently credit risk appetites are set around unsecured lending to ensure the secured lending position is under regular review. As at 31 July 2021, secured lending accounts for 89.2% of the loan book, in line with the prior year (31 July 2020: 88.7%).

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 investment grade 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 2021 £ million	31 July 2020 £ million
On balance sheet		
Cash and balances at central banks	**1,331.0**	1,375.8
Settlement balances	**699.6**	619.7
Loans and advances to banks	**136.3**	125.8
Loans and advances to customers	**8,444.5**	7,616.7
Debt securities	**477.3**	382.5
Loans to money brokers against stock advanced	**51.1**	45.8
Derivative financial instruments	**18.3**	39.9
Other financial assets	**62.5**	53.8
	11,220.6	10,260.0
Off balance sheet		
Irrevocable undrawn commitments	**239.6**	210.4
Total maximum exposure to credit risk	**11,460.2**	10,470.4

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 2021, the group was a participant of the Bank of England's Term Funding Scheme with Additional Incentives for SMEs ("TFSME"). At 31 July 2020, in addition to TFSME, the group was also a participant of the Bank of England's Term Funding Scheme ("TFS").

Under these schemes, asset finance loan receivables of £571.3 million (31 July 2020: £758.5 million), UK gilts with a market value of £90.2 million (31 July 2020: £nil) and retained notes relating to Motor Finance loan receivables of £72.1 million (31 July 2020: £109.0 million) were positioned as collateral with the Bank of England, against which £490.0 million of cash was drawn (31 July 2020: £228.0 million under TFSME and £262.0 million under TFS).

The Notes continued

28. Financial Risk Management continued

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 £1,386.0 million (31 July 2020: £1,601.1 million) of its insurance premium and motor loan receivables in return for cash and asset-backed securities in issue of £915.7 million (31 July 2020: £1,037.1 million). This includes the £72.1 million (31 July 2020: £109.0 million) retained notes positioned as collateral with the Bank of England. 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.

The majority of loans and advances to customers are secured against specific assets. For more information on collateral held see page 184. 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

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 regular review of appetites and policy. This team reports through the chief credit risk officer to the group chief risk officer and provides monthly reporting to the CRMC and GRCC. The Banking division has a dual approach to mitigating credit risk by:

- Lending on a predominantly 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 asset securing 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. Additional resource has been deployed throughout 2021 in light of the increase in required concessions relating to Covid-19.

Government lending schemes

In addition to the Covid-19 specific forbearance measures covered below, following accreditation, customers facilities were offered under the UK government-introduced Coronavirus Business Interruption Loan Scheme ("CBILS"), the Coronavirus Large Business Interruption Loan Scheme ("CLBILS") and the Bounce Back Loan Scheme ("BBLS"), thereby enabling us to maximise our support to small businesses. We saw good demand for loans under these schemes with 6,449 loans totalling £1,278.4 million approved within the Invoice Finance, Property Finance, and Asset Finance and Leasing businesses ahead of the 31 May 2021 deadline. As at 31 July 2021, 5,763 facilities were drawn, with a residual balance of £983.9 million (31 July 2020: £193.8 million) following commencement of repayments in some instances. Any undrawn approvals are valid until 30 November 2021.

We have also received accreditation to offer products under the Recovery Loan Scheme, and schemes in the Republic of Ireland. To date, a small volume and value of applications have been received and approved.

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 reports on forborne exposures as either performing or non-performing in line with regulatory requirements. A forbearance policy is maintained 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 remains effective.

Covid-19 approach

Whilst 2021 has seen forbearance request levels below those observed at the start of the pandemic, we have continued to experience customers requesting additional financial support. Our approach to classifying forbearance as Covid-19 related or otherwise has been carefully considered and has evolved throughout the financial year.

As the global pandemic has progressed, the impact on customers and their ongoing performance and requirements have been monitored, including the uptake of concessions, payment performance, the resumption of normal payment terms and the requirement for further concessions. Appropriate cure periods associated with these concessions have been determined based on in-depth knowledge of portfolios and sub-portfolios

The Central Credit Risk function continues to report on Covid-19 related concessions to the CRMC and GRCC, which utilise this enhanced forbearance reporting for tactical and strategic planning, and to assess the impacts of concessions granted. Additional reporting tracks the trajectory of Covid-19 related concessions across the businesses and examines sector and asset concentrations.

Covid-19 related concessions granted to customers as a consequence of Covid-19 have been varied across our lending businesses. In all instances, where further support has been required this is considered on a case-by-case basis as we seek to assist our customers during these unpredictable times. The number of customers supported via concessions offered has fallen to 17,706 from 66,153 at the end of the prior financial year.

In Retail, concessions in Motor Finance have typically taken the form of a period of breathing space without payments, followed by a payment plan to meet the revised outstanding balance, with the customer enjoying deferral of payment. Similarly, in Premium Finance, affected customers have been offered revised repayments over a short-term horizon. In Commercial, for Asset Finance customers, a capital repayment holiday has been the most common form of concession offered. In Invoice Finance customers have been offered the option to flex repayment percentages and overpayments where required. Finally, in Property fee concessions on extensions have been granted.

For the Covid-19 forborne customers the following staging assumptions continue to apply:

- A Covid-19 related payment concession or loan extension has not in itself automatically constituted a significant increase in credit risk (transfer to Stage 2). Instead Covid-19 related forbearance has been considered alongside usual indicators of a significant increase in credit risk, knowledge of recent customer payment history and whether the customer was up to date at the time of requesting such a concession.
- In line with regulatory guidance and combined with observed customer behaviour we have applied a distinction between the impact of the pandemic on consumers and businesses, with the expectation that businesses be more materially impacted in the short and medium term therefore influencing the staging of these loans. As a result, the approach to determining a significant increase in credit risk has been applied as follows:
  - Commercial: concessions granted as a result of Covid-19 have been considered an indicator of a significant increase in credit risk, resulting in these exposures migrating to Stage 2;
  - Property: the vast majority of forbearance took the form of a fee concession or term extensions, and which are considered a “business as usual” feature of the Residential Development book and have therefore not been considered an indicator of a significant increase in credit risk. These exposures have remained in Stage 1;
  - Retail: exposures have been assessed based on their status immediately prior to requesting concessions; broadly, if up to date, the concession has not been considered an indicator of a significant increase in credit risk and the exposure has remained in Stage 1; if in arrears, the concession has been considered an indicator of a significant increase in credit risk and the exposure has migrated to Stage 2. Where, subsequent to the granting of a Covid-19 related concession, a customer has not adhered to this agreed concession, then that customer will migrate to Stage 2 accordingly.

A customer will be treated as forborne until a cure period has been met. The cure periods of Covid-19 related forborne exposures are subject to expert judgement and are underpinned by carefully considered assumptions. These are subject to regular review and during the course of the financial year have been adjusted to reflect the ongoing implications of Covid-19. Our cure approach varies per business and ranges from instant cure when concession ends (subject to confirmation of no adverse performance) to a cure period of between 3 and 12 months, commencing upon resumption of full repayments in instances where partial repayments had been agreed for a period of time. Covid-19 forborne exposures in Commercial comprise the majority of forborne loan balances and are subject to this 12-month cure period. In some instances where the facility is of short tenor the exposure may remain forborne for the residual life of the facility.

The overall macroeconomic conditions have stabilised and the shorter-term impacts of Covid-19 on our customers have begun to unwind. In line with regulatory guidance, new concessions granted in some portfolios are no longer considered Covid-19 forbearance. However as macroeconomic uncertainties remain, and the full impact on some customers may be yet to materialise we continue to monitor repayment performance and apply expert management judgement to ensure adequate staging and coverage.

Non-Covid-19 forbearance

The Banking division has historically offered a range of concessions to support customers which vary depending on the product and the customer’s status. Such concessions include 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. Furthermore, other forms of forbearance such as moratorium, covenant waivers, and rate concessions are also offered.

Loans are classified as forborne at the time a customer in financial difficulty is granted a concession and 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;
3. None of the customer’s exposures with Close Brothers are more than 30 days past due at the end of the probation period; and
4. The regulatory requirement for an additional 12-month cure period for a non-performing forborne exposure to become performing-forborne is also applied where required in addition to the above.

Forbearance analysis

At 31 July 2021 the gross carrying amount of exposures with forbearance measures was £615.0 million (31 July 2020: £1,596.2 million). The key driver of this decrease has been repayment and curing of Covid-19 related forbearance, the total of which amounts to £454.8 million at 31 July 2021 (31 July 2020: £1,410.4 million).

The Notes continued

28. Financial Risk Management continued

An analysis of forborne loans as at 31 July 2021 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 %	Provision on forborne loans £ million	Number of customers supported
31 July 2021	**8,724.9**				
Non-Covid-19 forbearance		**160.2**	**1.8%**	**35.5**	**12,679**
Covid-19 forbearance		**454.8**	**5.2%**	**47.3**	**17,674**
	8,724.9	**615.0**	**7.0%**	**82.8**	**30,353**
31 July 2020	7,855.4				
Non-Covid-19 forbearance		185.8	2.4%	34.5	3,039
Covid-19 forbearance		1,410.4	18.0%	71.9	66,153
	7,855.4	1,596.2	20.3%	106.4	69,192

The following is a breakdown of forborne loans by segment split by those driven by Covid-19 compared to concessions that have arisen in the normal course of business:

	31 July 2021			31 July 2020		
	Covid-19 £ million	**Non-Covid-19 £ million**	**Total forborne loans £ million**	Covid-19 £ million	Non-Covid-19 £ million	Total forborne loans £ million
Commercial	**287.4**	**19.8**	**307.2**	832.8	50.1	882.9
Retail	**49.2**	**9.2**	**58.4**	251.0	4.1	255.1
Property	**118.2**	**131.2**	**249.4**	326.6	131.6	458.2
	454.8	**160.2**	**615.0**	1,410.4	185.8	1,596.2

The following is a breakdown of the number of customers supported by segment:

	31 July 2021			31 July 2020		
	Covid-19	**Non-Covid-19**	**Total number of customers supported**	Covid-19	Non-Covid-19	Total number of customers supported
Commercial	**2,291**	**136**	**2,427**	7,322	284	7,606
Retail	**15,333**	**12,485**	**27,818**	58,644	2,700	61,344
Property	**50**	**58**	**108**	187	55	242
	17,674	**12,679**	**30,353**	66,153	3,039	69,192

The following is a breakdown of forborne loans by concession type split by those driven by Covid-19 compared to concessions that have arisen in the normal course of business:

	31 July 2021			31 July 2020		
	Covid-19 £ million	**Non-Covid-19 £ million**	**Forborne loans £ million**	Covid-19 £ million	Non-Covid-19 £ million	Forborne loans £ million
Extension outside terms	**123.5**	**121.9**	**245.4**	440.1	138.0	578.1
Refinancing	**1.2**	**5.3**	**6.5**	0.5	15.2	15.7
Moratorium	**329.7**	**16.1**	**345.8**	969.8	28.6	998.4
Other modifications	**0.4**	**16.9**	**17.3**	–	4.0	4.0
	454.8	**160.2**	**615.0**	1,410.4	185.8	1,596.2

Segmental credit risk

Commercial is a combination of several specialist, predominantly 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. During the pandemic, Commercial has provided additional support to customers using the CBILS and CLBILS product which benefit from BBB guarantee support. 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 or refundable lending. The majority of the loan book is comprised of loans less than £20,000 and includes both regulated and unregulated agreements. Credit issues are identified via largely automated monitoring and tracking processes. Collections processes and actions (focused on good and fair customer outcomes) are designed and implemented to promptly restore customers to a performing status, with recovery methods 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 Residential Development loans of less than £10 million. All loans are regularly reviewed to ensure that they are performing satisfactorily, with Residential Development facilities monitored, broadly, on a monthly basis by independent Close Brothers appointed Project Monitoring Surveyors ("PMS") to certify build payments and the residual cost-to-complete. This ensures the thorough supervision of all live developments and facilitates the monthly checking of on-site progress against original build plan.

In Commercial and Property, 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 and illustrates the allocation of these per IFRS 9 staging category for comparative purposes. 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 the borrower considered likely 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 2021				
Gross loans and advances to customers				
Low risk	**7,217.8**	**328.4**	**10.8**	**7,557.0**
Medium risk	**210.5**	**616.5**	**31.5**	**858.5**
High risk	**0.5**	**13.6**	**283.0**	**297.1**
Ungraded	**5.5**	**1.7**	**5.1**	**12.3**
	7,434.3	**960.2**	**330.4**	**8,724.9**
Undrawn commitments				
Low risk	**1,249.2**	**5.6**	**–**	**1,254.8**
Medium risk	**51.1**	**3.0**	**–**	**54.1**
High risk	**–**	**–**	**1.4**	**1.4**
	1,300.3	**8.6**	**1.4**	**1,310.3**
Trade receivables[1]				
Low risk	**8.1**	**–**	**–**	**8.1**
Medium risk	**–**	**1.0**	**–**	**1.0**
High risk	**–**	**–**	**0.5**	**0.5**
	8.1	**1.0**	**0.5**	**9.6**

	Stage 1 £ million	Stage 2 £ million	Stage 3 £ million	Total £ million
At 31 July 2020				
Gross loans and advances to customers				
Low risk	5,777.5	1,134.1	34.7	6,946.3
Medium risk	112.5	345.3	25.0	482.8
High risk	5.1	89.6	309.6	404.3
Ungraded	11.5	5.2	5.3	22.0
	5,906.6	1,574.2	374.6	7,855.4
Undrawn commitments				
Low risk	1,163.7	12.2	10.6	1,186.5
Medium risk	–	7.6	0.1	7.7
High risk	–	–	1.1	1.1
	1,163.7	19.8	11.8	1,195.3

The Notes continued

28. Financial Risk Management continued

	Stage 1 £ million	Stage 2 £ million	Stage 3 £ million	Total £ million
Trade receivables[1]				
Low risk	3.7	–	–	3.7
Medium risk	–	4.5	–	4.5
High risk	–	–	2.6	2.6
	3.7	4.5	2.6	10.8

1. Lifetime expected credit losses are recognised for all trade receivables under the IFRS 9 simplified approach.

Low risk loans and advances to customers represent 87% (31 July 2020: 89%) of the overall portfolio, reflective of our prudent and consistent approach to credit risk management. 83% (31 July 2020: 74%) of total advances are classified as low risk Stage 1, driven by the strong quality of the portfolio. Low risk Stage 2 represents 4% (31 July 2020: 14%) of loans and advances to customers, largely comprising early arrears cases, or agreements which have triggered a significant increase in credit risk indicator, or the 30 days past due backstop. The reduction during the year is driven by repayment and cure of Covid-19 forbearance. Low risk Stage 3 loans and advances to customers primarily relate to agreements which have triggered the 90 days past due backstop but where full repayment is expected.

Medium risk accounts for 10% (31 July 2020: 6%) of total loans and advances to customers, of which the majority is in Stage 2. Medium risk Stage 1 has increased to 2% (31 July 2020: 1%) as certain parts of the Novitas loan book have been moved to medium risk, reflecting the latest case failure rates. Medium risk Stage 2 represents 7% (31 July 2020: 4%), as the latest information on Covid-19 forborne loan payment performance has been reflected in our approach to risk categorisation. Loans and advances to customers reflected as medium risk 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.

High risk loans account for 3% (31 July 2020: 5%) of total loans and advances to customers with the majority corresponding to Stage 3.

Collateral held

The group mitigates credit risk through holding collateral against loans and advances to customers. The group has internal policies on the acceptability of specific collateral types, the requirements for ensuring effective enforceability and monitoring of collateral in-life. Internal policies define, amongst other things, legal documentation requirements, the nature of assets accepted, loan to value and age at origination, and exposure maturity and in-life inspection requirements. 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 businesses include residential and commercial property and charges over business assets such as equipment, inventory and accounts receivable. Within Retail 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. Collateral values and time to realise assets are likely to have been impacted by Covid-19 though it is not currently anticipated that this will materially impact the quality of the collateral held.

Analysis of gross loans and advances to customers by LTV ratio is provided below. 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.

	Commercial £ million	**Retail £ million**	**Property £ million**	**Total £ million**
LTV[1]				
60% or lower	**1,301.7**	**171.5**	**1,162.2**	**2,635.4**
>60% to 70%	**203.9**	**172.3**	**251.8**	**628.0**
>70% to 80%	**333.5**	**363.3**	**27.1**	**723.9**
>80% to 90%	**494.2**	**1,154.9**	**6.0**	**1,655.1**
>90% to 100%	**1,103.4**	**461.7**	**7.3**	**1,572.4**
Greater than 100%	**237.2**	**240.4**	**88.1**	**565.7**
Structurally protected[2]	**330.5**	**437.5**	**–**	**768.0**
Unsecured	**136.1**	**40.3**	**–**	**176.4**
At 31 July 2021	**4,140.5**	**3,041.9**	**1,542.5**	**8,724.9**

1 Government lending scheme facilities totalling £983.9 million (31 July 2020: £193.8 million), are allocated to a low LTV category reflecting the nature of the government guarantee and resultant level of lending risk.
2 Exposures are considered structurally protected when, in management's judgement, they have characteristics which mitigate the credit risk of the exposure to a significant extent, in spite of not representing tangible security.

	Commercial £ million	Retail £ million	Property £ million	Total £ million
LTV				
60% or lower	407.1	158.5	953.0	1,518.6
>60% to 70%	256.0	160.6	685.5	1,102.1
>70% to 80%	265.4	335.6	67.1	668.1
>80% to 90%	589.0	1,152.8	2.9	1,744.7
>90% to 100%	997.1	389.3	20.7	1,407.1
Greater than 100%	251.0	230.1	48.6	529.7
Structurally protected	255.1	424.9	–	680.0
Unsecured	151.1	54.0	–	205.1
At 31 July 2020	3,171.8	2,905.8	1,777.8	7,855.4

Gross loans and advances to customers which are credit-impaired split by LTV ratio:

	Commercial £ million	**Retail £ million**	**Property £ million**	**Total £ million**
LTV				
60% or lower	**19.8**	**2.8**	**10.1**	**32.7**
>60% to 70%	**2.0**	**2.8**	**60.0**	**64.8**
>70% to 80%	**6.4**	**6.3**	**15.8**	**28.5**
>80% to 90%	**12.8**	**12.9**	**6.0**	**31.7**
>90% to 100%	**15.2**	**9.0**	**7.3**	**31.5**
Greater than 100%	**14.0**	**5.1**	**88.1**	**107.2**
Structurally protected	**13.0**	**3.0**	**–**	**16.0**
Unsecured	**16.7**	**1.3**	**–**	**18.0**
At 31 July 2021	**99.9**	**43.2**	**187.3**	**330.4**

	Commercial £ million	Retail £ million	Property £ million	Total £ million
LTV				
60% or lower	4.8	1.0	68.7	74.5
>60% to 70%	11.5	1.7	42.2	55.4
>70% to 80%	16.2	5.3	23.8	45.3
>80% to 90%	22.8	14.3	0.7	37.8
>90% to 100%	32.5	8.6	20.7	61.8
Greater than 100%	23.4	5.9	48.7	78.0
Structurally protected	10.0	6.1	–	16.1
Unsecured	5.2	0.5	–	5.7
At 31 July 2020	126.4	43.4	204.8	374.6

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 investment grade and in Stage 1.

Financial assets: Settlement balances and loans to money brokers against stock advanced
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.

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.

Loans to money brokers against stock advanced of £51.1 million (31 July 2020: £45.8 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 credit risk of this financial asset is therefore limited.

The Notes continued

28. Financial Risk Management continued

The following table shows the ageing of settlement balances:

	Stage 1 £ million	Stage 2 £ million	Stage 3 £ million	Impairment provisions £ million	Total £ million
At 31 July 2021					
Not past due	**615.2**	**–**	**–**	**–**	**615.2**
Less than 30 days past due	**81.6**	**–**	**–**	**–**	**81.6**
More than 30 days but less than 90 days past due	**–**	**1.2**	**–**	**–**	**1.2**
More than 90 days past due	**–**	**–**	**1.8**	**(0.2)**	**1.6**
	696.8	**1.2**	**1.8**	**(0.2)**	**699.6**

	Stage 1 £ million	Stage 2 £ million	Stage 3 £ million	Impairment provisions £ million	Total £ million
At 31 July 2020					
Not past due	598.9	–	–	–	598.9
Less than 30 days past due	18.4	–	–	–	18.4
More than 30 days but less than 90 days past due	–	0.7	–	–	0.7
More than 90 days past due	–	–	2.0	(0.3)	1.7
	617.3	0.7	2.0	(0.3)	619.7

(d) Market risk

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 ("ALCO") 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 assets and liabilities; and
- basis risk occurs where there is a mismatch in the interest rate reference rate for assets and liabilities.

Interest rate risk within the banking book ("IRRBB") is assessed by applying key behavioural and modelling assumptions including but not limited to fixed rate loans subject to prepayment risk, behaviour of non-maturity assets, treatment of own equity and the expectation of interest rate options. This is performed across a range of regulatory prescribed and internal interest rate shocks approved by ALCO.

Two measures are used for measuring IRRBB, namely Earnings at Risk ("EaR") and Economic Value ("EV"):
- EaR measures short term impacts to earnings, including basis risk, highlighting any earnings sensitivity should rates change unexpectedly; and
- EV measures longer term earnings capacity due to rate changes, it highlights potential future sensitivity of earnings, and ultimately risk to capital

The table below sets out the assessed impact on our base case (no stress) EaR due to a parallel shift in interest rates at 31 July:

	2021 £ million	2020 £ million
0.5% increase	**(11.6)**	(9.8)
0.5% decrease	**8.3**	1.7

The Bank of England base rate has remained at 0.1% since March 2020. This low external interest rate environment resulted in an increased EaR in 2020 under a 0.5% increase due to embedded floors on some variable rate loans generating additional earnings in the lower rate environment. This benefit is at risk should rates rise. In the event of market rates decreasing further, additional earnings would be generated primarily due to the optionality explained above increasing EaR further.

The table below sets out the assessed impact on our base case EV due to a shift in interest rates at 31 July:

	2021 £ million	2020 £ million
0.5% increase	**(4.2)**	(3.1)
0.5% decrease	**4.3**	3.3

The impact above is on a comparable 0.5% increase and decrease basis. The Bank measures and monitors EV internally under a non-parallel "Short rates down, long rates up" yield curve stress for risk management. This scenario is used as an appropriate test of the Bank's repricing profile and the external interest rate environment in 2021. The impact on our base case EV due to a "Short rates down, long rates up" shift in interest rates at 31 July 2021 was a £6.7 million decrease (2020: £3.4 million decrease).

In July 2021, reflecting changes in regulation, the Bank updated its interest rate risk methodology for both EV and EaR by updating the interest rate shock scenarios prescribed by the PRA. The non-parallel shocks (including the "Short rates down, long rates up" scenario used above) apply a greater magnitude of stress and a post interest rate shock floor on the same balance sheet profile resulting in increased metrics.

Interest rate benchmark reform
A programme is in place to transition the group away from the use of LIBOR to alternative benchmark rates in loan documentation, treasury transactions and other forms of contract. Good progress was made during the year and at 31 July 2021, loans and advances to customers amounting to £995.5 million and derivatives with a notional value of £84.7 million were yet to transition to an alternative benchmark rate. The group remains fully on track and the programme is expected to be materially completed by 31 December 2021, in compliance with the requirements set by the Prudential Regulation Authority and Financial Conduct Authority. There are no significant changes to the nature of the risks arising from financial instruments to which the group is exposed as a result of the transition.

Foreign exchange risk
A change in the euro exchange rate would decrease the group's equity by the following amounts:

	2021 £ million	2020 £ million
20% strengthening of sterling against the euro	**(0.9)**	(2.8)

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 risk
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 2021				
Equity shares				
Long	**49.0**	**24.8**	**30.9**	**30.8**
Short	**22.8**	**5.8**	**11.0**	**9.4**
			19.9	**21.4**
Debt securities				
Long	**28.6**	**19.1**	**22.7**	**20.1**
Short	**12.9**	**4.5**	**8.6**	**7.0**
			14.1	**13.1**

	Highest exposure £ million	Lowest exposure £ million	Average exposure £ million	Exposure at 31 July £ million
For the year ended 31 July 2020				
Equity shares				
Long	45.5	22.6	31.2	29.2
Short	22.1	4.8	12.3	9.1
			18.9	20.1
Debt securities				
Long	33.9	20.8	23.4	24.4
Short	9.1	4.3	6.2	8.3
			17.2	16.1

With respect to the long and short positions on debt securities £9.1 million and £0.1 million (2020: £12.4 million and £0.3 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.

The Notes continued

28. Financial Risk Management continued

Based upon the trading book exposure given above, a hypothetical fall of 10% in market prices would result in a £2.1 million decrease (2020: £2.0 million decrease) in the group's income and net assets on the equity trading book and a £1.3 million decrease (2020: £1.6 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.

(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 2021 of £11.1 billion (31 July 2020: £10.2 billion). This funding is significantly in excess of its loans and advances to customers at 31 July 2021 of £8.4 billion (31 July 2020: £7.6 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 2021							
Settlement balances	**–**	**674.2**	**–**	**–**	**–**	**–**	**674.2**
Deposits by banks	**2.1**	**37.7**	**105.8**	**5.0**	**–**	**–**	**150.6**
Deposits by customers	**576.1**	**1,549.4**	**1,985.0**	**1,372.0**	**1,202.0**	**–**	**6,684.5**
Loans and overdrafts from banks	**22.7**	**0.1**	**0.1**	**0.2**	**491.1**	**–**	**514.2**
Debt securities in issue	**–**	**58.3**	**75.5**	**106.6**	**1,048.7**	**705.0**	**1,994.1**
Loans from money brokers against stock advanced	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Subordinated loan capital	**–**	**1.0**	**1.0**	**2.0**	**21.0**	**243.9**	**268.9**
Derivative financial instruments	**–**	**5.3**	**3.7**	**8.7**	**67.8**	**43.5**	**129.0**
Lease liabilities	**0.2**	**3.8**	**3.2**	**6.8**	**35.0**	**13.5**	**62.5**
Other financial liabilities	**18.2**	**158.4**	**6.7**	**8.1**	**47.5**	**1.3**	**240.2**
Total	**619.3**	**2,488.2**	**2,181.0**	**1,509.4**	**2,913.1**	**1,007.2**	**10,718.2**

	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 2020							
Settlement balances	–	587.5	–	–	–	–	587.5
Deposits by banks	25.1	123.3	0.3	4.1	–	–	152.8
Deposits by customers	543.2	1,105.8	1,358.0	1,464.5	1,511.5	–	5,983.0
Loans and overdrafts from banks	6.9	1.1	0.1	0.2	490.9	–	499.2
Debt securities in issue	–	38.4	523.3	416.1	667.6	284.3	1,929.7
Loans from money brokers against stock advanced	17.9	–	–	–	–	–	17.9
Subordinated loan capital	–	1.7	3.7	5.4	43.3	234.6	288.7
Derivative financial instruments	–	5.3	3.9	8.3	22.8	5.2	45.5
Lease liabilities	0.1	5.5	3.4	5.2	30.6	11.0	55.8
Other financial liabilities	13.0	95.2	4.2	3.0	20.4	2.0	137.8
Total	606.2	1,963.8	1,896.9	1,906.8	2,787.1	537.1	9,697.9

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 2021	**–**	**68.0**	**4.0**	**9.0**	**67.8**	**43.5**	**192.3**
At 31 July 2020	–	79.5	3.5	7.6	21.9	5.2	117.7

(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 2021				
Derivative financial assets	**18.3**	**(16.0)**	**(2.0)**	**0.3**
Derivative financial liabilities	**21.2**	**(16.0)**	**(16.9)**	**(11.7)**
At 31 July 2020				
Derivative financial assets	39.9	(14.2)	(25.0)	0.7
Derivative financial liabilities	20.7	(14.2)	(4.0)	2.5

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 £5,467 million at 31 July 2021 (31 July 2020: £4,821 million). Included in revenue on the consolidated income statement is management fee income of £35.4 million (2020: £33.4 million) from unconsolidated structured entities managed by the group.

The Notes continued

30. 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 2021, 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[4]
Arrow Audit Services Limited[1]
Brook Funding (No.1) Limited[10, 20]
Capital Lease Solutions Limited[1]
CBM Holdings Limited[1]
Close Asset Finance Limited[2]
Close Brewery Rentals Limited[5]
Close Brothers Asset Finance GmbH (Germany)[13]
Close Brothers Factoring GmbH (Germany)[13]
Close Brothers Finance plc[1]
Close Brothers Limited[1]
Close Brothers Military Services Limited[4]
Close Brothers Premium DAC (Ireland)[16]
Close Brothers Technology Services Limited[1]
Close Brothers Vehicle Hire Limited[12]
Close Business Finance Limited[2]
Close Credit Management (Holdings) Limited[1]
Close Finance (CI) Limited (Jersey)[14]
Close Invoice Finance Limited[1]
Close Leasing Limited[11]
Close Motor Finance Limited[4]
Close PF Funding I Limited[9, 20]
Commercial Acceptances Limited[6]
Commercial Finance Credit Limited[2]
Corporate Asset Solutions Limited[1]
Finance for Industry Limited[1]
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[18, 20]
Orbita Funding 2017-1 plc[10, 20]
Orbita Funding 2020-1 plc[10, 20]
Orbita Holdings Limited[10, 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 (Delaware, USA)[15]

Asset Management
Adrian Smith & Partners Limited[19]
Cavanagh Financial Management Limited[7]
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 Brothers Asset Management (Guernsey) Limited[17]
Close Investments Limited[1]
Close Portfolio Management Limited[1]
EOS Wealth Management Limited[1]
Lion Nominees Limited[1]
Place Campbell Close Brothers Limited (50% shareholding)[8]
PMN Financial Management LLP[1]

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15 1209 Orange Street, Wilmington 19801, New Castle, Delaware, USA.
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17 PO Box 186, Royal Chambers, St Julian's Avenue, St Peter Port GY1 4HP, Guernsey.
18 40a Station Road, Upminster, Essex, RM14 2TR, United Kingdom.
19 Bishop Fleming LLP, 2nd Floor Stratus House, Emperor Way, Exeter Business Park, Exeter, EX1 3QS, United Kingdom.

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

Adjusted	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; and any exceptional and other adjusting items which do not reflect underlying trading performance
Adjusted operating profit ("AOP")	Calculated as operating income less adjusted operating expenses and impairment losses on financial assets
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 daily number of Winterflood's trades with third parties
Bounce Back Loan Scheme ("BBLS")	UK government business lending scheme that helps small and medium-sized businesses to borrow between £2,000 and £50,000 (up to a maximum of 25% of their turnover)
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 V ("CRD V")	European Union regulation implementing the Basel III requirements in Europe, alongside CRR
Capital Requirements Regulation ("CRR")	UK onshored provisions of EU regulation 575/2013
CDP	Formerly the "Carbon Disclosure Project", a leading, internationally recognised independent rating agency and assessor of corporate carbon emissions disclosures and actions
CET1 capital ratio	Measure of the group's CET1 capital as a percentage of risk weighted assets, as required by CRR
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 certain intangible assets and other regulatory adjustments
Compensation ratio	Total staff costs as a percentage of adjusted operating income
Coronavirus Business Interruption Loan Scheme ("CBILS")	UK government business lending scheme that helps small and medium-sized businesses access loans and other kinds of finance up to £5 million. The scheme closed at the end of March 2021
Coronavirus Large Business Interruption Loan Scheme ("CLBILS")	UK government business lending scheme that helps medium and large-sized businesses access loans and other kinds of finance up to £200 million
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
Customer satisfaction ("CSAT") score	A measure of customer satisfaction expressed as a percentage of positive responses from the total of those surveyed
Discounting	The process of determining the present value of future payments
Dividend per share ("DPS")	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
Expected credit loss ("ECL")	The unbiased probability-weighted average credit loss determined by evaluating a range of possible outcomes and future economic conditions
Expense/income ratio	Total adjusted operating expenses divided by operating income
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

Glossary and Definition of Key Terms continued

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 as % of 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
HM Revenue & Customs ("HMRC")	The UK's tax, payments and customs authority
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 Liquidity Adequacy Assessment Process ("ILAAP")	The processes for the identification, measurement, management and monitoring of liquidity
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
Investment costs	Includes depreciation and other costs related to investment in multi-year projects, new business initiatives and pilots and cyber resilience. Excludes IFRS 16 depreciation
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 ("LCR")	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 or structurally protected 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 or assets under management ("AUM")	Total market value of assets which are managed by Close Brothers Asset Management 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
Modification losses	Modification losses arise when the contractual terms of a financial asset are modified. An adjustment is required to the carrying value of the financial asset to reflect the present value of modified future cash flows discounted at the original effective interest rate
Net carrying amount	Loan book value after expected credit loss provision
Net flows	Net flows as a percentage of opening managed assets calculated on an annualised basis

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 net loans and advances to customers 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
Net zero	Target of completely negating the amount of greenhouse gases produced by reducing emissions or implementing methods for their removal
Operating margin	Adjusted operating profit divided by adjusted operating income
Paris Agreement	International treaty on climate change, adopted in 2015, with a goal to limit global warming to well below 2, and preferably to 1.5 degrees Celsius, compared to pre-industrial levels
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
Recovery Loan Scheme	Launched in April 2021 as a replacement to CBILS. Under the terms of the scheme, businesses of any size that have been adversely impacted by the Covid-19 pandemic can apply to borrow up to £10m, with accredited lenders receiving a government-backed guarantee of 80% on losses that may arise. The scheme is due to close at the end of December 2021
Return on assets	Adjusted operating profit attributable to shareholders divided by total closing assets at the balance sheet date
Return on average tangible equity	Adjusted operating profit attributable to shareholders divided by average total shareholder's equity, excluding intangible assets
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 attributable to shareholders 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 ("RWAs")	A measure of the amount of a bank's assets, adjusted for risk in line with the CRR. 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
Scope 1, 2 and 3 emissions	Categorisation of greenhouse gas emissions, as defined by the Greenhouse Gas (GHG) Protocol, into direct emissions from owned or controlled sources (Scope 1), indirect emissions from the generation of purchased electricity, heating and cooling consumed by the reporting company (Scope 2), and all other indirect emissions that occur in a company's value chain (Scope 3)
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
Task Force on Climate-related Financial Disclosures ("TCFD")	Regulatory framework to improve and increase reporting of climate-related financial information, including more effective and consistent disclosure of climate-related risks and opportunities
Term Funding Scheme ("TFS")	The Bank of England's Term Funding Scheme

Glossary and Definition of Key Terms continued

Term Funding Scheme for Small and Medium-sized Enterprises ("TFSME")	The Bank of England's Term Funding Scheme with additional incentives for SMEs
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 ("TCA")	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 2021
Annual General Meeting	18 November 2021
Final dividend payment	23 November 2021
Pre-close trading update	January 2022
Half year end	31 January 2022
Interim results	March 2022
Third quarter trading update	May 2022
Pre-close trading update	July 2022
Financial year end	31 July 2022
Preliminary results	September 2022

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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Fraudsters use persuasive and high-pressure tactics to lure investors into scams. They may offer to sell shares that prove to be worthless or non-existent, or they can offer to buy shares at an inflated price in return for you paying upfront. They promise high profits. However, if you buy or sell shares in this way, you will probably lose your money.

How to Avoid Share Fraud
- Remember that FCA-authorised firms are unlikely to contact you unexpectedly offering to buy or sell shares.
- Do not converse with them. Note the name of the person and firm contacting you, then end the call.
- To see if the person and firm contacting you are authorised by the FCA, check the Financial Services Register at https://register.fca.org.uk/s/
- Beware of fraudsters claiming to be from an authorised firm; copying its website; or giving you false contact details.
- If you want to phone the caller back, use the firm's contact details listed on the Financial Services Register at https://register.fca.org.uk/s/
- If the firm does not have contact details on the Register or they tell you the details are out of date, call the FCA on 0800 111 6768.
- Search the list of unauthorised firms to avoid at: https://www.fca.org.uk/consumers/unauthorised-firms-individuals
- Remember that if you buy or sell shares from an unauthorised firm, you cannot access the Financial Ombudsman Service or Financial Services Compensation Scheme.
- Get independent financial and professional advice before handing over any money.
- If it sounds too good to be true, it probably is.

Report a Scam
If fraudsters approach you, tell the FCA using the share fraud reporting form at https://www.fca.org.uk/consumers/report-scam-us. You can also find out more about investment scams at https://www.fca.org.uk/scamsmart/how-avoid-investment-scams. You can call the FCA Consumer Helpline on 0800 111 6768. If you have already paid money to share fraudsters, call Action Fraud on 0300 123 2040.

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