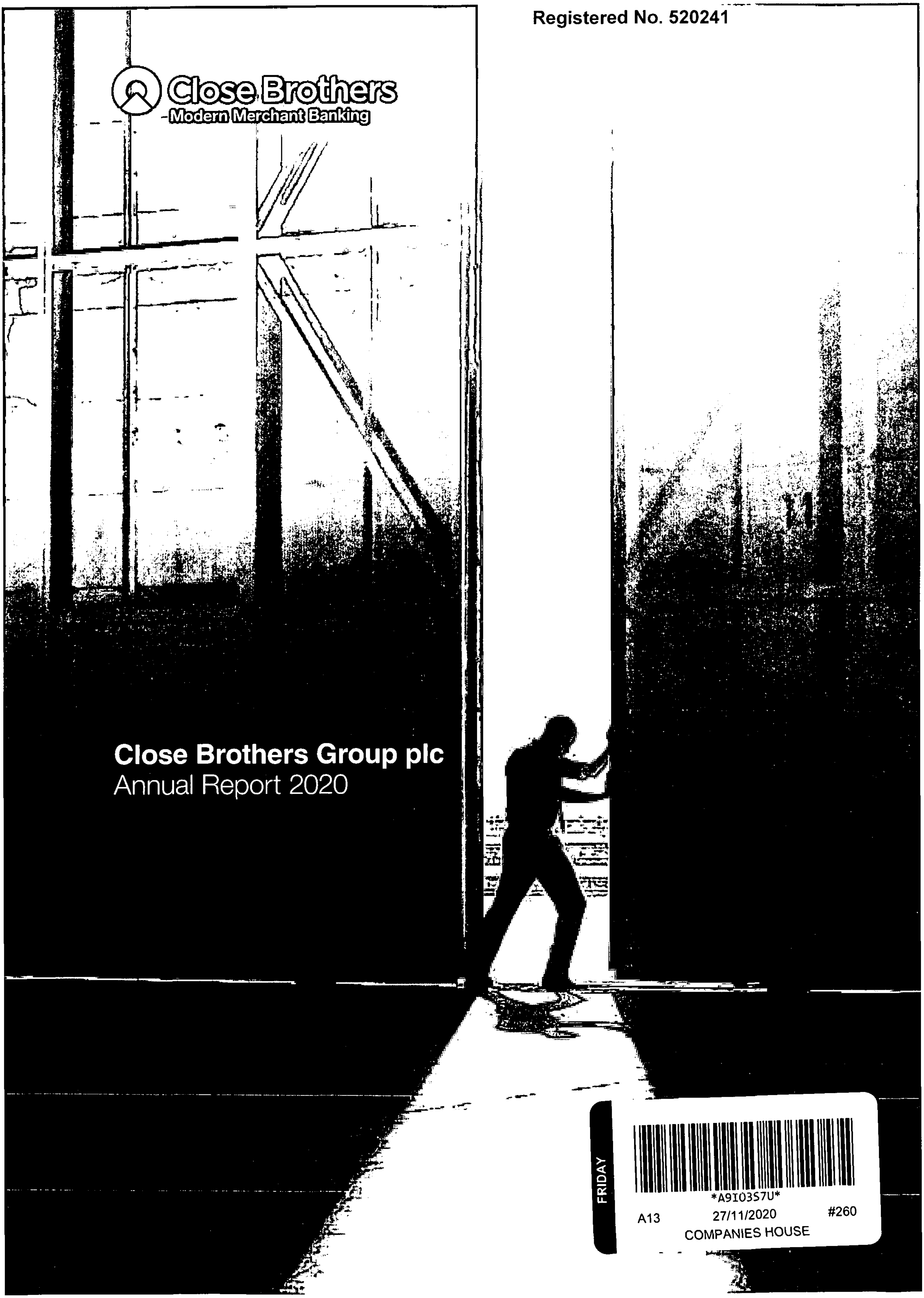
Registered No. 520241



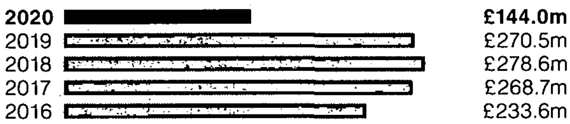
Close Brothers Group plc
Annual Report 2020

Contents

Financial Highlights[1]
for the year ended 31 July 2020

ADJUSTED[2] OPERATING PROFIT

£144.0m



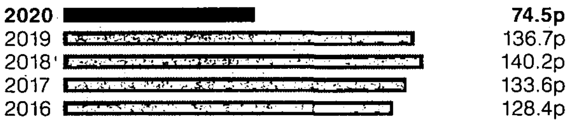
OPERATING PROFIT BEFORE TAX

£140.9m

2019: £264.7m

ADJUSTED[3] BASIC EARNINGS PER SHARE

74.5p



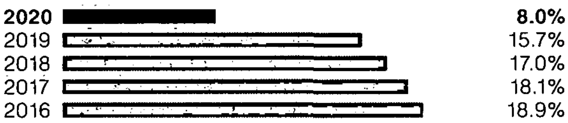
BASIC EARNINGS PER SHARE

72.8p

2019: 133.5p

RETURN ON OPENING EQUITY[4]

8.0%



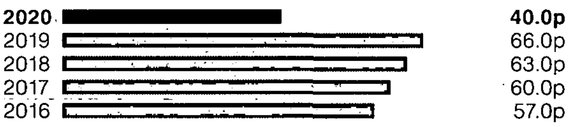
PROFIT ATTRIBUTABLE TO SHAREHOLDERS

£109.5m

2019: £201.6m

ORDINARY DIVIDEND PER SHARE[5]

40.0p



1 Financial highlights with the exception of profit attributable to shareholders presented on the basis of continuing operations, which exclude the unsecured retail point of sale finance business classified as a discontinued operation for the 2018 and 2019 financial years. See page 37 for more details on the basis of presentation.
2 Adjusted operating profit is stated before amortisation of intangible assets on acquisition of £3.1 million (2019: £5.8 million) and profit from discontinued operations of £nil (2019: £0.8 million).
3 Excludes amortisation of intangible assets on acquisition, discontinued operations and the tax effect of such adjustment.
4 Return on opening equity calculated as adjusted operating profit after tax and non-controlling interests on opening equity less non-controlling interests.
5 Represents the final dividend proposed for the respective years together with the interim dividend declared and paid in those years.

Our Businesses

Close Brothers is a leading UK merchant banking group providing lending, wealth management services and securities trading. We operate principally in the UK and employ over 3,500 people.

Banking

Commercial

Adjusted operating profit

£4.8m

2019: £86.5m

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

The Asset Finance business has c.26,000 customers and provides commercial asset financing, hire-purchase and leasing solutions for a diverse range of assets and sectors, including the financing of commercial vehicles, machine tools, contractors' plant, printing equipment, company car fleets, energy production, and aircraft and marine vessels. Our highly specialist sales force operates through 15 offices throughout the UK, Ireland and Germany.

Loan book[1]: **£2.2 billion**

Average loan size: **c.£48,500**

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

The Invoice and Speciality Finance business works with c.5,000 small businesses, providing debt factoring, invoice discounting and asset-based lending. It also includes our smaller specialist businesses such as Novitas, a specialist provider of finance for the legal sector, Brewery Rentals, which provides solutions for brewery equipment and container maintenance and Vehicle Hire, which provides heavy goods, light commercial vehicles and buses on long-term rental contracts.

Loan book[1]: **c.£900 million**

Average loan size[3]: **c.£260,000**

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

Retail

Adjusted operating profit

£34.9m

2019: £72.5m

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: **£1.7 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: **£1.1 billion**

Average loan size: **c.£500**

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

Property

Adjusted operating profit

£59.5m

2019: £94.7m

The Property business specialises in short-term residential development finance through Property Finance. 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.

It also offers refurbishment and bridging loans through Commercial Acceptances.

Loan book: **£1.7 billion**

Average loan size: **c.£1.3 million**

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

Read more about Banking:
See pages 38 to 43

1 Excludes operating lease assets of £2.9 million (31 July 2019: £4.2 million) which relate to Asset Finance and £219.0 million (31 July 2019: £216.2 million) to Invoice and Speciality Finance.
2 Typical loan maturities for new business on a contractual basis, except Invoice Finance and Novitas which is on a behavioural basis.
3 Average loan size and typical loan maturity include the Invoice Finance business only.

Asset Management

Asset Management

Adjusted operating profit

£20.4m

2019: £21.8m

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

Total client assets: **£13.7 billion**

Managed assets: **£12.6 billion**

Read more about Asset Management: See pages 44 and 45

Securities

Winterflood

Operating profit

£47.9m

2019: £20.0m

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.

Average bargains per day: **c.82,000**

Total counterparties: **c.600**

Read more about Securities: See pages 46 and 47

Our Purpose

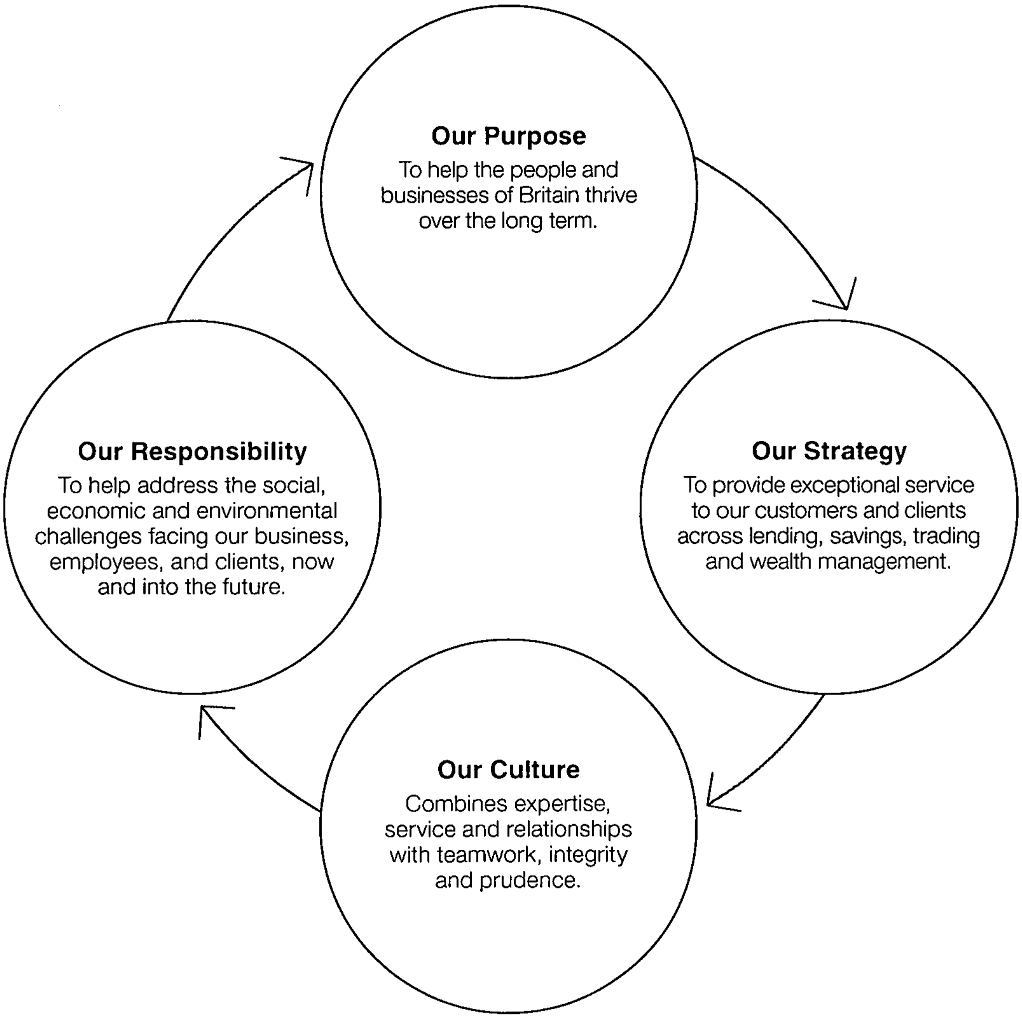
Close Brothers' purpose is to help the people and businesses of Britain thrive over the long term.

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. And it means that we continue to be there for the long term, whatever the climate, making decisions that are right for today and for generations to come.

To achieve this, our long-term strategic approach places exceptional service at the heart of everything we do. Each of our diverse, specialist businesses have a deep industry knowledge, so they can understand the challenges and opportunities that our customers and clients face. We support the unique needs of our customers and clients to ensure that they thrive, rather than simply survive, whatever the market conditions.

We believe in putting our customers and clients first. 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 thrive over the long term.

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.



Our Culture

Our culture combines expertise, service and relationships with teamwork, integrity and prudence.

Adhering to these attributes ensures that we continue to provide excellent service for our customers and clients over the long term and supports the strong reputation we have built with our stakeholders.

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

Expertise

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

Teamwork

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

Integrity

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

Service

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

Prudence

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

Relationships

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

Chairman's Statement

A distinctive, customer focused culture

During the 2020 financial year, we witnessed one of the most difficult economic, market and business environments in our lifetimes with a profound human impact. Our disciplined business model, strong culture and customer-focused approach have served us well in this environment. We entered the Covid-19 crisis in a strong position and are navigating it well, as the group has shown immense adaptability and deployed contingency plans very effectively and quickly.

The board's role during this period of elevated pressure has been to guide, challenge and support the executive team on key decisions, to ensure that the group emerges from the crisis in the strongest possible position. I am very impressed to see how well and cohesively our colleagues have worked together, allowing the group to continue to support customers and clients at this time when they need us most.

Close Brothers has delivered a resilient performance over this unprecedented period. The Banking division has maintained a strong market position notwithstanding higher impairment charges; Close Brothers Asset Management has maintained strong net inflows as we continue to attract client assets and new hires; and Winterflood has delivered a very strong trading performance as it navigated extraordinary market movements, making the most of exceptionally high volumes.

As a result, although adjusted operating profit reduced by 47%, the group delivered a solid return on opening equity of 8.0% (2019: 15.7%).

In April 2020, the board announced that it had decided to cancel its 2020 interim dividend recognising the significant challenges faced by businesses and individuals and consistent with our purpose of helping the people and businesses of Britain. This decision was not taken lightly given the group's long history of uninterrupted dividend payments.

Following a resilient financial and operational performance in the second half, the board is now proposing a 40.0p dividend in respect of the full financial year. This reflects the board's confidence in the group's business model and strong financial position, notwithstanding the current uncertain environment.

While dividend decisions in the 2020 financial year have reflected the unprecedented uncertainty caused by Covid-19, our aim remains to return to a long-term policy of progressive and sustainable dividend growth in future. Dividend decisions will continue to balance returns to shareholders with maintaining a strong financial position, flexibility to grow and invest, and the ability to meet our responsibilities to all stakeholders.

Strategic Discipline and Operational Readiness

The group's disciplined business model and our vast experience and expertise have allowed us to deliver consistent service and strong returns in a wide range of market conditions over many years. It has also ensured that the group entered this period of uncertainty in a position of strength, with a prudently underwritten loan book and a strong capital, liquidity and funding position.

While the scale and nature of the current crisis could not have been anticipated, in 2019 the board and the management team spent a significant amount of time on contingency planning, including the development of playbooks and simulation exercises for the lending businesses, with the aim to ensure that the business was well prepared in the event of a widespread downturn in the UK economy. These plans have played a key role in ensuring we were operationally prepared for the challenges posed to our organisation during the Covid-19 pandemic.

From the start of the crisis, the safety and wellbeing of our colleagues and their families have been of the highest importance to us and by the time the outbreak was at its peak, the majority of our people had successfully been set up to work from home. I have been really pleased to see how speed of response and operational resilience have allowed the group to continue operating and serving customers and clients effectively throughout the period.

The impact of Covid-19 on all our stakeholders is at the forefront of the directors' minds. The board has held additional meetings since the beginning of UK lockdown in March to focus on the group's response. The frequency of meetings increased to a weekly basis at the peak of the lockdown, and the directors received regular updates on developments relating to individual stakeholder groups. You can read more about the main areas considered by the board during the pandemic on page 18.

Strong Culture and Relentless Customer Focus

Our purpose is to help the people and businesses of Britain thrive over the long term, and this is underpinned by a strong culture and relentless customer focus. This is as important as ever, as we help our customers and clients navigate the current environment, and as the economy recovers, they will look to us for continued support.

The board considers the group's purpose, culture and values as fundamental to its long-term success and recent events have shown how deeply they are embedded in our organisation.

This is an unprecedented and uncertain environment so there will be challenges ahead of us. However, there will also be opportunities and I am confident the group will be able to make the most of these, building on our strong relationships and capitalising on the consistent application of our model throughout our history.

CEO Succession and Board Changes
In September 2019, Preben Prebensen decided to step down as chief executive and move on to the next stage of his career. Following an extensive search process undertaken by the board, considering both internal and external candidates, Adrian Sainsbury was selected to succeed Preben as chief executive, with effect from the end of the board's meeting held on 21 September 2020.

On behalf of the board, I would like to thank Preben for his outstanding leadership and very significant contribution over the last 11 years. He has overseen the transformation of the group over this period and leaves it in an excellent position operationally and financially, with a strong executive team.

Adrian's deep knowledge and experience, strong leadership and exceptional commercial expertise make him ideally placed to lead the group through the next stage of its development. His appointment provides continuity in the group's leadership team and business model, ensuring that we continue delivering for our people, customers and clients and our shareholders in the years to come.

We were also pleased to welcome Sally Williams as an independent non-executive director on 1 January 2020. Sally brings to the board extensive knowledge in the areas of risk, compliance and governance from over 30 years' experience in the financial services sector and her appointment further strengthens the range of skills and experiences represented.

After more than nine years' dedicated service on the board, Geoffrey Howe has decided not to seek reappointment at this year's Annual General Meeting. I would like to thank Geoffrey for his enormous contribution and his invaluable judgement and wise counsel. The search to identify a successor to Geoffrey is well-advanced.

Diversity and inclusion continue to be an important focus for the board's succession planning. It is also important that we maintain its depth and the appropriate range of skills and experience, while ensuring continuity in the stewardship of the group and its business model. In line with the recommendations of the Parker Review, the board will aim to have at least one director of colour by 2024.

Michael N. Biggs Chairman

Stakeholder Engagement
The board is strongly committed to maintaining active engagement with stakeholder groups, ensuring their priorities and considerations are reflected in the group's decision-making. This year we have introduced a number of new disclosures setting out how the board has had regard to all stakeholders' interests while complying with the directors' obligation to promote the success of Close Brothers in line with section 172 of the Companies Act. These can be found on pages 20-23 of this report.

One recent example of the board's engagement with stakeholders has been the triennial review of the remuneration policy this year, for which we consulted widely with our largest shareholders. Full details of the revised Directors' Remuneration Policy, which will be submitted to shareholders for consideration at the company's AGM later in 2020, can be found on page 87 in the Directors' Remuneration Report.

Creating Value Responsibly for all our Stakeholders
I firmly believe that in order to create long-term value, we also have a responsibility to help address the social, economic and environmental changes facing our business, employees and customers.

Sustainability matters appear regularly on the board and management's agenda and we have continued to make good progress on a range of key developments and initiatives during the last year.

To help us measure and drive our progress towards our sustainable goals, we have set a number of targets and I am pleased to report that we have met or exceeded our targets for gender diversity, customer satisfaction, charitable donations, and emissions. We are now introducing more ambitious targets, which have been aligned to the United Nations Sustainable Development Goals and are also now linked to executive pay through risk management objectives within our executives' long-term incentive plan.

I am particularly pleased that we continue to make progress on our diversity and inclusion agenda, including exceeding our initial gender diversity targets, and this year becoming signatories to the Race at Work Charter.

Climate risk is now embedded within the risk governance framework at all levels of the organisation with a review of processes, procedures and policies underway to ensure appropriate consideration of climate-related risks and opportunities.

Our People
Our people are key in driving the group's long-term success and I would like to thank them for their admirable dedication and commitment to the organisation, even in the face of the most challenging circumstances. Thanks to their professionalism and expertise, I am confident that, together, we will continue delivering on our purpose to help the people and businesses of Britain thrive, over the long term.

Michael N. Biggs
Chairman

22 September 2020

Chief Executive's Statement

Preben Prebensen Chief Executive 2009 to 2020

A proven model for the long term

When I became chief executive in 2009, we were in the middle of a global financial crisis. As I hand over to Adrian Sainsbury, we are managing through the Covid-19 crisis.

In many ways, this crisis is different – not least in its human and societal impact. Close Brothers is different too – it is bigger and stronger, but also simpler and more focused.

But perhaps even more importantly, the fundamental aspects of our business model and our culture are the same, and that is the real strength of Close Brothers.

Since 2009, we have created more than 1,000 jobs across the group and the Banking division has tripled its loan book. Our focus on risk and on regulation has increased sharply. We have invested very significantly in developing our people, in technology and in our operational capability.

Nevertheless, the fundamentals of our business have remained the same. In our Banking division we have always focused on specialist, secured lending. We have always prioritised great service levels and the expertise of our people, which has supported a strong net interest margin and prudent underwriting.

These attributes were important to our successful emergence from the last crisis and are proving equally important to navigating this one. Although results this year have been impacted, we are as confident as ever in the quality of our loan book and our long-term success as a provider of funding to small businesses and individuals through the most difficult conditions.

Back in 2009, Winterflood did very well trading highly volatile markets. And this year, it has shown that expertise again, producing its best results in a decade, in arguably even more difficult conditions.

The Asset Management division has gone through the most change since 2009, emerging as a private client advice and investment management business in the UK. The business has delivered consistently strong net inflows, including this year, and has very good future growth prospects.

I have often been asked to describe the single characteristic that most defines Close Brothers – and that for me is our genuinely long-term approach. That approach defines how we invest in the business, how we invest in our people, our relationships with clients and customers, how we finance the business and how we see ourselves – as custodians of this great company.

The last six months have been among the most challenging of my time here, but I have been exceptionally impressed by the way we have navigated them and so very proud of our people.

I leave the group in very good hands. Adrian and I have worked together for the last seven years. He brings outstanding experience, knowledge and drive and will lead a very talented and experienced management team who I am sure will make the most of the opportunities that lie ahead.

Preben Prebensen
Chief Executive 2009 to 2020

Adrian Sainsbury Chief Executive

I am delighted to be introducing Close Brothers' 2020 annual results; my first as chief executive. It is an honour to be chosen to lead the group as I truly believe this is an extraordinary company that plays an important role in the lives of people and businesses it serves.

On behalf of the Executive Committee, I would like to thank Preben Prebensen for his outstanding leadership during a period of significant growth and development. It has been a privilege to work with Preben and I look forward to building on the excellent position he has established over the past 11 years.

When I joined Close Brothers in 2013, I was impressed by the straightforward and effective business model and by the distinctive culture, which focuses on expertise, service and building strong relationships with customers, clients and partners. This absolute customer focus remains at the heart of our strategy, and our purpose of helping the people and businesses of Britain thrive.

Our business model has been tried and tested over the years and its success is supported by three pillars: the disciplined application of our pricing and underwriting criteria; the prudent management of our financial resources; and the diversity of our businesses. These are the fundamental strengths of our model and my role is to ensure we continue to protect them whilst taking the business forward.

Consistency in the application of our pricing and underwriting criteria is a strategic imperative for us. Our lending is predominantly secured, with conservative loan to value ratios, small loan sizes and short maturities, which allows us to maintain both a strong net interest margin and high-quality credit portfolio throughout the cycle. This means we are well placed to deal with the potential impact of adverse conditions whilst continuing to support our customers.

Prudent management of our financial resources is also crucial to our long-term approach to managing the business. Having strong capital, funding and liquidity positions allow us to grow, invest and comfortably meet regulatory requirements.

The diversity and specialism of our businesses is another key component of our success. Lending in a variety of sectors, locations and asset classes where we have deep expertise, has supported our loan book performance and financial returns in times of challenge, as evidenced in this year's results. Close Brothers Asset Management and Winterflood also provide additional profit streams which further strengthen our performance as a group.

They are also strong examples of the expertise of our people in their specialist fields, which underpins their success in wealth management and trading.

Navigating the Current Crisis

Our immediate priority is to successfully navigate the Covid-19 crisis and to support our people, customers and clients as the economy recovers. We entered the current crisis in a strong position and the group's agility and strong operational resilience have allowed us to respond effectively in a rapidly changing environment.

Looking after the safety of our colleagues and ensuring their continued engagement has always been a priority but this has been more important than ever since the onset of the Covid-19 pandemic. I would like to thank our colleagues for their extraordinary dedication and commitment and for all they have done, and continue to do, to ensure we maximise assistance for customers and clients and remain committed to finding the right financial solutions to help them through these turbulent times.

Chief Executive's Statement continued

Financial Performance
Our 2020 financial performance is a story of two halves. Strong returns in the first half of the year were followed by a period where we felt the impact of Covid-19, an unprecedented turn of events which affected us all.

Overall, the group reported a 47% reduction in adjusted operating profit to £144.0 million (2019: £270.5 million) which still equated to a solid return on opening equity of 8.0% (2019: 15.7%).

Despite higher impairment charges, our lending businesses achieved a resilient performance in the year, with a broadly flat loan book reflecting an increase in customer activity since the easing of lockdown restrictions in June and July. Asset Management maintained strong net inflows of 9% (2019: 9%) and Winterflood delivered an impressive trading and financial performance, highlighting the expertise and experience of our traders as they navigated extraordinary market movements.

The income growth of 6% reflected the strong performance in Winterflood and the Asset Management division, partially offset by lower revenue in Banking. Although we maintained our pricing discipline, the net interest margin declined to 7.5% (2019: 7.9%) reflecting lower activity levels as well as forbearance measures granted to our borrowers.

Costs increased by 8%, with most of the increase in Winterflood, reflecting higher variable costs. They have also increased in the Asset Management division given our continued investment to support the long-term growth potential of the business. In the Banking division, costs increased marginally as we continued to invest in key strategic programmes while focusing on disciplined cost management.

The uncertain environment led to a sharp increase in the forward-looking impairment provisions under IFRS 9, but we remain confident in the quality of our loan book.

We have maintained a strong balance sheet, with our common equity tier 1 ratio rising to 14.1% (31 July 2019: 13.0%), significantly ahead of regulatory requirements, and a continued prudent funding and liquidity position.

Taking the Model Forward
The impact of Covid-19 has been felt across our businesses and the outlook is still uncertain, but the fundamental strengths of Close Brothers remain unchanged. As a through-the cycle provider of funding, wealth management and securities trading services to individuals and small businesses, our role remains as important as ever. Our resilient model and the experience and expertise of our people leave us well positioned to respond to opportunities and to continue to support our customers and clients into the future.

Investing to take the model forward will continue to be a priority and it is important that we maintain capacity to take advantage of opportunities as they arise, be that new markets, products or distribution channels. We are committed to investing for the future, maintaining our long-term approach and realising the benefits as our businesses grow and evolve.

Outlook
The group has adapted well to this unprecedented environment, drawing upon our financial and operational resilience and the deep experience of our people.

Although we have seen encouraging signs of increasing economic activity in the UK since the easing of restrictions in June and July, the near-term path to recovery remains highly uncertain.

In the Banking division, we remain focused on maintaining our prudent and disciplined approach while continuing to support our customers through this challenging environment. Asset Management continues to have long-term growth potential and we remain committed to growing our client base organically, and through selective hiring and in-fill acquisitions. Winterflood has shown good momentum through August and September but remains sensitive to changes in the market environment.

Overall, we have a strong balance sheet, high quality loan book and a proven, resilient business model, and are confident that we will emerge from this crisis in a strong position to support our customers and clients through their recovery.

Adrian Sainsbury
Chief Executive

22 September 2020

Our Response to Covid-19

Our purpose is to help the people and businesses of Britain thrive over the long term, and in the face of Covid-19, we have focused on maximising our support for colleagues, customers and partners.

In these unprecedented times our colleagues have continued to perform admirably, and have pulled together to support one another and maintain their focus on helping our customers and clients navigate this challenging period. We recognise the importance of maintaining our high levels of service for our customers and clients and have continued to be there for them, as we have done for many years and during even the most difficult of times.

Supporting our Colleagues

The safety and wellbeing of our colleagues is of the utmost importance to us, and we have supported them through flexible working arrangements, seeking regular feedback and making adjustments so that they can conduct their roles safely. Throughout this period, we have focused on maintaining close contact with our employees, with a series of regular surveys, internal communications and opportunities for staff to engage with management and each other. We take great care to support the mental wellbeing of our colleagues, particularly during the unique circumstances of recent months, and have provided virtual classes and webinars on topics such as emotional agility, mental health, nutrition and remote working.

A number of our colleagues have now returned to work on-site or begun to meet customers in person where it is safe to do so, but the majority remain successfully working from home, where our agile deployment of technology solutions has enabled them to perform their roles with minimal disruption and to serve our customers and clients effectively. At the peak of the UK lockdown over 95% of our staff were set up to work from home. We have not made use of the Coronavirus Job Retention Scheme as none of our employees were furloughed during this period.

Supporting our Customers

Throughout this period, we have maintained regular contact with our customers and increased their choice of channels for engagement with us, while our technology has ensured speed and simplicity in responding to their needs. Investments in technology and sales tools in recent years have enabled our businesses to adopt a remote sales and servicing model, allowing them to continue to reach consumers and small businesses when face-to-face contact has not been possible.

Typical Forbearance

Segment	Typical forbearance offered
Commercial	Capital repayment holidays with fees and charges waived, or flexing of repayments percentages and overpayments on invoice discounting and factoring facilities
Retail	Payment deferrals of varying durations, with fees and charges waived and no interest compounded on the deferred balance, and with no impact on customer credit records
Property	Fee-free, payment term extensions for development loans, and capital repayment holidays for non-development loans

We have a long history of helping individuals and SMEs across the UK, and have introduced a range of forbearance and other measures to assist customers and clients who find themselves in difficulty. The broad range of concessions we offer reflects our diverse range of products, sectors and customers, and we continue to tailor our support to ensure it is most appropriate for them.

Our Commercial and Property businesses account for the vast majority of the value of our forborne loans, and we remain in close contact with customers who have been granted forbearance to discuss their position and identify the most appropriate financing solution for them. While it is still too early to know the full impact of Covid-19, an increasing number of these customers are now beginning to resume payments, or return to normal contractual terms.

Government Support Schemes

In order to maximise our assistance for small businesses we have become accredited to lend under the support schemes introduced by the UK government, including the Coronavirus Business Interruption Loan Scheme ("CBILS"), the Coronavirus Large Business Interruption Loan Scheme ("CLBILS") and the Bounce Back Loan Scheme ("BBLS"). As at 31 July 2020, we had approved over £350 million of lending across 1,430 loans in our Commercial and Property businesses, with a strong pipeline of applications. The vast majority of lending is via CBILS under which we are accredited to lend up to £750 million, with less than £2 million lent under the BBLS scheme.

Our Resilient Response

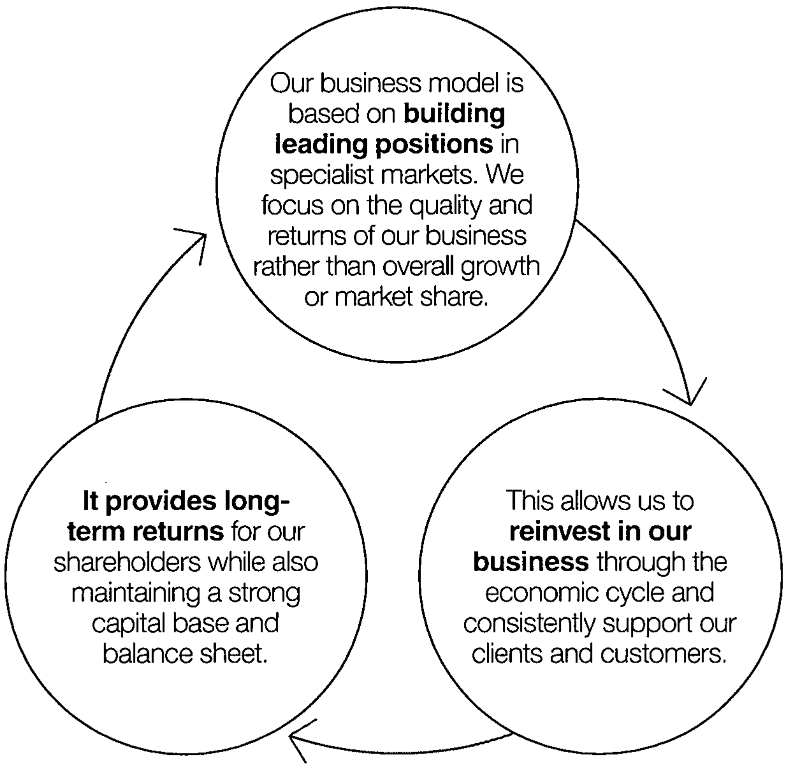
Our prudent and resilient business model has served us well in challenging times over many years. Whilst Covid-19 has had a significant impact upon consumers, businesses and the economy, as well as on our own financial performance, we have successfully adapted to these unique circumstances and our strong operational resilience has allowed the group to continue to operate effectively. Our loan book is predominantly secured and conservatively underwritten, with a deep expertise and relationship driven approach present throughout our lending, trading and investment management businesses. We have a strong capital, funding and liquidity position and are well placed, both operationally and financially, to navigate this rapidly evolving environment.

Throughout this period, we have continued to monitor and adhere to regulatory guidance in response to Covid-19. Our risk management processes remain robust, and our internal controls ensure that we remain confident in our management of the impact upon our business activities. You can read more about our financial response to Covid-19 in our financial overview on pages 34 to 47 and our approach to managing principal risks on pages 53 to 57.

While it remains too early to know the full impact that Covid-19 will have on the UK economy, we are confident that our tried and tested business model and the deep experience of our people leave us well prepared to respond to the challenges and opportunities ahead, protect our colleagues, and continue supporting our customers and clients.

Business Model

Close Brothers has an established reputation as a responsible bank with a distinctive, prudent business model and a long-term approach. We focus on providing straightforward products and services in sectors we know and understand, and delivering quality and reliability for our clients.



We remain committed to our traditional values of service, expertise and relationships alongside teamwork, integrity and prudence, to help the people and businesses of Britain thrive over the long term.

Long-established proven business model →

Strong customer-led proposition

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

Disciplined approach through the cycle

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

Prudent capital and funding

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

Continuous investment within the model

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

Diversified portfolio of businesses

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

Creating value for our stakeholders →

Engaged employees

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

Read more: See pages 25 to 28

Consistent customer service

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

Read more: See pages 28 and 29

Strong shareholder returns

We have achieved strong returns for shareholders in a range of market conditions, and continue to deliver over the long term. This is reflected in our long run total shareholder return of 148% over the last 10 years.

Read more: See pages 34 to 37

Supporting communities and the environment

We are committed to contributing lasting value and making a positive impact on the wider community in which we operate. We are pleased to promote a wide range of programmes that help support the causes that are beneficial to all those around us and are focused on reducing our environmental impact through our sustainability initiatives.

Read more: See pages 24 to 33

Strong supplier relationships

Our businesses are supported by a large number of suppliers, who enable us to consistently deliver high service levels to our customers, clients and partners. We are committed to developing and maintaining transparent and sustainable working relationships with our suppliers over the long term.

Read more: See page 29

Constructive engagement with regulators

We are committed to sustaining high standards of business conduct across our businesses. We maintain an open and active dialogue with our key regulators to ensure we adhere to the relevant regulatory frameworks where we operate.

Read more: See pages 18 to 21

Driving sustainable outcomes and business performance

High net interest margin and a quality loan book

We do not manage our businesses to a growth target, but instead prioritise the consistency of our lending criteria and maintaining strong returns. The strength of our client proposition has supported a net interest margin between 7.5% and 9.8% over the last 10 years and a predominantly secured, diverse loan book.

Resilience in all market conditions

Our consistent application of underwriting discipline and responsible lending criteria has resulted in a low bad debt ratio ranging from 0.6% to 2.3% over the last 10 years.

Consistent returns through the cycle

Our customer-focused approach and disciplined lending have supported consistently strong returns at all stages of the financial cycle. Return on net loan book ranged from 1.3% to 3.7% and group return on opening equity averaged 16% over the last 10 years.

Sustainable dividend

While dividend decisions in the 2020 financial year have reflected the unprecedented uncertainty caused by Covid-19, our aim remains to return to a long-term policy of progressive and sustainable dividend growth in future. Dividend decisions will continue to balance returns to shareholders with maintaining a strong financial position, flexibility to grow and invest, and the ability to meet our responsibilities to all stakeholders.

Strong net inflows and consistent trading profitability in market-facing divisions

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

Strategy and Key Performance Indicators

Our long-term strategic approach focuses on ways to protect, improve and extend our model, which in turn allows us to deliver excellent stakeholder outcomes in a wide range of market conditions.

Strategic Objectives	2020 Progress	Future Priorities
Protect: A long-term approach to how we run our business. 1. Maintain prudent underwriting and consistent pricing in our lending 2. Maintain a sound level of funding, liquidity and capital 3. Maintain our strategic imperative of investing to protect our business	• Operational and financial resilience enabled us to successfully adapt and continue operating effectively during the pandemic. • Effective deployment of crisis procedures and playbooks to respond to the Covid-19 pandemic. • Maintained adherence to our disciplined lending model, prudent loan to value ratios and strong margin in challenging market conditions. • Maintained a strong funding, liquidity and capital position, with good headroom to capital regulatory requirements. • Good progress made on our preparation for applying to use the Internal Ratings Based approach for the calculation of regulatory capital requirements for credit risk. • Continued to strengthen and diversify our funding position with growth in deposits and additional Motor Finance securitisation. • Very strong and profitable trading at Winterflood despite extraordinary market movements.	• Continue adhering to disciplined underwriting and pricing in all market conditions. • Maintain capital flexibility in an evolving regulatory environment and submit application for Internal Ratings Based approach. • Ensure our compliance with ongoing regulatory change. • Monitor and mitigate external threats, including the ongoing impact of Covid-19 on the UK economy and the group's customers, clients and partners, competition from both established and emerging players and the UK's departure from the EU. • Continue to invest in our operational resilience, core technology and regulatory compliance.
Improve: Engaging stakeholders and investing to strengthen our proposition. 4. Help our customers do business with us by adapting to their needs and investing in technology, people and products to improve our proposition 5. Maintain a disciplined approach to cost management and operational efficiency 6. Empower our employees through training, development and diversity	• Continued to invest in our key strategic programmes, which has proven beneficial in responding to the challenges of Covid-19. • Motor Finance transformation programme has increased new business volumes and enabled us to deliver better service to dealers and customers. • Asset Finance transformation programme progressing well, enhancing our sales effectiveness. • Online portal added to customer deposit platform and customer experience enhanced. • Continued strong employee engagement, with employee communication a priority for the business, particularly during Covid-19. • Strong customer satisfaction scores across our businesses, as we have supported our customers and clients during this challenging period.	• Continue to invest through the cycle, whilst reviewing and prioritising investment spend. • Continue to progress Asset Finance transformation programme to improve data capability and technology and optimise operational efficiencies. • Monitor customer needs, preferences and trends in technology through research and responding to customer feedback. • Ensure we retain and attract staff and maximise productivity by responding to employee engagement, training and developing our people and investment in tools and technology. • Continue to adapt and respond to developments brought about by Covid-19, including changes in customer preferences and in our ways of working.
Extend: Creating future value through maximising our potential and identifying new opportunities. 7. Maximise the opportunity in each of our markets, within the boundaries of the model 8. Identify new products, distribution channels and adjacent market opportunities	• Increased focus on sustainable investment in Asset Management, with socially responsible investment proposition well received. • New 95 day Corporate Notice product added to our customer deposit platform. • Accredited to lend under the support schemes introduced by the UK government in response to Covid-19. • Positive progress made in expanding Winterflood's institutional relationships and Winterflood Business Services.	• Identify and capitalise on new opportunities to lend as we emerge from Covid-19. • Continue to identify and explore new business areas that fit with our specialist business model and generate strong returns. • Expand offering on deposit platform with new savings products including cash ISAs. • Grow client assets and make incremental hires in Asset Management. • Develop Winterflood's institutional franchise and further grow Winterflood Business Services.

Key Performance Indicators

Common equity tier 1 capital ratio
Per cent

2020	**14.1**
2019	13.0
2018	12.7

Funding cover of loan book
Per cent

2020	**135**
2019	129
2018	132

Net interest margin
Per cent

2020	**7.5**
2019	7.9
2018	8.0

Bad debt ratio
Per cent

2020	**2.3**
2019	0.6
2018	0.6

Banking expense/income ratio
Per cent

2020	**52**
2019	50
2018	49

Employee engagement
Per cent

2020	**86**
2019	88
2018	89

Net promoter scores
2020

Motor Finance	**77**
Retail savings	**72**
Premium Finance	**56**

Property repeat business
Per cent

2020	**76**
2019	78
2018	77

Loan book growth[1]
Per cent

2020	***0***
2019	6
2018	7

Net inflows
Per cent of opening AUM

2020	***9***
2019	9
2018	12

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

Creating Long-Term Shareholder Value

Group return on opening equity
Per cent

2020	**8.0**
2019	15.7
2018	17.0

Adjusted basic earnings per share
Pence

2020	**74.5**
2019	136.7
2018	140.2

Dividend per share
Pence

2020	**40.0**
2019	66.0
2018	63.0

Our Responsibility

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

Sustainable themes have experienced an increased focus in recent months, with an appreciation that those companies with stronger sustainable attributes are better positioned for the long term. The added context of Covid-19 has broadened the scope of the discussion to capture a wide range of stakeholder interests, while reinforcing socially responsible considerations as well as the environmental.

During the year we have focused on making significant progress with our wide-ranging sustainability agenda, driving forward with programmes and initiatives to address key themes including diversity and inclusion, social mobility, customer experiences and responding to the threat of climate change.

Events of the second half allowed us to bring our culture of responsibility to the fore and act in the best interests of all our stakeholders. Our responsible approach during the period includes measures that prioritise the safety and wellbeing of our colleagues, that promote the fair treatment of our customers and clients, that are considerate of our suppliers, and that continue to make material strides towards reducing our environmental impact.

As a business that prides itself on supporting small businesses and individuals we have the expertise to support SMEs and entrepreneurs who may be overlooked by larger finance providers, creating jobs and opportunities in local communities across all our regions. Our strong, lasting relationships with our customers and clients mean we have a deep understanding of their needs and requirements, allowing us to provide both financial support and advice, and to promote social mobility through access programmes, apprenticeships and training for up-and-coming talent.

Throughout the year we have continued to make good progress, as shown by our performance against the targets we set ourselves last year. Following the successes of the past year, we are now setting ourselves a series of more stretching targets to direct our efforts and maintain our momentum, including:

- 36% female senior managers by 2025
- Maintain or improve strong customer satisfaction scores across our businesses
- Achieve a 10% reduction in group-wide overall emissions by 31 July 2021[1]
- Achieve a 10% reduction in average fleet vehicle CO_2 emissions by 31 July 2021[2]

Helping our People Thrive

Our people underpin the success of our business and continue to deliver the highest levels of service to our customers through their specialist expertise and longstanding relationships. We are committed to creating an environment where our colleagues feel motivated, proud to work for us and can thrive. To achieve this, we continually engage with our people, invest in development opportunities and foster an inclusive workplace to support them to reach their full potential.

Ensuring the safety and wellbeing of our colleagues during this unprecedented period has been the utmost priority for us. We were pleased with how quickly and successfully we were able to set up over 95% of our staff to work from home during the UK lockdown, and have put in place many initiatives, virtual classes and webinars to support our colleagues' mental wellbeing during this time. Regular engagement and feedback has helped to ensure we are supporting our staff through this period to the best of our abilities.

Recognising and celebrating the value of diversity and inclusion across our workforce has been a key area of focus this year. We now have wide-ranging employee participation across a number of group-wide diversity and inclusion committees, with executive level sponsorship for each, as well as internal networks such as our recently launched LGBTQ+ network for individuals from across the group to join various educational and social events.

In addition to targets around diversity and inclusion set at board and executive level, our internal mentoring and sponsorship programmes continue to grow, with recently launched schemes to promote women's career development and mentoring schemes to support black and ethnic minority colleagues.

Environmental Responsibility

We take care to ensure that environmental considerations form an integral part of the decisions we make as a business. Our facilities and infrastructure teams continue to seek out and implement new ways to reduce our environmental impact, while employees across the group proactively raise awareness of environmental issues and promote responsible behaviours, initiatives and activities.

This year, the consolidation of our London property footprint presented an opportunity to make a significant change to lowering our environmental impact. Reducing our office space has a direct influence on our level of emissions, and our newly fitted out head office includes a range of energy efficient systems, plant and equipment to reduce our carbon footprint in the years ahead.

We recognise the great importance of addressing the threat of climate change, and our ongoing framework development to identify how the risks and opportunities of climate change may impact our business model remains a key area of focus for senior management.

There When it Matters

We are determined to ensure we can continue to support our customers and clients throughout even the most challenging of times. Covid-19 has proven to be one of the gravest challenges that many of our customers and partners have ever faced, and our response has focused on providing ease and flexibility for our customers, new products and services to help businesses access credit, and a desire to continuously improve and adapt to changing customer needs.

While the longer-term impacts of Covid-19 remain uncertain, we are committed to being an agile and adaptable organisation that continues to hold an unwavering focus on customers, clients and partners. We continue to seek out innovative ways to help, and enhance our personal approach by increasing speed of execution, embedding insights and introducing digital services. In the months ahead, we will leverage our market-leading experts to provide a personalised service for SME customers and partners on how to approach their recovery efforts.

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.

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 Stakeholders and Board Engagement, pages 18 to 23 • Sustainability Report, pages 31 and 32
Employees	• Health and Safety Policy • Whistleblowing Policy • *Key Customer Principles* • Equal Opportunity and Dignity at Work Policy	• Our Culture, page 5 • Our Response to Covid-19, page 11 • *Business Model, pages 12 and 13* • Our Responsibility, page 16 • Our Stakeholders and Board Engagement, pages 18 to 23 • Sustainability Report, pages 24 to 28 and 33 • Corporate Governance Report, page 77
Social Matters	• Key Customer Principles • Bank Credit Policy Underwriting Standards	• Our Response to Covid-19, page 11 • Our Responsibility, page 16 • Our Stakeholders and Board Engagement, pages 18 to 23 • Sustainability Report, pages 29 to 31
Respect for Human Rights	• Human Rights and Modern Slavery Act • Privacy and Data Protection Policy • Cyber Security Policy	• Sustainability Report, page 33
Anti-Corruption and Anti-Bribery	• Anti-Money Laundering Policy • Anti-Bribery and Corruption Policy • Cyber Security Policy	• Sustainability Report, page 33
Description of Principal Risks and Impact of Business Activity		• Principal Risks, pages 53 to 57 • Emerging Risks and Uncertainties, pages 58 and 59 • Risk Committee Report, pages 79 and 80
Description of the Business Model		• Our Purpose, page 4 • Our Culture, page 5 • Business Model, pages 12 and 13
Non-Financial Key Performance Indicators		• Strategy and Key Performance Indicators, pages 14 and 15 • Our Responsibility, page 16 • Sustainability Report, page 24

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 more fully their perspective and take this into account when making decisions. We undertake a comprehensive programme of stakeholder engagement and value the feedback provided, embedding this in the decision-making process undertaken 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 3,500 employees around the UK, Ireland, the Channel Islands and Germany. We want a diverse and motivated workforce so that they can continue to deliver the highest level 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 • A commitment to invest in training and development
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 and Germany 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. 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 • Strong personal relationships and specialist expertise • Consistent and supportive customer service whatever the market conditions • A responsive service with solutions that are flexible and executed with speed
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. Engagement with our suppliers enables the group to develop and maintain long-term and sustainable relationships. This engagement also helps enable our suppliers to better understand and align to our key policies and procedures and operate responsibly.	• Appropriate and clear payment procedures • Strong and sustainable relationships with Close Brothers • Fair and equitable conduct of business
Regulators and Government The Group values an open and transparent relationship with all our regulators, particularly the Prudential Regulation Authority ("PRA") and the Financial Conduct Authority ("FCA"), as well as government authorities and trade associations. It is important 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. Participating in 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 ambition, whilst also building employee engagement.	• 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. Regular employee opinion surveys are undertaken and closely monitored and management frequently hold employment engagement activities to provide updates on business performance and gather real time feedback, which is listened to and acted upon. Training and mentoring programmes are in place to support the development of all employees.	During the Covid-19 pandemic, employee communication has been a priority for the business. Additional employee opinion surveys have been undertaken, with a focus on wellbeing and return to workplace planning, alongside regular communications from the executive committee and management teams. Read more about the ways we have engaged with our colleagues: See pages 25 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 customer principles by conducting extensive research and analysis of feedback, captured through our "Voice of the Customer and Partner" programme. This enables us to improve experiences in the moment as well as plan for changes to our service and proposition into the future.	Throughout the Covid-19 pandemic, we have been in close contact with our customers, clients and partners to support those who have found themselves in difficulty during this challenging period. We remain in regular discussions with our customers to understand their individual circumstances and tailor the solutions and support we offer to ensure we best serve their needs. Read more about the ways we have engaged with our customers, clients and partners: See pages 28 and 29.
Our key supplier relationships are managed centrally through our dedicated third party management function, which includes regular meetings, as well as an annual survey to seek feedback on Close Brothers as a client.	Our annual supplier survey has been expanded to cover sustainability matters including our suppliers' environmental and social governance, to help inform our understanding of progress being made by our suppliers. Read more about our annual supplier survey and the sustainability matters it looks at: See page 29.
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.	This year, key engagement with our regulators has revolved around the appointment of the group's new chief executive, our involvement in the UK government's support schemes and as part of our preparations for applying to use the Internal Ratings Based approach. We have closely followed commentary from the PRA regarding capital and distributions in light of the evolving Covid-19 outbreak, as well as regulatory guidance in relation to customer forbearance. Read more about the decision to cancel our interim dividend: See page 22.
Throughout the year, we undertake various community, social and environmental initiatives, which are coordinated through our sustainability working group. 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.	This year, we became signatories to the Race to Work Charter, which will help drive our engagement on matters of racial equality, increase our awareness of the ethnic diversity of our employees and take action to support the career progression of ethnic minority colleagues. 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: See pages 29 to 31.
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 strong levels of engagement with our investors during the year that included a programme of meetings with our chairman focused on environmental, social and governance matters, a consultation with c.53% of the shareholder register on our Directors' Remuneration Policy and engagement with credit rating agencies, alongside our regular programme of communication organised by our investor relations team including investor roadshows, analyst presentations and keeping the market up to date in line with regulation. Read more about the review and consultation process for our Directors' Remuneration Policy: See page 23.

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 having regard to relevant factors under section 172(1) and broader stakeholder considerations. In addition, this year, training has been provided to the directors of subsidiary companies in the group reminding them of their duties under section 172(1) and on new reporting requirements.

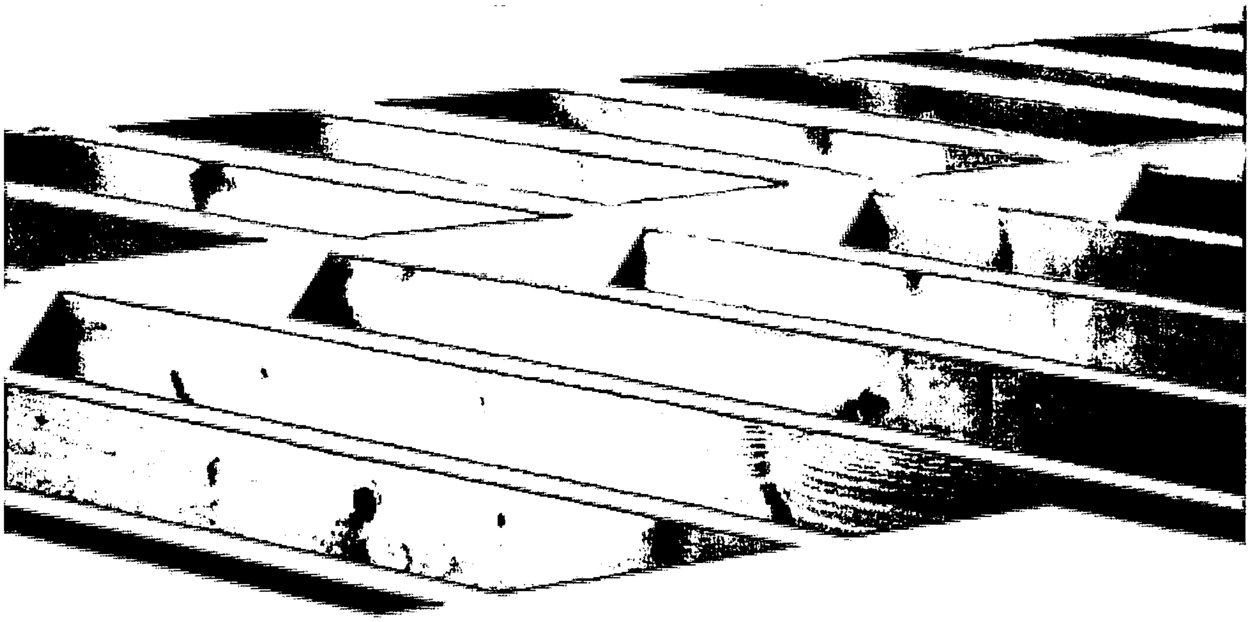
Further detail on the board's engagement with, and consideration of, the company's stakeholders can be found in the following pages, along with examples of decision-making that have had regard to the factors in section 172(1), employee interests, and the need to foster the company's business relationships 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. 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 during the pandemic, including the matters regularly considered, can be found on page 72 of the Corporate Governance Report.

Colleagues

- Regular updates on employee issues arising from the Covid-19 pandemic, including the response to lockdown and introduction of homeworking, review of wellbeing issues, discussion of Covid-19-related employee opinion surveys and return to workplace planning.
- Regular communications with employees via emails and videos, participation in Town Halls and Q&A sessions by individual directors.
- Site visits by individual directors to meet employees and enhance their understanding of the group's operations.
- Director attendance at committees and forums below board level to understand and discuss employee-related issues.
- Engagement with employees in board meetings on relevant topics.
- Presentation and discussion of regular employee opinion surveys and follow-up actions at board meetings.
- 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.
- Review of diversity and inclusion activities and initiatives by the Nomination and Governance Committee.
- Ongoing activity to encourage employee participation in the group's Save As You Earn ("SAYE") and Buy As You Earn ("BAYE") share schemes.
- Consideration of employee views in individual decisions made by the board, including issues relating to ongoing transformation programmes, such as the Motor Finance transformation programme.
- 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 to customers of the Banking division.
- Quarterly in-depth customer updates to the board including customer metrics and engagement scores, and updates on a wide range of matters relating to customer issues.
- Customer/client updates in monthly business reports presented to the board by members of the executive committee.
- Monthly customer and operations updates to the board by the group chief operating officer.
- 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.
- Oversight by the Audit Committee of relevant customer, client and partner-related items arising from reviews undertaken by the group's internal audit function.
- 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 on suppliers and partners.
- Annual deep-dive supplier update to the board, including, this year, discussion of the evolution of the group's third party management environment and associated stakeholder and section 172(1) considerations.
- 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 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 the Covid-19 pandemic, including guidance in relation to customer forbearance.
- 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 the appointment of the group's new chief executive and on non-executive director appointments.
- Provision of regulatory correspondence to the board and relevant committees.
- Training updates on regulatory developments and horizon-scanning.
- At least an annual update to the Audit Committee on taxation matters, including on engagement with HMRC.

Our Stakeholder and Board Engagement continued

Principal Board Decision:
2020 Interim Dividend Cancellation

In April 2020, the board took the decision to cancel the payment of the company's 2020 interim dividend, recognising 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.

Although Close Brothers entered the period of economic uncertainty brought about by the Covid-19 pandemic with a strong capital and liquidity position and with prudent funding, the board considered that cancelling the interim dividend would increase the ability of the company to execute its business model and maximise the availability of resources to support customers, clients, partners and colleagues in the early stages of the pandemic. This decision was not taken lightly given the group's long history of uninterrupted dividend payments and the expectation this has created among shareholders.

Stakeholder considerations, and the factors set out in section 172(1), were therefore at the heart of the decision-making process. As part of its decision-making the board had regard to the different interests of stakeholders but with an overarching focus, as required by section 172(1), 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. Among other things, the likely consequences (both in the longer and near term) of the decision to cancel the interim dividend were key considerations for the board.

How the board considered, and had regard to, the interests of key stakeholders and the requirements of section 172(1)
The decision to cancel the interim dividend was taken following extensive discussions between the board and management.
- In advance of the decision, the board was regularly updated on discussions with customers and clients to understand the difficulties that they were facing and the introduction of a range of forbearance measures to support them.
- The board also had oversight of Close Brothers' participation in the support schemes introduced by the UK government and accreditation to lend under the Coronavirus Business Interruption Loan Scheme.
- The provision of UK government assistance to support the UK economy, as well as the uncertainty of the medium and longer-term impact of Covid-19 on both the UK economy and the group were taken into consideration.
- The board considered market developments including the decisions by the UK's systemic banks to suspend dividends, along with the actions of other FTSE 350 companies across different sectors. The board had particular regard to the regulatory environment and comments from the regulator during the period.
- The expectations of shareholders and the impact of any decision were a key consideration for the board, with a view to balancing investor priorities given the group's strong track record of uninterrupted dividend payments, with maximising resources given the unprecedented uncertainty.
- Employee sentiment and areas of interest to employees were frequently communicated to the board given the paramount importance of employee wellbeing and morale and their perception of the company's handling of the Covid-19 pandemic.
- Updates on supplier performance were also taken into consideration given their vital role in enabling the company to execute its business model.

Following discussion with the directors, the company also took the decision to support the community by making a £1 million donation to NHS Charities Together and match fund donations from employees to this charity, in addition to personal donations made by directors.

Following the group's resilient performance in the second half, the board has subsequently recommended a dividend of 40.0p per share in respect of the financial year. Further detail can be found on page 35.

Communities and environment
- Quarterly updates on environmental, social and governance ("ESG") matters and broader sustainability developments provided to the Nomination and Governance Committee.
- Regular discussion by the Nomination and Governance Committee on the group's sustainability targets and progress in achieving them.
- Engagement with proxy advisers and other groups on ESG matters, on which the Nomination and Governance Committee is updated.
- Executive director participation in sustainability working groups and other internal forums.
- Consideration of environmental issues as part of board discussions on the group's London Property Programme.
- Discussion of climate change-related developments during the year.
- Updates to the board on community engagement programmes, including the group's partnership with social mobility charity, UpReach.
- Board participation in local charitable and volunteering activities.

Investors
- Engagement with shareholders through reports, announcements and other information available on the group website.
- Attendance at the AGM in November 2019 by all directors, with presentations from the chairman and chief executive, investor Q&A and voting on resolutions.
- Engagement with investors and sell-side analysts following results announcements.
- Comprehensive programme of investor engagement throughout the year including meetings between the chairman and major shareholders and meetings with the management team and a broad range of current and potential investors.
- Governance roadshow held by the chairman with major shareholders, focusing on ESG matters.
- Provision of ESG-related investor feedback to the board as part of regular investor relations reporting.
- Consultation on the triennial review of the Directors' Remuneration Policy.
- Engagement with investors, institutional shareholder groups and proxy agencies prior to the AGM.
- Provision of a monthly investor relations report to the board.
- Additional deep-dives for the board on investor feedback received during engagement meetings.

Principal Board Decision:
Triennial Directors' Remuneration Policy Review and Consultation

The Remuneration Committee ("the Committee") is responsible for setting and implementing the remuneration policy for the executive directors of Close Brothers, on behalf of the board. The current Directors' Remuneration Policy was approved by shareholders at the 2017 AGM, with over 97% of shareholders voting in favour. No changes have been made to the structure since its approval and strong shareholder support has been received for the implementation of the policy over the last three years.

During this financial year, the Committee (on behalf of the board) undertook a detailed review of the policy to assess if any changes were required to ensure it is aligned with the strategic priorities of the group and in keeping with developments from a market, regulatory and corporate governance perspective.

How the board considered, and had regard to, the interests of key stakeholders and the requirements of section 172(1)
During the year, the Committee's extensive review of the Directors' Remuneration Policy had regard to the interests of different stakeholders and relevant considerations under section 172(1), including the likely consequences of decisions relating to remuneration in the longer term, the need to act fairly between members of the company and the role that executive remuneration plays in promoting the success of the company for the benefit of its members as a whole.

In line with the company's practice during previous policy renewals, the Committee undertook a broad consultation process.
- The chair of the Committee wrote to the company's top 15 shareholders representing c.53% of the shareholder register, as well as the key institutional shareholder bodies, to communicate the proposed changes to the remuneration policy and invite comments or feedback on the proposals.
- The chair of the Committee also met or engaged in detailed discussions with representatives from five shareholders to hear their feedback on the proposed changes and discuss comments and suggestions provided.

Points of feedback from the consultation were shared with the Committee and were considered as part of the Committee's ongoing review and decision-making process.

Following this extensive consultation, the Committee has proposed a revised Directors' Remuneration Policy, which can be found in the Directors' Remuneration Report on pages 87-114.

The proposed policy remains largely unchanged, although amendments are included in the following areas:
- A reduction in executive pension contributions to align these with the general workforce.
- A change to the post-employment shareholding guidelines.
- An update to the financial performance measures for the annual bonus and LTIP scheme to ensure their alignment with the business performance and prevailing market conditions.

The strategic scorecard and risk management objectives, which are used to assess the performance and resulting remuneration of executive directors, are closely aligned with the strategic objectives of the business. They also incorporate measures around employee engagement, customer focus, sustainability and risk conduct and compliance to ensure that the views of our different stakeholder groups are taken into consideration when decisions are made. A full breakdown of the strategic scorecard and risk management objectives can be found on pages 105-106 and 108.

The revised Directors' Remuneration Policy will be submitted to shareholders for approval at the company's AGM later in 2020.

Sustainability Report

Sustainability is fundamental to our purpose

Acting sustainably is an integral part of our strategy, culture and purpose - to help the people and businesses of Britain thrive over the long term.

It is present in everything we do, from our decision making in how we write business, to the ways in which we support and engage our colleagues, and the care and consideration we place on the environment and the communities we operate in.

We recognise that we have a responsibility towards the needs of all our stakeholders and we're committed to making a positive impact, both now and into the future. This long-term ambition is embedded within our thinking, and guides our approach and the choices we make, as we appreciate that our actions today have lasting impacts and consequences for tomorrow.

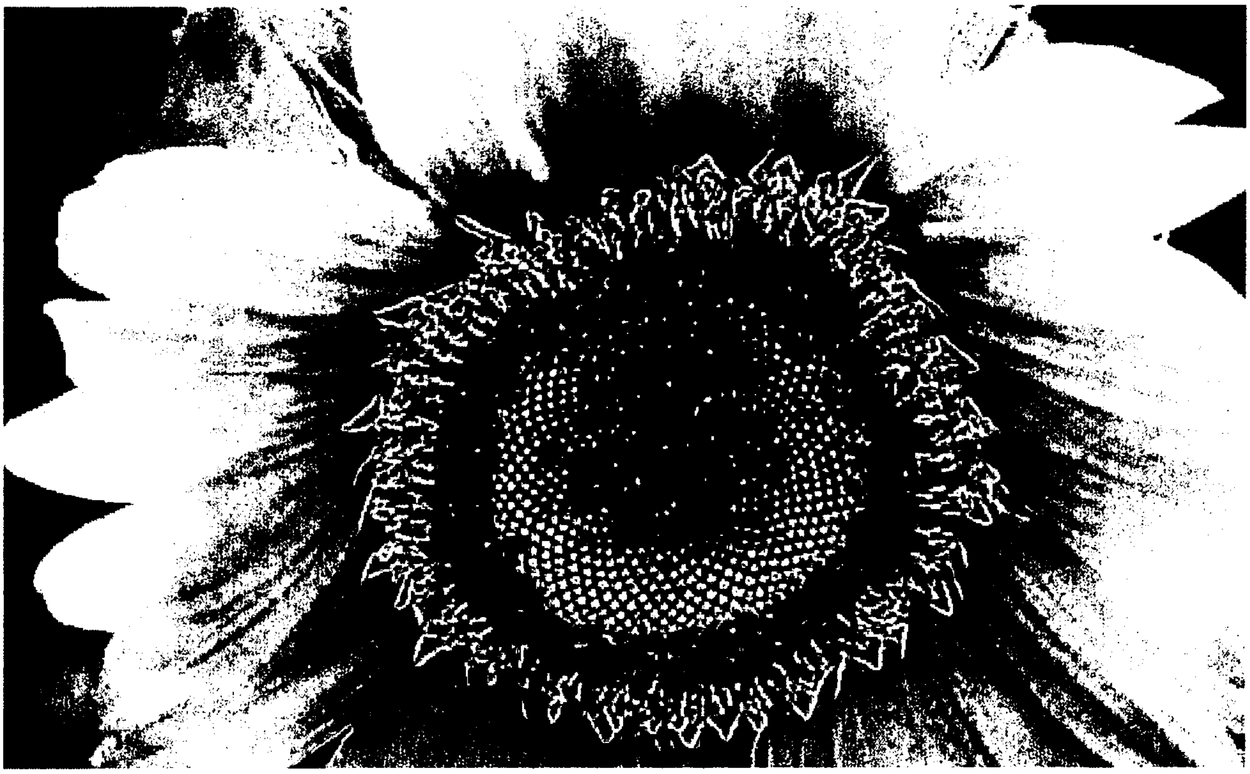
It is reflected in our culture, with strong values that encourage and support diversity and inclusion at all levels.

It is echoed by the expertise and support we offer to the people and businesses of Britain through tailored solutions and specialist advice, helping them to achieve their short-term goals and long-term aspirations. And it permeates our efforts to reduce our environmental impact and respond to the threat of climate change.

We take a long-term approach to managing our business, and the active steps we take now to protect and nurture what really matters are the building blocks of a sustainable future for all of us.

Our Targets
To focus our efforts we set a series of targets to drive progress across a range of sustainable themes and align these to the United Nations Sustainable Development Goals ("SDGs").

Focus Area	Key Performance Indicators	Existing Targets to Measure our Progress	Progress Against Targets	Link to UN SDGs
Ensuring we are a diverse and inclusive employer	33% female senior managers as at 31 July 2020	30% female senior managers by 2020	✓	
Serving the needs of our customers	Motor Finance NPS +77 Savings NPS +72 Premium Finance NPS +56	Maintain or improve strong customer satisfaction scores across our businesses	✓	
Contributing to wider society	Payroll giving 4% above Gold Award status threshold as at 31 July 2020	Maintain our Payroll Giving Quality Mark Gold Award status	✓	
Reducing our environmental impact	100% of waste providers that we contract now send zero waste to landfill	Achieve zero waste to landfill by 2021	✓	
	46% reduction in fleet vehicle emissions by 31 July 2020 vs 31 July 2019 benchmark	Achieve a 20% improvement in fleet vehicle emissions by 2021	✓	



Our Sustainable Approach
Sustainability matters appear regularly on the senior management agenda, and we have a dedicated working group for sustainability with representatives from across our businesses and functions that reports directly to the group finance director. The working group provides regular updates to the board of directors and group executive committee on key developments and initiatives across a range of sustainable themes.

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. In addition, we have a series of employee teams dedicated to championing and implementing initiatives for inclusion and diversity, charities, communities and the environment.

Our targets are also now linked to executive pay through risk management objectives within our executives' long-term incentive plan.

We also participate in and engage with a number of external sustainability rating agencies and indices, including the CDP, Manifest, DJSI, Fitch and MSCI.

Our Asset Management division operates several dedicated Socially Responsible Investment ("SRI") funds and continues to expand its sustainable product offerings. Environmental, social and governance ("ESG") considerations form part of its formal stewardship code and engagement 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.

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

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

This framework helps us to better understand our impact and contribution towards global goals for a more sustainable future, and we continue to enhance our alignment with the SDGs and keep them in mind as we further develop our strategic priorities for sustainability.

Valuing our Colleagues
The contribution of our people, their expertise and the longstanding relationships they foster, continue to deliver the highest levels of service for our customers and clients. We place a great amount of value on building a diverse and inclusive talent pool and are committed to ensuring that all our employees can feel proud to work for us, regardless of their gender, age, race, ethnicity, disability, sexual orientation or background.

We continue to partner with leading diversity organisations, including Stonewall, Europe's largest LGBTQ+ charity, to help inform our thinking and activities. We run training sessions on inclusive leadership for managers and senior managers, including our group executives, highlighting how behaviours and actions shape our culture and drive an inclusive environment for all.

This year, we have undertaken a review of candidate journeys for prospective employees and our supporting recruitment process in order to attract and increase our recruitment of diverse candidates. We have implemented inclusive recruitment training for all our line managers to support an inclusive candidate experience and ensure our job advertisements and application forms do not include bias language.

Sustainability Report continued

Our employees participate in a number of group-wide working groups established to drive forward a range of diversity and inclusion initiatives, each chaired by an executive sponsor. This year we launched our ethnic diversity working group, chaired by our group chief risk officer, and our LGBTQ+ network "Unity", chaired by our group chief operating officer.

Employee engagement

We are committed to engaging with our staff to ensure they remain enthusiastic about their work and their organisation, and we regularly listen to their feedback to ensure they feel valued with their views recognised and acted upon. We engage with our staff through a regular externally run group-wide Employee Opinion Survey, which we last conducted in December 2019.

Our latest survey results showed the group-wide engagement scores remained high, with an overall score of 86% consistent with the previous survey and above external benchmarks at 82%. We had a very strong overall response rate of 88% which lends credibility to these results.

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

Gender Diversity

	31 July 2020	
	Male	Female
Number of board directors[1]	6	3
Number of directors of subsidiaries[2]	59	11
Number of senior managers, other than board directors[3]	161	95
Number of employees, other than board directors and senior employees	1,780	1,556

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 36 male and five female employees who are reported under directors or subsidiary directors.

We gave particular focus to the wellbeing of our colleagues during the pandemic, and our recent pulse survey reported over 95% of participants felt supported by Close Brothers during the crisis, over 80% felt connected to their teams and over 85% engaged with our social and wellbeing initiatives.

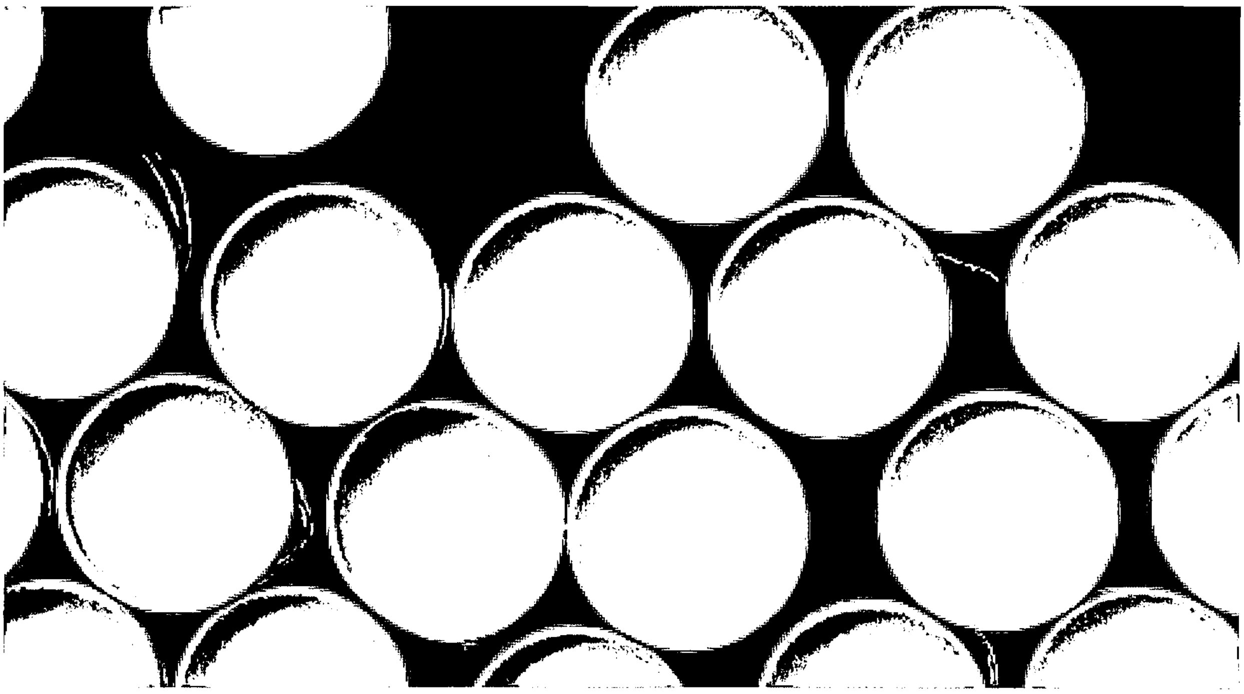
In our most recent Employee Opinion Survey, we measured our inclusivity through culture and wellbeing based questions. The survey reported that 94% of our employees feel people of all cultures and backgrounds are respected and valued here at Close Brothers.

Racial equality

This 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. Under our commitment to the Charter, we have appointed our chief risk officer as the executive sponsor for race to provide visible leadership across the organisation and we ensure all leaders and managers are aware of their responsibility for promoting equality in the workplace.

As part of this commitment, we have set ourselves a target of increasing our ethnicity data disclosure levels to cover 60% of our employees by July 2021, allowing us to more accurately measure our ethnic balance and inform our actions.

Capturing the ethnicity data of all our colleagues remains a priority, as this will allow us to establish a baseline, track progress and take targeted action to support racial equality. We are committed to supporting the career progression of our ethnically diverse employees and with support from our group-wide ethnicity working group, we are launching a reverse mentoring programme designed to build coaching skills and to provide our senior leadership with valuable insight from the experiences of our minority ethnic colleagues.



A separate working group also focuses on the setting of ethnically diverse targets for internal and external roles and on consideration of diversity in our talent and succession processes. In line with the recommendations of the Parker Review, the board of directors aims to have appointed at least one director of colour by 2024.

Gender diversity

We are focused on maintaining our strong and inclusive culture and as part of this we are committed to reducing our gender pay gap. We are confident that men and women are paid equally for performing equivalent roles across our business, and the gender pay gap is one of a number of measures that we use to review our progress on improving gender balance across all levels and roles of our organisation. The gender pay gap is defined as the difference between the average earnings male and female colleagues receive, as a percentage of men's earnings.

We published our 2020 gender pay gap report despite the UK government suspending reporting requirements for this year due to Covid-19. Our mean group-wide gender pay gap was 39.3% at 5 April 2019, and the overwhelming majority of our gender pay gap exists because women hold fewer senior positions within the group. If we adjust for the fact that we have more men in senior positions by instead looking at the differences in average pay between males and females in the same salary band, the gap drops to only 1.4%.

Our focus on closing the gender pay gap is through increasing female representation in the group at all levels by setting representation targets and development programmes.

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

We are also signatories of the Women in Finance Charter, as part of which we have appointed the chief executive of Winterflood as the executive sponsor for gender balance across the group. We set a target of 30% of senior manager roles being held by a female by 31 July 2020, and as of 31 July 2020 we are pleased to have exceeded that target by reaching a level of 33%. We have since determined a new, more ambitious target of 36% for 2025, and we will continue to update on our progress against this. Delivery against our gender balance targets is one of the objectives in our Long-Term Incentive Plan for senior management.

At the end of the financial year we had met 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.

Another part of our commitment to the charter is to support the career progression of women, which we do by offering a range of development and mentoring programmes designed to foster and enable talented females to thrive and accelerate their careers through personal development, career structuring and networking. Our partnerships focused on developing diverse pools of talent and promoting better gender balance continue to include the 30% Club, and we participate in their leading cross-company mentoring scheme. Additionally, we aim for all our entry-level and formal training programmes to achieve a 50:50 gender split. This includes our Asset Finance Sales Academy and our Aspire school leaver and graduate programmes.

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

Developing our people

We continue to offer a comprehensive range of programmes and initiatives that promote the training and development of our employees. 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.

The average number of training hours across the group has remained good, at 9.2 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 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. The programmes are made up of personal development modules, on-the-job structured training and mentoring. We also aim to have a strong gender balance on all our programmes with our most recent cohorts made up of 55% females.

Over 130 individuals have participated in our Emerging Leaders programme to date, which provides individual leadership development, management and coaching. The programme is now into its seventh cohort, broadening our pool of future leaders, with the majority progressing through the organisation on completion.

In 2019 we launched our new Accelerated Commercial Experience programme for graduates with two to three years of experience, helping them develop the skills to transition into management roles within the group. Our 2020 cohort consists of both internal and external candidates.

Supporting our people

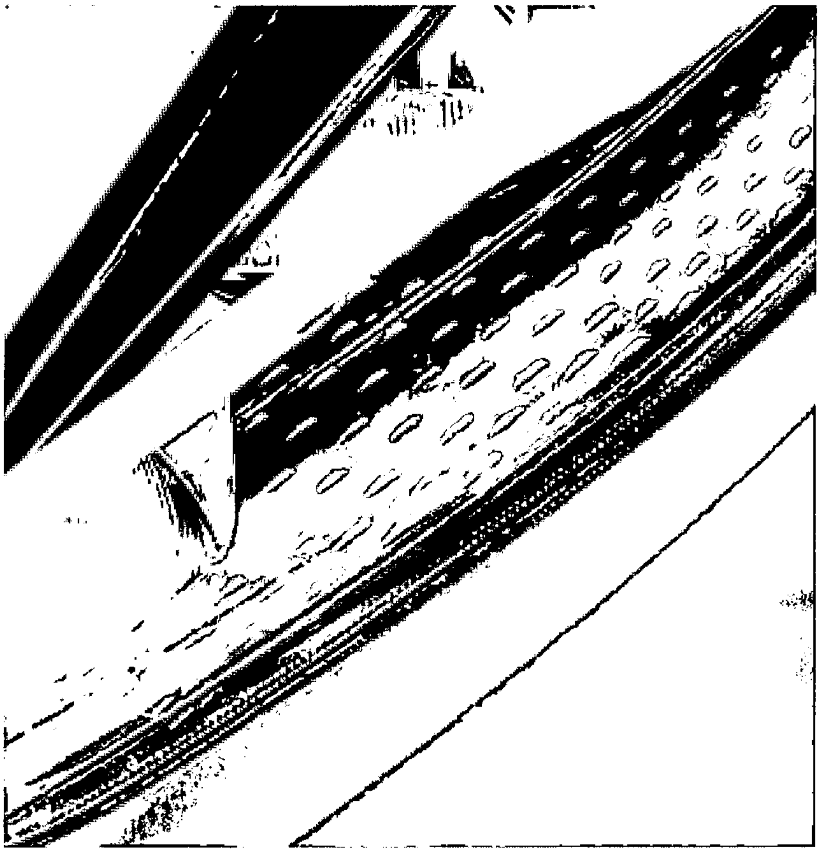
The safety and wellbeing of our colleagues is of paramount importance to us, and we have taken all steps necessary to ensure that they can conduct their roles safely and with minimal disruption during the Covid-19 crisis. Our supportive flexible working arrangements, combined with robust systems and technology, have enabled the vast majority of our staff to work successfully from home, and the measures we have undertaken ensured that none of our employees were furloughed during the year.

We promote flexible working wherever possible across the group and provide a variety of benefits for our colleagues to utilise, including enhanced parental leave and emergency backup care for families. Our group-wide Working Parents and Carers Working Group, sponsored by our General Counsel, collaborate on initiatives to ensure that our colleagues who balance family and caring responsibilities with working life feel supported and are aware of the resources and tools available to them.

Our Mental Wellbeing Working Group is sponsored by the chief executive of Close Brothers Asset Management. We have over 50 trained Mental Health First Aiders across our business as well as an employee assistance programme which provides employees with confidential support from a trained professional.

We track and monitor our culture and employee wellbeing through our pulse survey and this year we reported over 90% of our employees who participated felt that they could be themselves at work and that their colleagues act with integrity.

Sustainability Report continued



Employee engagement

86%

2019: 88%

Retail savings NPS

+72

2019: +73

Property repeat business

76%

2019: 78%

Total emissions reduction

(20)%

2019: (12)%

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. 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 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. Both offerings remain popular with our staff, and participation rates in our long-term ownership schemes remain strong at 49% 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

Our purpose of helping the people and businesses of Britain thrive over the long term has seen us build long-lasting relationships with our customers, clients and partners that stand the test of time. It ensures that we have supported our customers through a wide range of circumstances, and during this year of unprecedented times, we have again been there to provide support, understanding, flexibility and importantly, to help drive forward their recovery.

Our purpose underlines the commitment we have towards our customers, partners and clients, which is underpinned by a set of group-wide "Customer Principles" that guide how we deliver and measure customer and partner experiences. This year, we have refreshed our customer principles to more clearly articulate the experience we strive to deliver:

- We do the right thing for customers, clients and partners
- We are flexible, responsive and execute with speed
- We make decisions informed by our specialist expertise
- We build relationships based on quality and trust

To ensure the effective delivery of our customer principles, we have designed a new measurement framework this year that builds on the good progress we have made to date through our "Voice of the Customer and Partner" programme. This ensures we remain constantly aware of the needs of our customers and partners in an ever-evolving landscape.

Customer satisfaction

The focus we place upon delivering for our customers and partners is reflected in the consistently strong customer experience scores we achieve on a regular basis across our businesses.

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. This year we were pleased to achieve a strong +56 NPS from our Premium Finance customers, while our Motor Finance customers rated us very highly with a +77 NPS. Our retail savings also achieved a strong +72 NPS from our customers, while repeat business remained high at 76% in Property and 59% in Asset Finance.

We pride ourselves on maintaining longstanding, personal relationships with our customers, clients and partners, and the value they place on the expertise and service levels that we provide. By recognising that customers also want the choice of how to engage with us and their need for a simple, consistent and accessible experience, we strive to integrate digital services alongside our human touch, presenting a unique and adaptable customer offering.

Resilient customer service
We have maintained a focus on continually transforming our businesses to serve the needs of our customers and partners over many years, and ensuring the resilience and operational efficiency of our services has been essential to our approach.

We have a dedicated Customer Insight, Experience and Design team that helps our businesses improve experiences, whilst also optimising efficiency to ensure we remain fast and responsive. The team combines capabilities from digital, data science, automation, design, analytics and operational excellence. Examples include:
- A commitment to innovation, new technologies and new ways of working, demonstrated through a "Design-thinking" programme with our Property Finance business to better service the "Next Generation Property Developer", and our continuing investment in technology to nurture new and sustain our long-term relationships
- A desire to augment the personal, human touch that Close Brothers is respected for with easy-to-use digital channels, such as the online banking service launched for our Savings customers as well as the transformation of seven websites across the group to provide an easier way for customers to engage with us
- A drive to put data insights at the heart of customer decision-making across the group, such as leveraging our investment in SalesForce to put customer insights into the hands of our sales teams in Asset Finance
- Streamlining and automating processes to deliver on our principle of being fast and responsive. This proved critical during Covid-19, ensuring customers got support when they needed it through the most appropriate channel for them.
- Providing value-added services for our partners, by allowing them to leverage the expertise of our people in the areas of data science and digital
- The transformation of our customer complaints system, undertaken during the last financial year, has allowed us to better meet the concerns of our customers and make improvements to our processes and customer journeys based on their feedback, resulting in a 32% reduction in complaints and an 18% reduction in referrals to the Financial Ombudsman Service.

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

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

Senior management regularly engage with our customers and partners to obtain direct feedback, which we also gather by inviting our customers to present at our customer forums. We have begun to establish customer and client councils in several of our businesses to collect feedback and deepen our understanding of what they like about conducting business with us and what we could do better.

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

Engaging our Suppliers
We engage with our largest 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 December 2019 and remains anonymous to ensure we gather honest and candid feedback.

The 2019 survey focused upon how Close Brothers performs as a client, and how our suppliers feel about doing business with us. Results saw a positive increase throughout, demonstrating that our suppliers are noticing 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.

Feedback indicates that our suppliers benefit from our frequent contact and reviews of service, with 80% of respondents rating our approach to supplier management as good or excellent. 83% 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 suppliers to help them understand our direction and give greater clarity on our structure.

In the last financial year, we also 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").

A Lasting, Positive Impact on Society
Creating long-term value and a lasting, positive impact in the communities where we operate remains a key priority for the group. As a business whose purpose is to help the people and businesses of Britain thrive over the long term, a close relationship and engagement with local communities is integral to how we operate and conduct business. We place a great deal of value on how we can make a positive contribution to society, and maintain a growing range of programmes and initiatives to support the causes that benefit those around us.

Sustainability Report continued

Supporting SMEs

We believe that the SME sector is the lifeblood of the UK economy, and take great pride in understanding the needs of SMEs and on helping them to achieve their ambitions. By helping SMEs thrive in local communities across the UK we support the creation of jobs and opportunities to regions that may be overlooked by larger finance providers.

We rely upon our specialist expertise and deep industry knowledge to better understand the small businesses we work with and support their commercial plans. By recognising the unique and individual needs of our customers and their communities our local teams can make fast, reliable lending decisions for when they need them the most.

The Close Brothers SME Apprentice Programme is representative of our longstanding commitment to supporting SMEs and their local communities, 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 local SMEs to secure the skills they need for the future.

Supporting social mobility

We are proud to be an organisation that supports social mobility and creates equal opportunities for all, regardless of background.

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

Consistent with these commitments, we continue to work with the charity UpReach on our internship programme for undergraduates from less-advantaged backgrounds. A number of interns from our 2019 intake have gone on to secure full time roles with the group, and we are exploring remote opportunities such as virtual work experience and mentoring programmes during the current year.

Our established programmes for school leavers and graduates contribute to the development of up-and-coming talent, providing on-the-job learning and supporting professional studies. Our Aspire programme, for those not going to university, gives participants the opportunity to rotate between and gain experience of different business lines, while we support them through professional qualifications. It also provides an alternative talent pipeline for our businesses to take on entry level positions.

Our employees in the community

We actively encourage our staff to fundraise and volunteer for the causes that matter to them, and recognise that employee volunteers are the driving force behind the successful planning and running of our community and charitable events.

Our Matched Giving Scheme donates £8 per hour of voluntary time given by our employees, and we actively encourage our people to make use of our Employee Volunteering Policy, which allows all employees to take one paid volunteering day each year.

Close Brothers Asset Management continues to run our Trustee Leadership programme in partnership with social enterprise Cause 4, and the Clothworkers Company. This programme provides an opportunity for professionals to take on a board level role within a charity while also providing the charities themselves with a fresh and diverse pool of potential board members. Since inception over 1,500 individuals have participated, and over 190 professionals have been appointed to trustee board positions.

Charitable activities

Within our regular employee opinion surveys we ask our employees to choose their preferred community and health charity partners. Currently, these are Make-A-Wish Foundation, who grant wishes for children with life-threatening illnesses, and Cancer Research UK, the latter now for eight 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.

The Close Brothers Matched Giving Scheme matches 50% of funds that our employees raise for charities. We also encourage our employees to collaborate on raising money for causes meaningful to them by matching funds raised by local, organised fundraising events and activities.

In addition, our Payroll Giving scheme also matches charitable contributions while allowing employee donations to be made directly from pre-tax salary. Approximately 14% of employees across the group are signed up to Payroll Giving as at 31 July 2020, achieving us a tenth consecutive year of the Payroll Giving Quality Mark Gold Award, and ensuring that we have achieved our target of maintaining this standard.

This year, the group also decided to make a £1 million donation to NHS Charities Together, in recognition of the vital role that NHS frontline and support staff have in combating Covid-19, and to match fund donations from employees to this charity. Additionally, the executive directors, together with a number of non-executive members of the board and members of the group executive committee, made the personal decision to donate an element of their salary or fee to NHS Charities Together.

Our Responsibility Towards the Environment

We take our responsibility towards the environment very seriously and recognise the important part Close Brothers has to play in supporting the transition to a carbon neutral economy. 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.

As a financial services organisation that appreciates the challenge of climate change, we recognise the importance of considering the risks that it poses to our operations and the way in which climate change impacts our business model. Careful consideration of environmental factors and potential risks now 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.

GHG Emissions and Energy Use Summary

Scope	GHG emissions source	2020	2019[1]
Scope 1 (tCO_2e)	Fuel (Buildings)	711	337
	Fuel (Owned vehicles)	1,069	1,970
Scope 2 (tCO_2e)	Electricity	1,633	2,107
Scope 3 (tCO_2e)	Employee vehicles	140	45
	Electricity transmission and distribution	141	179
Total location based GHG emissions (tCO_2e)		**3,694**	**4,638**
Average number of employees		3,521	3,416
Total per employee (tCO_2e)		**1.05**	**1.36**
Total market based GHG emissions (tCO_2e)		**3,125**	**4,638**
Total energy use (kWh)[2]		**17,223,864**	**n/a**

FY20 geographic breakdown	UK	Overseas
Total GHG emissions (tCO_2e)	3,627	67
Total energy use (kWh)	16,961,329	262,535

1 Figures for the 2019 financial year have been restated to include Scope 3 employee vehicles and electricity transmission and distribution emissions in accordance with SECR reporting requirements
2 Total energy use reported for the 2020 financial year as required under SECR disclosures, but comparative data not collected for the 2019 financial year

As part of this increasing area of focus we are taking steps to consider our approach for aligning with the Taskforce for Climate Related Financial Disclosures ("TCFD"), and you can read more about the development of our framework to achieve this on page 58.

For a number of years, we have been a leading provider of finance for the green energy and renewables sector, supporting schemes for wind, solar and hydro power developments, which remains a key contributor to our Asset Finance business.

Consideration of environmental risks and ethical standards is explicitly required as part of any credit underwriting proposal under our bank Credit Policy. We only lend against asset types defined in our credit policies, and do not finance arms or onshore oil development or lend internationally outside narrowly defined areas. Our exposure to high carbon intensive industries such as oil and gas production is negligible, with minimal lending activity to these sectors, which often fall outside of our risk and return lending criteria.

GHG emissions and energy usage

We continue to work with independent third party analytics and reporting consultants to support the gathering of our environmental data and compiling of greenhouse gas ("GHG") emissions. This enables us to verify the accuracy of our data and helps us monitor our performance and develop strategic insights with plans of action. This year we have upgraded our energy and carbon reporting to meet the requirements of the Streamlined Energy and Carbon Reporting ("SECR") standards and increase the transparency with which we communicate about our environmental impact to our stakeholders.

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, while our reported Scope 3 emissions are those related to employee vehicles and electricity transmission and distribution.

In 2020, our total location based GHG emissions were 3,694 tonnes of carbon dioxide equivalent ("tCO_2e"), equating to 1.05 tCO_2e per employee, down 20% overall and 23% per employee since 2019.

Since January 2020 a number of key sites are now powered by 100% renewable electricity sources, which has resulted in a marked reduction in our GHG emissions under a market based approach of 33% to 3,125 tCO_2e. Emissions in the year also benefited from significantly lower usage following the UK lockdown measures in response to Covid-19, resulting in the temporary closure of offices and reduced staff travel.

Our Scope 1 fuel emissions from company vehicles continue to fall, benefiting from a combination of lower overall mileage in the year and a reduction in the average CO_2

Sustainability Report continued

emissions from our vehicles to 76.6 gCO_2/km (2019: 89.5 gCO_2/km). This reflects a continuation of our significant and sustained improvement over several years from an increase in the number of more fuel efficient and alternative fuel vehicles such as plug in hybrids, which have been added to our vehicle fleet.

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

Due to its relative size, the Banking division continues to account for the majority of our GHG emissions. A full breakdown of our 2020 GHG emissions and energy use, together with corresponding data for 2019, is shown in the table above.

Our actions and progress to improve

We continue to pursue a range of initiatives and programmes of improvement to lower our emissions, reduce our energy use and enhance the energy efficiency of our offices. This year our achievements included:

- Moving key sites including our head office to electricity supplies from 100% renewable sources
- Additional energy efficient, plug in hybrid and electric vehicles in our company car fleet, helped lower our average vehicle CO_2 emissions by 15% year-on-year
- Installation of more energy efficient water-cooling systems in our head office, reducing our electricity consumption by 10%

We have also undertaken a series of adjustments to our offices' fit out such as energy efficient lighting, installation of smart meters and reduced water usage. The consolidation of our London property footprint and head office refurbishment has enabled us to significantly improve our energy use, while adjustments following the impact of Covid-19 have allowed us to explore the environmental benefits of more flexible working, reduced commuting and optimising our office space. Most of the impact we have on our environment is a result of staff travel, our supply chain and our office network, and we encourage our employees to reduce their own environmental impact on an individual basis by leasing low emission cars and participating in the cycle to work scheme.

Our successes in reducing fleet vehicle emissions continue to reach new milestones, with over 50% of our vehicles now being plug in hybrids or electric. We continue to drive towards the use of more efficient and electric vehicles by offering an increasing range of these options across the fleet, and incentivise our staff to return older and more polluting vehicles free of charge in exchange for an electric alternative. From August 2020 we will have removed all pure petrol and diesel vehicle options from our company car fleet, with our range of hybrids and fully electric vehicles being the only choice available to employees.

Waste recycling is encouraged in all our offices, and we are pleased that 100% of the waste contractors we use across our offices now send zero waste to landfill, achieving a target we set ourselves by 2021 ahead of schedule. We also remain well ahead of our fleet vehicle emissions target, having lowered our associated emissions by 46% since the start of the 2020 financial year, benefiting from both our increased range of hybrid and electric vehicles, as well as the reduction in staff travel due to the UK lockdown.

We continue to extend our ambitions and focus our efforts through increasingly stretching targets, and this year have committed to reducing our group-wide emissions by 10% by 31 July 2021, benchmarked against the 2019 financial year. We also recognise the positive impact we can make through our ongoing efforts to move towards using more energy efficient vehicles, and have therefore set ourselves a more ambitious target of reducing our average fleet vehicle CO_2 emissions by a further 10% on this year's levels by 31 July 2021.

This year, we have extended the assessment of our environmental impact by engaging with our supply chain, and continue to work with third party suppliers who share our goal of efficiently using resources and combatting the adverse effects of climate change. We are committed to collecting emissions data from our suppliers and are exploring the means to 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, demonstrate 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, we will focus on energy efficiency, the purchase of renewable energy and the reduction of emissions from our fleet vehicles;
- over the longer term aim to reduce our indirect environmental impact by working with our value chain and promoting efficient and responsible behaviour from both our customers and suppliers; and
- 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.

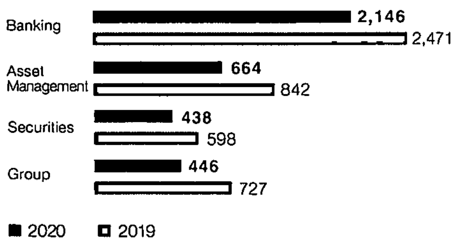
As in prior years, we continue to participate in the CDP (formerly the "Carbon Disclosure Project"), which allows us to disclose our greenhouse gas emissions and our approach to managing climate related impact on a voluntary basis.

Calculation

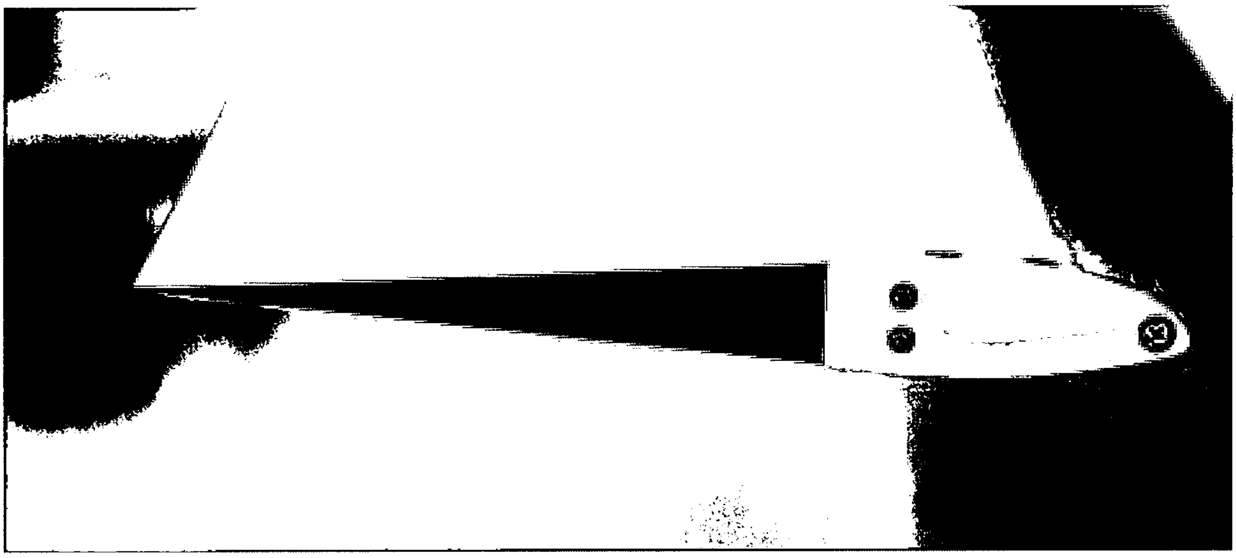
Our total GHG emissions are reported as tCO_2e, with our energy use reported in kWh, and are calculated in line with the GHG Protocol framework and SECR requirements. In addition to reporting our total Scope 1 and 2 emissions, we also disclose a number of Scope 3 emissions and emissions per employee 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.

We continue to monitor and report our GHG emissions and energy usage on an ongoing basis and increasingly gather Scope 3 emissions data for our offices, including water and waste where this information is available, to facilitate and encourage continued performance monitoring and improvements.

GHG Emissions by Division (tCO_2e)[1]



1 Divisional figures for the 2019 financial year have been re-stated to include Scope 3 employee vehicles and electricity transmission and distribution under SECR disclosures.



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

The Health and Safety Committee continues to meet on a quarterly basis and we are proud of the ongoing progress in successfully raising the profile of health and safety across the business. This year we recorded 79 incidents across all of our sites, of which only two were reportable. We continue to use an online risk assessment tool to manage site-specific risks as appropriate and our Display Screen Equipment risk assessment programme.

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 life-cycle.

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.

Financial Overview

Close Brothers delivered a resilient performance in an unprecedented, challenging environment while continuing to support customers, clients and colleagues.

Group Income Statement

	2020 £ million	2019 £ million	Change %
Continuing operations			
Adjusted operating income	**866.1**	816.4	6
Adjusted operating expenses	**(538.4)**	(497.4)	8
Impairment losses on financial assets	**(183.7)**	(48.5)	279
Adjusted operating profit	**144.0**	270.5	(47)
Banking	**99.2**	253.7	(61)
Commercial	**4.8**	86.5	(94)
Retail	**34.9**	72.5	(52)
Property	**59.5**	94.7	(37)
Asset Management	**20.4**	21.8	(6)
Winterflood	**47.9**	20.0	140
Group	**(23.5)**	(25.0)	(6)
Amortisation of intangible assets on acquisition	**(3.1)**	(5.8)	(47)
Operating profit before tax	**140.9**	264.7	(47)
Tax	**(31.4)**	(64.4)	(51)
Profit after tax: continuing operations	**109.5**	200.3	(45)
Profit from discontinued operations, net of tax	**–**	1.1	(100)
Loss attributable to non-controlling interests	**–**	(0.2)	(100)
Profit attributable to shareholders: continuing and discontinued operations	**109.5**	201.6	(46)
Adjusted basic earnings per share (continuing operations)	**74.5p**	136.7p	(46)
Basic earnings per share (continuing operations)	**72.8p**	133.5p	(45)
Basic earnings per share (continuing and discontinued operations)	**72.8p**	134.2p	(46)
Dividend per share	**40.0p**	66.0p	(39)
Return on opening equity	**8.0%**	15.7%	
Return on average tangible equity	**9.4%**	17.9%	

Return on opening equity

8.0%

2019: 15.7%

Adjusted operating profit

£144.0m

2019: £270.5m

Adjusted basic EPS

74.5p

2019: 136.7p

The group's performance in 2020 was significantly impacted by the Covid-19 outbreak and the impact of lockdown restrictions on the UK economy. Nevertheless, the group delivered a resilient performance, reflecting the disciplined application of our model while continuing to support customers, clients and colleagues.

Operating Profit and Returns

Adjusted operating profit decreased 47% to £144.0 million (2019: £270.5 million), reflecting higher impairment charges in the Banking division, partly offset by a very strong trading performance in Winterflood, which benefited from significantly higher volumes since the Covid-19 outbreak. Statutory operating profit before tax from continuing operations decreased 47% to £140.9 million (2019: £264.7 million) and the operating margin reduced to 17% (2019: 33%). The group delivered a solid return on opening equity of 8.0% (2019: 15.7%) despite the reduction in adjusted operating profit and continued growth in the equity base. Return on average tangible equity was 9.4% (2019: 17.9%).

Adjusted operating profit in the Banking division decreased 61% to £99.2 million (2019: £253.7 million) primarily due to the forward-looking recognition of impairment charges under IFRS 9 to incorporate the impact of Covid-19. The Asset Management division continued to achieve strong net inflows, although adjusted operating profit of £20.4 million (2019: £21.8 million) was down 6% due to continued investment to support the long-term growth potential of the business, which more than offset the income growth on the prior year. Winterflood delivered a very strong performance, with operating profit of £47.9 million (2019: £20.0 million), up 140%. Group net expenses, which include the central functions such as finance, legal and compliance, risk and human resources, were down 6% at £23.5 million (2019: £25.0 million) primarily due to lower variable staff costs.

Operating Income

Adjusted operating income increased 6% to £866.1 million (2019: £816.4 million), as strong trading income growth in Winterflood and higher income in the Asset Management division were partially offset by reduced income in the Banking division. Income in the Banking division decreased by 3%, reflecting lower customer activity levels and forbearance measures, with a reduced net interest margin of 7.5% (2019: 7.9%). Income in the Asset Management division was up 6%, reflecting higher client assets. Income in Winterflood increased by 63% as a result of significantly higher volumes since the Covid-19 outbreak and very strong trading profitability.

Operating Expenses

Adjusted operating expenses increased 8% to £538.4 million (2019: £497.4 million) with most of the increase in Winterflood (up 41%), reflecting higher variable costs. Costs also increased in the Asset Management division (up 9%), driven by continued hiring of high net worth portfolio managers and investment in technology. In the Banking division, costs increased marginally (up 1%) driven by continued investment in key strategic programmes, partially offset by lower variable compensation. Overall, the group's expense/income ratio was marginally higher at 62% (2019: 61%) and the group's compensation ratio increased slightly to 37% (2019: 36%).

Impairment charges and IFRS 9 provisioning

We recognised £183.7 million of impairment charges (2019: £48.5 million) with a bad debt ratio of 2.3% (2019: 0.6%), primarily reflecting the impact of Covid-19 on the forward-looking recognition of impairment charges under IFRS 9. Our approach to provisioning reflects the application of our models overlaid with expert judgement to determine the appropriate allocation of loan book balances between stages, to macroeconomic scenario weightings, and to provision coverage at the individual portfolio level.

Specifically, the increase in impairment provisions reflected the migration of loans between stages, including to reflect the increase in forborne loan balances; the incorporation of more severe macroeconomic scenarios, with increased weighting to the downside; as well as a review of provision coverage for individual loans and portfolios.

This resulted in an increase in the coverage ratio to 3.0% at 31 July 2020 (31 July 2019: 1.3%). We believe this represents an appropriate level of provision at the balance sheet date and remain confident in the quality of our loan book, which is predominantly secured, prudently underwritten and diverse, and supported by the deep expertise of our people.

Tax Expense

The tax expense in the year was £31.4 million (2019: £64.4 million), which corresponds to an effective tax rate of 22% (2019: 24%). The decrease primarily reflects an increase in deferred tax assets following the reversal of the previously announced reduction in corporation tax rate.

Earnings per Share

Adjusted basic earnings per share ("EPS") from continuing operations decreased 46% to 74.5p (2019: 136.7p) and basic EPS from continuing operations decreased 45% to 72.8p (2019: 133.5p).

Discontinued Operations

There were no discontinued operations in the 2020 financial year. Discontinued operations in the comparative year reflect the unsecured retail point of sale finance business sold on 1 January 2019. The profit from discontinued operations in 2019 was £1.1 million and included a £2.7 million profit on disposal net of tax. Basic EPS from continuing and discontinued operations was 72.8p (2019: 134.2p), down 46% on the prior year.

Dividend

Following a resilient financial and operational performance in the second half, the board is proposing a dividend of 40.0p per share (2019: 66.0p per share) in respect of the full financial year. This reflects the board's confidence in the group's business model and strong financial position, notwithstanding the current uncertain environment. Subject to approval at the Annual General Meeting, the final dividend will be paid on 24 November 2020 to shareholders on the register at 16 October 2020.

Balance Sheet

The group entered this period of economic uncertainty with a strong balance sheet and has focused on maintaining its prudent approach to managing financial resources. The structure of the balance sheet remains unchanged, with most of the assets and liabilities relating to our lending activities. Loans and advances make up the majority of assets.

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

While the loan book was broadly flat in the year, total assets increased 5% to £11.1 billion (31 July 2019: £10.6 billion). This primarily reflects an increase in treasury assets as the group increased its liquidity holdings in response to Covid-19. Total liabilities were up 5% to £9.6 billion (31 July 2019: £9.2 billion) driven by an uplift in customer deposits. Other assets and other liabilities both increased as a result of IFRS 16 accounting adjustments. Shareholders' equity of £1.5 billion (31 July 2019: £1.4 billion) continued to build, with profit in the year partially offset by dividend payments of £65.8 million (2019: £95.5 million). The group's return on assets reduced to 1.0%, reflecting lower profitability in the year (2019: 1.9%).

Group Balance Sheet

	31 July 2020 £ million	31 July 2019 £ million
Loans and advances to customers	**7,616.7**	7,649.6
Treasury assets[1]	**1,733.9**	1,395.4
Market-making assets[2]	**719.1**	666.1
Other assets	**1,001.8**	850.2
Total assets	**11,071.5**	10,561.3
Deposits by customers	**5,917.7**	5,638.4
Borrowings	**2,591.2**	2,601.0
Market-making liabilities[2]	**622.8**	582.4
Other liabilities	**490.2**	333.1
Total liabilities	**9,621.9**	9,154.9
Equity	**1,449.6**	1,406.4
Total liabilities and equity	**11,071.5**	10,561.3

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

Financial Overview continued

Group Capital

	31 July 2020 £ million	31 July 2019 £ million
Common equity tier 1 capital	**1,254.0**	1,169.2
Total capital	**1,441.0**	1,364.6
Risk weighted assets	**8,863.2**	8,967.4
Common equity tier 1 capital ratio	**14.1%**	13.0%
Total capital ratio	**16.3%**	15.2%
Leverage ratio	**11.2%**	11.0%

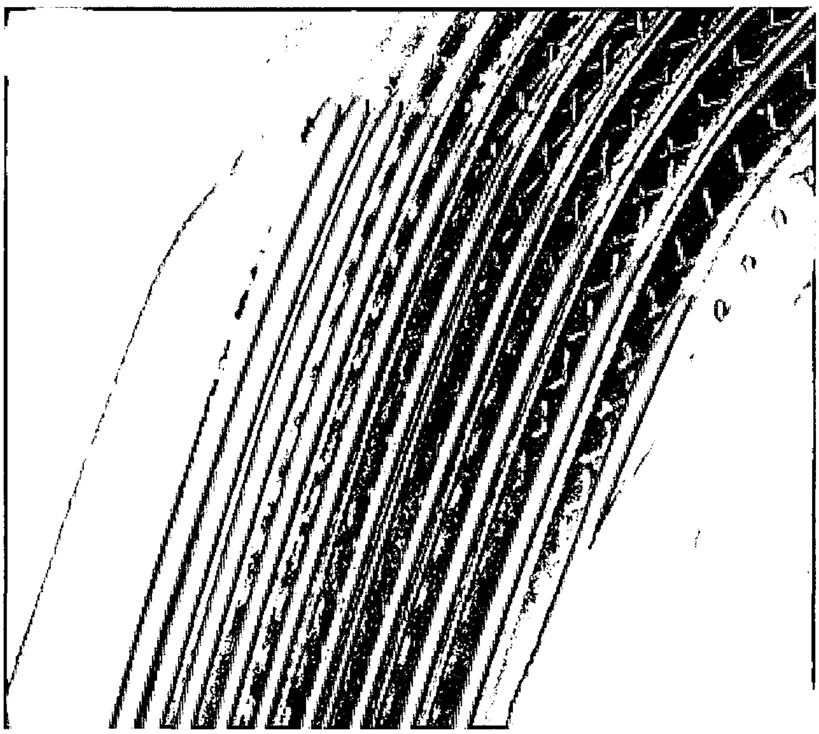
Capital
The prudent management of our capital is a core part of our business model and has been a key focus since the Covid-19 outbreak to ensure the group can continue to support customers, clients and colleagues during these unprecedented times.

Our common equity tier 1 capital ("CET1") ratio increased to 14.1% (31 July 2019: 13.0%), primarily due to retained profit with the impact of higher impairment charges largely offset by the capital add-back under transitional IFRS 9 arrangements. The total capital ratio increased to 16.3% (31 July 2019: 15.2%).

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 application of these arrangements and the Capital Requirements Regulations qualifying own funds arrangements. Without their application, the CET1 and total capital ratios would be 13.1% and 15.1%, respectively.

CET1 capital increased 7% to £1,254.0 million (31 July 2019: £1,169.2 million) reflecting resilient capital generation through £109.5 million of profit in the year and the transitional IFRS 9 capital add-back of £55.7 million, partially offset by the regulatory deduction of dividends paid and foreseen of £59.9 million and an increase in intangibles of £20.8 million.

Risk weighted assets ("RWAs") remained broadly flat at £8.9 billion (31 July 2019: £9.0 billion) driven by lower credit risk RWAs partly offset by an increase in operational risk RWAs. The decrease in loan book RWAs includes the implementation of the revised SME supporting factor which was accelerated as part of regulatory measures announced in light of Covid-19. The group and its individual regulated entities complied with all of the externally imposed capital requirements to which they are subject for the financial years ended 31 July 2020 and 2019. Our capital ratios remain significantly ahead of minimum regulatory requirements, leaving us well placed to continue to help our customers and clients beyond the crisis and in a position of strength to respond to opportunities ahead once restrictions begin to ease.



Our minimum CET1 capital ratio requirement is 8.0%, including the applicable buffers and a 1.0% pillar 2 add-on, with a total capital requirement of 12.3%. Accordingly, we continue to have significant headroom of over 600bps in our CET1 capital ratio, and 400bps in the total capital ratio.

The leverage ratio, which is a transparent measure of capital strength, not affected by risk weightings, increased in the year and remains strong at 11.2% (31 July 2019: 11.0%).

We have continued to make good progress on our preparations for a transition to the Internal Ratings Based ("IRB") approach, despite the operational challenges posed by Covid-19. Our initial IRB model suite is now complete, and we are currently on track to submit our formal application to the Prudential Regulation Authority by the end of the current calendar year.

Funding
The primary purpose of our treasury function is to manage funding and liquidity to support the lending 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 securitisation facilities.

We entered this challenging period in a strong position and further increased our total funding in the second half of the year to £10.2 billion (31 July 2019: £9.9 billion) which accounted for 135% (31 July 2019: 129%) of the loan book at the balance sheet date. Our average cost of funding of 1.7% was broadly stable on the prior year (2019: 1.7%).

Our customer deposit platform, launched in 2019, has allowed us to offer a wider range of deposit products to further diversify our funding and improve customer experience. In the first half we introduced a new online portal, with a number of new savings products to come during the 2021 financial year, including cash Individual Savings Accounts ("ISA") products, which will continue to grow and diversify our retail deposit base and further optimise our cost of funding and maturity profile. Deposits increased 5% overall to £5.9 billion (31 July 2019: £5.6 billion) with non-retail deposits decreasing slightly to £3.3 billion (31 July 2019: £3.5 billion) and retail deposits increasing by 22% to £2.6 billion (31 July 2019: £2.1 billion).

Our range of secured funding facilities include securitisations of our Premium and Motor Finance loan books, and during the year we raised £200 million via a third public Motor Finance securitisation. Following admission to the Bank of England's Term Funding Scheme with additional incentives for SMEs ("TFSME"), we transitioned £228 million of drawings previously under the Term Funding Scheme to TFSME at the end of July 2020.

Unsecured funding, which includes senior unsecured bonds and undrawn facilities, remained broadly unchanged at £1.5 billion (31 July 2019: £1.5 billion).

We have maintained a prudent maturity profile. The average maturity of funding allocated to the loan book remained ahead of the loan book at 18 months (31 July 2019: 20 months), while the average loan book maturity stood at 15 months (31 July 2019: 14 months).

LIBOR, which had been the principal sterling reference rate used by the group, is due to be withdrawn by the end of 2021. The group is actively participating in initiatives to determine the appropriate treatment of all instruments on the withdrawal of LIBOR, including the use of SONIA, the Sterling Overnight Index Average.

Our strong credit ratings have been considered by both Moody's Investors Services ("Moody's") and Fitch Ratings ("Fitch") during the year. Moody's rates Close Brothers Group "A3/P2" and Close Brothers Limited "Aa3/P1" with a "negative" outlook.

Group Funding[1]

	31 July 2020 £ million	31 July 2019 £ million
Customer deposits	**5,917.7**	5,638.4
Secured funding	**1,418.2**	1,404.8
Unsecured funding[2]	**1,460.1**	1,462.2
Equity	**1,449.6**	1,406.4
Total available funding	**10,245.6**	9,911.8
Of which term funding (>1 year)	**4,671.6**	5,493.4
Total funding as % of loan book	**135%**	129%
Average maturity of funding allocated to loan book[3]	**18 months**	20 months

1 Numbers relate to core funding and exclude working capital facilities at the business level.
2 Unsecured funding excludes £7.9 million (2019: £29.0 million) of non-facility overdrafts included in borrowings and includes £295.0 million (2019: £295.0 million) of undrawn facilities.
3 Average maturity of total funding excluding equity and funding held for liquidity purposes.

Group Liquidity

	31 July 2020 £ million	31 July 2019 £ million
Cash and balances at central banks	**1,375.8**	1,106.4
Sovereign and central bank debt	**72.2**	48.3
Certificates of deposit	**285.9**	240.7
Treasury assets	**1,733.9**	1,395.4

Fitch applied a one notch downgrade to our ratings alongside several mid-sized UK banks following their downgrade of UK sovereign debt to AA-, reflecting their view of the negative impact of Covid-19 on the UK economy. The result was a rating of "A-/F2"(from "A/F1"), with a "negative" outlook (previously "stable") for both Close Brothers Group and Close Brothers Limited.

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 a generally weak economic UK outlook driven by the continued uncertainty over the final Brexit settlement and the Covid-19 crisis, treasury assets increased 24% to £1.7 billion (31 July 2019: £1.4 billion) and were predominantly held on deposit with the Bank of England, giving us continued good headroom to both internal and external liquidity requirements.

We regularly assess and stress test our liquidity requirements and continue to comfortably meet the LCR requirements under the Capital Requirements Directive IV ("CRD IV"), with a 12-month average LCR unchanged at 823% (2019: 823%).

Basis of Presentation

Results are presented both on a statutory and an adjusted basis to aid comparability between periods. Adjusted measures are presented on a basis consistent with prior periods and exclude amortisation of intangible assets on acquisition, to present the performance of the group's acquired businesses consistent with its other businesses; any exceptional items, which are non-recurring and do not reflect trading performance; and discontinued operations. Discontinued operations relate to the unsecured retail point of sale finance business, which was sold on 1 January 2019.

Banking

Continued focus on supporting our customers

Resilient performance in a challenging environment with all three divisions profitable

Key Financials

Continuing operations[1]	2020 £ million	2019 £ million	Change %
Adjusted operating income	**586.0**	602.6	(3)
Adjusted operating expenses	**(303.4)**	(300.5)	1
Impairment losses on loans and advances	**(183.4)**	(48.4)	279
Adjusted operating profit	**99.2**	253.7	(61)
Net interest margin[2]	**7.5%**	7.9%	
Expense/income ratio	**52%**	50%	
Bad debt ratio[2]	**2.3%**	0.6%	
Return on net loan book[2]	**1.3%**	3.3%	
Return on opening equity	**6.5%**	17.5%	
Average loan book and operating lease assets	**7,854.3**	7,654.0	3

1 Results from continuing operations exclude the unsecured retail point of sale finance business, which was classified as a discontinued operation in the group's income statement for the 2019 financial year and sold on 1 January 2019.
2 The calculation of the bad debt ratio, net interest margin and return on net loan book excludes the unsecured retail point of sale finance loan book from both the opening and closing loan book.

Banking adjusted operating profit decreased to £99.2 million (2019: £253.7 million) reflecting the forward-looking recognition of impairment charges under IFRS 9 and lower income driven by the impact of Covid-19. Statutory operating profit from continuing operations decreased to £97.2 million (2019: £251.8 million).

Despite subdued new business volumes during the lockdown period, the loan book remained broadly flat in the year at £7.62 billion (31 July 2019: £7.65 billion) as we experienced an encouraging increase in client activity as lockdown restrictions eased. The return on net loan book, although lower, remained resilient at 1.3% (2019: 3.3%).

Adjusted operating income decreased 3% to £586.0 million (2019: £602.6 million), reflecting the impact of lower customer activity and forbearance measures, with a reduced net interest margin of 7.5% (2019: 7.9%).

While we remain focused on our pricing and underwriting discipline, the reduced net interest margin reflected a period of lower fee income, as some fees were waived due to forbearance and transaction and utilisation levels dropped significantly. Adjusting for certain items including modification losses arising from the onset of Covid-19, the monthly net interest margin remained broadly stable in the period prior to the Covid-19 outbreak, with a sharp drop in April and May before partially recovering in recent months as activity levels and fee income benefited from the easing of lockdown restrictions.

Adjusted operating expenses increased marginally by 1%, to £303.4 million (2019: £300.5 million), primarily driven by investment in strategic projects, including our multi-year investment programmes in Motor Finance and Asset Finance, investment to support our IRB application and enhancements to our cyber and data security.

Recent investment to improve our operational capabilities and our proposition to customers has been critical to our effective response to Covid-19. This included our remote lending capability which supported our Motor Finance dealers during lockdown, our deployment of Salesforce aiding the rapid set-up of a portal to streamline CBILS applications in Asset Finance, and our online deposit portal which allowed us to continue raising deposits remotely throughout lockdown.

Investment costs increased £10.7 million on the prior year to £57.2 million, and are expected to increase further in the year ahead as we continue to progress these important initiatives. Excluding these costs related to investments, operating expenses decreased £7.8 million on the prior year to £246.2 million, mainly reflecting our focus on cost control and lower variable compensation. Given the current environment, we will continue to review and prioritise investment spend while maintaining our focus on cost discipline.

The compensation ratio remained stable at 28% (2019: 28%). A reduction in operating income and continued investment spend resulted in an increase in the expense/income ratio to 52% (2019: 50%).

Impairment charges increased significantly to £183.4 million (2019: £48.4million) corresponding to a bad debt ratio of 2.3% (2019: 0.6%). Provisions increased across Commercial, Retail and Property, primarily to reflect the impact of Covid-19 on impairments, taking into account loan book performance, forbearance measures, and the macroeconomic outlook across our diverse portfolio of lending businesses.

This resulted in an overall increase in provision coverage to 3.0% (31 July 2019: 1.3%), while underlying loan losses and write offs remained broadly stable on the previous financial year.

Return on opening equity was resilient at 6.5% (2019: 17.5%) and reflected the impact of the pandemic on the profitability of the division.

Loan Book
Loan book growth has always been an output of our business model, and we continue to prioritise our margins and credit quality. We have a diverse portfolio of businesses, which ensures that our model remains resilient through the cycle.

The loan book remained broadly flat in the year at £7.62 billion (31 July 2019: £7.65 billion) as growth in our Commercial and Retail businesses was offset by a contraction in our Property loan book, reflecting a resilient overall performance in a challenging year with the general election, continuing uncertainty over the final Brexit settlement and the Covid-19 pandemic impacting customer demand.

The marginal reduction in net loan book over the year was a result of the increased provisions to reflect the estimated impact of Covid-19, but we remain confident in the overall credit quality of the loan book. The group's largest single sector exposure is to residential property development and construction (c.21%) predominantly through the Property loan book. Consumer lending represented c.30% of the group's exposure with Motor Finance and Premium Finance personal lines comprising c.23% and c.7% respectively. Sector exposures to retail, hospitality, leisure, air transport and oil and gas are minimal.

The Commercial loan book increased to over £3.0 billion (31 July 2019: £3.0 billion) reflecting good growth in our Asset Finance business, although this was partially offset by a marked reduction in utilisation levels in our Invoice Finance business. We experienced a recovery in new business volumes in Asset Finance in June and July, as lockdown restrictions eased, supported by strong demand for loans under CBILS.

Loan Book Analysis

	31 July 2020 £ million	31 July 2019 £ million	Change %
Commercial	**3,048.0**	2,991.3	1.9
Asset Finance	**2,167.4**	1,946.4	11.4
Invoice and Speciality Finance	**880.6**	1,044.9	(15.7)
Retail	**2,834.5**	2,810.7	0.8
Motor Finance	**1,749.4**	1,775.6	(1.5)
Premium Finance	**1,085.1**	1,035.1	4.8
Property	**1,734.2**	1,847.6	(6.1)
Closing loan book	**7,616.7**	7,649.6	(0.4)
Operating lease assets[1]	**221.9**	220.4	0.7
Closing loan book and operating lease assets	**7,838.6**	7,870.0	(0.4)

1 Operating lease assets of £2.9 million (2019: £4.2 million) relate to Asset Finance and £219.0 million (2019: £216.2 million) to Invoice and Speciality Finance.

Key Performance Indicators

Net interest margin
Per cent
2020 **7.5**
2019 7.9
2018 8.0

Bad debt ratio
Per cent
2020 **2.3**
2019 0.6
2018 0.6

Return on net loan book
Per cent
2020 **1.3**
2019 3.3
2018 3.5

Return on opening equity
6.5%
2019: 17.5%

Banking continued

In Retail, the loan book remained broadly flat at £2.8 billion (31 July 2019: £2.8 billion). Although the UK lockdown resulted in the temporary closure of motor dealerships which led to a reduction in new business for Motor Finance as dealers adapted to trading remotely, volumes showed strong recovery following the re-opening of dealerships, resulting in overall growth in the UK loan book. A modest reduction in the Irish Motor Finance business resulted in a slight decline in the Motor Finance loan book as a whole. Premium Finance continued to see solid demand for insurance finance, resulting in an increase in loan book to £1.1 billion (31 July 2019: £1.0 billion).

While the pipeline for new developments remains good, Property experienced fewer drawdowns on lending facilities as construction activity remained subdued throughout the second half of the year. Higher repayments also contributed to a reduction in the property loan book of 6% to £1.7 billion (31 July 2019: £1.8 billion).

Commercial

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

The Commercial loan book increased to over £3.0 billion (31 July 2019: £3.0 billion), reflecting good growth in our Asset Finance business, although this was partially offset by a reduction in utilisation levels in our Invoice Finance business.

The Asset Finance loan book increased 11% in the year as new business volumes recovered in June and July supported by strong demand for loans under CBILS for which a solid pipeline remains. Invoice and Speciality Finance saw lower utilisation of Invoice Finance facilities due to softer demand reflecting economic uncertainty for most of the year, compounded by Covid-19 in the second half.

Adjusted operating profit of £4.8 million (2019: £86.5 million) included £99.2 million of impairment charges predominantly driven by Covid-19. Statutory operating profit was £3.1 million (2019: £84.9 million).

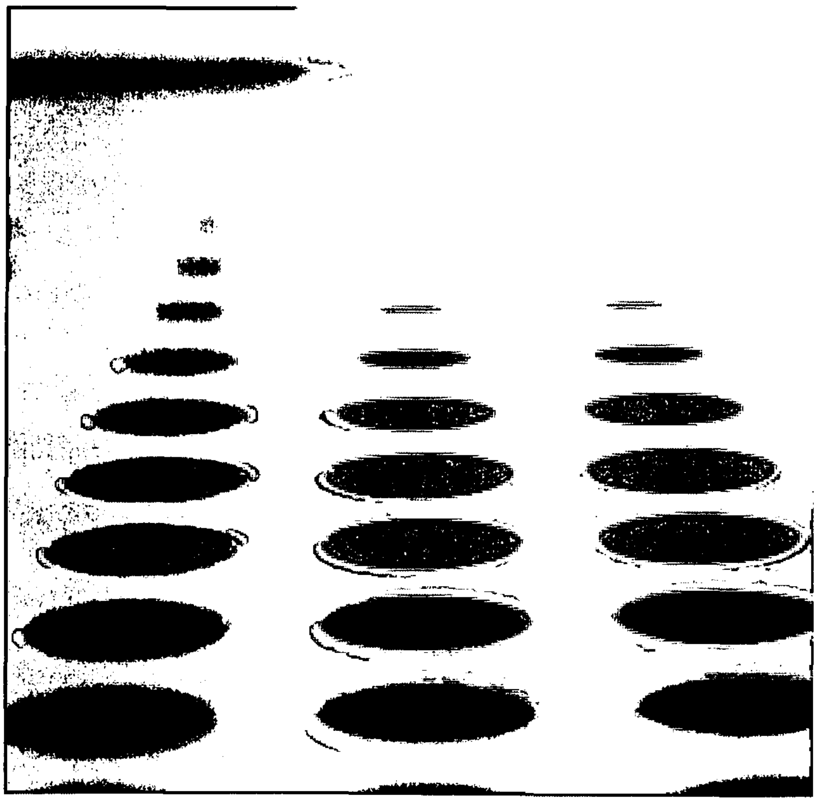
Banking: Commercial

	2020 £ million	2019 £ million	Change %
Operating income	**246.6**	249.9	(1)
Adjusted operating expenses	**(142.6)**	(140.1)	2
Impairment losses on financial assets	**(99.2)**	(23.3)	326
Adjusted operating profit	**4.8**	86.5	(94)
Net interest margin	**7.6%**	8.1%	
Expense/income ratio	**58%**	56%	
Bad debt ratio	**3.1%**	0.8%	
Average loan book and operating leases	**3,240.8**	3,078.9	5

Banking: Retail

Continuing operations[1]	2020 £ million	2019 £ million	Change %
Adjusted operating income	**218.4**	223.2	(2)
Adjusted operating expenses	**(126.9)**	(125.5)	1
Impairment losses on loans and advances	**(56.6)**	(25.2)	125
Adjusted operating profit	**34.9**	72.5	(52)
Net interest margin[2]	**7.7%**	8.1%	
Expense/income ratio	**58%**	56%	
Bad debt ratio[2]	**2.0%**	0.9%	
Average loan book	**2,822.6**	2,740.6	3

1 Results from continuing operations exclude the unsecured retail point of sale finance business, which was classified as a discontinued operation in the group's income statement for the 2019 financial year and sold on 1 January 2019.
2 The calculation of the bad debt ratio and net interest margin excludes the unsecured retail point of sale finance loan book from both the opening and closing loan book.



Operating income of £246.6 million (2019: £249.9 million) was marginally lower than the prior year, despite a higher average loan book, due to a reduction in the net interest margin to 7.6% (2019: 8.1%), driven by subdued customer activity including low rentals utilisations and actions taken to support our customers following the UK lockdown.

Adjusted operating expenses increased 2% to £142.6 million (2019: £140.1 million) mainly reflecting investment related to the Asset Finance transformation programme. This programme is aimed at increased sales effectiveness through enhanced data capabilities and technology, with the first phase expected to deliver additional new business volumes over time. The next phase will focus on optimising our operational efficiency, with upgraded systems and processes to support the long-term resilience of the business. This investment spend resulted in cost growth higher than the subdued growth in operating income for the year and the expense/income ratio increased to 58% (2019: 56%).

Impairment charges increased significantly to £99.2 million (2019: £23.3 million), with a bad debt ratio of 3.1% (2019: 0.8%), primarily reflecting a review of staging and provision coverage to reflect the increase in Covid-19 forbearance across the portfolio, as well as the incorporation of more severe macroeconomic assumptions. This resulted in a coverage ratio of 3.9% at 31 July 2020 (31 July 2019: 1.7%).

Our 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 on the underlying assets and long standing industry relationships.

As at 31 July 2020, around 7,300 customers, representing 26% of the Commercial loan book by value, were subject to forbearance measures as a result of Covid-19, 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. We remain in close contact with customers who have been granted Covid-19 forbearance, and the majority of these, accounting for over 70% of the forborne loan book, have now resumed payments.

Retail

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

The Retail loan book was broadly flat at £2.8 billion (31 July 2019: £2.8 billion) as 5% loan book growth in Premium Finance offset a slight decline of 1% in the Motor Finance loan book.

The Premium Finance loan book increased 5% to £1.1 billion (31 July 2019: £1.0 billion) against a challenging backdrop with growth across the business, with strong demand for insurance finance. The business continues to be well positioned competitively, following the multi-year investment programme in its infrastructure over recent years to improve both broker and end customer experience.

Despite the impact of the temporary closure of motor dealerships during lockdown, the UK Motor Finance loan book remained resilient, benefiting from recent investment in sales capability and grew overall following a sharp recovery in volumes as lockdown restrictions eased in June and July. This was offset by a modest reduction in Ireland, which accounts for 26% (2019: 28%) of the Motor Finance loan book, where we operate through a local partner, First Auto Finance, who provide the distribution and dealer relationships. The Motor Finance loan book reduced 1% overall at £1.7 billion (31 July 2019: £1.8 billion).

Overall, adjusted operating profit for Retail was £34.9 million (2019: £72.5 million) and included higher impairment charges of £56.6 million driven by Covid-19. Statutory operating profit was £34.6 million (2019: £72.2 million).

Adjusted operating income was down 2% year-on-year at £218.4 million (2019: £223.2 million) with a decline in net interest margin to 7.7% (2019: 8.1%), reflecting a reduction in fee income driven by lower activity levels and forbearance in both businesses, particularly in the latter half of the year.

Commercial adjusted operating profit

£4.8m

2019: £86.5m

Retail adjusted operating profit

£34.9m

2019: £72.5m

Property operating profit

£59.5m

2019: £94.7m

Banking continued

Adjusted operating expenses increased 1% to £126.9 million (2019: £125.5 million), and the expense/income ratio increased to 58% (2019: 56%), reflecting a reduction in operating income along with volume-driven costs and ongoing investment in both Premium Finance and Motor Finance. We are making good progress with our Motor Finance transformation programme which is aimed at improving the service proposition, enhancing operational efficiency, improving our credit acceptance process and increasing sales effectiveness.

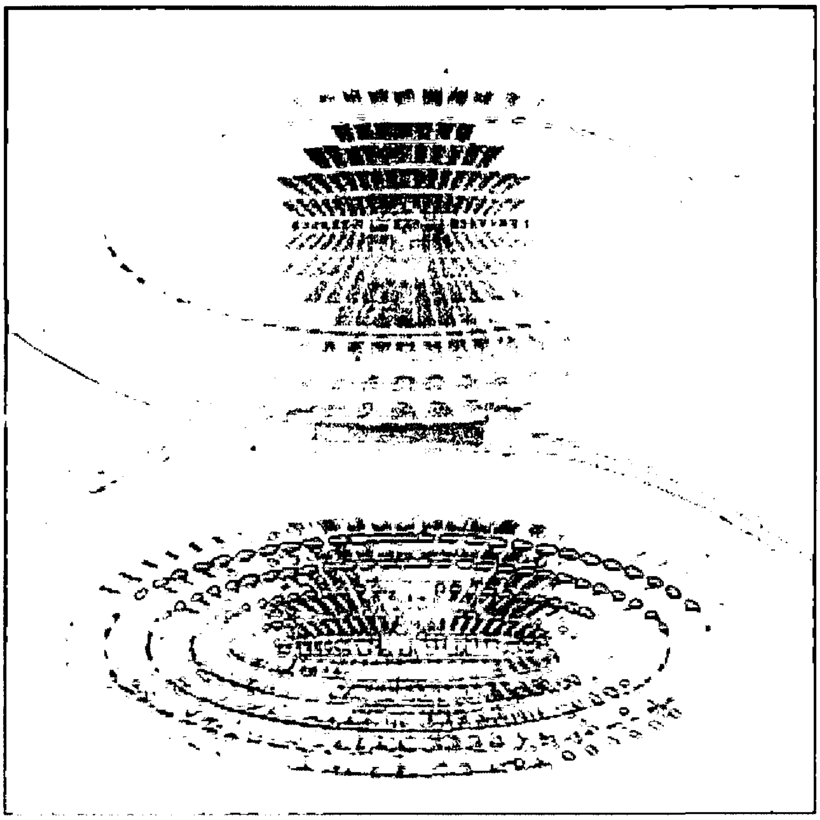
Impairment charges increased to £56.6 million (2019: £25.2 million) with a bad debt ratio of 2.0% (2019: 0.9%), primarily reflecting movement between stages in the Motor Finance loan book, including the impact of Covid-19 forbearance in the second half, with a more modest increase in Premium Finance. This resulted in an increased provision coverage ratio to 2.5% at 31 July 2020 (31 July 2019: 1.3%).

We remain confident in the credit quality of the Retail loan book. The Motor Finance loan book is secured on principally second-hand family vehicles which are less exposed to depreciation or significant declines in value. Our core Motor Finance product remains hire-purchase contracts, with limited exposure to residual value risk associated with Personal Contract Plans ("PCP"), which accounted for only 11% of the Motor Finance loan book at 31 July 2020. The Premium Finance loan book benefits from various forms of structural protection including premium refundability and broker recourse for the personal lines product.

As at 31 July 2020, around 58,600 customers across Motor Finance and Premium Finance, accounting for 9% of the Retail loan book by value, were subject to forbearance measures as a result of Covid-19, principally in the form of payment holidays. We continue to closely monitor the performance of the loan book as customers emerge from Covid-19 concessions, with over three quarters of forborne loan balances currently up to date, settled or having recommenced payments.

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. The regional market remains important to us and we launched an office in Manchester in 2019 to progress this initiative.

We experienced fewer drawdowns on lending facilities as construction activity remained subdued for most of the second half of the year. Higher repayments also contributed to a reduction in the Property loan book of 6% to £1.7 billion (31 July 2019: £1.8 billion). Following the easing of the lockdown in June and July, customer demand for new housing appears to have rebounded, supported by the temporary reduction in stamp duty. Our new business pipeline and committed facilities remain strong.

The business delivered an operating profit of £59.5 million (2019: £94.7 million) which included higher impairment charges of £27.6 million (2019: (£0.1) million) predominantly driven by Covid-19.

Banking: Property

	2020 £ million	2019 £ million	Change %
Operating income	**121.0**	129.5	(7)
Operating expenses	**(33.9)**	(34.9)	(3)
Impairment losses on loans and advances	**(27.6)**	0.1	na
Operating profit	**59.5**	94.7	(37)
Net interest margin	**6.8%**	7.1%	
Expense/income ratio	**28%**	27%	
Bad debt ratio	**1.5%**	(0.0%)	
Average loan book	**1,790.9**	1,834.5	(2)

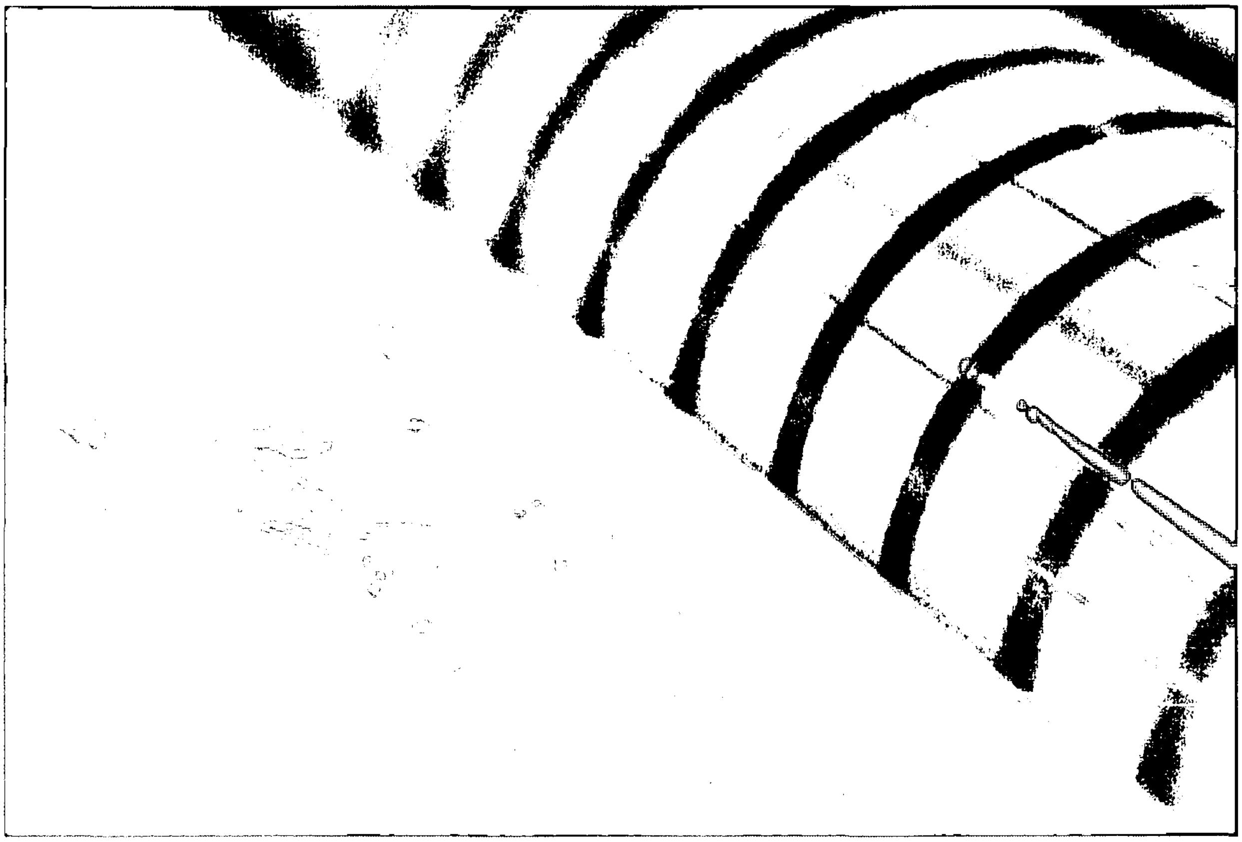
Operating income was down 7% year-on-year at £121.0 million (2019: £129.5 million) reflecting the reduction in loan book and net interest margin which decreased to 6.8% (2019: 7.1%) driven by actions taken to support our customers such as waiving of fees on term extensions.

Operating expenses of £33.9 million (2019: £34.9 million) reduced 3% despite the opening of the new Manchester office and continued technology investment across the Banking division. Although the expense/income ratio increased to 28% (2019: 27%), it remained low reflecting the lower operational requirements of the business with larger transaction sizes and a relatively small number of loans.

Impairment charges increased to £27.6 million (2019: (£0.1) million) primarily reflecting more conservative macroeconomic assumptions, and review of provisions for individual impaired loans. This resulted in a bad debt ratio of 1.5% (2019: (0.0%)) and a provision coverage ratio of 2.5% at 31 July 2020 (31 July 2019: 0.8%).

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 markets.

As at 31 July 2020, 187 customers, accounting for 18% of the Property loan book by value, were subject to forbearance measures as a result of Covid-19, 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. Forborne loans continue to be assessed on a case-by-case basis and we remain in close contact with each of our customers.



Asset Management

Continued good momentum in challenging markets

Asset Management continued to achieve strong net inflows, with good demand for our integrated advice and investment management services, while maintaining excellent client service during challenging market conditions.

Key Performance Indicators

Net inflows
Per cent of opening AUM

2020	**9**
2019	9
2018	12

Revenue margin
BPS

2020	**94**
2019	93
2018	98

Operating margin
Per cent

2020	**16**
2019	18
2018	20

Return on opening equity
Per cent

2020	**29**
2019	32
2018	34

The division delivered £20.4 million (2019: £21.8 million) adjusted operating profit and an operating margin of 16% (2019: 18%), impacted by weaker equity markets in the second half of the year. Statutory operating profit before tax was £19.3 million (2019: £17.9 million).

Total operating income increased 6% to £128.2 million (2019: £120.4 million), driven by higher investment management income from continued growth in managed assets. The reduction in income on advice and other services reflects lower initial fees from new advice business, which were impacted by Covid-19 and the resulting economic downturn, particularly during the traditionally busy tax-year end period. Revenue margin increased to 94 bps (2019: 93 bps) due to the timing of equity market movements and associated average asset levels and income.

Key Financials

	2020 £ million	2019 £ million	Change %
Investment management	**91.4**	81.7	12
Advice and other services[1]	**35.5**	37.2	(4)
Other income[2]	**1.3**	1.5	(15)
Operating income	**128.2**	120.4	6
Adjusted operating expenses	**(107.7)**	(98.5)	9
Impairment losses on financial assets[3]	**(0.1)**	(0.1)	–
Adjusted operating profit	**20.4**	21.8	(6)
Revenue margin (bps)	**94**	93	
Operating margin	**16%**	18%	
Return on opening equity	**28.7%**	32.1%	

1 Income from advice and self-directed services, excluding investment management income.
2 Includes net interest income and expense, income on principal investments and other income. Other income includes a £1.1 million and £1.4 million gain on disposal of non-core assets in the 2020 and 2019 financial years, respectively.
3 Impairment losses on financial assets reflects an increase in the expected credit loss provision related to cash balances.

Movement in Client Assets

	31 July 2020 £ million	31 July 2019 £ million
Opening managed assets	**11,673**	10,378
Inflows	**2,350**	2,107
Outflows	**(1,257)**	(1,213)
Net inflows	**1,093**	894
Market movements	**(172)**	401
Total managed assets	**12,594**	11,673
Advised only assets	**1,118**	1,651
Total client assets[1]	**13,712**	13,324
Net flows as % of opening managed assets	**9%**	9%

1 Total client assets include £5.1 billion of assets (31 July 2019: £5.0 billion) that are both advised and managed. Total client assets include a reduction of £0.3 billion in the year, reflecting the disposal of non-core assets.

Adjusted operating expenses increased 9% to £107.7 million (2019: £98.5 million), and the expense/income ratio increased to 84% (2019: 82%). Growth in expenses reflects continued investment in people and new hires, alongside technology to further enhance our operating efficiency as well as an increase in the regulatory FSCS levy. Headcount grew by 3% in the year, reflecting hiring of advisers and portfolio managers, consistent with our growth strategy. The compensation ratio increased slightly to 55% (2019: 54%) primarily reflecting headcount growth.

Continued Strong Net Inflows
Notwithstanding the challenging market conditions arising from the impact of Covid-19, we achieved strong net inflows of £1,093 million (2019: £894 million), a net inflow rate of 9% (2019: 9%) of opening managed assets. This reflected continued good demand for both our investment management and integrated wealth services, with strong inflows from our recent portfolio manager hires in addition to those from our own and third party advisers, though inflows slowed in the second half due to the impact of Covid-19 on client interaction.

Despite the recent recovery in equity markets, negative market movements for the year as a whole reduced our managed assets by £172 million. The combined impact with positive net inflows resulted in managed assets increasing 8% overall to £12.6 billion (31 July 2019: £11.7 billion).

In July 2019, we agreed the sale of a small portfolio of self-directed clients, whose assets are held either on third party platforms or directly with fund managers. The sale reduced total client assets by £0.3 billion in the 2020 financial year. We continue to provide self-directed services to clients via our own platform. Advised assets under third party management decreased by 32% following the disposal of this self-directed client portfolio and continued transfers of assets into our management.

Total client assets increased 3% overall, to £13.7 billion (31 July 2019: £13.3 billion).

Fund Performance Over the Year
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. Over the 12-month period to 31 July 2020 and the three-year period to 31 July 2020, eight out of our 14 multi-asset funds outperformed their relevant peer group average. Our bespoke strategy composites continued to perform well against peer averages over the year, and over a three and a five-year period, in line with our strong long-term outperformance track record for these strategies.

Well Positioned for Future Growth
While recognising the challenges of Covid-19 and its impact on global markets, we have remained focused on providing excellent service to our clients throughout these difficult times. Our continued investment in technology ensures that we are improving our operational leverage, efficiency and resilience. We continue to make significant progress in the implementation of strategic technology enhancements to strengthen our systems, propositions and service to clients.

Sustainable investment strategies remain a key focus area across the investment management industry, and our socially responsible investment proposition continues to be well received, with further sustainable fund launches planned for the coming year.

Our vertically-integrated, multi-channel business model leaves us well positioned to benefit from proven ongoing demand for our integrated advice and investment management services, and the structural growth opportunity presented by the wealth management industry. We continue to see significant long-term growth potential for our business and remain committed to growing our client base both organically and through selective hiring of advisers and investment managers, or through in-fill acquisitions.

Total managed assets

£12.6bn

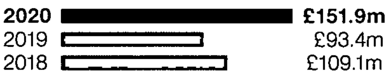
2019: £11.7bn

Securities

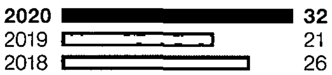
Winterflood is a leading UK market maker, focused on delivering high quality execution services to stockbrokers, wealth managers and institutional investors.

Key Performance Indicators

Operating income
£ million



Operating margin
Per cent



Average bargains per day
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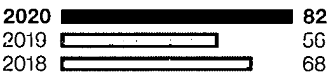
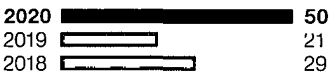


Return on opening equity
Per cent



Key Financials

	2020 £ million	2019 £ million	Change %
Operating income	**151.9**	93.4	63
Operating expenses	**(103.8)**	(73.4)	41
Impairment losses on financial assets	**(0.2)**	–	na
Operating profit	**47.9**	20.0	140
Average bargains per day ('000)	**82**	56	
Operating margin	**32%**	21%	
Return on opening equity	**50.4%**	20.7%	

Operating profit

£47.9m

2019: £20.0m

Return on opening equity

50.4%

2019: 20.7%

Very Strong Trading Performance in Extraordinary Market Conditions
Winterflood is a leading UK market maker, focused on delivering high quality execution services to stockbrokers, wealth managers and institutional investors.

Winterflood had a very strong year, with the expertise and experience of our traders enabling them to navigate successfully the challenging and volatile market conditions and deliver operating profit of £47.9 million (2019: £20.0 million).

In the first half of the financial year, continued Brexit and general election outcome uncertainty contributed to a slowdown in the UK capital markets. In contrast, the second part of the year saw significant volatility driving heightened trading activity across global equity markets, with increasing geopolitical tensions and the Covid-19 pandemic leading to global lockdowns and unprecedented levels of fiscal support measures from governments and central banks.

Operating income increased 63% to £151.9 million, reflecting strong trading activity in the second half of the year, with the extreme volatility driving investor activity and trading volumes. The significant pick-up in activity enabled Winterflood to deliver its highest annual revenue since 2000, with strong activity across the FTSE 350, AIM and investment trusts in particular.

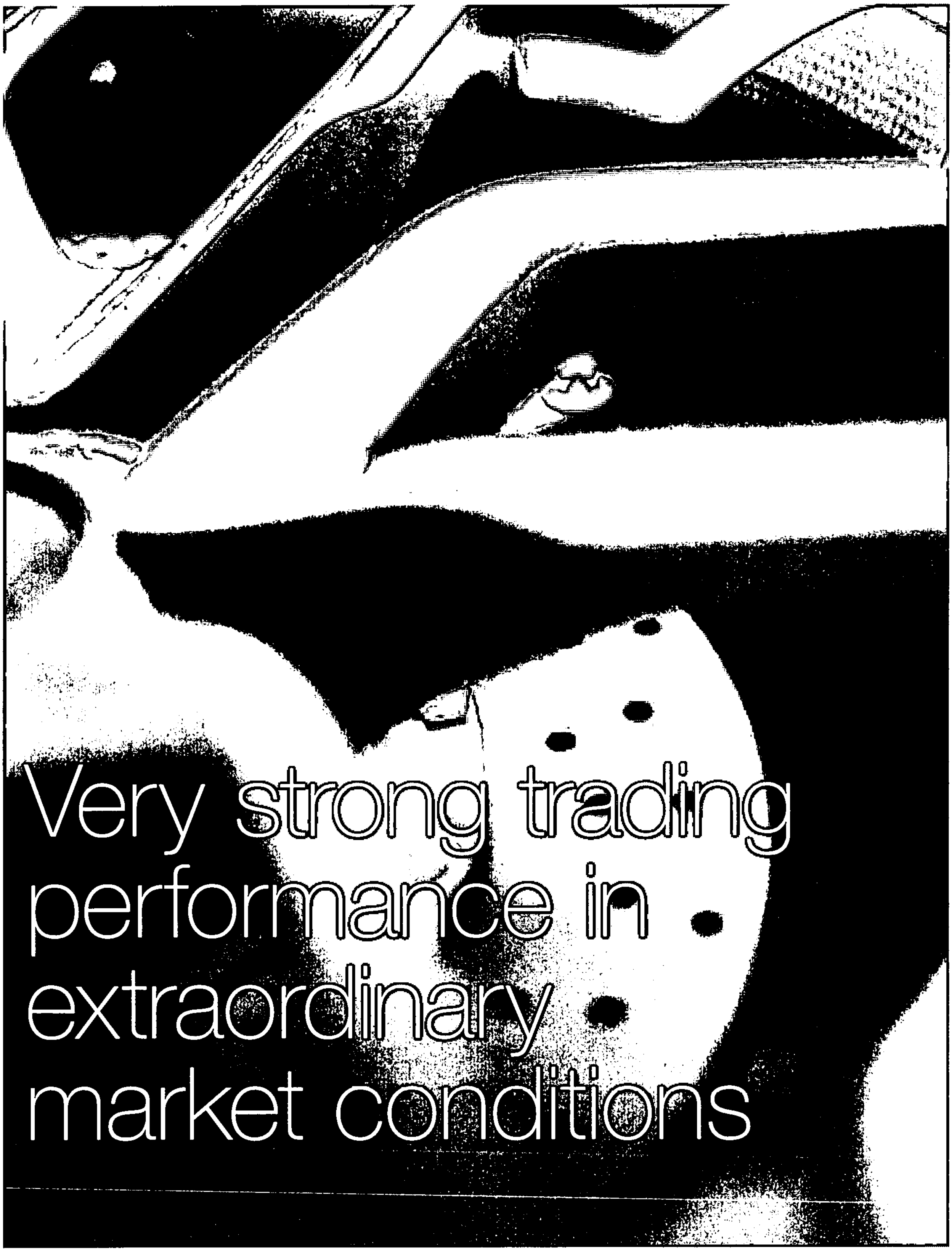
The extraordinary market conditions saw Winterflood surpass its previous record high for daily bargains of 139,000 in August 2011, first achieving 154,000 in February 2020 and subsequently achieving 186,000 in June. Average daily bargains over the year increased 48% to 82,003 (2019: 55,518) and the teams' experience and ability to focus on managing risk resulted in only seven loss days (2019: two loss days). Winterflood maintained full operational capacity throughout the year, despite the challenges brought on by Covid-19, demonstrating the strength of our technology and the expertise of our traders.

Operating expenses increased 41% to £103.8 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 decreased to 68% (2019: 79%) 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% (2019: 48%).

Winterflood continues to take advantage of complementary market opportunities and is progressing well with developing wider relationships with institutional clients. In November 2019, direct client trading with US counterparties commenced after an affiliate licensed broker dealer was established in the US.

Winterflood Business Services, which provides outsourced dealing and custody services for asset managers and platforms in the UK, has had a successful year, generating good levels of trading income and increasing assets under administration to £4.1 billion (2019: £3.7 billion) as a result of growth in client base, offset by negative market movements in the second half.

Following a very strong performance in the second half of the 2020 financial year, Winterflood has continued to trade successfully in the early part of 2021, but as a daily trading business remains sensitive to changes in the market environment.


Very strong trading performance in extraordinary market conditions

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 and 13;
- 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.

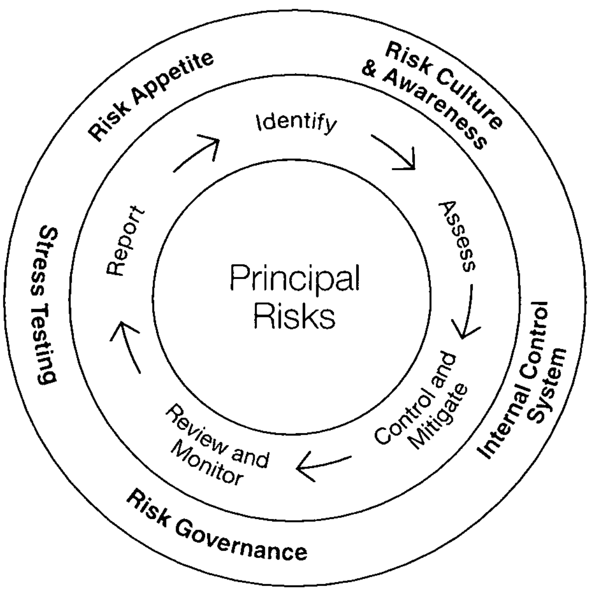
Risk management across the group is overseen by the Board Risk Committee. The Committee is responsible for reviewing risk appetite, monitoring the group's risk profile against this and reviewing the day-to-day effectiveness of the risk management framework. In addition, the Committee is responsible for 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 79 and 80.

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



The group closely monitors its risk profile to ensure that it continues to align with its strategic objectives as documented on page 14. 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.

A well-defined 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.

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 two principal objectives:

1. Inform capital and liquidity planning – including liquidity and funding risk assessment contingency planning and recovery and resolution planning; and
2. Supporting ongoing risk and portfolio management – including risk appetite calibration, strategic decisioning, risk/reward optimisation and business resilience planning.

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 firm-wide scenario analysis to simple portfolio sensitivity analysis.

Stress testing also represents a critical component of both the firm's ICAA and 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.

Effective management of the risks we face

Risk Report continued

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)
Chief executive delegates to divisional and operating business heads day-to-day responsibility for risk management, regulatory compliance, internal control and conduct in running their divisions or businesses. Business management has day-to-day ownership, responsibility and accountability for: • identifying and assessing risks; • managing and controlling risks; • measuring risk (key risk indicators/early warning indicators); • mitigating risks; • reporting risks; and • committee structure and reporting. **Key Features** • Promotes a strong risk culture and focus on sustainable risk-adjusted returns. • Implements the risk framework. • Promotes a culture of adhering to limits and managing risk exposures. • Promotes a culture of customer focus and appropriate behaviours. • Ongoing monitoring of positions and management and control of risks. • Portfolio optimisation. • Self-assessment.	Risk Committee delegates to the group chief risk officer day-to-day responsibility for oversight and challenge on risk-related issues. Risk functions (including compliance) provide support, 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.	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.

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.

Risk Committee Structure

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 effective risk management at each stage of the risk process lifecycle. They also provide an effective 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 strengthen its risk governance framework and specifically the organisation's risk and compliance committees, both at a group and divisional level. These continue to work efficiently and effectively.

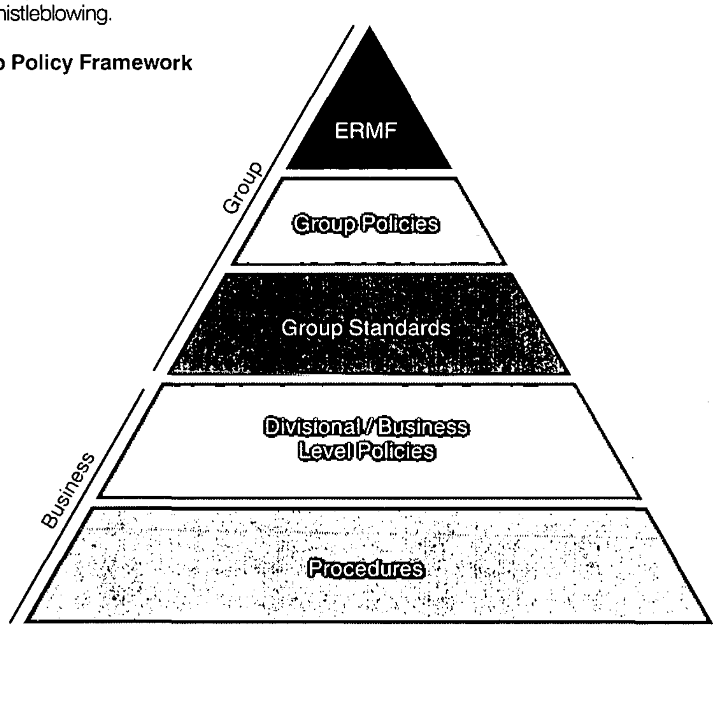
Internal Control System
Aligned to the risk governance framework, risk control and oversight across the group is supported by the maintenance of a range of internal controls. These cover risk and financial management and reporting and control processes and are designed to ensure the accuracy and reliability 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.

Group Policy Framework



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.

Risk Report continued

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.

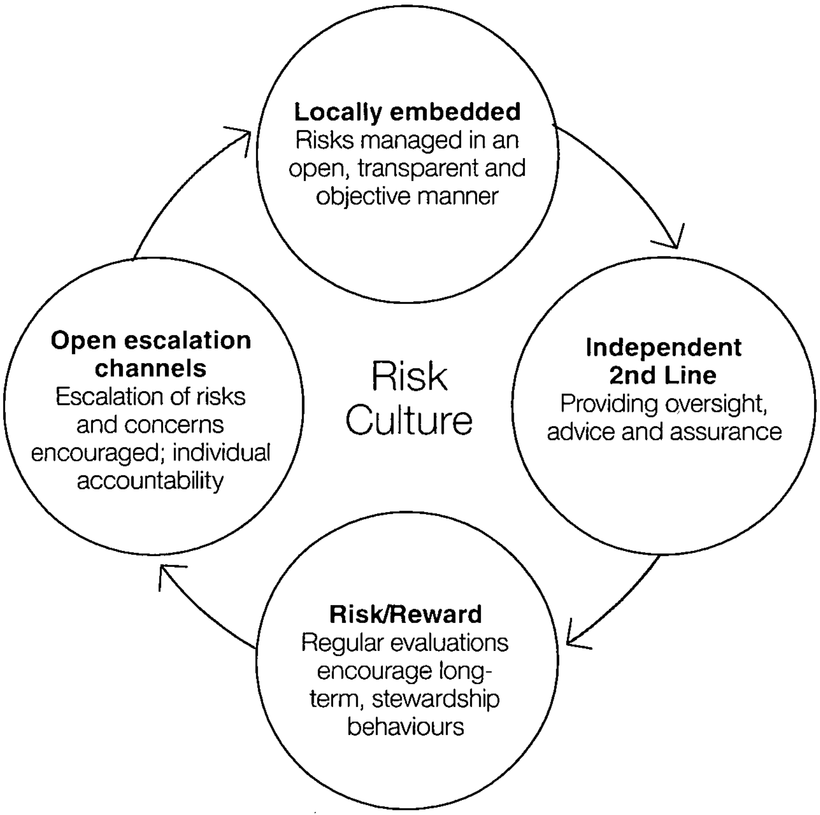
The risk culture:
- supports the group and its directors to meet their legal and regulatory obligations, particularly with respect to the identification and management of risks and the need for a robust control environment;
- underpins the group's purpose, strategy, cultural attributes and divisional 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.

Risk Culture



The relationship between risk and reward is also a key priority with all staff evaluated on an ongoing basis against qualitative and quantitative criteria. 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 87 to 114.

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 or impact levels of trading activity at Winterflood.

Risk Management and Mitigation

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:
- the speed and flexibility of services;
- our local presence and personal approach;
- the experience of our people and subject matter experts; and
- our offering of tailored and client-driven product solutions.

This differentiated approach and the consistency of our lending results in strong customer relationships and high levels of repeat business.

We are further protected by the diversity of our businesses and product portfolio, which provides resilience against competitive pressure or market weakness in any one of the sectors we operate in.

The group is planning for a range of different economic and business scenarios to ensure it has the resources and operational capability to continue operating effectively.

Change/Outlook

(↗)

Covid-19 has significantly impacted UK economic activity and has increased uncertainty regarding future economic conditions and the resulting impact on our customers and clients. While a range of measures to support individuals and businesses have been introduced, their long-term effectiveness and impact on the broader competitive environment remain uncertain.

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 34 to 47. Our business model is set out on pages 12 and 13.

Risk Report continued

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 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 36 and 37. 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 retains 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 has in recent years successfully issued Tier 2 capital instruments.
Change/Outlook =	While Covid-19 has affected capital generation due to lower than expected profits, the impact has been offset by a moderation in the loan book, reducing RWAs. Regulatory actions to bolster capital, most notably guidance on distributions and the removal of countercyclical capital buffers, have also increased the group's capital surplus, allowing lending to continue where demand exists. Further commentary on the group's capital is outlined in note 22 on pages 156 to 158.
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 an appropriate product suite. 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 year, the FCA has issued specific guidance around vulnerable customers and motor commissions as well as general guidance aimed at supporting customers during the Covid-19 pandemic, all of which directly impact the group. Separate workstreams have been established to ensure the group can meet all minimum requirements and regulatory expectations.

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 2020 the group had loans and advances to customers amounting to £7.6 billion.

The group also has exposure to counterparties with which it places deposits or trades, and also has in place a small number of derivative contracts to hedge interest rate and foreign exchange exposures.

We seek to minimise our exposure to credit losses from our lending by:
- applying strict lending criteria when testing the credit quality and covenant of the borrower;
- maintaining consistent and conservative loan to value ratios with low average loan size and short-term tenors;
- lending on a predominantly secured basis against identifiable and accessible assets;
- maintaining rigorous and timely collections and arrears management processes; and
- operating strong control and governance both within our lending businesses and with oversight by a central credit risk team.

Our exposures to counterparties are mitigated by:
- excess liquidity of £1.4 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 increased in the year to 31 July 2020, primarily as a result of Covid-19. The macroeconomic shock resulting from the pandemic has caused increased forbearance levels and migration of accounts from Stage 1 to Stages 2 and 3. Expected Credit Loss ("ECL") has also increased as a result of the IFRS 9 macroeconomic adjustments and management has made further adjustments to modelled outputs where considered appropriate. Other counterparty exposures are broadly unchanged, with the majority of our liquidity requirements and surplus funding placed with the Bank of England.

We continue to closely monitor Covid-19 impacts as well as uncertainty over Brexit and the UK economic outlook. These factors could increase the risk of higher credit losses in the future.

Further commentary on the credit quality of our loan book is outlined on pages 38 to 43. Further details on loans and advances to customers and debt securities held are in notes 11 and 12 on pages 144 to 148 of the financial statements.

Our approach to credit risk management and monitoring is outlined in more detail in note 28 on pages 165 to 178.

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 ahead of 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

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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 third public motor finance securitisation was executed, evidencing our ability to access debt markets, while online savings were introduced.

In response to Covid-19, Treasury successfully migrated its funding and liquidity operations to remote working while funding was increased through an uplift in customer deposits. This action facilitated an increase in treasury assets, predominantly deposits placed with the Bank of England, ensuring the maintenance of sufficient headroom to both internal and external liquidity requirements.

Further commentary on funding and liquidity is provided on pages 36 and 37. Further financial analysis of our funding is shown in note 19 on page 155 of the financial statements.

Risk Report continued

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

Change/Outlook

Interest rate risk has increased during the year with base rates currently at historic lows, increasing the potential for a negative rate environment. Where relevant, systems have been tested and confirmed as able to support negative rates.

The traded market risk environment has also been affected by Covid-19 and its impact on the economy, driving elevated volatility and an increase in corporate insolvencies.

Further detail on the group's exposure to market risk is outlined in note 28 on pages 175 and 176 of the financial statements.

The sensitivity analysis on interest rate exposures shown in note 28 on page 175 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 end-to-end delivery of critical 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 react to changes to these requirements, 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 | **Risk Management and Mitigation**

Operational Risk continued

Change/Outlook

↗

Existing incident and crisis management capabilities were mobilised upon the emergence of Covid-19, enabling the business to sustain operations whilst adjusting to new ways of working. Notwithstanding, the current pandemic may lead to increased risks associated with people, operational process execution, third party management, information security and fraud. The group continues to utilise its operational risk management framework to manage these risks with oversight by relevant risk committees.

Despite the challenges arising from Covid-19, improvements are continuing across the operational risk framework including further enhancement of information security management and strengthening of the firm's operational resilience.

The volume and complexity of regulatory and legal requirements applicable to the group also continues to increase.

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 75 of the Corporate Governance Report.

Change/Outlook

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The group's strong culture, responsible approach to stakeholders and commitment to open and transparent communication continue to mitigate potential reputational risk, despite heightened business, conduct and operational risks arising from Covid-19.

The group's prudent business model also continues to act as a natural mitigant of reputational risk.

The group's proactive approach to engaging with emerging topics such as environmental, social and governance matters continues to mitigate the risk of rapidly changing external factors.

Note: Both Defined Benefit Pension Obligation Risk and Tax Risk are also classified internally as principal risks, however neither is 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 160 and 161.

Risk Report continued

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 and consider broader market uncertainties, supporting organisational readiness for external volatility.

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 all economic conditions. By maintaining a strong financial position we aim to be able to absorb short-term economic downturns, continuing to lend when competitors pull back and in so doing building long-term relationships by supporting our clients when it really matters. We test the robustness of our financial position by carrying out regular stress testing on our performance and financial position in the event of adverse economic conditions.	Covid-19 has notably increased economic uncertainty 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. Further commentary on the attributes and resilience of the group's diversified business model is shown on pages 12 and 13 with commentary on the market environment and its impact on each of our divisions outlined on pages 34 to 46.
Economic and Political Uncertainty as a Result of the UK's Exit from the EU	A transition programme was implemented in 2016 with group-wide participation and regular senior management oversight. This included the launch of a Brexit Forum, responsible for tracking ongoing developments and progressing appropriate contingency plans. Preparations have been made for a potential "no deal" exit, including the establishment of a new Irish subsidiary and subsequent approval of a MoneyLender licence in the Republic of Ireland to support continuation of our continental Retail and SME Premium Finance business.	While direct impact remains low given the group's limited presence within the European Union, developments continue to be closely monitored ahead of the end of the current transition period. Plans are now in place for all plausible outcomes and will be initiated as required.
Financial Loss Resulting from the Physical or Transitional Impacts of Climate Change	Development of an appropriate and regulatory-compliant climate risk framework is ongoing and is managed by a Climate Risk Working Group. Regular updates are provided to the Risk Committee which retains oversight responsibility, while senior management responsibility is assigned to the group chief risk officer. Climate risk is now embedded within the risk governance framework at all levels of the organisation with a review of processes, procedures and policies underway to ensure appropriate consideration of climate-related risks. A group-wide impact analysis exercise has identified a set of core risk themes with work underway to enhance corresponding risk management frameworks.	Climate risk represents an area of increasing focus, both within the group and across the industry more broadly. We are closely monitoring 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 a strategic review is underway to further assess both the opportunities and risks posed by climate change. Outputs from this will further shape the group's response and support our planned alignment with the recommendations of the Taskforce for Climate Related Financial Disclosures ("TCFD").

Risk	Mitigating Actions and Key Developments	Outlook
Transition from LIBOR	A programme is underway 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 have made good progress in making the relevant changes to loan documentation to move away from the use of LIBOR and upgrading, where necessary, 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.	An increase in support for Scottish independence has been observed in recent opinion polls. We continue to monitor developments closely.
Legal and Regulatory Change	The group maintains an established horizon scanning framework to identify future regulatory and legal changes that could materially impact its operations. High-level gap and impact analyses are undertaken to assess new compliance requirements 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 with the continued implementation of existing EU legislation into UK law, and possible future regulatory and legal divergence. The evolving government and regulatory response to Covid-19 is also expected to drive further change.

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

Adrian Sainsbury
Chief Executive

22 September 2020

A J Sainsbury

Board of Directors

United by our purpose

MIKE BIGGS
CHAIRMAN

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

Background and Experience
Mike has over 40 years' experience of the financial services industry. He 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.

Committee Membership
Mike is chair of the Nomination and Governance Committee.

ADRIAN SAINSBURY
CHIEF EXECUTIVE

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

Background and Experience
From 2016 to 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 has also been chairman of the Asset Based Finance Association, the UK and Ireland industry body.

MIKE MORGAN
GROUP FINANCE DIRECTOR

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

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

LESLEY JONES
INDEPENDENT NON-EXECUTIVE DIRECTOR

Board Appointment
Lesley was appointed a director in December 2013.

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

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

GEOFFREY HOWE
SENIOR INDEPENDENT DIRECTOR

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

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

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

BRIDGET MACASKILL
INDEPENDENT NON-EXECUTIVE DIRECTOR

Board Appointment
Bridget was appointed a director in November 2013.

Background and Experience
Bridget is a non-executive director of 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.

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

OLIVER CORBETT
INDEPENDENT NON-EXECUTIVE DIRECTOR

Board Appointment
Oliver was appointed a director in June 2014.

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

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

PETER DUFFY
INDEPENDENT NON-EXECUTIVE DIRECTOR

Board Appointment
Peter was appointed a director in January 2019.

Background and Experience
Peter is chief 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.

Committee Membership
Peter is a member of the Risk Committee.

SALLY WILLIAMS
INDEPENDENT NON-EXECUTIVE DIRECTOR

Board Appointment
Sally was appointed a 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 & 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.

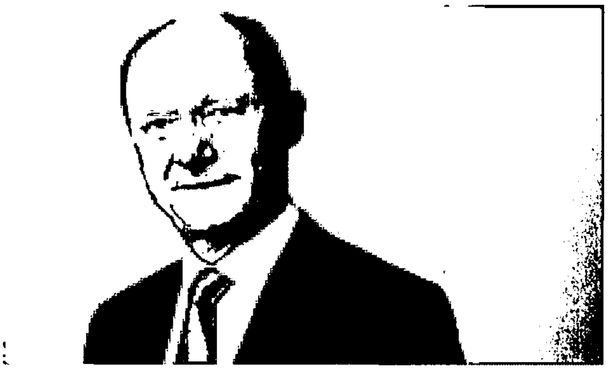
Committee Membership
Sally is a member of the Risk and Audit Committees.

Executive Committee

ADRIAN SAINSBURY
CHIEF EXECUTIVE

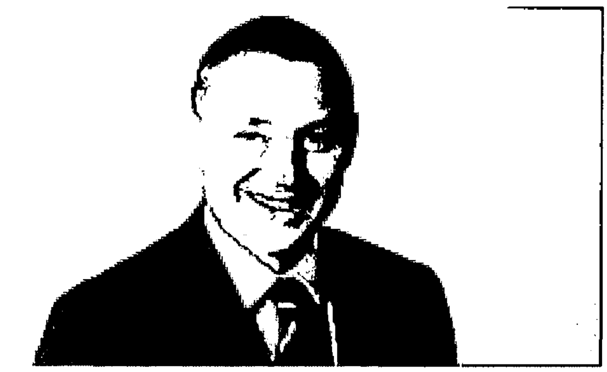
ANGELA YOTOV
GROUP GENERAL COUNSEL

MIKE MORGAN
GROUP FINANCE DIRECTOR



MARTIN ANDREW
ASSET MANAGEMENT CHIEF EXECUTIVE

REBEKAH ETHERINGTON
GROUP HEAD OF HUMAN RESOURCES



ROBERT SACK
GROUP CHIEF RISK OFFICER

PHILIP YARROW
WINTERFLOOD CHIEF EXECUTIVE

MARTYN ATKINSON
GROUP CHIEF OPERATING OFFICER

Directors' Report

The directors of the company present their report for the year ended 31 July 2020.

The Strategic Report set out on pages 1 to 59 of this Annual Report, and the Corporate Governance Report, the committee reports and the Directors' Remuneration Report set out on pages 68 to 114 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 183 of this Annual Report.

Results and Dividends

The consolidated results for the year are shown on page 122 of the financial statements. The directors recommend a final dividend for the year of 40p (2019: 44p) on each ordinary share which, following the cancellation of the interim dividend in April 2020, makes an ordinary distribution for the year of 40p (2019: 66p) per share. The final dividend, if approved by shareholders at the 2020 Annual General Meeting ("AGM"), will be paid on 24 November 2020 to shareholders on the register at 16 October 2020. Further information on the final dividend recommended by the directors can be found on page 35 of this Annual Report.

On 2 April 2020, the company announced that the board had decided to cancel the payment of the 2020 interim dividend, which would have been payable on 22 April 2020, recognising the significant challenges faced by businesses and individuals during the Covid-19 pandemic, and consistent with the group's purpose of helping the people and businesses of Britain thrive over the long term. Further information on the board's decision can be found on page 22 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 60 and 61 of this Annual Report. All the directors listed on those pages were directors of the company throughout the year, apart from Adrian Sainsbury and Sally Williams, who were appointed as directors on 21 September 2020 and 1 January 2020, respectively. In addition, Preben Prebensen served as a director throughout the year, retiring on 21 September 2020.

In accordance with the UK Corporate Governance Code, each of the current directors will retire at the 2020 AGM and offer themselves for reappointment at that meeting with the exception of Geoffrey Howe who has decided not to seek reappointment at the AGM following more than nine years' service on the board. He will therefore stand down from the board at the conclusion of the AGM. The search to identify a successor to Geoffrey is well-advanced and, subject to completion of the regulatory approval process, the board anticipates being in a position to announce its final decision on an appointment in due course following the AGM in November.

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 Report of the Nomination and Governance Committee on page 84 of this Annual Report.

On 24 September 2019, the company announced that Preben Prebensen had decided to step down as chief executive and a member of the board. 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.

On 16 December 2019, the company announced that, following a search process overseen by the Nomination and Governance Committee, the board had decided to appoint Sally Williams as an independent non-executive director with effect from 1 January 2020. Sally is a member of the board's Risk Committee and Audit Committee and, like each of the company's other directors, is also a director of the group's Banking subsidiary, Close Brothers Limited. More information on the process that resulted in Sally's appointment can be found in the Report of the Nomination and Governance Committee on page 85 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 99 to 101 of this Annual Report.

Directors' interests

The directors' interests in the share capital of the company at 31 July and 18 September 2020 are set out on pages 113 and 114 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 74 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 2020, 152,060,290 ordinary shares were in issue, of which 733,825 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 2019 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 £12,617,073;
- allot shares up to an aggregate nominal amount of £25,234,146 for the purposes of a rights issue;

Directors' Report continued

- allot shares having a nominal amount not exceeding in aggregate £1,892,561 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 £1,892,561, 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 £4,731,402 in relation to any issue by the company of any Additional Tier 1 instruments, where the directors consider this desirable, including for the purpose of complying or maintaining compliance with regulatory targets or requirements; and
- make market purchases of up to 15,140,488 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 2019 AGM, with the exception of the authority to make market purchases, the directors have not used these authorities. Details of market purchases of the company's ordinary shares during the year can be found below in the section headed "Purchase of Own Shares".

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

New issues of share capital
No ordinary shares were allotted and issued during the year. Specifically, no ordinary shares were allotted and issued during the year to satisfy option exercises. Full details of options exercised, the weighted average option exercise price and the weighted average market price at the date of exercise can be found in note 26 on page 162 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 19 November 2020 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 282,508 Treasury Shares with an aggregate nominal value of £70,627, representing 0.19% of its issued share capital, for an aggregate consideration of £3.99 million. It transferred 212,792 shares out of treasury, to satisfy share option awards, for a total consideration of £2.4 million.

At 31 July 2020, the company held 733,825 Treasury Shares with a nominal value of £0.18 million. The maximum number of Treasury Shares held at any time during the year was 935,598 with a nominal value of £0.23 million.

Employee Share Trust
Ocorian Trustees (Jersey) Limited is the trustee of the Close Brothers Group Employee Share Trust, an independent trust which holds shares for the benefit of employees and former employees of the group. The trustee will only vote on those shares in accordance with the instructions given to the trustee and in accordance with the terms of the trust deed. The trustee has agreed to satisfy a number of awards under the employee share plans. As part of these arrangements the company funds the trust from time to time, to enable the trustee to acquire shares to satisfy these awards, details of which are set out in note 26 on page 162 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 295,520 ordinary shares.

Substantial Shareholdings
Details of substantial shareholdings in the company are set out in the Corporate Governance Report on page 77 of this Annual Report.

Articles of Association
The company's articles of association were last amended in November 2009. They may only be amended by a special

resolution of the company's shareholders. The articles of association can be viewed at www.closebrothers.com/investor-relations/investor-information/corporate-governance.

Following a periodic review, a resolution will be proposed at the 2020 AGM to amend the articles of association by making a number of changes in line with company law developments, technology changes and best practice. Further details of the resolution will be set out in the Notice of AGM to be sent to shareholders.

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 68 to 114 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 59 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 33 of the Strategic Report.

Greenhouse gas emissions
Information on the group's greenhouse gas emissions, energy consumption and energy efficiency action is set out in the Sustainability Report on pages 31 to 32 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. Further detail can be found on pages 18 to 28 of the Strategic Report and also on pages 77 and 78 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 18 to 33 of the Strategic Report and also on pages 77 and 78 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 25 to 27 of the Strategic Report. More information on diversity at board level and the board's oversight of diversity initiatives can be found on page 70 of the Corporate Governance Report and in the Report of the Nomination and Governance Committee on page 85 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 2020 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 129.

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 48 to 59 and the risks associated with the group's financial instruments are analysed in note 28 on pages 165 to 178 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 (2019: £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 64

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

Directors' Report continued

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 2020 AGM
The company's AGM will be held on 19 November 2020. Resolutions to be proposed at the AGM include the reappointment of directors, the approval of 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, the amendment of the company's articles of association and authority for the company to purchase its own shares.

The full text of each of the resolutions to be proposed at the 2020 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.

At the present time, there remains uncertainty as to the impact that Covid-19 will have on the company's AGM in 2020. The board's current expectation is that government guidance will not allow shareholders to attend the meeting in person. Further information on the board's current expectations in relation to the AGM can be found on page 78 of this Annual Report. More information will be set out in the Notice of AGM to be sent to the company's shareholders in due course.

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

Disclosure of Information to the Auditor
Each of the persons who are directors at the date of approval of this Annual Report confirms that:
- so far as the director is aware, there is no relevant audit information of which the company's auditor is unaware; and
- they have taken all the steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the company's auditor is aware of that information.

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

Going Concern
The group'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. While the impact of Covid-19 has lowered group profitability during the year, the group remains well positioned in each of its core businesses, and is strongly capitalised, soundly funded and has access to the required 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 has included a central scenario, a severe but plausible downside scenario and reverse stress testing.

The scenarios modelled are based on a range of economic assumptions, driven by the estimated 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.

In the central and downside 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 total capital resources comfortably in excess of PRA requirements.

For each of the divisions, the directors have also considered the impact of the central and downside scenarios on financial performance. For Banking these include expected customer demand that underpins loan book growth, forbearance measures offered to our customers as well as 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 the divisions, the impact of the selected downside scenario demonstrated the resilience of our business model.

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 there is no material uncertainty that casts doubt over the company's or the group's ability to continue as a going concern for the next 12 months from the date of the approval of these 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 its liabilities, as they fall due, for the three-year period up to 31 July 2023.

The board considers three years to be an appropriate period for the assessment to be made. A period of three years has been chosen because it is the period covered by the group's well-embedded strategic planning cycle, which has been adapted in 2020 to reflect the unprecedented impact of Covid-19 on the UK economy and the uncertainties that exist in the economic outlook. 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 forecasts key capital requirements; and (iii) the Internal Liquidity Adequacy Assessment Process ("ILAAP"), which identifies liquidity requirements.

As part of the directors' assessment of the viability of the group, additional forecasting and stress testing has been undertaken to reflect uncertainties in the economic environment. A range of forward-looking scenarios have been considered, with distinct economic assumptions encompassing both severity of a downturn and the timing of any assumed recovery from the impact of Covid-19. 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. The central and extreme downside scenarios have been built on the same principles as those outlined for the next 12 months in the going concern disclosure, extended out over the three-year period. An additional third scenario represents a mid-case with less material adverse impact in the first 12 months than the extreme downside scenario and a slower subsequent recovery than in the central scenario. In all scenarios, the company and group continue to operate with sufficient levels of liquidity and capital over the three-year period, with the group's capital ratios comfortably in excess of PRA requirements and liquidity well above regulatory minima. The directors have also considered the financial performance of the scenarios by division. These are in line with the considerations employed for the going concern assessment. Across the divisions, the financial impact of the downside scenario assumptions 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 an extreme 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 principal and emerging risks which could impact the performance of the group – please see the Principal Risks and Emerging Risks and Uncertainties on pages 53 to 59;
- the group's current financial position and prospects – please see the Financial Overview on pages 34 to 46;
- the group's business model and strategy – please see Business Model, and Strategy and Key Performance Indicators on pages 12 to 15; and
- the board's risk appetite, and the robust assessment of the group's principal risks and how these are managed – please see the Risk Report on pages 48 to 59.

The directors have also considered the results from the most recent version of the following reviews, which were conducted prior to the Covid-19 pandemic:
- the annual review of the Recovery Plan where reverse stress testing was employed to support the identification of potential adverse circumstances and events, and test the efficiency;
- effectiveness of recovery actions and planning;
- the 2019 ICAAP, which included both stress testing and scenario analysis. At a group level two scenarios were run, one based on the latest PRA scenarios, the other representing an alternative severe, but plausible, scenario. Both 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; and
- the 2019 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.

Directors' Responsibility Statement
The directors, whose names and functions are listed on pages 60 and 61, are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulation.

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

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

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

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

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

By order of the board

Alex Dunn
Company Secretary

22 September 2020

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 2020. The pages that follow provide detail on 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
The board strongly believes that high standards of corporate governance and effective board oversight are important to the group's performance, the delivery of its strategy and in supporting long-term sustainable success for the company's shareholders and other stakeholders. At Close Brothers, we are committed to maintaining a robust and effective governance and risk management framework. The board therefore welcomes the principles and provisions set out in the 2018 UK Corporate Governance Code, many of which were well-embedded in prior years. We are pleased to report that we have now completed our first year under the new Code and set out further detail on how we have complied with it in this report.

During the Covid-19 pandemic, the board has adapted to ensure that it continues to provide effective oversight of the group's operations, and challenge and support for senior management, whilst maintaining its clear focus on stakeholder interests. The board has met regularly via video conference during the pandemic, including weekly meetings at the peak of the UK lockdown. Further information on the operation of the board during the pandemic appears later in this report.

The board acknowledges the continuing focus on sustainability and the contribution that business makes to the wider community. Once again this year, the board has spent time on sustainability considerations, including as part of strategy discussions and regular environmental, social and governance ("ESG") updates, and I have been pleased to discuss the board's approach in this area with shareholders. The board has remained conscious of the group's purpose, and the importance of continuing to support our customers, clients and employees during the challenges presented by Covid-19.

On 22 June 2020, we were delighted to announce that Adrian Sainsbury had been selected to succeed Preben Prebensen as chief executive. Adrian's deep knowledge and experience, strong leadership and exceptional commercial expertise make him ideally placed to lead the group through the next stage of its development. His appointment also provides continuity in the group's leadership team and business model, ensuring that we continue delivering for our people, our customers, and our shareholders in the years to come. Preben formally stepped down as chief executive and a director at the end of the board's meeting on 21 September 2020, after 11 years in the role. On behalf of the board, I would like to thank Preben for his outstanding leadership and very significant contribution over many years.

The board was further refreshed during the year with the appointment of Sally Williams, who became an independent non-executive director on 1 January 2020. Further detail on the search process led by the Nomination and Governance Committee that culminated in Sally's appointment can be found on page 85.

After more than nine years' dedicated service on the board, Geoffrey Howe has decided not to seek reappointment at this year's AGM. I would like to thank Geoffrey for his enormous contribution to the board and his invaluable judgement and wise counsel. The board's search to identify a successor to Geoffrey is well-advanced and, subject to completion of the regulatory approval process, the board anticipates being in a position to announce its final decision on an appointment in due course following the AGM in November. I am pleased that Oliver Corbett has agreed to take on the additional role of senior independent director on an interim basis during the period between Geoffrey stepping down from the board at the AGM and the appointment of a permanent successor.

Stakeholder engagement continues to be 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. This included consideration of stakeholders and their interests, as well as risks arising from the wider regulatory, economic and political environment. This year, we have introduced enhancements to our corporate governance reporting in line with the Code and applicable legislation. 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 18 to 23.

The board recognises the important role that it plays in establishing and monitoring the group's purpose, culture and values, and setting the right tone from the top. The ongoing assessment of the contribution of culture and values to the group's long-term success remains a focus for the board. Once again, in my own engagement with employees from across the group, I have been pleased to see the group's strong and distinctive culture in action, as evidenced by our employees' desire to support customers, clients and partners during the Covid-19 pandemic.

Diversity and inclusion continues to be an important area for the board and the Nomination and Governance Committee, including as part of ongoing board succession planning and the development of a diverse and inclusive talent pipeline below board level. This year, the directors approved amendments to the board diversity and inclusion policy, to include the aim of having at least one director of colour by 2024. Further detail on the board's approach to diversity and inclusion can be found on page 70.

During the year, the board carried out an internal evaluation of its effectiveness and performance. The results found that the board and its committees continue to function effectively. Further details of this evaluation can be found on page 76.

In this section of the Annual Report you will also find the Directors' Remuneration Report, setting out disclosures required by statute, regulation and best practice in relation to remuneration matters. I was pleased that last year's AGM resolution approving the 2019 Directors' Remuneration Report was passed with nearly 99% of votes cast in favour. Executive remuneration remains an important area of focus and reform, and the board continues to monitor developments on this topic closely. The Remuneration Committee has spent considerable time in the year on its triennial review of the Directors' Remuneration Policy which, following extensive consultation with shareholders, will be submitted for approval at this year's AGM. Further information on the new policy can be found on pages 91 to 101.

Engagement and dialogue with shareholders are very important to the board and I have been pleased to meet 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. The company's AGM is scheduled to take place on 19 November 2020. This would usually be a valuable opportunity for me and my fellow directors to meet with shareholders and discuss the performance of the group. The board's current expectation is that government guidance will not allow shareholders to attend the AGM in person. Further detail, including on a facility for shareholders to submit questions on the business of the AGM, will be set out in the Notice of AGM to be published in due course. If it is not possible for the board to meet with shareholders in November, we hope to be able to return to a more typical AGM next year.

Michael N. Biggs
Chairman

22 September 2020

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 complied with the principles and provisions set out in the Code, with the exception of the item noted below.

The only exception relates to provision 38 of the Code, which requires the pension contribution rates of executive directors to be aligned with those available to the workforce. During the 2020 financial year, the pension contribution rate of the former chief executive, Preben Prebensen, exceeded 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. The pension contribution rate of the group's new chief executive, Adrian Sainsbury, is (like that of the group finance director, Mike Morgan) aligned with the general employee population, and the group is now therefore compliant with provision 38 in the current financial year. Additional information on the executive directors' remuneration can be found in the Directors' Remuneration Report that follows later in this Annual Report. Further detail as to how the company has applied and complied with the Code is set out in the remainder of this Corporate Governance Report.

The Board
Leadership of the board
The board's primary role is to provide effective leadership, to ensure that the company is appropriately managed, and delivers long-term shareholder value, thereby making a contribution to wider society. A key responsibility 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 s.172 of the Companies Act 2006. The company's formal s.172 statement can be found on page 20 of this Annual Report.

Another key function of the board is to establish the group's strategy, strategic objectives and purpose and to monitor management's performance against those objectives, and provide direction for the group as a whole. 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 59 of this Annual Report.

Corporate Governance Report continued

Board size and composition
The board has nine members: the chairman, two executive directors and six 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 board and the Nomination and Governance Committee monitor the overall size of the board and the balance between its executive and non-executive membership. During the 2020 financial year, the board considers that its size has remained appropriate given the company's operations, however it is possible that additional appointments will be made over the coming years, including as part of the board's proactive approach to succession planning.

Details of the individual directors and their biographies are set out on pages 60 and 61.

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. This year, the policy was updated to codify the board's aims (i) in its search for board appointments, of engaging only with external search firms which are signatories to the Voluntary Code of Conduct for Executive Search Firms and (ii) of having at least one director of colour by 2024 in line with the recommendations of the Parker Review.

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, three of the board's nine members are women, meaning that female representation is in line with the recommendation of the Hampton-Alexander Review. The board remains committed to seeking to improve further its position on gender 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 individual appointments.

2. Having at least one director of colour by 2024
The board acknowledges the importance of cultural and ethnic diversity and the benefits this can bring. In line with the recommendations of the Parker Review, the board will aim to have at least one director of colour by 2024. 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 MWM Consulting and Heidrick & Struggles, both of which are signatories to the Voluntary Code.

The Nomination and Governance Committee regularly reviews and evaluates the structure, size and composition of the board and is responsible for identifying and recommending new directors for appointment. Board appointments are made on merit against objective and defined criteria, following consideration by the Nomination and Governance Committee of the balance of skills, experience, knowledge and diversity required for the board to operate effectively as a whole. 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 throughout the year. During the year, the Nomination and Governance Committee received regular updates in this area, including in relation to the activities of employee working groups 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 25 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 85. 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 2019/2020

During the year the board held seven regular scheduled meetings. In addition, all members of the board attended a strategy session with senior management in June 2020.

The attendance of directors at scheduled meetings of the board and the committees of which they were members during the 2020 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.

The board held 11 additional ad hoc meetings in the year to consider a number of matters, including the group's response to Covid-19 and the chief executive succession. The Nomination and Governance Committee held four additional ad hoc meetings during the year to discuss the chief executive succession and non-executive director recruitment processes, and to consider and recommend to the board the appointments of Sally Williams and Adrian Sainsbury. The Remuneration Committee held two additional ad hoc meetings during the year to discuss executive director pay and the compensation package for the new chief executive. The Risk Committee held one additional ad hoc meeting during the year to review the 2019 Internal Capital Adequacy Assessment Process. These additional meetings are not reflected in the table below. 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. These opportunities include informal dinners as well as working sessions at which the board considers a particular part of the company's business, performance or strategy in depth. These sessions are valued by the board and provide an additional chance to explore discrete issues in detail and to engage with employees from different levels across the group.

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

1 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. 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 board meetings during the 2020 financial year as a director; however, he attended all board meetings in the year in his previous role as Banking division managing director.

2 Sally Williams was appointed as an independent non-executive director and a member of the Audit and Risk Committees with effect from 1 January 2020.

Corporate Governance Report continued

Operation of the board during the Covid-19 pandemic
The board met regularly via video conference during the Covid-19 pandemic to monitor the evolution of the pandemic and its impact on the group, and to oversee the group's response. In addition to scheduled board meetings in the period (included in the table on page 71), the board held eight ad hoc meetings between the entry of the UK into lockdown in March and the end of the financial year on 31 July 2020, meeting weekly at the peak of the lockdown. The board's focus and agenda developed during these meetings as the pandemic and its impact on the group moved into different phases. A key priority for the board throughout 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 main areas considered by the board during the pandemic included:

- reviewing the operational and financial performance of the group and each of its divisions, including consideration of the liquidity, funding and capital position of the group;
- oversight and discussion of the group's operational and technology planning for lockdown and, subsequently, 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;
- updates on guidance published by, and on management's engagement with, regulators;
- the decision to cancel the 2020 interim dividend, further information on which can be found on page 22 of this Annual Report; 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 group finance director and the chair of the Audit Committee, and the group chief risk officer and the chair of the Risk Committee.

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 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 board and committee evaluation. The evaluation concluded that the board continued to perform effectively throughout the pandemic. Further detail on the evaluation can be found on page 76.

Further information on the group's response to Covid-19 can be found on page 11 of this Annual Report.

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 https://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 arising from the application of the Code. The chair of each committee reports regularly to the board on matters discussed at committee meetings.

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

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.

Board Committee Structure

THE BOARD

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

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

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

Each 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 performance of businesses across the Banking division and the Asset Management division and Winterflood, as well as for the group as a whole;
- customer matters, including the group's customer experience programme;
- the development of the group's operational risk framework and requirements in relation to operational resilience;
- strategic projects affecting the group and individual businesses, including the Motor Finance transformation programme, 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;
- updates on the progress of discrete workstreams arising out of the board's annual strategy days;
- discussions in relation to dividend payments in 2020;
- IT and cyber matters, and associated projects;
- the group's culture framework and a quarterly review of the group's culture dashboard which sets out information and key metrics in relation to culture across the group and each of its divisions;
- discussing the results of the group's biennial employee opinion survey and follow-up actions proposed by management;
- reviewing the competitive landscape;
- review of the group's financial lines insurances as part of the annual renewal process;
- 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 internal board and committee effectiveness evaluation.

Chairman and chief executive

In line with the 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 60. 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 60. 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 62.

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

Independent non-executive directors

The company's independent non-executive directors are Geoffrey Howe, Oliver Corbett, Peter Duffy, Lesley Jones, Bridget Macaskill and Sally Williams. Sally joined the board on 1 January 2020.

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

Senior independent director

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

Corporate Governance Report continued

A description of the responsibilities of the senior independent director, as approved by the board, can be found on the company's website at https://www.closebrothers.com/investorrelations/investor-information/corporate-governance. After many years' dedicated service on the board, Geoffrey will not be seeking reappointment at the company's AGM in 2020. Further information on the board's search to identify a successor to Geoffrey can be found in the Nomination and Governance Committee's report. The board has appointed Oliver Corbett to take on the additional role of senior independent director on an interim basis during the period between Geoffrey stepping down from the board at the AGM and the appointment of a permanent successor.

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.

The board has given particularly rigorous consideration to the independence of Geoffrey Howe who has been a non-executive director for more than nine years. The board has determined that, notwithstanding his term of office, Geoffrey is independent in character, judgement and in his valuable contributions to the board and its committees, including in his challenge of management. Geoffrey also demonstrates independence in the effective discharge of his duties as the company's senior independent director.

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 approval before they take on additional commitments.

Peter Duffy joined the board of Moneysupermarket.com Group PLC as chief executive officer in September 2020. As required by the Code, following a review of his time commitments prior to his appointment by Moneysupermarket.com Group PLC, the board was satisfied that Peter's new role would not restrict him from carrying out his duties and responsibilities as a director of the company, and accordingly approved the appointment.

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 2019 AGM. Further detail regarding these authorisations is set out on pages 63 and 64.

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 2020 AGM

Following performance evaluations undertaken during the year, the board has confirmed that each director continues to be effective and demonstrate commitment to their role. On the recommendation of the Nomination and Governance Committee, the board will therefore be recommending that all serving directors standing for re-election at the 2020 AGM be reappointed by shareholders. As described above, Geoffrey Howe will not be seeking reappointment this year and will be standing down from the board at the conclusion of the 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 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' liabilities and responsibilities, together with a range of relevant current and historical information about the group and its business.

Sally Williams's induction programme included detailed meetings and briefings with members of the board and the Executive Committee, the head of compliance, the head of group internal audit, the chief credit risk officer, the director of investor relations and the group's external auditor. Sally also met other senior managers from across the central and control functions (including risk, finance and IT). Specific topics covered in these sessions included the regulatory framework applicable to the group, capital and other prudential requirements, the group's risk management framework, strategy and purpose, culture and values, and financial performance. In addition, Sally 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.

Adrian Sainsbury has also undertaken a tailored induction following the announcement of his appointment to the board. The induction provided to Adrian reflected his existing extensive knowledge and understanding of the group developed since joining the group in 2013, including as a director of its principal Banking subsidiary, Close Brothers Limited, and through his previous role as managing director of the Banking division.

Adrian's induction activities included meetings with other board members and senior management across the group, and sessions with the group's external auditors, corporate brokers and external legal advisers. Adrian also received a briefing on the duties and responsibilities of a listed company director, the group's governance framework and the wider UK corporate governance, listing and disclosure regime from the company secretary.

There is a central training programme in place for the directors, which is reviewed 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 regulatory developments and horizon-scanning, anti-bribery, corporate governance changes, accounting updates, the group's personal dealing rules applicable to directors, 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

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 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 issues;
- 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 discrete 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 working groups 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;
- 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 and participation in employee meetings;

Corporate Governance Report continued

- 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 effectively monitor the group's culture during the year and to ensure that culture continues to be aligned with the group's purpose, values and strategy.

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. In the 2020 financial year, in line with the Code, oversight of whistleblowing was transferred from the Audit Committee to the full board.

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.

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. In accordance with the Code, at least every third year, an external evaluation is carried out. The last externally facilitated review was conducted in 2018.

During the 2020 financial year, the Nomination and Governance Committee recommended that the evaluation for the year be undertaken internally by the company secretary, as permitted by the Code. The evaluation took the form of questionnaires completed by each director assessing the performance and effectiveness of the board and each of its committees in a broad range of areas, together with an assessment of progress against the recommendations made in the 2019 internal evaluation.

The questions in the assessment were set to develop the themes explored in prior years' evaluations in order to assess the progress of the board and its committees compared with previous years, and also to evaluate recent developments and areas of focus in the 2020 financial year. In each part of the assessment, directors were invited to provide general comments and observations in addition to responding to specific questions.

The evaluation of the board focused on a range of different areas relevant to board effectiveness and corporate governance, including:
- the role and composition of the board;
- strategy, purpose and values;
- culture;
- the business of the board;
- stakeholder engagement;
- board behaviours; and
- the operation of the board during the Covid-19 pandemic.

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

The responses to the questionnaires were collated and reviewed by the company secretary, and discussed with the chairman. The company secretary subsequently prepared a report setting out the results of the evaluation, including key themes and recommendations arising from the questionnaires, which was presented to the board for discussion in July 2020.

The overall conclusion of the evaluation was that the board and its committees continue to operate effectively, that they are well led with strong participation from all members and that good progress has been made against each of the recommendations made in the internal evaluation undertaken in the previous year. The evaluation also confirmed that the positive features and attributes of the board identified in the 2019 evaluation had remained present in the workings of the board in the 2020 financial year.

Among other things, the evaluation demonstrated the effectiveness of the board during the challenges presented by the Covid-19 pandemic, and the ongoing value and effectiveness of the dedicated annual sessions focusing on the company's strategy (alongside opportunities to discuss strategic issues as part of the regular cycle of board meetings throughout the year). Other areas of strength identified by the evaluation include the effective recruitment process for the new chief executive and the board's oversight of culture. The board welcomes the positive conclusions of the evaluation and will focus during the next financial year on a small number of areas to further improve the effectiveness of the board and its committees, including capturing and carrying forward positive learnings from the operation of the board during the pandemic, finding additional opportunities for informal board and non-executive director-only sessions and continuing to embed best practice guidance for the preparation of papers and presentations. In addition, when safe to do so in line with government guidance, the board will explore further opportunities for non-executive directors, whether individually or in small groups, to visit the group's office locations to facilitate engagement and interaction between the board and employees.

The board anticipates that, in line with the Code, an external evaluation of the effectiveness of the board and its committees will be undertaken during the 2021 financial year. Further details will be set out in next year's Annual Report.

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

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

Risk, 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 48 to 59 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 79.

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 81 to 83 of this Annual Report. Further information on financial control matters can also be found in the Risk Report on page 51.

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.

	18 September 2020 Voting rights	31 July 2020 Voting rights
Standard Life Aberdeen plc	**14.05%**	14.05%
Royal London Asset Management	**5.75%**	5.75%
M&G Investment Management	**5.73%**	5.73%
Aviva plc and its subsidiaries	**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, 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 s.172 statement, can be found in the Strategic Report on pages 18 to 23.

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 18 to 31.

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 lockdown during the Covid-19 pandemic and planning for the subsequent return of employees to the workplace in line with government guidance.

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 2020 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 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 planning and the group's chief executive succession.

Corporate Governance Report continued

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.

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.

Engagement with Shareholders

Investor relations

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

The board believes it is important to maintain open and constructive relationships with shareholders and for them to have opportunities to share their views with the board. The chief executive and group finance director engage with the group's major institutional shareholders on a regular basis. In addition, the chairman arranges to meet with major institutional shareholders to discuss matters such as strategy, corporate governance and succession planning. In the 2020 financial year, the chairman's meetings included engagement with shareholders following the announcement of the appointment of Adrian Sainsbury as the group's new chief executive. 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 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 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 parts of its business to provide additional detail to investors and analysts. Relevant presentations, together with all results announcements, Annual Reports, regulatory news announcements and other relevant documents, are available on the IR section of the company's website (www.closebrothers.com/investor-relations).

The group 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 all shareholders to engage directly with the board. In previous years, shareholders have had the opportunity to raise questions with the board at the AGM, either in person or by submitting written questions in advance. The chairmen of each of the board committees attend the AGM and all other directors are expected to attend the meeting. All directors were in attendance at the 2019 AGM. In prior years, the chairman and the chief executive have presented a review of the group's business. All voting at general meetings of the company is conducted by way of a poll. All shareholders have the opportunity to cast their votes in respect of proposed resolutions by proxy, either electronically or by post. Following the AGM, the voting results for each resolution are published and made available on the company's website.

The company's 2020 AGM is scheduled to take place on 19 November 2020. The board recognises the importance to shareholders of the business to be dealt with at the AGM and intends to proceed with the meeting on this date. However, at the date of this Annual Report, the potential impact of Covid-19 on attendance at this year's AGM remains uncertain. The board continues to monitor developments closely, including relevant government guidance applicable to the AGM. The board's priority is to protect the wellbeing of employees, shareholders and the wider community and, as such, it will take all necessary and appropriate steps to ensure their safety.

The board's current expectation is that government guidance will not allow shareholders to attend the AGM in person. If that is the case, the proceedings will be restricted to formal business only and any shareholder seeking to attend (other than those forming the quorum, which will be facilitated by the company) will not be admitted. The board encourages shareholders to vote on the resolutions to be proposed at the AGM by submitting their proxy forms in advance of the deadline to be set out in the Notice of AGM.

The board acknowledges the importance of shareholders being able to ask questions on the business of the AGM. If shareholders cannot be admitted to the meeting, the company will provide a means for shareholders to submit questions on the business of the AGM and for a written response to be provided.

Further detail on the arrangements for the AGM will be set out in the Notice of AGM to be distributed to shareholders in due course. Shareholders are encouraged to watch for updates about the AGM on the company's website (www.closebrothers.com/investor-relations/shareholder-information/annual-general-meeting) and regulatory news services.

By order of the board

Alex Dunn
Company Secretary

22 September 2020

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.

Risk Committee

Chair's overview

As I look back over the last 12 months and reflect upon our risk management performance over that period, I am reminded that FY20 has indeed been a year of two halves. Our Committee began the financial year with another clearly defined plan to embed the improvements that we have made, and continue to make, in our risk management infrastructure, systems and skills. In addition, we agreed a number of actions to broaden our response to the growing regulatory agenda on climate change, operational resilience, cyber risk and stress testing.

In the first half of the year, all businesses and control functions took part in our first group-wide credit downturn simulation exercise, with a view to improving our state of operational readiness for any future market deterioration. The output from this was the compilation of a series of practical action steps, or "playbooks", tailored to the specifics of the businesses and providing management with a head start in the early days of a crisis.

The exercise was to prove very timely. In March 2020, the government announced a nationwide lockdown in response to the emerging Coronavirus threat and our playbooks have proved to be invaluable tools in the management of the economic deterioration that has followed. Despite the operational challenges posed by equipping our colleagues to work from home, the reorganisation of customer call centres and the need to continue to support our customers with forbearance or new loans, I am pleased to report that our response has been swift, efficient and robust. We are also seeing the clear benefits of the investment made in recent years in enhanced risk management systems, cyber defences and management information. Throughout the crisis the Committee and the group board have received regular and timely updates on our operations, liquidity and balance sheet and 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 function on the processes that support the management and mitigation of those risks.

Risk Committee Report continued

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 53 to 59.

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, seven meetings were held during the year (six scheduled and one ad hoc). Full details of attendance by the non-executive directors at these meetings are set out on page 71.

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

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

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

As described in more detail on page 76, 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 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 2020 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 area of operational resilience.

Notwithstanding the demands of the Covid-19 crisis, 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. The specific portfolio review approach has continued with particular attention given to the Motor, Invoice and Novitas portfolios which have all benefited from deep dives by the Committee.

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

We remain alert to cyber crime as we continue to upgrade our detection and monitoring capabilities and our overall posture. Also, we have increased our focus on climate risk via a dedicated working group as we evolve our thinking in line with industry and regulatory standards.

The potential impacts of Brexit continue to receive focus recognising that, given the group's footprint, these are likely to be secondary in nature. Nevertheless, until we have a clearer idea of the outcome, they will merit regular scrutiny given the additional complications posed by the concurrent pandemic.

Ensuring that we are fully compliant with the numerous and ever-changing regulatory requirements for financial services firms remains challenging. We continue to engage actively with regulators and industry bodies to ensure that our compliance framework remains appropriate and relevant for all of our businesses.

The compliance team works closely with first and second line colleagues, providing regulatory advice in support of divisional business strategies, as well as shaping policies, delivering training and conducting assurance reviews. This is of particular importance in our retail businesses where customer conduct and affordability rules are extending their reach. During the year, the Senior Managers and Certification Regime ("SMCR") was successfully implemented across all of the group's divisions.

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 2021

The year ahead promises to be a challenging one for the Committee. The long-term evolution and impacts of Covid-19 have yet to be felt and the speed of economic recovery is unpredictable. The Committee will undoubtedly continue to dedicate much of its time to ensuring that the impacts of the pandemic upon our credit portfolios and operations are well understood and managed, but we will not lose sight of the longer-term plans that we have for continuous improvement, namely:

- Development of an effective and regulatory-compliant climate risk framework.
- As part of the IRB programme, continued review and assessment of the group's modelling capabilities, including the further development of the models strategy.
- Refinement and advancement of the group's operational resilience framework.
- Enhancement of the affordability assessment processes across the lending businesses.
- Evolution of the group's culture framework and further refinement of the conduct risk reporting framework.

Lesley Jones
Chair of the Risk Committee

22 September 2020

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 maintaining and challenging the quality of financial reporting and the control environment.

Chair's Overview
I am pleased to present the Audit Committee Report describing the work undertaken by the Committee to discharge its responsibilities.

It has once again been a busy year, the Committee has continued to focus on the key issues relevant to the group's financial reporting, including consideration of key accounting judgements, and ensuring the integrity of the Annual Report.

The Committee has also spent a significant proportion of its time considering the additional accounting and auditing judgements, particularly IFRS 9, as a result of Covid-19. This has also included monitoring the effectiveness of the control framework, as the group has adapted to working remotely.

Alongside this, the Committee's time has been focused on its principal roles and responsibilities, which are to:
- assess the integrity of the group's external financial reporting;
- review the effectiveness of the group's internal controls; and
- monitor and review the activities and performance of both internal and external audit.

Further details of work in respect of these and other key areas are set out in the sections below.

Membership and Meetings
The Committee comprises solely of independent non-executive directors, being Geoffrey Howe, the senior independent director, Lesley Jones and Bridget Macaskill who chair the Risk and Remuneration Committees respectively, and me as Chairman. In January 2020 the Committee welcomed Sally Williams as an independent non-executive director.

The qualifications of each of the members are outlined in the biographies on pages 60 and 61. 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 met formally five times during the year with meetings aimed to coincide with the group's financial reporting schedule. Additional informal meetings and discussions were held as appropriate. Details of members' attendance are set out on page 71.

In addition to the Committee members, standing invitations are extended to the chairman of the board and the executive directors. In addition, the group head of internal audit, the group head of compliance, the group chief risk officer and the group financial controller attend meetings by invitation. I meet with this group as well as the group finance director ahead of each meeting to agree the agenda and to receive a full briefing on all relevant issues. Additional meetings were also held to discuss the ongoing formation of accounting judgements regarding Covid-19.

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.

Audit Committee Report continued

Committee Effectiveness
As described in more detail on pages 76 and 77, the performance of the Committee was assessed internally through a formal and rigorous annual effectiveness evaluation. This was undertaken during the year as part of the broader evaluation of the effectiveness of the board and its committees, the process involved completion of a tailored questionnaire by Committee members.

The results confirm that the Committee is operating effectively, and it continued to have access to sufficient resources to enable it to carry out its duties. I discussed the specific conclusions of the evaluation relating to the Committee with the group finance director and the company secretary, and we will explore opportunities for incremental enhancements in the way the Committee operates during the 2021 financial year.

Activity in the 2020 Financial Year
Key accounting judgements
The Committee spent considerable time reviewing the interim report and full-year 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.

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; however, Covid-19 has required the Committee to discuss at length with management the continued appropriateness of the conclusions reached.

The main areas of focus are outlined below. Each of these matters was discussed with the external auditor and, where appropriate, have been addressed in the external auditor's report.

IFRS 9
This year IFRS 9 continued to be a major focus for the Committee as models were further embedded, validated and refined. At all Committee meetings updates were provided by management on the group's expected credit loss ("ECL") models and the related IFRS 9 judgements and disclosures.

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 impact and implications of Covid-19, lockdown and the related economic shock being the first time the group's IFRS 9 models and judgements have operated under stress. As a result, the Committee has reviewed the group's IFRS 9 models in detail;
- the use and approval of post-model adjustments where it was inappropriate to apply existing ECL methodologies mechanistically;
- the need to ensure that application of IFRS 9 met regulatory guidance, and took account of the extensive government support measures and the specific circumstances of our businesses and customers. These and other factors were considered in arriving at reasonable and supportable provisions; and
- the high level of estimation uncertainty in setting forward-looking macroeconomic assumptions due to Covid-19.

The Committee will continue to pay close attention to how post-model adjustments, underlying models and macroeconomic scenarios perform over time.

In addition, the Committee has overseen the enhancement of credit risk disclosures in the context of Covid-19. In the next financial year, the Committee will still continue to monitor IFRS 9 processes and further enhancements to our 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. The Committee also considered management's approach in respect of modification losses as a result of Covid-19.

Standards adopted during the year
IFRS 16
The Committee also oversaw the successful implementation of IFRS 16, which was adopted by the group on 1 August 2019, and was satisfied that the disclosures made in respect of IFRS 16 in the financial statements were appropriate.

Other Financial Reporting
Financial Reporting Council review of 2019 Annual Report
In May 2020, the Financial Reporting Council's ("FRC") Conduct Committee wrote to the group confirming an ordinary course review of the Annual Report for the year ended 31 July 2019 was being performed. As is its custom and practice, the FRC's review was based solely on the 2019 report and accounts with no detailed knowledge of the group or underlying transactions entered into.

At the end of its review, the FRC raised no questions or queries and required no formal response from the group. The FRC made a number of detailed suggestions to improve certain disclosures. We welcome the FRC's feedback and these points have been considered by the Committee and as part of the drafting process for this year's Annual Report.

Going concern and viability statement
The Committee reviewed a paper from management in support of the going concern basis and the longer-term viability of the group. The Committee noted the proven stability of the group's business model which is supported by a diverse portfolio of businesses, its successful track record, 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 such as its lending exposures, economic factors including the Covid-19 pandemic and operational risk which may affect future development, performance and financial position. It also considered in detail the implications of Covid-19 given the nature of the business and the group's financial structure and position.

Overall the Committee concluded that it remained appropriate to prepare the accounts on a going concern basis and recommended the viability statement to the board for approval, set out on pages 66 and 67.

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. This included the extended quantitative and qualitative disclosures on expected credit loss provisions, and also the consistency of narrative covering the wider impacts of Covid-19 on business performance, operational resilience and sustainability.

The Committee considered the overall 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.

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. Historically, the Committee has overseen the group's whistleblowing arrangements but in the 2020 financial year this responsibility was transferred to the full board in line with the new Corporate Governance Code. Further information on the board's activities in this area can be found on page 76 of the Corporate Governance Report.

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.

Internal Audit
The Committee reviewed, challenged and approved the internal audit plan for the year, and supported the introduction of a more agile audit planning approach. This approach has facilitated flexibility to provide assurance over controls impacted by Covid-19 and the internal audit function's ability to meet ad hoc requests from the Committee, business or regulator.

In reviewing the audit plan, the Committee continued to assess the level of internal audit resource and the appropriateness of the skills and experience of the internal audit function. Ongoing feedback on the performance of the co-source provider was presented to the Committee throughout the year.

The Committee 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. Thirty audits were delivered during the period under review. These were summarised by the group head of internal audit at each of the Committee's meetings.

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.

Per its policy, the Committee reviews annually 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.

The Committee welcomed the new group head of internal audit in November 2019.

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. PwC has been auditor to the group since 1 August 2017.

Mark Hannam has been the group's lead audit partner since the transition from Deloitte LLP in 2017 and attends all meetings of the Committee.

During the year the Committee reviewed the external audit plan including the underlying methodologies PwC follow and their risk identification processes along with the findings from their audit. Principal matters discussed with PwC are set out in their report on pages 115 to 121.

The company has complied 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 2020.

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

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

The process was facilitated by a group-wide survey of finance, a survey of the PwC senior audit team's view on the group and a review of audit and non-audit fees. Overall, the Committee has concluded that PwC remain independent and it was satisfied with the auditor's performance and recommended to the board a proposal for the re-appointment of the auditor at the company's AGM.

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

During the year total non-audit fees including those relating to services required by legislation amounted to £0.5 million and represented 25% of the audit fee.

	£ million
Assurance work on systems and controls	0.5

The corresponding amounts for the prior year were £0.6 million and 43%. 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

22 September 2020

Nomination and Governance Committee Report

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

A considerable proportion of the Committee's time this year has been spent on considering and recommending changes to the composition of the board, both for executive and non-executive roles. The Committee oversaw the process to select the group's new chief executive, recommending the appointment of Adrian Sainsbury who took up his new role on 21 September 2020. It also led the recruitment of Sally Williams as an independent non-executive director as well as the ongoing search to identify a successor for Geoffrey Howe, the company's senior independent director ("SID"), who has decided to step down from the board at the conclusion of the AGM in November 2020. A description of the processes that resulted in the appointments of Adrian and Sally to the board can be found below, together with an update on the SID search. For all searches undertaken this year, the Committee has put in place arrangements to ensure that changes to the board are well managed, with consideration of candidates from a diversity of backgrounds and experiences.

Talent management and succession planning for roles below board level has continued to be an important focus for the Committee. 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.

The Committee has followed sustainability and environmental, social and governance ("ESG") developments in the year, and has monitored the implications for the group of corporate governance reforms including the new UK Corporate Governance Code and enhanced disclosure requirements for subsidiaries across the group.

Committee Roles and Responsibilities
The Committee's key roles and responsibilities are:
- regularly reviewing the structure, size and composition of the board and its committees, and making recommendations to the board with regard to any changes;
- considering the leadership needs of the group and considering succession planning for directors and senior executives;
- considering the appointment or retirement of directors;
- reviewing the continued independence of the non-executive directors;
- assessing the board's balance of skills, knowledge and experience;
- evaluating the skills, knowledge and experience required for a particular appointment, normally with the assistance of external advisers to facilitate the search for suitable candidates; and
- assessing the contribution 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 2020 Financial Year
During the year the Committee's activities included:
- considering board composition and succession, including searches for a new chief executive and non-executive roles;
- 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 internal board and committee evaluation undertaken during the year;
- monitoring sustainability and ESG developments and considering the implications for the group;
- receiving updates on the group's response to changes in the UK's corporate governance and reporting framework, including new disclosure requirements for large private companies;
- 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, independence and letters of appointment.

Membership and Meetings
The Committee's membership was unchanged during the year and comprises Geoffrey Howe, the senior independent director, Oliver Corbett, Lesley Jones and Bridget Macaskill, who chair the Audit, Risk and Remuneration Committees respectively, and me as 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 71. In addition, four ad hoc meetings were held to consider matters relating to specific board appointments during the year, including meetings to consider the nomination of Adrian Sainsbury and Sally Williams as members of the board.

Overview of Main Activities During the Year
CEO succession
During the year, the Committee oversaw the thorough and extensive process that culminated in the decision by the board to appoint Adrian Sainsbury as chief executive and an executive member of the board, following the announcement in September 2019 of Preben Prebensen's planned departure.

The Committee approved a detailed specification for the role of chief executive and engaged external search firm, MWM Consulting ("MWM"), which is a signatory to the Voluntary Code of Conduct for Executive Search Firms, to find appropriate candidates. The firm is not connected to the company in any way.

The search process included consideration of both external and internal candidates and, at all stages, the Committee took steps to ensure that all candidates were treated equally.

MWM prepared a long-list of candidates from a diversity of backgrounds and representing a breadth of talent and experience. A shortlist of external and internal candidates was agreed by the Committee and candidates were interviewed by the Chairman and other non-executive directors. Following an extensive interview and assessment process (including presentations by a small number of candidates to non-executive directors) and having obtained regulatory approval, the Committee recommended Adrian Sainsbury to the board as its preferred candidate. The board considered and accepted the recommendation and agreed to appoint Adrian as chief executive and a director with effect from the end of the board's meeting held on 21 September 2020. The decision was announced on 22 June 2020.

Talent development, succession planning and board composition

The Committee spent considerable time during the year reviewing talent and considering the group's succession planning at board and senior management level. 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. 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 first part of the financial year, the Committee oversaw the formal and rigorous process that resulted in the appointment of Sally Williams as an independent non-executive director on 1 January 2020. The Committee approved a detailed description for the role and the search was undertaken in conjunction with external search firm Heidrick & Struggles, who were instructed to consider candidates from a diversity of backgrounds and experiences. The firm is not connected to the company in any way and is a signatory to the Voluntary Code of Conduct for Executive Search Firms. A shortlist of potential candidates was selected and interviews were held with the involvement of both non-executive and executive members of the board. Following the process, the Committee recommended Sally's appointment to the board.

As part of its ongoing consideration of non-executive succession planning, the Committee has led the search to identify a new member of the board to succeed Geoffrey Howe as senior independent director. Heidrick & Struggles are assisting the Committee with the search and have, in line with the board diversity and inclusion policy, been instructed to consider candidates from a diverse range of backgrounds and experience. The search is well-advanced and, subject to completion of the regulatory approval process, the board anticipates being in a position to announce its final decision on an appointment in due course following the AGM in November. On the recommendation of the Committee, the board has appointed Oliver Corbett to take on the additional role of senior independent director on an interim basis during the period between Geoffrey stepping down from the board at the AGM and the appointment of a permanent successor.

Sustainability

The Committee acknowledges the ongoing 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 range of different areas, including diversity and inclusion, and ESG. Further details on each of these areas is set out below.

Diversity and inclusion

Diversity and inclusion continue to be a key focus of the Committee. The Committee recognises the importance of having directors with a range of skills, knowledge and experience, and embraces the advantages to be derived from having a diversity of gender and social and ethnic backgrounds represented on the board, bringing different perspectives and the challenge needed to ensure effective decision-making. Diversity and inclusion have been topics of discussion throughout the year, including in the context of succession planning at both board and senior management level and in the consideration of particular appointments. In addition, the Committee 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 page 70 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. At 31 July 2020, three of the company's nine directors were women, in line with the recommendation of the Hampton-Alexander Review. The board supports the recommendations set out in the Parker Review and will aim to have at least one director of colour by 2024.

The Committee acknowledges 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 in place across the group. Among other things, the Committee discussed the group's approach to recruitment, training and development programmes for employees across the group, management's work with diversity and inclusion campaign groups, and activities of discrete employee working groups including in the areas of gender, ethnic diversity, disability, LGBTQ+, mental wellbeing and social mobility. 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 2020 was 35% female and 65% male. More detail on the group's approach to diversity and inclusion can be found in the Sustainability Report on pages 25 to 27.

Environmental, social and governance issues

Throughout the year, the Committee received and considered dedicated updates on ESG issues relevant to the group. These updates covered items across a wide range of areas and were informed by, among other things, engagement with shareholders and other stakeholders, legislative and regulatory initiatives and wider market developments. Areas of discussion included the group's sustainability targets (including progress in the year and future plans), the impact of Covid-19 on the broader sustainability agenda and sustainability themes arising from my annual corporate governance meetings with shareholders. 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 and listed companies. Further information on the background and experience of each of the non-executive directors can be found in their biographies on pages 60 and 61.

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 2020 AGM, the Committee has recommended to the board that all

Nomination and Governance Committee Report continued

serving directors be reappointed at the AGM with the exception of Geoffrey Howe who has decided not to seek reappointment at the AGM following more than nine years' service on the board.

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 valuable contribution that each of the 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.

Corporate governance reform

The Committee has monitored the implementation of corporate governance reforms that began to apply to the group in the financial year that ended on 31 July 2020. These reforms included the new UK Corporate Governance Code and the requirement to publish reports on the board's consideration of its duty under section 172 of the Companies Act 2006 and engagement with stakeholders, together with new requirements for larger subsidiaries in the group.

Committee Effectiveness

As described in more detail on page 76, an internal evaluation of the effectiveness of the board and its committees was undertaken during the year by the company secretary in line with the requirements of the UK Corporate Governance Code. The Committee was involved in determining the format, scope and timing of the evaluation.

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

Michael N. Biggs
Chair of the Nomination and Governance Committee

22 September 2020

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 2020 financial year, and new policy for the next three years.

The Directors' Remuneration Report is divided into three sections:

- Annual statement from the Remuneration Chair Committee Chair, pages 87 to 90;
- Directors Remuneration Policy, pages 91 to 101; and
- Annual Report on Remuneration, pages 101 to 114.

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 2020 financial year.

This year we are presenting both our decisions for the 2020 financial year and our policy for the next three years.

How the group performed during the 2020 financial year

As described in the Chairman's and Chief Executive's Statements, this has been an extraordinary year, formed of two very different periods; a pre-Covid-19 first half, followed by a second half dominated by the crisis.

Performance in the first half of the year was set against a weak UK economy with low levels of activity, at least until the UK general election. For this period, all divisions of the group were performing in line with expectations and in the first half we reported an RoE, our key financial measure, of 13.6%; below the previous year but well above the bonus threshold level of 12%. Other financial and risk metrics in the Banking division were on track, the Asset Management business showed strong growth with 9% net inflows and Winterflood executed a rising number of trades following the election, with no loss days. A detailed consideration of the strategic scorecard objectives at this stage would have shown very strong progress against all the objectives set for the year.

Importantly, in the first half, the executive team devoted considerable effort and energy to reviewing and testing a series of "playbooks" designed to act as a roadmap to guide the company in the event of an economic downturn.

Then the Covid-19 crisis struck in March, the group entered this challenging and unprecedented period with some important advantages: the quality of the loan book, the strength of the balance sheet, and a clear sense of purpose which continues to be embraced by employees throughout the company, leading to high levels of employee engagement. The group moved quickly to ensure the safety and wellbeing of our colleagues and enable working from home for the vast majority of our staff within government and regulatory guidelines.

All our divisions remained open for business throughout the UK lockdown. The Banking division maintained its high customer service levels, granted forbearance widely but thoughtfully and continued to lend, with accreditation for UK government support schemes enabling many customers to be offered additional facilities under these schemes. Winterflood successfully managed a huge increase in trading volumes and Asset Management produced good relative investment performance and continued to generate good new business inflows.

The playbooks mentioned previously proved instrumental in facilitating timely decision-making, high levels of cooperation and rapid reallocation of resources to meet new challenges. In addition, the development of a long-term capital investment roadmap and prioritisation framework allowed for appropriate decisions to be made to reprioritise projects and allocate resources to critical areas for maintaining the effective and secure functioning of the business. The group's prudent funding model was strengthened with growing customer deposits throughout this period, and an already high level of liquidity was increased further in light of the pandemic.

Directors' Remuneration Report continued

Throughout this time the group's resilient business model has continued to perform as expected in light of the external environment. Although some key financial numbers have been impacted by forbearance measures and higher IFRS 9 provisions, as a result of Covid-19, most of the group's key numbers remain well within risk tolerances and in line with normal expectations. The Committee also recognises that decisions taken in response to Covid-19, including the offering of payment holidays, were the right course of action to support the group's customers during this period, despite being detrimental to certain key metrics such as net interest margin and RoE.

During this period the group's financial and operational performance has remained resilient, and we have seen an encouraging increase in activity levels in June and July, supporting loan book growth and a partial recovery in the net interest margin. The board is now proposing payment of a 40p per share dividend in respect of the 2020 financial year, reflecting our confidence in the group's business model and strong financial position.

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	2020	2019
Return on opening equity	**8.0%**	15.7%
Return on opening equity over three years[1]	**13.6%**	16.9%
Adjusted operating profit (£ million)	**144.0**	270.5
Adjusted earnings per share growth over three years[1]	**(43.4)%**	6.5%
Distributions to shareholders (£ million)[2]	**59.8**	98.5

1 For the three-year periods ended 31 July 2020 and 31 July 2019.
2 For the 2020 financial year, proposed final dividend. The interim dividend was cancelled due to the Covid-19 crisis.

Executive director remuneration outcomes in 2020 financial year

At the end of the financial year in July, the Remuneration Committee at Close Brothers wrestled with the familiar questions that we consider every year: how to maintain a fair balance between the interests of different stakeholders, including shareholders, the entire employee universe and management; how to encourage and reward the behaviours that reflect our purpose and culture; where to stick rigidly to formulaic outcomes and where to use discretion and how to judge performance against a clear set of objectives. In our deliberations this year, we face the same additional challenge that is confronting remuneration committees around the country and the world: how do we take account of the unprecedented challenge posed by the ongoing Covid-19 pandemic, and how to judge performance against the "clear set of objectives" set at the beginning of the year, when they have had to be re-evaluated and reprioritised under these very unusual circumstances?

After due consideration, the Committee made the decision that the targets that were set for the year, both formulaic and strategic, should be respected and not revised, while a sensible degree of judgement should be used in evaluating the outcomes of the strategic scorecard to take account of the very changed circumstances which affected the second half of the company's financial year.

The year-end review of performance against the strategic scorecard (as detailed on pages 105 and 106) showed a very high level of continuing progress against the specified goals, despite the crisis. All key goals have been achieved or are well on track, with only minor delays caused by the reprioritisation and reallocation of resources discussed above, and fully supported by the board. This resulted in high performance scores against the strategic scorecard.

Maintaining the same financial metrics means that the financial element of the executive directors' bonus, which is linked to return on opening equity, pay out zero per cent of the maximum. This results in materially lower annual bonuses for the executive directors, which are, regrettably, in no way reflective of the energy, effort and effectiveness of these individuals, but are aligned with the experience of shareholders who have also been subject to a decline in their dividends for the first time since Close Brothers became a listed company. The Committee commends the responsible attitude of the Directors concerned and their unequivocal support for the Committee's decision regarding the formulaic outcomes, on top of voluntarily donating a portion of their fixed compensation to charity.

The financial targets within the Long-Term Incentive Plan ("LTIP") grants awarded in 2017 have also proven highly demanding given the current market conditions. Adjusted EPS growth over the three-year period remained under the minimum threshold and did not vest. Average annual return on equity over the performance period was above the threshold target. 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 highly. The overall level of the vesting of the LTIP has increased from the previous year's award. The vesting outcomes are set out on pages 107 to 109.

Directors' Remuneration Policy

Our current Directors' Remuneration Policy ("Policy") was approved by shareholders at the 2017 AGM, with over 97% of the shareholders' votes cast in favour, and expires at the 2020 AGM.

The current Policy has worked well over the past three years. In particular, it has consistently delivered incentive payouts that have been well aligned to group and individual performance, and to the experience of our shareholders. Nonetheless, the Committee undertook a detailed review to ensure that the Policy continues to meet the needs of the business and its stakeholders and that it remains consistent with market, regulatory and governance developments.

In light of the review, the Committee has concluded that the new Policy should remain largely unchanged from our current Policy other than a number of governance and administrative updates. The principal updates are as follows:

- Pension provision – under the new Policy, pension provision for both incumbent and new executive directors will be aligned with the benefit available to the general workforce (currently 10% of salary).
- Post-employment shareholding guideline – under the new Policy, executive directors will be required to maintain a meaningful shareholding for two years after stepping down as a director (currrently shares worth 200% of their base salary for two years).
- Discretion - the new Policy clarifies that the Committee has discretion to override formulaic performance conditions in the incentive plans to avoid inappropriate outcomes.
- Annual bonus payout schedule - the level of annual bonus payout for "target" performance for financial measures has been reduced from 67% to 50% of maximum.
- Malus and clawback provisions - malus and clawback provisions have been updated to ensure alignment with corporate governance and regulatory requirements.

We have discussed these proposed updates with our major shareholders and I would like to thank them for the helpful feedback that they provided.

The proposed Policy will apply for a three-year period until the 2023 AGM. However, in the event we need to revise this in advance of that we may seek earlier shareholder approval for a revised Policy in 2021 or 2022. For example, an accelerated process could be required if CRD V were to be fully adopted by the UK, which would require material amendments to our executive remuneration structure by 2021/2022.

Implementation of the Policy in 2021 financial year

Throughout the last three-year Policy cycle, we used a consistent set of financial performance measures, ranges and targets in our annual bonus and LTIP plans. In light of the current economic environment, we do not believe that it is appropriate to continue this approach in the new Policy cycle and instead we will move to a more market standard model of flexing performance measures and targets so that they are relevant and appropriately challenging for each individual performance period.

Specifically, in relation to the financial year 2021, we will:

- broaden the financial performance measures used in the annual bonus by the addition of a second metric: a CET1 capital ratio, with targets set significantly above the regulatory minimum capital requirement of 8%, will be introduced as a new measure to complement RoE, with both having equal weighting (30% of the bonus). We believe it is particularly important in the current circumstances that our executives are focused on and rewarded for a combination of maintaining a strong capital position (CET1) as well as the profit generated from that capital (RoE);
- maintain the financial performance measures used in the LTIP (RoE and EPS); and
- set financial performance targets for both the 2021 annual bonus and 2020 LTIP award that are aligned to our internal budget and business plans, taking into account external market conditions. Financial measures within the annual bonus and LTIP are set out on pages 109 and 110 respectively. Details of the strategic scorecard will be disclosed in next year's Directors' Remuneration Report, in line with standard market practice.

Changes to the board of directors during the year

As announced last September, Preben Prebensen decided to step down as chief executive after 11 years in the role. Following an extensive search that considered both internal and external candidates, Adrian Sainsbury has been appointed as Preben's successor effective from 21 September 2020.

Adrian's maximum annual bonus and LTIP opportunities have been initially set at 225% and 275% of salary respectively, well within the 300% and 350% of salary maximums respectively permitted within the Policy. The remainder of Adrian's remuneration package for the 2021 financial year comprises a salary of £550,000, 10% of salary pension allowance and £18,000 car allowance and other regular benefits.

Preben will be eligible for a time-prorated bonus for the period of the 2021 financial year that he had been chief executive, which will be disclosed in next year's Directors' Remuneration Report. Preben will not receive a 2020 LTIP award, recognising he will not be in the business for the majority of the long-term performance period. Full details of his remuneration arrangements are disclosed on pages 112 and 113.

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 Committee continues to direct effort into reviewing and approving the overall remuneration for all levels of employees across the group. For further details, please see the Remuneration Committee activity table on page 102.

The average salary increase awarded across the group was 1%, with an emphasis on supporting pay levels for junior employees. The majority of the staff within our group however, have seen their annual bonus reduced. The remuneration committee have devoted time to review the pay of junior employees to ensure that any reductions in total compensation were limited, and less than for senior staff.

The disciplined approach to pay the group has adopted for many years, contributed to ensuring that the company has not had to utilise the UK government's job retention scheme. The group continues to pay all staff at or above the national living wage, which is in excess of the national minimum wage.

Gender pay disclosure

This year the Remuneration Committee has overseen the publication of our third gender pay gap report, which is published on our website at https://www.closebrothers.com/sites/default/files/CBG_Gender_Pay_Gap_Report_2019_2020.pdf. 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. As signatories of the Women in Finance Charter we set a target of 30% of senior manager roles being held by a female by July 2020 and are pleased to have met that target by reaching a new level of 33%. At the end of the financial year we also 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, we have a broad focus and ambitions around inclusion matters and are committed to fairness and equality. We are signatories of the Social Mobility pledge and this year we also became signatories of the Race at Work Charter to help direct our actions around race equality. 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 employees continue to feel that we are an inclusive organisation, as demonstrated by responses in the employee opinion survey, and we continue to push forward and implement activities and initiatives in this sphere to ensure we are building an inclusive environment where all our colleagues feel proud to work for us.

UK Corporate Governance Code

The updates in our proposed new Policy mean that we will be fully 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.

Directors' Remuneration Report continued

- 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 98 provide estimates of the potential total reward opportunity for the executive directors under our Policy.
- 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.

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

22 September 2020

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 2020 and, if approved, will apply from the date of the AGM.

The Remuneration Committee ("the Committee") discussed the detail of the Policy 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.

As noted in the Committee Chair's Annual Statement, this Policy remains largely unchanged from the previous policy approved by shareholders in 2017 other than the following governance and administrative updates:
- Alignment of pension provision for executive directors ("EDs") with the pension benefit available to the wider workforce (currently 10% of salary).
- Introduction of a post-employment shareholding policy.
- Clarification that the Committee has discretion to override formulaic vesting outcomes under the LTIP (for awards granted on or after 15 November 2018), where it considers the application of formulaic performance conditions to be inappropriate.
- Reduction in the level of annual bonus payout for "target" performance for financial measures from 67% to 50% of maximum opportunity.
- Extension of malus and clawback triggers to ensure alignment with corporate governance guidelines and regulatory requirements.
- Administrative changes to align the wording of the incentive plan leaver provisions in this Policy with the existing incentive plan rules and to provide flexibility to increase the proportion of incentives that are based on financial measures.

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.

Directors' Remuneration Report continued

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: • 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 A description has been provided of the considerations that the Committee will take into account for increasing salaries above the average for all employees during the remuneration policy period.		
Benefits Enables the EDs to perform their roles effectively by contributing to their wellbeing and security. Provides competitive benefits consistent with the role.	Any benefits 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 Reduction in maximum pension contribution from 22.5% of salary to up to 10% of salary, to bring this fully in line with the level currently offered to the wider workforce.		

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 300% of base salary. At the 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 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 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 96 and 97.

Changes from previous policy

Our previous Policy contained a different bonus cap and deferral proportion for the role of group head of legal and regulatory affairs. As that role is no longer a Board position, references to it have been removed in this new Policy.

Also, the level of annual bonus payout for "target" performance for financial measures has been reduced from 67% to 50% of maximum opportunity. Also, the Committee now has flexibility to increase the proportion of the annual bonus which is based on financial measures (provided that the proportion is at least 60%).

The Company's intention is to extend the malus and clawback conditions which apply to the annual bonus to cover additional triggers as described on pages 96 and 97 for 2021 grants onwards.

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
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 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 350% 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 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 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 96 and 97.

Changes from previous policy

Updated to clarify that, in respect of awards granted on or after 15 November 2018, the Committee has an overriding discretion to adjust vesting outcomes where it considers the application of formulaic performance conditions to be inappropriate.

The Committee also now has the flexibility to increase the proportion of awards which are based on financial measures (provided that the proportion is at least 70%).

The malus and clawback conditions which apply have been expanded to cover additional triggers as described on pages 96 and 97 for grants made on or after September 2020.

Element and how it supports the group's short-term and long-term strategic objectives	Operation and maximum payable	Performance framework, recovery and withholding
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 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.		
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-income tax and national insurance earnings to buy Partnership Shares. At present the Committee has determined that EDs have the ability to buy Partnership Shares. Currently there is no match but the 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 Committee exercise this discretion. Dividends paid on shares held in the SIP are reinvested to acquire further Dividend Shares. The 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 two years after stepping down as an ED. This post-employment guideline will apply from the date of adoption of the Policy. The Committee retains discretion to waive this guideline if it is not considered appropriate in the specific circumstances.	Not applicable.
Changes from previous policy Introducing a post-employment shareholding requirement for the EDs in line with the 2018 Code requirements.		
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.	Not applicable.
Changes from previous policy None.		

Directors' Remuneration Report continued

Additional details on the Directors' Remuneration Policy

The 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 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 Committee will make full and clear disclosure of any such adjustments within the Annual Report on Remuneration for the relevant financial year.

The 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 Committee will make full and clear disclosure of any such adjustments within the Annual Report on Remuneration for the relevant financial year.

The 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 Committee may adjust an award as appropriate.

Rationale for choice of performance conditions

The Committee selects financial and non-financial performance measures that strengthen the alignment of the remuneration arrangements to the business model and the interests of our shareholders.

At maximum performance, the ratio of financial to non-financial measures for the group chief executive and group finance director across the annual bonus and LTIP is approximately two-thirds. The 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 this 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 circumstances in which malus and clawback can be applied currently differ between the LTIP and the annual bonus (the cash element and the deferred element). The company has extended the circumstances in which malus and clawback can be applied and is intending to align the position between the LTIP and annual bonus (cash and deferred elements) in the future. The company intends to apply the extended malus and clawback conditions for LTIP awards for 2020 grant onwards and 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 usually include (where relevant) whether, and if so, 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 three years from the date of grant. LTIP awards are subject to malus for the three-year period to the point of vesting, and are subject to clawback for five years from the date of grant (two years after vesting).

If an investigation into the ED's conduct or actions has started before, but not ended by, the end of the relevant clawback period, the Remuneration Committee may extend the period until a later date to allow that investigation to be completed.

Malus triggers

The Remuneration Committee may apply malus to unvested LTIP awards granted on or after 21 September 2020 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 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 Committee does not formally consult with employees when setting the Policy, although the employee opinion survey conducted every two years includes remuneration as one of the topics surveyed.

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. 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 as a percentage of base salary.

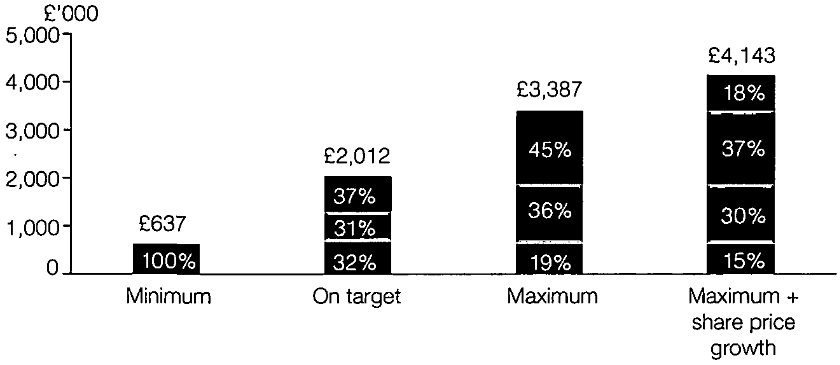
Members of the group Executive Committee who are not EDs are required to build and maintain shareholdings of at least one times base salary.

All UK employees are eligible to participate in the SAYE and SIP plans.

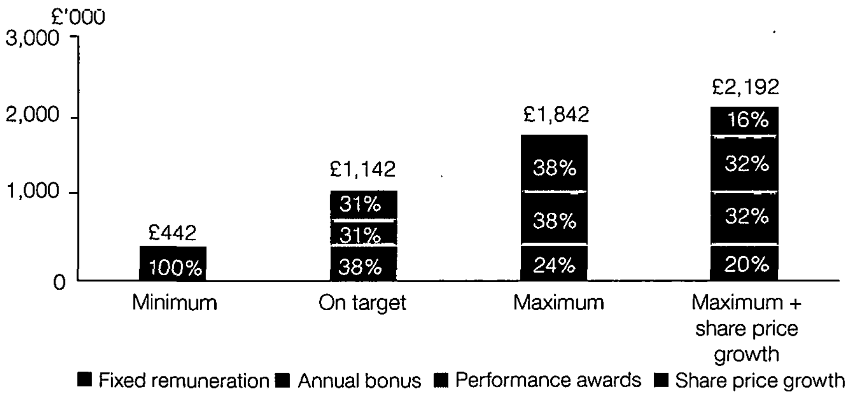
Directors' Remuneration Report continued

Illustrations of application of Remuneration Policy for EDs
The scenario charts below provide illustrations of potential remuneration outcomes for our EDs in 2021, based on the 2020 Remuneration Policy set out on pages 92 to 95 based on the assumptions provided in the table below.

CEO: Adrian Sainsbury



CFO: Mike Morgan



Element	Assumptions used
Fixed remuneration	Consists of 2021 base salary (group chief executive £550,000; group finance director £400,000, 2020 benefits and 2021 pension allowance (10% of salary))
Minimum	No variable elements are awarded
On target	Annual bonus: Awarded at 112.5% of base salary for the group chief executive and 87.5% of salary for the group finance director (50% of maximum potential for 2021) LTIP: Awards with face value of 275% of salary for the group chief executive and 175% of salary for the group finance director and assumed 50% vesting
Maximum	Annual bonus: Awarded at 225% of base salary for the group chief executive and 175% of salary for the group finance director (100% of maximum potential for 2021) LTIP: Awards with face value of 275% of salary for the group chief executive and 175% of salary for 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 dividends equivalents

Approach to recruitment remuneration
The remuneration package for new EDs will comply with the Policy for EDs outlined on pages 92 to 95 and the following paragraphs. The Committee will seek to pay no more than is necessary to secure the right candidate.

The Committee may, to the extent permitted by the Listing Rules, 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 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 Committee may continue with existing remuneration provisions for any such individual where appropriate.

If considered appropriate the Committee may apply different performance measures and/or targets to an ED's first incentive awards in their year of appointment.

Legacy awards

The 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 Committee, the payment was not in consideration for the individual becoming a director of the company. For these purposes "payments" includes the 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 Committee determines otherwise).	• The Committee may award a pro-rated bonus to EDs who work for part of the year or are "good leavers" (as determined by the Committee) in certain circumstances, although there is no automatic entitlement. "Good leaver" status may be granted in cases such as death, disability or retirement. • The Committee has discretion to reduce the entitlement of a "good leaver" in line with performance, the circumstances of the termination, and the malus conditions applicable to the annual bonus. In determining the level of bonus to be paid, the 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 Committee. The bonus may, at the 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 Committee elects to release the shares on an earlier date.	• An ED's deferred shares will lapse (unless the 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 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 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 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 Committee elects to assess performance over an alternative period). • Unless the 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 Committee determines). However, the 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.

Directors' Remuneration Report continued

Standard provision	Policy	Details
Outside appointments	EDs may accept external appointments.	• Board approval must be sought before accepting the appointment. • *The fees may be retained by the director.*
Chairman and non-executive directors	Engaged under letters of appointment for terms not exceeding three years. Renewable by mutual agreement and can be terminated on one month's notice.	• All non-executive directors are subject to annual re-election. • No compensation is payable if required to stand down.
Other	The 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
Preben Prebensen[1]	9 February 2009
Adrian Sainsbury	1 May 2020
Mike Morgan	15 November 2018

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. The chairman and non-executive directors are entitled to claim reimbursement for reasonable expenses and associated tax liabilities incurred in connection with the performance of their duties for the company, including travel expenses. Overall aggregate fees will remain within the £1 million authorised by our articles of association. There is no performance framework, recovery or withholding.

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	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

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 2020 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; and • 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. • 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 to the group's risk appetite.

Membership
The Committee comprises Bridget Macaskill as chair, together with each of the other independent non-executive directors other than Peter Duffy and Sally Williams. A record of the Committee members' attendance at the five meetings held during the year is set out on page 71. There were two additional ad hoc meetings to discuss executive director pay and the compensation package for the new chief executive.

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

Directors' Remuneration Report continued

Membership activity in the 2020 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:

	September 2019	January 2020	February 2020	March 2020	April 2020	June 2020	July 2020
Remuneration policy and disclosures							
Review and approval of Remuneration Policy Statement for 2019	•	•					
Review and approval of Directors' Remuneration Report for 2019	•						
Review and approval of the remuneration section of the Pillar 3 disclosure for 2019	•						
Review of Directors' Remuneration Policy for 2021		•	•		•	•	•
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 2020 awards	•						
Final review and approval of EDs' annual bonus targets and objectives	•						
Review of performance testing results for vesting 2016 LTIP and SMP awards	•						
Review and approval of revised approach to year-end compensation					•	•	
Year-end all-employee group-wide salary and bonus analysis/proposals					•	•	•
Thematic review of effectiveness of sales incentive schemes					•		
Review and approval of the risk management objectives for the 2017 LTIP vesting							•
Review proposed 2020 compensation for Material Risk Takers							•
Initial review of EDs' annual bonus targets and objectives for 2021							•
Review of sales incentive schemes and approval of schemes for 2021							•
Regulatory and external developments							
Review of Corporate Governance Code		•					
Material Risk Takers identification	•	•			•		
Gender pay gap review		•					
Special business							
Review and approval of the compensation package for the new CEO		•		•			
Committee remit and effectiveness							
Review terms of reference						•	
Self-evaluation	•						

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

The Committee's remuneration advisers are Deloitte LLP (a member of the Remuneration Consultants Group). During the year, separate teams within Deloitte provided advice to the group on risk, cyber, IT, internal audit and related projects. The Committee is satisfied that the provision of these other services does not affect the objectivity and independence of the remuneration advice provided by Deloitte. Total fees paid to Deloitte were £161,000 during the 2020 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 £21,500, calculated on a time and material basis.

Statement of voting on the Directors' Remuneration Policy at the 2017 AGM

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

Statement of voting on the Directors' Remuneration Report at the 2019 AGM

	For	Against	Number of abstentions
Annual Report on Remuneration	99.0%	1.0%	2,053,435

Implementation of the policy in 2020

Single total figure of remuneration for executive directors 2020 (Audited)

	Salary		Benefits		Pension		Total fixed remuneration		Annual Bonus[1]		Performance awards[2,3]		Total variable remuneration		Total remuneration	
	2020	2019	**2020**	2019	**2020**	2019	**2020**	2019	**2020**	2019	**2020**	2019	**2020**	2019	**2020**	2019
Name	**£'000**	£'000	**£'000**	£'000	**£'000**	£'000	**£'000**	£'000	**£'000**	£'000	**£'000**	£'000	**£'000**	£'000	**£'000**	£'000
Preben Prebensen	**550**	550	**19**	20	**124**	124	**693**	694	**660**	1,356	**699**	720	**1,359**	2,076	**2,052**	2,770
Mike Morgan[4]	**400**	285	**2**	1	**35**	29	**437**	315	**218**	341	**395**	344	**613**	685	**1,050**	1,000

1 60% of Preben Prebensen's and Mike Morgan's annual bonus is deferred into shares.
2 The figures for the performance awards for 2019 have been recalculated using the actual share price on the date of vesting for the LTIP and Matched SMP Shares of £13.53. The three-month average to 31 July 2019 was used for the 2019 report given that the awards were vesting after publication of the report.
3 The figures for the performance award for 2020 have been calculated using the three-month average to 31 July 2020. As this share price is lower than the grant date share price, none of this value relates to share price appreciation.
4 Mike Morgan's performance awards were granted before he was appointed to the board. £157,133 of the above value relates to 12,276 vested LTIP shares that were subject to the performance criteria outlined on page 107 and £237,714 of the above relates to 17,071 vested shares that were conditional on continued employment and positive EPS growth between grant and vesting.

Link between reward and performance

The 2020 financial performance is a story of two halves. Strong returns in the first half of the year were followed by a period where we felt the impact of Covid-19. Throughout this period the group's financial and operational performance has remained resilient, and we have seen an encouraging increase in activity levels in June and July, supporting loan book growth and a partial recovery in the net interest margin. The board is now proposing payment of a 40p per share dividend in respect of the 2020 financial year, reflecting our confidence in the group's business model and strong financial position.

Overall the group reported a 46.8% reduction in adjusted operating profit to £144.0 million (2019: £270.5m), which still equated to a solid return on opening equity of 8.0% (2019: 15.7%). Despite this solid performance in relation to RoE, in the current economic conditions it is below the threshold level and the financial metrics will pay out at zero per cent of the maximum. The executive directors did however show a very high level of continuing progress against specified objectives, and this resulted in high performance scores against the strategic scorecard (see pages 105 and 106 for further details).

For the 2017 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 AEPS reduction of 43.4% over the last three years was below the threshold performance target of 10% growth and consequently the AEPS element of the LTIP has not vested. The average annual return on equity of 13.6% per annum has exceeded the threshold target of 12.0% per annum, meaning the RoE element contributed 13.9% 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 94.2% contributing 28.2% to the overall vesting. As a result, the LTIP vested at 42.1% overall this year (see page 107 for further details).

Despite the overall LTIP vesting level increasing year on year, the single total remuneration figure of Preben Prebensen has reduced materially, down by 26% from the prior year as a result of a 51% reduction in bonus.

Additional disclosures on the single total remuneration figure for executive directors table (Audited)

Salary

The per annum salaries paid during the year are as shown in the single total remuneration figure table above. When reviewing salary levels, the Committee takes into account the individual's role and experience, pay for the broader employee population, market and external factors, where applicable. No salary increases have been awarded to the executive directors for the 2021 financial year, whilst the average increase for the general employee population is 1%.

Benefits

Preben Prebensen received an £18,000 allowance in lieu of a company car. 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

Preben Prebensen received a monthly cash pension allowance equivalent to 22.5% of base salary. Mike Morgan received a pension allowance equivalent to 10% of base salary, the same percentage as the general employee population.

Annual bonus

Maximum bonus potential for the 2020 financial year was 300% of salary for Preben Prebensen and 175% of salary for Mike Morgan. The bonuses for executive directors were determined with reference to RoE targets and a group-wide strategic scorecard. Details of the achievements and targets are outlined on the following page.

Directors' Remuneration Report continued

Summary of annual bonus achievement

Name	Financial target (RoE) Weighting	Potential maximum £'000s	Actual per cent of maximum	Actual amount awarded £'000s	Group-wide strategic scorecard Weighting	Potential maximum £'000s	Actual per cent awarded	Actual amount awarded £'000s	Total bonus awarded £'000s
Preben Prebensen	60%	990	**0%**	–	40%	660	**100.0%**	**660**	**660**
Mike Morgan	60%	420	**0%**	–	40%	280	**78.0%**	**218**	**218**

The RoE for the 2020 financial year was 8.0% against a target range of 12% to 20%, warranting an award of zero percent of the potential maximum bonus for this element.

Financial measures – RoE targets

Threshold 33.3% of maximum potential	Target 66.7% of maximum potential	Maximum 100% of maximum potential	**Actual RoE achieved**	**Percentage of RoE element paid**
12%	15%	20%	**8.0%**	**0%**

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

Group-wide performance and executive directors' objectives for the 2020 financial year
The group entered the current crisis in a strong position, with our effective operational resilience allowing us to adapt and remain open for business throughout.

Our first priority was to protect the safety and wellbeing of our colleagues, and we quickly and effectively implemented new working arrangements to enable them to conduct their roles safely. We have taken great care to support of our people, seeking regular feedback and providing a range of health and wellbeing classes and webinars, as well as opportunities for employees to engage with management and each other.

We maintained the disciplined application of our business model, with prudent and conservative lending criteria, while continuing to protect our margins. Our specialist, relationship-driven model supports a consistently strong NIM, which remains well ahead of our peer group average. Our funding was prudent and diverse entering the crisis, with very strong levels of liquidity, and we have increased both in recent months in response to Covid-19. The group's strong levels of capital continued to build throughout the year and remain well ahead of regulatory minimums.

Our continued focus on our customers and clients is demonstrated by the strong customer satisfaction scores our businesses achieve. To maximise the support offered to our customers we extended a range of forbearance measures to assist customers and clients who find themselves in difficulty and became accredited to lend under UK government support schemes.

Our diverse business model supports our resilience and performance in challenging markets, minimising concentration risk and providing a variety of profit streams. Operating profits for the year were impacted by the effects of Covid-19 on the forward-looking recognition of impairment charges under IFRS 9, partly offset by a very strong performance in Winterflood. The loan book remained broadly flat reflecting a resilient overall performance in a challenging year, with uncertainty over the UK general election, Brexit negotiations and Covid-19 impacting customer demand.

Throughout this period the group's financial and operational performance has remained resilient, and we have seen an encouraging increase in activity levels in June and July, supporting loan book growth and a partial recovery in the net interest margin. The Board is now proposing payment of a 40p per share dividend in respect of the 2020 financial year, reflecting our confidence in the group's business model and strong financial position.

The group continues to invest in its key strategic projects, which include enhancements to our cyber and data security, our multi-year programmes in Motor Finance and Asset Finance, our hiring programme in Asset Management, and investment to support our IRB application. Our approach allows us to improve our operational capabilities and our proposition to customers, and recent investment has enabled us to respond effectively to Covid-19. This includes our remote lending capability which proved invaluable to our Motor Finance dealers during lockdown, our deployment of SalesForce, aiding the rapid set-up of a portal to streamline CBILS applications in Asset Finance, and our online deposit portal which allowed us to continue raising deposits remotely throughout lockdown. We remain committed to investing in our key strategic programmes to protect, improve and extend our business model and, in the current environment, we will continue to review and prioritise investment spend while maintaining our focus on cost discipline.

We have a strong balance sheet, high quality loan book and proven, resilient business model, and are emerging from this crisis in a strong position to support our customers and clients through their recovery.

Annual performance objectives are determined by the Remuneration Committee at the start of each financial year and are designed to support the group's wider strategic objective of protecting, improving and extending its successful model. The table on pages 105 and 106 sets out the key strategic scorecard objectives which were in place in 2020, performance metrics against these objectives where appropriate, and an overview of the factors that the Committee has taken into account when assessing the performance of the executives.

When setting the objectives included in the strategic scorecard, the Committee assigned equal weight to each objective. When assessing the performance at the end of the year, the Committee ascribed additional focus to certain objectives in light of the Covid-19 crisis, including; protecting the business model, focusing on investment projects that allowed the company to operative effectively during the crisis, employee engagement, customer satisfaction, and maintaining an appropriate risk and control environment. The Committee determined the overall outcome of the strategic scorecard and adjusted the final individual rating to take into account the individual contributions. Given the very strong performance against the scorecard the percentage awarded for both Preben Prebensen and Mike Morgan have increased from the prior year.

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
Strategic: Protect Maintain the discipline of the business model	Performance metrics • Net interest margin 7.5% (2019: 7.9%) • Bad debt ratio 2.3% (10-year range 0.6%-2.3%) • Return on net loan book 1.3% (10-year range 1.3%-3.7%) • Over 90% of the loan book is secured or has some form of structural protection • Average loan book maturity 15 months (31 July 2019: 14 months) • Flat loan book in difficult market conditions (10-year range: 0%-20%) • Winterflood only 7 loss days (10-year range 0-17 days)
✓	Assessment • Firm adherence to lending model with continued underwriting and pricing discipline • Multiple business strategy playbook iterations and simulations completed in H1, which were then mobilised to very good effect during Covid-19 crisis. PRA kept updated • Increase in bad debt predominantly reflects forward-looking recognition of impairment charges under IFRS 9 • Core financial metrics remain consistent with the group's lending model • Loan book flat against a backdrop of a weak UK economy, with encouraging increase in activity levels supporting loan book growth in June and July • Credit risk metrics including security cover, tenor, pricing, credit quality and concentration risk remain within risk appetite • Analyst and shareholder feedback continue to recognise the key attributes and differentiation of the group's business model
Maintain prudent levels of capital, funding and liquidity	Performance metrics • CET1 ratio 14.1% (regulatory minimum requirement: 8.0%) • Total capital ratio 16.3% (regulatory minimum requirement: 12.3%) • Leverage ratio 11.2% (minimum requirement 3.0%) • Total funding 135% of loan book (31 July 2019: 129%) • Average maturity of funding 18 months vs loan book at 15 months • £1,733.9 million of liquid assets (31 July 2019: £1,395.4 million) • Average 12-month liquidity coverage ratio 823% (regulatory minimum 100%)
✓	Assessment • Maintained strong capital ratios, diverse funding and conservative maturity profile • Further increased CET1 headroom over minimum requirement, with very strong leverage ratio • Maintained prudent funding relative to loan book, with average maturity of allocated funding longer than loan book • Increased Euro customer deposits and reduced reliance on FX swaps from €300m to €100m • Prudent liquidity position and very strong liquidity coverage ratio, substantially in excess of regulatory
Strategic: Improve Progress key investment initiatives ✓	Assessment • Good progress on all strategic investments during H1, continued progress in H2 subject to minor Covid-19 related delays • During Covid-19 reprioritised focus given to those that would greater assist with recovery when economy improves • AIRB project on track and with detailed Board update in June. Formal application now anticipated by the end of the year • Multi-year investment roadmap in place and used effectively to reprioritise during Covid-19
Maintain cost discipline	Performance metrics • Group E/I ratio 62% (2019: 61%) • Banking E/I ratio 52% (2019: 50%)
✓	Assessment • Overall cost growth of 8% vs income at 6% reflects continued strategic investment, as well as pressure on banking income during economic downturn and covid-19 pandemic.

Directors' Remuneration Report continued

Objective	Assessment of performance against objectives including performance metrics
Strategic: Extend Progress current new business initiatives	Assessment • Energy initiatives have delivered £5.7m AOP, 50% ahead of target, with no bad debt • Maintained good growth momentum in Asset Management with net inflow rate of 9% and recent bespoke portfolio manager hires have added £1.1bn of AUM • Good progress in extension of Winterflood Business Services, AuA is now £4.1 billion, up from £3.7 billion at 31 July 2019, and achieved first full year of profitability
People Succession planning for key senior management team	Assessment • Group CEO succession completed and plans in place for smooth transition • Seamless transition to new group head of internal audit and other senior roles
Maintain strong engagement and reinforce position as employers of choice	Performance metrics • 86% employee engagement (external benchmark 82%) • 82% feel company supporting their wellbeing • 84% feeling connected to team and managers
	Assessment • Employee opinion survey confirms continued strong employee engagement • This was emphasised during Covid-19 with strong underlying scores in internal communications and feeling connected (84%) and supporting well-being (82%)
Customers Maintain focus on the end customer	Performance metrics • +56 customer NPS in Premium Finance; +77 customer NPS in Motor Finance and +72 NPS in Savings
	Assessment • During Covid-19 we have continued to follow our business model and lend to our customers • 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.
Risk conduct and compliance Operate within risk appetite, preserve compliance with legal and regulatory obligations, maintain strong control framework and overall operational resilience	Performance metrics • 100% completion of mandatory compliance training for eligible staff • 2019 employer opinion survey scores on colleagues consistently act with integrity; 93% • 2019 employer opinion survey scores on our values and business principles are aligned to the way we do business with our customers and clients; 92%
	Assessment • Continued development of operational risk framework, which was significantly tested and shown to be effective during the Covid-19 crisis • Cybersecurity strategy enhanced following expert third party review and measurable controls framework subsequently implemented • Internal Audit reviews confirm businesses continue to operate within established and embedded risk appetite, reflecting mature and transparent risk management practices • Maintained key regulatory and compliance controls while remaining fully operational in a working from home environment

Long-term performance awards

The performance awards in the single total figure of remuneration include the 2017 LTIP grant. This will vest on 3 October 2020, 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%	**(43.4)%**	**0.0%**
RoE[3] (35% weighting)	12%	20%	**13.6%**	**13.9%**
Risk management objectives ("RMO") (30% weighting)	n/a	n/a	**94.2%**	**28.2%**
Overall vesting				**42.1%**

1 25% of the awards vest for satisfying the threshold target.
2 Over three years.
3 *Average over three-year performance period.*

The share price during the relevant performance period for the LTIP decreased by 23.9% 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 2020 was 1,111.0p (from 1 May 2020 to 31 July 2020), which was the performance measurement period). The 2017 LTIP award was originally granted at 1,459.0p.

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 2018 and 2019 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

X Performance objective has not been met

Element	Measure	Extent to which the Committee determined the target has been met
Capital and balance sheet management	Capital requirements ✓	• CET1 capital ratio increased from 13.0% to 14.1%. Provides a significant buffer above both the current CET1 and Tier 1 regulatory minima of 8.0% and 9.9% respectively.
	Dividend =	• Interim dividend cancelled due to the Covid-19 crisis, despite having financial resource to have paid. The Board is now proposing payment of a 40p per share dividend in respect of the 2020 financial year, reflecting our confidence in the group's business model and strong financial position.
	Funding ✓	• Total funding of £10.2 billion of which £4.7 billion is term funding. Average maturity of funding allocated to loan book is 18 months, well in excess of the loan book at 15 months.
	Liquidity ✓	• Continue to comfortably meet the liquidity coverage ratio requirement with an average annual ratio of 823% vs minimum requirement of 100%.
Risk, compliance and controls	Internal Ratings Based approach ✓	• End to end IRB Reporting Framework complete and first generation models launched. • Second generation models developed, validated and approved by the Model Governance Committee. • Maintained key objectives and milestones and on track to submit application to PRA in 2020, including formal update to the PRA's Supervisory Risk Specialist in February 2020.
	Culture ✓	• Group culture dashboard enhanced with further metrics and trend analysis added, with outputs shared on a quarterly basis with the group Risk and Compliance Committee and board. • New employee survey implemented which focused on culture and wellbeing. • Overall cultural assessment for the group remains positive and strong scores on culture achieved in new employee survey.
	Sustainability ✓	• Sustainability targets met, exceeded or on track. These include our gender balance target for 2020 of 30% of senior manager roles being held by a female, which has been exceeded (33%), maintenance of strong customer satisfaction scores across all our businesses, maintenance of our gold award for payroll giving, and exceeded our 2021 targets of zero waste to landfill and a 20% improvement in fleet vehicle emissions. • Climate risk now embedded within the risk governance framework, with key climate risk themes identified with quantification of credit related risks, counterparty and collateral, continuing to progress.
	Operational risk/resilience ✓	• Firm's detailed approach to operational resilience agreed with strategic input from a third party, and positive feedback from the PRA received. • Repeatable methodology established for defining important business services and defining impact tolerances. • Group-wide disaster recovery strategy updated and tested to positive effect during Covid-19 which presented a real-world stress of the firm's operational resilience. The crisis management, technology and business continuity capabilities in place prior to the crisis enabled the firm's operation through extensive operational disruption. • Cyber control framework agreed and implemented.

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

Element	Year one assessment	Year two assessment	Year three assessment	Overall vesting
Capital and balance sheet management	100%	100%	95%	98.33%
Risk, compliance and controls	85%	90%	95%	90.00%
Overall vesting				**94.17%**

Implementation of the policy in 2021
Base salary

	Salary effective from 1 August 2020	Increase
Group chief executive – Preben Prebensen[1]	£550,000	0.0%
Group chief executive – Adrian Sainsbury[2]	£550,000	–
Group finance director – Mike Morgan	£400,000	0.0%

1 For the period 1 August 2020 to 21 September 2020.
2 Salary effective from 21 September 2020.

Base salaries were determined with reference to the executive director's role, increases for the broader population and external factors. The Committee determined that it was appropriate for the executive directors' salaries not to be increased, in line with the salary guidance for the majority of senior employees. The average salary increase across the wider employee population was 1%.

The executive directors will receive benefits in line with those outlined in the remuneration policy table on page 92. There will be no increases to the allowances for benefits other than any potential increase in the cost of providing them.

Adrian Sainsbury and Mike Morgan will receive a 10% of base salary cash allowance in lieu of a pension, in line with the level of benefit offered to the general employee population. Preben Prebensen will receive a cash allowance in lieu of a pension equivalent to 22.5% of base salary for the period 1 August 2020 to 21 September 2020.

2021 annual bonus (i.e. bonus awarded in respect of the 2021 performance year)
RoE continues to be a long-standing metric for the financial element. The Committee considers it to be a significant measure of business performance, as it provides strong evidence of adherence to the business model. To broaden the financial measures a second metric, CET1 capital ratio, has been added as it is important at the current point in the cycle to ensure we maintain a strong capital position. The target range is significantly above the regulatory minimum capital requirement of 8%.

Nature of measures	Choice of measures	Targets	Percentage of bonus opportunity	Vesting ranges
Financial	RoE	10% to 18%	30%	Threshold – 33%[2]
	CET1	12.6% to 15.6%	30%	Maximum – 100%
Non-financial	Strategic scorecard: Strategic objectives and People and customers	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 2021 Annual Report on Remuneration.
2 Performance below threshold in the financial measures would result in zero vesting of the financial measure.

Adrian Sainsbury will initially have a maximum bonus potential of 225% of salary. Mike Morgan's maximum bonus potential remains at 175% of salary in line with last year. Preben Prebensen will be eligible for a time-prorated bonus for the period he was chief executive.

2020 LTIP (i.e. LTIP awarded in respect of the 2020 to 2022 cycle)
The 2020 LTIP awards due to be granted in October 2020 are shown in the table below.

	Chief executive **Preben Prebensen**	Chief executive **Adrian Sainsbury[1]**	Group finance director **Mike Morgan**
2020 LTIP award	–	£1,500,000	£700,000
Percentage change in LTIP award from 2019	–	–	0%
2020 LTIP award as a percentage of 2020 salary	–	–	175%

1 Adrian Sainsbury's 2020 LTIP award equates to 273% based on his chief executive salary.

The remuneration committee carefully considered the appropriate level of LTIP award in light of market volatility during the year. The remuneration committee was satisfied that it was appropriate to grant at the level of 273% to Adrian Sainsbury and 175% to Mike Morgan, noting that it has an overriding discretion to adjust vesting outcomes where it considers the application of formulaic performance conditions to be inappropriate or to avoid windfall gains at vesting.

Directors' Remuneration Report continued

The 2020 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 Committee believes these targets are appropriately stretching and effectively align the executive directors' interests with those of shareholders.

The four risk management objectives for the 2021 financial year remain the same as 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 culture framework of the organisation
Increase our focus on and further develop the group's approach to sustainability
Continue to enhance our resilience to operational risks

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

Relative importance of spend on pay

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

	2020 £ million	2019 £ million
Remuneration paid	**322.7**	292.4
Distributions to shareholders[1]	**59.8**	98.5

1 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 2020 financial year. The year-on-year movement in salary and fees for the directors and employees reflects the annual review implemented in August 2019 and changes throughout the financial year ending 31 July 2020. Certain fees for non-executive directors increased in August 2019 for the first time since 2017. The change in bonus for the EDs primarily reflects the achievement against RoE outlined on page 107. The average increase in bonus for the general employee population is 13.1%. For the population excluding Winterflood the average decrease is 22.4%, this is a lower reduction than that of the EDs.

	2020									
		Executive directors[2]		Chairman and non-executive directors[4]						
	Average Employee[1]	Preben Prebensen	Mike Morgan[3]	Mike Biggs	Lesley Jones	Geoffrey Howe	Bridget Macaskill	Oliver Corbett	Peter Duffy[5]	Sally Williams[6]
Salary	**1.8%**	0%	0%	0%	5.6%	2.9%	5.6%	5.6%	0%	–
Benefits	**1.8%**	0%	0%	(25.7)%	(57.0)%	32.6%	(50.5)%	0%	0%	–
Bonus	**13.1%**	(51.3)%	(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 on page 103.
3 Mike Morgan was appointed a director in November 2018. To enable a meaningful comparison, his 2019 salary, benefits and bonus were adjusted to reflect a full-year.
4 Calculated using the fees and taxable benefits from the single figure table for non-executive directors on page 114.
5 Peter Duffy was appointed a non-executive director on 1 January 2019. To enable a meaningful comparison, his 2019 fees were adjusted to reflect a full-year appointment to the Board.
6 Sally Williams was appointed a non-executive director on 1 January 2020 therefore there is no year-on-year comparison.

Pay ratios

The table below compares the chief executive's single total remuneration figure for 2020 to the remuneration of the group's UK employees at as 31 July 2020. The Committee is satisfied that the median ratio is consistent with the pay, reward and progression policies for our employee population.

Year	Method	25th Percentile	Median	75% Percentile
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 as at 31 July 2020;
- pensions and benefits paid during the 2020 financial year;
- annual bonus awarded for the 2020 financial year;
- actual and projected gains realised from exercising awards from taxable employee share plans;
- sales incentives paid during the 2020 financial year; and
- projection of vested performance awards.

The total remuneration value for the employee at the 25th percentile, median and 75th percentile was £32,194, £54,245 and £90,029 respectively, of which the salary component made up £27,167, £36,950 and £75,000 respectively.

Chief executive: Historical information

	2011	2012	2013	2014	2015	2016	2017	2018	2019[1]	**2020**
Preben Prebensen										
Single figure of total remuneration ('000)[2]	£2,187	£2,496	£5,748	£7,411	£5,962	£3,995	£3,337	£2,541	£2,770	**£2,052**
Annual bonus against maximum opportunity	95%	90%	100%	100%	98%	95%	91%	86%	82%	**40%**
LTIP, SMP and Matching Share Award vesting	33%	25%	79%	95%	97%	68%	51%	19%	30%	**42%**

1 The figures for the performance awards for 2019 have been recalculated using the actual share price on the dates of vesting for the LTIP and Matched SMP Shares of £13.53. In the 2019 report, the three-month average to 31 July 2019 was used, given that the awards were vesting after publication of the report.
2 The figures for 2011 to 2014 include the Matching Share Awards that were granted in 2009 at the time of Preben Prebensen's appointment as chief executive.

LTIP vesting for the last seven years

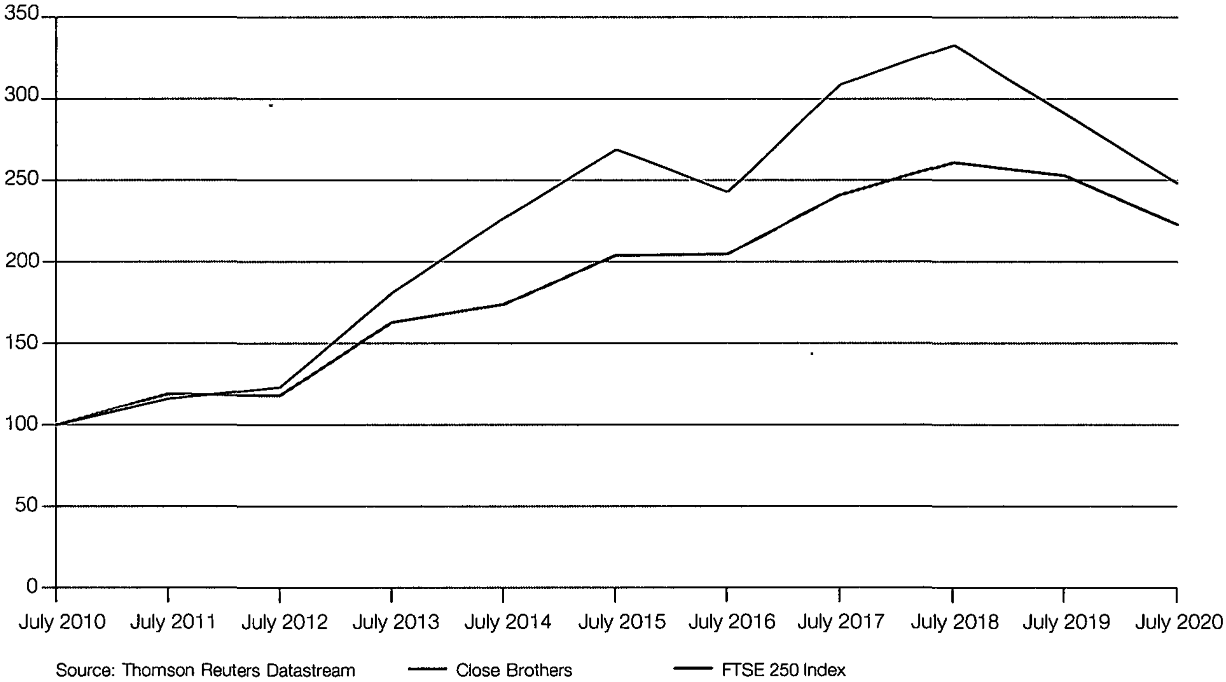
		Vesting percentage				
Year awarded	Year vested	Adjusted EPS	TSR	RoE	RMO	Total
2011[1]	2014	100%	100%	–	85%	95%
2012[2]	2015	100%	100%	–	87%	97%
2013[2]	2016	100%	25%	–	89%	68%
2014[2]	2017	56%	26%	–	92%	51%
2015[2]	2018	0%	0%	–	93%	19%
2016[2]	2019	0%	28%	–	94%	30%
2017[3]	2020	0%	–	38%	94%	42%

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 award.

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 2020 against the TSR for the companies comprising the FTSE 250 Index.



Note:
This graph shows the value, by 31 July 2020, of £100 invested in Close Brothers Group plc on 31 July 2010 compared with the value of £100 invested in the FTSE 250 Index. The other points plotted are the intervening financial year ends. TSR has been calculated assuming that all dividends are reinvested on their ex-dividend date. The index has been selected because the company has been a constituent of the index throughout the period. The closing mid-market price of the company's shares on 31 July 2020 was 1,096p and the range during the year was 926.5p to 1,663p.

Scheme interests awarded during the year (Audited)

The face value and key details of the share awards granted in the 2020 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 £13.66, the average mid-market closing price for the five days prior to grant (1 October 2019).

Name	Award type[1]	Vesting period	Performance conditions	Face value '000	Percentage vesting at threshold	Number of shares	Vesting/ performance period end date
Preben Prebensen	DSA[2]	1-3 years	No	£814	n/a	59,557	01-Oct-22
	LTIP[3,4]	3 years	Yes	£1,889	25%	138,320	01-Oct-22
Mike Morgan	DSA[2]	1-3 years	No	£205	n/a	14,990	01-Oct-22
	LTIP[3,4]	3 years	Yes	£700	25%	51,230	01-Oct-22

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 107.
4 LTIPs granted in 2019 have an additional two-year holding period.

External appointments

Preben Prebensen received £71,867 in non-executive director fees (2019: £70,875) from The British Land Company plc.

Payments to departing directors (Audited)

Preben Prebensen will be eligible for a time-prorated bonus for the period of the 2021 financial year that he was chief executive. This award will be determined by the Committee during the 2021 compensation round, and disclosed in next year's Directors Remuneration Report. Preben will not receive a 2020 LTIP award, recognising he will not be in the business for the majority of the long-term performance period. He will be treated as a good leaver for his existing unvested LTIP awards, such that outstanding awards as at the date of termination will not lapse. As a good leaver, vesting of shares will be pro-rated to reflect the period of employment up to the termination date of 21 September 2020. Vesting will remain subject to performance testing against the published performance conditions for each award and shares shall vest according to the original schedule. The term "good leaver" is used to mean (in respect of grants taking effect on or after 16 November 2017) leaving for a "permitted reason" (as defined in the current Share Incentive Plan Rules) and (in respect of grants taking effect before 16 November 2017) the Committee decided that his awards shall not lapse on the date on which employment ends (in accordance with the previous rules). In relation to the Deferred Annual Bonus plan, under the rules of the scheme, provided that Preben does not join another financial service business in the 12 months following termination of his employment, he will continue to remain eligible to receive his outstanding deferrals on the usual vesting schedule. However, the Committee has exercised its discretion, such that taking up a non-executive director role during that 12-month period for a business in the financial services sector that does not compete in a material way with Close Brothers in the markets in which it operates by offering similar products in such markets, will not affect his eligibility. These arrangements are also based on the assumption that Preben will retire from his executive career and does not take up an executive role elsewhere. All Preben's deferred awards remain subject to the prevailing Malus and Clawback conditions.

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.

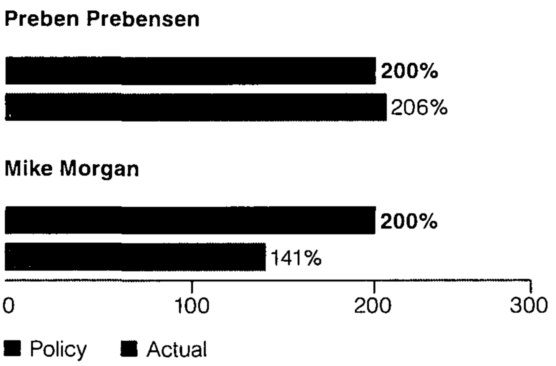
Executive directors' shareholding and share interests (Audited)
The interests of the directors in the ordinary shares of the group at 31 July 2020 are set out below:

Name	Shareholding requirement at 31 July 2020[1]	Number of shares owned outright[2] 2020	Outstanding share awards not subject to performance conditions[3] 2020	2019	Outstanding share awards subject to performance conditions[4] 2020	2019	Outstanding options[5] 2020	2019
Preben Prebensen	100,411	**103,261**	**116,625**	140,171	**386,819**	405,182	**1,458**	1,458
Mike Morgan	73,027	**51,602**	**15,620**	21,619	**135,699**	130,024	**2,505**	2,505

1 Based on the closing mid-market share price of 1,096p on 31 July 2020.
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.

No executive directors held shares that were vested but unexercised at 31 July 2020. There were no changes in notifiable interests between 1 August 2020 and 18 September 2020, other than the purchase of shares by Preben Prebensen within the SIP which increased his shareholding to 103,289 shares.

Executive directors' shareholding
The chart below compares the current executive directors' shareholding versus shareholding policy, as a percentage of salary. Following Mike Morgan's appointment to group finance director last year, he is continuing to build up his shareholding over a reasonable timeframe to meet the minimum requirement under the Directors' Remuneration Policy.



Details of executive directors' share exercises during the year (Audited)

Name	Award type	Held at 1 August 2019	Called[1]	Lapsed	Market price on award p	Market price on calling p	Total value on calling[1] £	Dividends paid on vested shares £
Preben Prebensen	2016 DSA	4,726	4,726	-	1,378.6	1,344.0	63,517	8,649
	2017 DSA	21,344	21,344	–	1,459.0	1,339.2	285,839	26,680
	2018 DSA	17,863	17,863	–	1,588.8	1,354.9	242,026	11,432
	2016 LTIP	78,341	23,401	54,940	1,378.6	1,344.0	314,509	42,824
	2016 SMP – Invested	39,171	39,171	–	1,378.6	1,344.0	526,458	71,683
	2016 SMP – Matched	78,342	23,401	54,941	1,378.6	1,344.0	314,509	42,824
Mike Morgan	2018 DSA	315	315	–	1,588.8	1,344.0	4,234	202
	2016 LTIP	14,508	4,334	10,174	1,378.6	1,344.0	58,249	7,931
	2015 LTIP Special	10,373	10,373	0	1,446.0	1,344.0	139,413	25,045

1 These are the actual number of shares and values realised on calling. Any variances in totals are due to rounding

Notes to the details of executive directors' share exercises during the year
No executive director exercised options during the 2020 financial year.

Directors' Remuneration Report continued

Single total figure of remuneration for non-executive directors (Audited)

	2020						2019					
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**	**–**	**–**	**–**	**4**	**304**	300	–	–	–	5	305
Lesley Jones	**70**	**33**	**10**	**–**	**1**	**114**	67	30	10	–	3	110
Geoffrey Howe	**70**	**–**	**15**	**20**	**–**	**105**	67	–	15	20	–	102
Bridget Macaskill	**70**	**33**	**10**	**–**	**5**	**118**	67	30	10	–	11	118
Oliver Corbett	**70**	**33**	**10**	**–**	**–**	**113**	67	30	10	–	–	107
Peter Duffy	**70**	**–**	**5**	**–**	**–**	**75**	39	–	3	–	–	42
Sally Williams[3]	**41**	**–**	**6**	**–**	**1**	**48**	–	–	–	–	–	–

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 Sally Williams was appointed a non-executive director on 1 January 2020.

Notes to the single total figure of remuneration for non-executive directors
The fees payable to non-executive directors for the 2020 and 2021 financial years are as follows:

Role	2021	2020
Chairman[1]	**£300,000**	£300,000
Non-executive director	**£70,000**	£70,000
Supplements		
Senior independent director	**£20,000**	£20,000
Chair of Audit Committee	**£33,000**	£33,000
Chair of Remuneration Committee	**£33,000**	£33,000
Chair of Risk Committee	**£33,000**	£33,000
Committee membership[2]	**£5,000**	£5,000

1 The chairman receives no other fees for chairmanship or membership of board committees.
2 No fees are payable to the chairman, or for membership, of the Nomination and Governance Committee.

Non-executive directors' share interests (Audited)
The interests of the non-executive directors in the ordinary shares of the company are set out below:

Name	Shares held beneficially at 31 July 2020	Shares held beneficially at 31 July 2019
Mike Biggs	**500**	500
Lesley Jones	**–**	–
Geoffrey Howe	**5,000**	5,000
Bridget Macaskill	**2,500**	2,500
Oliver Corbett	**–**	–
Peter Duffy	**848**	–
Sally Williams	**–**	–

There were no changes in notifiable interests between 1 August 2020 and 18 September 2020.

This report was approved by the board of directors on 22 September 2020 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 parent company financial statements (the "financial statements") give a true and fair view of the state of the group's and of the parent company's affairs as at 31 July 2020 and of the group's profit and cash flows for the year then ended;
- the group financial statements have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law); and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the group financial statements, Article 4 of the IAS Regulation.

We have audited the financial statements, included within the Annual Report, which comprise: the consolidated and company balance sheets as at 31 July 2020; the consolidated income statement, the consolidated statement of comprehensive income, the consolidated cash flow statement, and the consolidated and company statements of changes in equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Our opinion is consistent with our reporting to the Audit Committee.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, as applicable to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

To the best of our knowledge and belief, we declare that non-audit services prohibited by the FRC's Ethical Standard were not provided to the group or the parent company.

Other than those disclosed in note 5 to the financial statements, we have provided no non-audit services to the group or the parent company in the period from 1 August 2019 to 31 July 2020.

Our audit approach

Overview

Materiality

- Overall group materiality: £11.2 million (2019: £13.2 million), based on 5% of the average profit before tax for the last three years (2019: 5% of profit before tax).
- Overall parent company materiality: £10.5 million (2019: £10.0 million), based on 1% of total assets (2019: 1% of total assets).

Audit scope

- The scope of our audit and the nature, timing and extent of audit procedures performed were determined by our risk assessment, the financial significance of components and other qualitative factors (including history of misstatement through fraud or error).
- We performed audit procedures over components considered financially significant in the context of the group (full scope audit) or in the context of individual primary statement account balances (audit of specific account balances). We performed other procedures including testing entity level controls, information technology general controls and analytical review procedures to mitigate the risk of material misstatement in the residual components.

Key audit matters

- Determination of expected credit losses on loans and advances to customers (group).
- Application of effective interest rate ("EIR") accounting (group).
- Impact of COVID-19 (parent company and group).

The scope of our audit

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we looked at where the directors made subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain.

Independent Auditors' Report to the Members of Close Brothers Group plc continued

Capability of the audit in detecting irregularities, including fraud
Based on our understanding of the group and the banking industry, we identified that the principal risks of non-compliance with laws and regulations related to breaches of banking laws and regulations such as, but not limited to, regulations relating to consumer credit and unethical and prohibited business practices, and we considered the extent to which non-compliance might have a material effect on the financial statements. We also considered those laws and regulations that have a direct impact on the preparation of the financial statements such as the Companies Act 2006, UK tax legislation and the Listing Rules of the Financial Conduct Authority ("FCA"). We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls) and determined that the principal risks were related to posting inappropriate journal entries to increase revenue or reduce expenditure, and management bias in accounting estimates. The group engagement team shared this risk assessment with the component auditors so that they could include appropriate audit procedures in response to such risks in their work. Audit procedures performed by the group engagement team and/or component auditors included:

- Review of correspondence with and reports to the regulators Prudential Regulation Authority ("PRA") and FCA, review of correspondence with legal advisors, enquiries of management, and review of internal audit reports in so far as they related to the financial statements;
- Assessment of matters reported on the group's whistleblowing helpline and the results of management's investigation of such matters;
- Review of customer complaints reported and the results of management's resolution of such matters, in so far as they related to the financial statements;
- Challenging assumptions and judgements made by management in their significant accounting estimates, in particular in relation to the determination of expected credit losses on loans and advances (see related key audit matter below); and
- Identifying and testing journal entries, including journal entries posted with unusual account combinations, unusual times or posted by senior management.

There are inherent limitations in the audit procedures described above and the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely we would become aware of it. Also, the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

Key audit matters
Key audit matters are those matters that, in the auditors' professional judgement, were of most significance in the audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by the auditors, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters, and any comments we make on the results of our procedures thereon, were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. This is not a complete list of all risks identified by our audit.

Key audit matter	How our audit addressed the key audit matter
Determination of expected credit losses on loans and advances to customers (group) The determination of expected credit loss allowances is subjective and judgmental. There is an increased risk of material misstatement of expected credit losses (ECL) due to the degree of judgement and inherent uncertainty in the assumptions arising from the impact of COVID-19. Models are used to collectively assess and determine expected credit loss allowances on loans and advances which are not classified as being credit impaired at the reporting date or are individually small. Key inputs and assumptions include significant increase in credit risk criteria, probability of default, loss given default and the use of multiple, probability weighted, economic scenarios. Individually large exposures to counterparties who are in default at the reporting date are estimated on an individual basis. Judgement is required to determine when a loan is considered to be in default, and then to estimate the amount and timing of the expected future cash flows related to that loan under multiple, probability weighted, scenarios.	We understood and critically assessed the appropriateness of the impairment policy (including management's definitions of default and a significant increase in credit risk) 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; • The integrity of data feeds from source systems into the models; and • The approval of key inputs and assumptions used in applying multiple economic scenarios. We found these key controls were designed, implemented and operated effectively, and therefore determined that we could place reliance on these key controls for the purposes of our audit. 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.

Key audit matter	How our audit addressed the key audit matter
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 COVID-19 related concessions; 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 133; and • note 28, financial risk management on page 165.	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 tested the completeness and accuracy of key data inputs, sourced from underlying systems, that are applied in the calculation of the ECL allowances and tested the integrity of the calculations. We used credit risk modelling specialists to support the audit team in the performance of these audit procedures. *Individually assessed provisions* We performed the following procedures to test the completeness of the identification of defaulted assets requiring individual assessment: • We critically assessed the criteria for determining whether a default event had occurred; and • We haphazardly tested a sample of loans which management had determined were not in default at the reporting date. For each sampled loan, we independently assessed whether they had indicators of a default event and therefore whether they were appropriately categorised between performing and in default. For a sample of individually assessed loans in default and related ECL allowances, we: • Evaluated the basis on which the allowances were determined, and the evidence supporting the analysis performed by management; • Independently challenged whether the key assumptions used, such as the recovery strategies, collateral values and ranges of potential outcomes were appropriate given the borrower's 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 to account for the impact of COVID-19, focusing on the larger adjustments and those which we considered to represent the greatest level of audit risk (e.g. where a payment holiday or other COVID-19 related forbearance has been granted, management have captured the credit risk associated with these loans through the use of post model adjustments). 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 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 to be appropriate and compliant with the requirements of IFRS 9.

Independent Auditors' Report to the Members of Close Brothers Group plc continued

Key audit matter	How our audit addressed the key audit matter
Application of effective interest rate ("EIR") accounting (group) Interest income on loans and advances is recognised using the effective interest rate method and any fees, commissions or direct transaction costs that are an integral part of the financial instrument, are included within the effective interest rate. Judgement is required to determine whether applicable fees and direct costs should be included within the effective interest rate, or whether immediate recognition should be applied. Management has to estimate the period over which amounts are to be recognised, based on the life of the instrument. The judgement and manual nature applied across different businesses throughout the group results in a higher risk of material misstatement due to fraud or error. Relevant references: • note 2, critical accounting estimates and judgements on page 133; • the key accounting judgements section of the Audit Committee Report on page 82; and • note 1, significant accounting policies that includes the group's revenue recognition policy on page 129.	We have understood management's process and tested key controls around revenue recognition, including: • Walkthroughs for the relevant lending products to understand the processes and key controls for the identification, recognition and calculation of fees, commissions and direct costs under the effective interest rate method; and • The reconciliations between the models used to calculate the effective interest rate adjustments for the respective fees and the general ledger. We found these key controls were designed, implemented and operated effectively, and therefore determined that we could place reliance on these key controls for the purposes of our audit. In addition we have performed the following substantive procedures: • We tested the effective interest rate models by assessing their design, critically challenging relevant assumptions including the period over which amounts are to be recognised, and testing the accuracy of model computations by re-performing a sample of effective interest rate calculations; • We agreed a sample of inputs used to loan agreements and cash receipts and assessed whether the appropriate fees and costs had been reflected in the effective interest rate; and • We considered the consistent application of the EIR accounting policy across the group's different businesses. Based on the evidence obtained, we found that the assumptions, models and data used were appropriate.
Impact of COVID-19 (parent company and group) The COVID-19 pandemic, and measures taken by governments in order to contain COVID-19 as well as to provide support to business have a significant impact on operations and performance of the parent company and group. 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 parent company and group financial statements are prepared on the going concern basis of accounting. 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 parent 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 section of the Audit Committee Report on page 82. *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.	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: 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; Substantiated the nature and existence of the group's financial resources and liquidity financing facilities; and We evaluated the adequacy of the disclosures made in the financial statements with respect to the impact of COVID-19. 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. *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.

How we tailored the audit scope

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the structure of the group and the parent company, the accounting processes and controls, and the industry in which they operate.

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').

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. We considered the presence of any significant audit risks and other qualitative factors (including history of misstatements through fraud or error). Any component which was not already included as a full scope audit component but was identified as being individually financially significant in respect of one 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.

Components within the scope of our audit contributed over 95% of group total assets and operating profit before tax.

Materiality

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

	Group financial statements	Parent company financial statements
Overall materiality	£11.2 million (2019: £13.2 million).	£10.5 million (2019: £10.0 million).
How we determined it	5% of the average profit before tax for the last three years (2019: 5% of profit before tax)	1% of total assets (2019: 1% of total assets).
Rationale for benchmark applied	*Profit before tax is a primary* measure used by the shareholders in assessing the performance of the group and is a generally accepted benchmark for determining audit materiality. We have considered the economic impact of the COVID-19 pandemic on the Group's results. Whilst profit before tax is still considered to be the most suitable benchmark, we have used a three year average to eliminate the volatility introduced by COVID-19.	*We have selected total assets as an appropriate benchmark for* parent company materiality. Profit based benchmarks were not considered appropriate for parent company materiality as the parent company is an investment holding company and is not 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 £3.1 million and £10 million. Certain components were audited to a local statutory audit materiality that was also less than our overall group materiality.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £500,000 (group audit) (2019: £500,000) and £500,000 (parent company audit) (2019: £500,000) as well as misstatements below those amounts that, in our view, warranted reporting for qualitative reasons.

Independent Auditors' Report to the Members of Close Brothers Group plc continued

Going concern

In accordance with ISAs (UK) we report as follows:

Reporting obligation	Outcome
We are required to report if we have anything material to add or draw attention to in respect of the directors' statement in the financial statements about whether the directors considered it appropriate to adopt the going concern basis of accounting in preparing the financial statements and the directors' identification of any material uncertainties to the group's and the parent company's ability to continue as a going concern over a period of at least twelve months from the date of approval of the financial statements.	We have nothing material to add or to draw attention to. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the group's and parent company's ability to continue as a going concern.
We are required to report if the directors' statement relating to Going Concern in accordance with Listing Rule 9.8.6R(3) is materially inconsistent with our knowledge obtained in the audit.	We have nothing to report.

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Strategic Report and Directors' Report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on the responsibilities described above and our work undertaken in the course of the audit, the Companies Act 2006 (CA06), ISAs (UK) and the Listing Rules of the FCA require us also to report certain opinions and matters as described below (required by ISAs (UK) unless otherwise stated).

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 2020 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements. *(CA06)*

In light of the knowledge and understanding of the group and parent company and their environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic Report and Directors' Report. *(CA06)*

The directors' assessment of the prospects of the group and of the principal risks that would threaten the solvency or liquidity of the group

We have nothing material to add or draw attention to regarding:

- The directors' confirmation on page 66 of the Annual Report that they have carried out a robust assessment of the principal risks facing the group, including those that would threaten its business model, future performance, solvency or liquidity.
- The disclosures in the Annual Report that describe those risks and explain how they are being managed or mitigated.
- The directors' explanation on page 66 of the Annual Report as to how they have assessed the prospects of the group, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

We have nothing to report having performed a review of the directors' statement that they have carried out a robust assessment of the principal risks facing the group and statement in relation to the longer-term viability of the group. Our review was substantially less in scope than an audit and only consisted of making inquiries and considering the directors' process supporting their statements; checking that the statements are in alignment with the relevant provisions of the UK Corporate Governance Code (the "Code"); and considering whether the statements are consistent with the knowledge and understanding of the group and parent company and their environment obtained in the course of the audit. *(Listing Rules)*

Other Code Provisions
We have nothing to report in respect of our responsibility to report when:
- The statement given by the directors, on page 67, that they consider the Annual Report taken as a whole to be fair, balanced and understandable, and provides the information necessary for the members to assess the group's and parent company's position and performance, business model and strategy is materially inconsistent with our knowledge of the group and parent company obtained in the course of performing our audit.
- The section of the Annual Report on page 81 describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee.
- The directors' statement relating to the parent company's compliance with the Code does not properly disclose a departure from a relevant provision of the Code specified, under the Listing Rules, for review by the auditors.

Directors' Remuneration
In our opinion, the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006. *(CA06)*

Responsibilities for the financial statements and the audit
Responsibilities of the directors for the financial statements
As explained more fully in the Directors' Responsibility Statement set out on page 67, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the group's and the parent company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group or the parent company or to cease operations, or have no realistic alternative but to do so.

Auditors' responsibilities for the audit of the financial statements
Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

Use of this report
This report, including the opinions, has been prepared for and only for the parent company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Other required reporting
Companies Act 2006 exception reporting
Under the Companies Act 2006 we are required to report to you if, in our opinion:
- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- certain disclosures of directors' remuneration specified by law are not made; or
- the parent company financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Appointment
Following the recommendation of the audit committee, we were appointed by the directors on 17 May 2017 to audit the financial statements for the year ended 31 July 2018 and subsequent financial periods. The period of total uninterrupted engagement is 3 years, covering the years ended 31 July 2018 to 31 July 2020.

Mark Hannam (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London

22 September 2020

Consolidated Income Statement
for the year ended 31 July 2020

	Note	2020 £ million	2019 £ million
Interest income	4	**629.1**	635.6
Interest expense	4	**(135.1)**	(129.9)
Net interest income		**494.0**	505.7
Fee and commission income	4	**230.2**	224.9
Fee and commission expense	4	**(17.6)**	(19.2)
Gains less losses arising from dealing in securities		**142.6**	81.3
Other income	4	**83.4**	77.4
Depreciation of operating lease assets and other direct costs	16	**(66.5)**	(53.7)
Non-interest income		**372.1**	310.7
Operating income		**866.1**	816.4
Administrative expenses	4	**(538.4)**	(497.4)
Impairment losses on financial assets	11	**(183.7)**	(48.5)
Total operating expenses before amortisation of intangible assets on acquisition		**(722.1)**	(545.9)
Operating profit before amortisation of intangible assets on acquisition		**144.0**	270.5
Amortisation of intangible assets on acquisition	15	**(3.1)**	(5.8)
Operating profit before tax		**140.9**	264.7
Tax	6	**(31.4)**	(64.4)
Profit after tax from continuing operations		**109.5**	200.3
Profit from discontinued operations, net of tax	7	**–**	1.1
Profit after tax		**109.5**	201.4
Loss attributable to non-controlling interests from continuing operations		**–**	(0.2)
Profit attributable to shareholders		**109.5**	201.6
From continuing operations			
Basic earnings per share	8	**72.8p**	133.5p
Diluted earnings per share	8	**72.5p**	132.5p
From continuing and discontinued operations			
Basic earnings per share	8	**72.8p**	134.2p
Diluted earnings per share	8	**72.5p**	133.2p
Interim dividend per share paid	9	**–**	22.0p
Final dividend per share	9	**40.0p**	44.0p

Consolidated Statement of Comprehensive Income
for the year ended 31 July 2020

	2020 £ million	2019 £ million
Profit after tax	**109.5**	201.4
Other comprehensive (expense)/income that may be reclassified to income statement from continuing operations		
Currency translation (losses)/gains	**(0.4)**	0.4
Losses on cash flow hedging	**(1.9)**	(6.0)
Losses on financial instruments classified at fair value through other comprehensive income:		
Sovereign and central bank debt	**(0.6)**	(0.1)
Tax relating to items that may be reclassified	**1.0**	1.1
	(1.9)	(4.6)
Other comprehensive income that will not be reclassified to income statement from continuing operations		
Defined benefit pension scheme gains	**0.9**	1.9
Tax relating to items that will not be reclassified	**(0.3)**	(0.4)
	0.6	1.5
Other comprehensive expense, net of tax from continuing operations	**(1.3)**	(3.1)
Total comprehensive income	**108.2**	198.3
Attributable to		
Non-controlling interests	**–**	(0.2)
Shareholders	**108.2**	198.5
	108.2	198.3

Consolidated Balance Sheet
at 31 July 2020

	Note	31 July 2020 £ million	31 July 2019 £ million
Assets			
Cash and balances at central banks		**1,375.8**	1,106.4
Settlement balances		**619.7**	562.9
Loans and advances to banks	10	**125.8**	108.9
Loans and advances to customers	11	**7,616.7**	7,649.6
Debt securities	12	**382.5**	314.4
Equity shares	13	**30.0**	36.3
Loans to money brokers against stock advanced		**45.8**	42.5
Derivative financial instruments	14	**39.9**	30.1
Intangible assets	15	**240.1**	219.4
Property, plant and equipment	16	**297.2**	248.2
Current tax assets		**41.2**	–
Deferred tax assets	6	**47.3**	52.2
Prepayments, accrued income and other assets	17	**209.5**	190.4
Total assets		**11,071.5**	10,561.3
Liabilities			
Settlement balances and short positions	18	**604.9**	568.1
Deposits by banks	19	**152.8**	58.0
Deposits by customers	19	**5,917.7**	5,638.4
Loans and overdrafts from banks	19	**497.9**	519.3
Debt securities in issue	19	**1,870.3**	1,860.1
Loans from money brokers against stock advanced		**17.9**	14.3
Derivative financial instruments	14	**20.8**	20.6
Current tax liabilities		**1.3**	21.2
Accruals, deferred income and other liabilities	17	**315.3**	233.3
Subordinated loan capital	20	**223.0**	221.6
Total liabilities		**9,621.9**	9,154.9
Equity			
Called up share capital	21	**38.0**	38.0
Retained earnings		**1,435.0**	1,392.5
Other reserves		**(22.4)**	(23.1)
Total shareholders' equity		**1,450.6**	1,407.4
Non-controlling interests		**(1.0)**	(1.0)
Total equity		**1,449.6**	1,406.4
Total liabilities and equity		**11,071.5**	10,561.3

The consolidated financial statements were approved and authorised for issue by the board of directors on 22 September 2020 and signed on its behalf by:

Michael N. Biggs
Chairman

A. Sainsbury
Chief Executive

Registered number: 520241

Consolidated Statement of Changes in Equity
for the year ended 31 July 2020

	Called up share capital £ million	Retained earnings £ million	Other reserves: FVOCI reserve £ million	Other reserves: Share-based payments reserve £ million	Other reserves: Exchange movements reserve £ million	Other reserves: Cash flow hedging reserve £ million	Total attributable to equity holders £ million	Non-controlling interests £ million	Total equity £ million
At 1 August 2018	38.0	1,282.8	0.8	(15.9)	(1.2)	0.1	1,304.6	(0.8)	1,303.8
Profit/(loss) for the year	–	201.6	–	–	–	–	201.6	(0.2)	201.4
Other comprehensive income/(expense)	–	1.5	(0.1)	–	–	(4.5)	(3.1)	–	(3.1)
Total comprehensive income/(expense) for the year	–	203.1	(0.1)	–	–	(4.5)	198.5	(0.2)	198.3
Dividends paid (note 9)	–	(95.5)	–	–	–	–	(95.5)	–	(95.5)
Shares purchased	–	–	–	(11.0)	–	–	(11.0)	–	(11.0)
Shares released	–	–	–	10.9	–	–	10.9	–	10.9
Other movements	–	2.8	–	(2.2)	–	–	0.6	–	0.6
Income tax	–	(0.7)	–	–	–	–	(0.7)	–	(0.7)
At 31 July 2019	38.0	1,392.5	0.7	(18.2)	(1.2)	(4.4)	1,407.4	(1.0)	1,406.4
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**

Consolidated Cash Flow Statement

for the year ended 31 July 2020

	Note	2020 £ million	2019 £ million
Net cash inflow from operating activities	27(a)	**429.4**	20.4
Net cash (outflow)/inflow from investing activities			
Purchase of:			
Property, plant and equipment		**(5.3)**	(4.9)
Intangible assets – software		**(44.3)**	(42.2)
Subsidiaries and non-controlling interest	27(b)	**(4.6)**	(3.6)
Sale of:			
Discontinued operations and subsidiaries	27(c)	**0.5**	87.6
		(53.7)	36.9
Net cash inflow before financing activities		**375.7**	57.3
Financing activities			
Purchase of own shares for employee share award schemes		**(8.0)**	(11.0)
Equity dividends paid		**(65.8)**	(95.5)
Interest paid on subordinated loan capital and debt financing		**(14.3)**	(14.2)
Payment of lease liabilities		**(14.6)**	–
Net increase/(decrease) in cash		**273.0**	(63.4)
Cash and cash equivalents at beginning of year		**1,188.3**	1,251.7
Cash and cash equivalents at end of year	27(d)	**1,461.3**	1,188.3

Company Balance Sheet
at 31 July 2020

	Note	2020 £ million	2019 £ million
Fixed assets			
Intangible assets	15	**0.1**	–
Property, plant and equipment	16	**23.7**	–
Investment in subsidiary	31	**287.0**	287.0
		310.8	287.0
Current assets			
Amounts owed by subsidiaries due within one year		**416.8**	408.5
Amounts owed by subsidiaries due after more than one year		**312.6**	312.2
Corporation tax receivable		**3.2**	4.0
Deferred tax assets	6	**0.1**	1.4
Other debtors		**8.8**	7.8
Cash at bank		**0.9**	0.2
		742.4	734.1
Creditors: amounts falling due within one year			
Debt securities in issue	19	**1.8**	1.8
Provisions	17	**1.1**	2.3
Other creditors		**1.5**	0.4
Accruals		**5.5**	8.5
		9.9	13.0
Net current assets		**732.5**	721.1
Total assets less current liabilities		**1,043.3**	1,008.1
Creditors: amounts falling due after more than one year			
Debt securities in issue	19	**248.9**	248.5
Subordinated loan capital		**174.6**	174.3
Lease liability		**18.4**	–
Provisions	17	**2.2**	2.5
Net assets		**599.2**	582.8
Capital and reserves			
Called up share capital	21	**38.0**	38.0
Profit and loss account		**576.8**	563.0
Other reserves		**(15.6)**	(18.2)
Shareholders' funds		**599.2**	582.8

The Company reported a profit for the financial year ended 31 July 2020 of £81.1 million (2019: £88.3 million).

The Company financial statements were approved and authorised for issue by the board of directors on 22 September 2020 and signed on its behalf by:

Michael N. Biggs
Chairman

A. Sainsbury
Chief Executive

Company Statement of Changes in Equity
for the year ended 31 July 2020

			Other reserves	
	Share capital £ million	Profit and loss account £ million	Share-based payments reserve £ million	Shareholders' funds £ million
At 1 August 2018	38.0	565.7	(15.9)	587.8
Profit for the year	–	88.3	–	88.3
Other comprehensive income	–	1.5	–	1.5
Total comprehensive income for the year	–	89.8	–	89.8
Dividends paid (note 9)	–	(95.5)	–	(95.5)
Shares purchased	–	–	(11.0)	(11.0)
Shares released	–	–	10.9	10.9
Other movements	–	3.0	(2.2)	0.8
At 31 July 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**

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 (2019: five) operating segments: Commercial, Retail, Property, Asset Management and Securities, and is primarily located within the UK.

The company financial statements ("the company accounts") have been prepared in compliance with United Kingdom Accounting Standards, including Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland" ("FRS 102") and the Companies Act 2006, under the provision of the Large and Medium-sized Companies and Groups (Accounts and Financial Instruments: Recognition and Measurement Reports) Regulations 2008 (SI 2008/410).

As permitted by FRS 102, the company has chosen to adopt IFRS 9 Financial Instruments where applicable and taken advantage of the disclosure exemptions available under that standard in relation to the presentation of a cash flow statement, share-based payments and related party transactions. Where required, equivalent disclosures are given in the consolidated financial statements of the group. The company has also taken advantage of the exemption in section 408 of the Companies Act 2006 not to present its company income statement and related notes.

(b) Compliance with International Financial Reporting Standards

The consolidated financial statements ("the consolidated accounts") have been prepared and approved by the directors in accordance with all relevant IFRSs as issued by the International Accounting Standards Board and interpretations issued by the IFRS Interpretations Committee endorsed by the EU.

Standards adopted during the year

The accounting policies applied this financial year are set out in this note and consistent with those of the previous financial year except in relation to the adoption of IFRS 16 Leases, which was effective from 1 August 2019.

IFRS 16 replaces IAS 17 Leases and introduces a new recognition model that recognises all leases on a lessee's balance sheet, subject to certain exemptions. As a result, there is no longer a distinction between finance and operating leases for lessees. However, lessor accounting is substantially unchanged.

IFRS 16 has been applied on a modified retrospective basis and comparative information has not been restated. The impact of the initial application of IFRS 16 is set out in note 30.

Future accounting developments

Minor amendments to IFRSs effective for the group from 1 August 2020 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 consolidated financial statements have been prepared in accordance with the Companies Act 2006 as applicable to companies using IFRS.

The financial statements are prepared on a going concern basis as disclosed in the Directors' Report.

(d) Consolidation

Subsidiaries

Subsidiaries are all entities over which the group has control. The group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Such power generally accompanies a shareholding of more than one half of the voting rights. Subsidiaries are fully consolidated from the date on which the group effectively obtains control. They are de-consolidated from the date that control ceases.

The acquisition method of accounting is used to account for the acquisition of subsidiaries. Under the acquisition method of accounting, with some limited exceptions, the assets, liabilities and contingent liabilities of a subsidiary are measured at their fair values at the date of acquisition. Any non-controlling interest is measured either at fair value or at the non-controlling interest's proportion of the net assets acquired. Acquisition related costs are accounted for as expenses when incurred, unless directly related to the issue of debt or equity securities. Any excess of the cost of acquisition over net assets is capitalised as goodwill. All intra-group balances, transactions, income and expenses are eliminated.

(e) Discontinued operations

The results of discontinued operations are shown as a single amount on the face of the consolidated income statement comprising the post-tax profit or loss of discontinued operations and the post-tax gain or loss recognised either on measurement to fair value less costs to sell or on the disposal of the discontinued operation. A discontinued operation is a CGU or a group of CGUs that either has been disposed of, or is classified as held for sale, and represents a separate major line of business or geographical area of operations, is part of a single coordinated plan to dispose of a separate major line of business or geographical area of operations or is a subsidiary acquired exclusively with a view to resale.

(f) Foreign currency translation

For the company and those subsidiaries whose balance sheets are denominated in sterling, which is the company's functional and presentation currency, monetary assets and liabilities denominated in foreign currencies are translated into sterling at the closing rates of exchange at the balance sheet date. Foreign currency transactions are translated into sterling at the average rates of exchange over the year and exchange differences arising are taken to the consolidated income statement.

The balance sheets of subsidiaries denominated in foreign currencies are translated into sterling at the closing rates. The income statements for these subsidiaries are translated at the average rates and exchange differences arising are taken to equity. Such exchange differences are reclassified to the consolidated income statement in the period in which the subsidiary is disposed of.

(g) Revenue recognition

Interest income

Interest on loans and advances made by the group, and fee income and expense and other direct costs relating to loan origination, restructuring or commitments are recognised in the consolidated income statement using the effective interest rate method.

The effective interest rate method applies a rate that discounts estimated future cash payments or receipts relating to a financial instrument to its net carrying amount. The cash flows take into account all contractual terms of the financial instrument including transaction costs and all other premiums or discounts but not future credit losses.

The Notes continued

1. Significant Accounting Policies continued
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.

Gains less losses arising from dealing in securities
Net realised and unrealised gains arising from both buying and selling securities and from positions held in securities, including related interest income and dividends.

(h) Adjusted items
The consolidated income statement is presented on both a statutory and adjusted basis. The adjusted basis excludes exceptional items and amortisation of intangible assets on acquisition. Exceptional items are income and expense items that are material by size and/or nature and are non-recurring. The separate reporting of these items helps give an indication of the group's underlying performance. Amortisation of intangible assets on acquisition is excluded to present the performance of the group's acquired businesses consistent with its other businesses.

(i) Financial assets and liabilities (excluding derivatives)
Classification and measurement
Financial assets are classified at initial recognition on the basis of the business model within which they are managed and their contractual cash flow characteristics. The classification categories are amortised cost, fair value through other comprehensive income ("FVOCI") and fair value through profit or loss ("FVTPL").

Financial assets that are held to collect contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Initial recognition is at fair value plus directly attributable transaction costs. Interest income is accounted for using the effective interest rate method.

Financial assets that are held to collect contractual cash flows and for subsequent sale, where the assets' cash flows represent solely payments of principal and interest, are classified at fair value through other comprehensive income. Directly attributable transaction costs are added to the initial fair value. Gains and losses 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 rights to receive cash flows from the financial assets have expired or where the group has transferred substantially all risks and rewards of ownership. If substantially all the risks and rewards have been neither retained nor transferred the assets continue to be recognised to the extent of the group's continuing involvement. Financial liabilities are derecognised when they are extinguished.

Modifications
The terms or cash flows of a financial asset or liability may be modified due to renegotiation or otherwise. If the terms or cash flows are substantially different to the original, then the financial asset or liability is derecognised and a new financial asset or liability is recognised at fair value. If the terms or cash flows are not substantially different to the original, then the financial asset carrying value is adjusted to reflect the present value of modified cash flows discounted at the original EIR. The adjustment is recognised within interest income on the income statement.

(j) 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 increases 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 past due or more 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 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 estimated exposure at default ("EAD") and the estimated loss given default ("LGD"), and includes forward-looking macroeconomic information where appropriate. The EAD and LGD are adjusted to account for the impact of discounting using the effective interest rate.

The PD represents the likelihood of a borrower defaulting on its financial obligation either over the next 12 months or over the remaining lifetime of the obligation. EAD is based on the amounts expected to be owed at the time of default. 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. Collateral value represents the value of charged assets and generally excludes any value attributed to financial guarantees.

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 are appropriate and actively monitored as such.

By their nature, limitations in the group's impairment models or input data may be identified through ongoing model monitoring and validation of models. In certain circumstances, management make appropriate adjustments to model-calculated expected credit losses. These adjustments are based on management judgements, to ensure the expected credit loss provision adequately reflects the expected outcome. These adjustments are generally determined by taking into account the attributes or risks of a financial asset which are not captured by existing impairment model outputs. Management adjustments are actively monitored, reviewed and incorporated into future model development where applicable.

During the second half of the financial year a monthly review has been conducted of the updated macroeconomic scenario assumptions, with the resultant incorporation of these into our models as the macroeconomic situation has evolved. In addition, the use and quantum of adjustments have increased to recognise the impact of Covid-19, which predominantly reflect the application of expert management judgement to determine the appropriate allocation of loan balances between Stages 1 and 2 and the review of provision coverage at the individual portfolio level. This approach has incorporated our experience and knowledge of our customers, the sectors in which they operate, and the assets which we finance.

As a result, the charge incurred during the year represents a forward-looking estimate of credit losses under IFRS 9, based on information available at 31 July 2020 and considering the expert management judgement of our businesses. We will continue to refine our assumptions as updated macroeconomic forecasts become available and visibility on the performance of the loan book evolves.

Separate from the 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 Property and Motor Finance businesses. The changes were made to ensure modelled provisions better reflect future loss emergence, reducing the need for model adjustments. The impact of model changes to the expected credit loss provision are disclosed in note 11b.

(k) Settlement accounts
Settlement balance debtors and creditors are the amounts due to and from counterparties in respect of the group's market-making activities and are carried at amortised cost. The balances are short term in nature, do not earn interest and are recorded at the amount receivable or payable.

(l) Loans to and from money brokers against stock advanced
Loans to money brokers against stock advanced is the cash collateral provided to these institutions for stock borrowing by the group's market-making activities and is carried at amortised cost. Interest is paid on the stock borrowed and earned on the cash deposits advanced. The stock borrowing to which the cash deposits relate is short term in nature and is recorded at the amount receivable. Loans from money brokers against stock collateral provided are recorded at the amount payable. Interest is paid on the loans.

(m) Finance leases, operating leases and hire purchase contracts
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 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
The following was applied in the previous financial year under IAS 17 Leases.

A finance lease is a lease or hire purchase contract that transfers substantially all the risks and rewards incidental to ownership of an asset to the lessee. Finance leases are recognised as loans at an amount equal to the gross investment in the lease discounted at its implicit interest rate. Finance charges on finance leases are taken to income in proportion to the net funds invested.

Rental costs under operating leases and hire purchase contracts are charged to the consolidated income statement in equal instalments over the period of the leases. Rental income from operating leases is recognised in equal instalments over the period of the leases and included in other income in the consolidated income statement.

(n) Sale and repurchase agreements and other secured lending and borrowings
Securities may be sold subject to a commitment to repurchase them. Such securities are retained on the consolidated balance sheet when substantially all the risks and rewards of ownership remain with the group. The transactions are treated as collateralised borrowing and the counterparty liability is included within loans and overdrafts from banks. Similar secured borrowing transactions, including securities lending transactions and collateralised short-term notes, are treated and presented in the same way. These secured financing transactions are initially recognised at fair value, and subsequently valued at amortised cost, using the effective interest rate method.

(o) Securitisation transactions
The group securitises its own financial assets via the sale of these assets to special purpose entities, which in turn issue securities to investors. All financial assets continue to be held on the group's consolidated balance sheet together with debt securities in issue recognised for the funding – see derecognition policy (i).

(p) Offsetting financial instruments
Financial assets and financial liabilities are offset and the net amount presented on the consolidated balance sheet if, and only if, there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or to realise an asset and settle the liability simultaneously.

(q) Derivatives and hedge accounting
In general, derivatives are used to minimise the impact of interest, currency rate and equity price changes to the group's financial instruments. They are carried on the consolidated balance sheet at fair value which is obtained from quoted market prices in active markets, including recent market transactions and discounted cash flow models.

On acquisition, certain derivatives are designated as a hedge and the group formally documents the relationship between these derivatives and the hedged item. The group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivative is highly effective in offsetting changes in fair values or cash flows of hedged items. If a hedge was deemed partially ineffective but continues to qualify for hedge accounting, the amount of the ineffectiveness, taking into account the timing of the expected cash flows where relevant, would be recorded in the consolidated income statement. If the hedge is not, or has ceased to be, highly effective, the group discontinues hedge accounting.

For fair value hedges, changes in the fair value are recognised in the consolidated income statement, together with changes in the fair value of the hedged item. For cash flow hedges, the fair value gain or loss associated with the effective proportion of the cash flow hedge is recognised initially directly in equity and recycled to the consolidated income statement in the period when the hedged item affects income.

(r) Intangible assets
Computer software (acquired and costs associated with development) and intangible assets on acquisition (excluding goodwill) are stated at cost less accumulated amortisation and provisions for impairment which are reviewed at least annually. Amortisation is calculated to write off their cost on a straight-line basis over the estimated useful lives as follows:

Computer software	3 to 5 years
Intangible assets on acquisition	8 to 20 years

Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill is assessed annually for impairment and carried at cost less any accumulated impairment.

(s) Property, plant and equipment
Property, plant and equipment is stated at cost less accumulated depreciation and provisions for impairment which are reviewed at least annually. Depreciation is calculated to write off their cost on a straight-line basis over their estimated useful lives as follows:

Long leasehold property	40 years
Short leasehold property	Over the length of the lease
Fixtures, fittings and equipment	3 to 5 years
Assets held under operating leases	1 to 20 years
Motor vehicles	1 to 5 years

(t) Share capital
Share issue costs
Incremental costs directly attributable to the issue of new shares or options, including those issued on the acquisition of a business, are shown in equity as a deduction, net of tax, from the proceeds.

Dividends on ordinary shares
Dividends on ordinary shares are recognised in equity in the period in which they are paid or, if earlier, approved by shareholders.

Treasury shares
Where the company or any member of the group purchases the company's share capital, the consideration paid is deducted from shareholders' equity as treasury shares until they are cancelled. Where such shares are subsequently sold or reissued, any consideration received is included in shareholders' equity.

(u) Employee benefits
The group operates defined contribution pension schemes for eligible employees as well as a defined benefit pension scheme which is closed to new members and further accrual.

Under the defined contribution scheme the group pays fixed contributions into a fund separate from the group's assets. Contributions are charged in the consolidated income statement when they become payable.

The expected cost of providing pensions within the funded defined benefit scheme, determined on the basis of annual valuations using the projected unit method, is charged to the consolidated income statement. Actuarial gains and losses are recognised in full in the period in which they occur and recognised in other comprehensive income.

The retirement benefit obligation recognised in the balance sheet represents the present value of the defined benefit obligation, as adjusted for unrecognised past service cost, and as reduced by the fair value of scheme assets at the balance sheet date. Both the return on investment expected in the period and the expected financing cost of the liability, as estimated at the beginning of the period, are recognised in the results for the period. Any variances against these estimates in the year form part of the actuarial gain or loss. The assets of the scheme are held separately from those of the group in an independently managed fund.

(v) Share-based payments to employees
At 31 July 2020, the group operates four share-based award schemes: the Deferred Share Awards ("DSA") scheme, the Long Term Incentive Plan ("LTIP"), the Share Matching Plan ("SMP"), and the HMRC approved Save As You Earn ("SAYE") scheme.

The costs of the awards granted under the DSA scheme are based on the salary of the individual at the time the award is made. The value of the share award at the grant date is charged to the group's consolidated income statement in the year to which the award relates.

The costs of LTIP, SMP and SAYE are based on the fair value of awards on the date of grant. Fair values of share-based awards are determined using the Black-Scholes pricing model, with the exception of fair values for market-based performance conditions, which are determined using Monte Carlo simulation. Both models take into account the exercise price of the option, the current share price, the risk-free interest rate, the expected volatility of the company's share price over the life of the option award and other relevant factors. For non-market-based performance conditions, vesting conditions are not taken into account when measuring fair value, but are reflected by adjusting the number of shares in each award such that the amount recognised reflects the number that are expected to, and then actually do, vest. The fair value is expensed in the consolidated income statement on a straight-line basis over the vesting period, with a corresponding credit to the share-based payments reserve. At the end of the vesting period, or upon exercise, lapse or forfeit if earlier, this credit is transferred to retained earnings. Further information on the group's schemes is provided in note 26 and in the Directors' Remuneration Report.

(w) Provisions and contingent liabilities
Provisions are recognised in respect of present obligations arising from past events where it is probable that outflows of resources will be required to settle the obligations and they can be reliably estimated.

Contingent liabilities are possible obligations whose existence depends on the outcome of uncertain future events or those present obligations where the outflows of resources are uncertain or cannot be measured reliably. Contingent liabilities are not recognised in the financial statements but are disclosed unless they are deemed remote.

(x) Taxes, including deferred taxes
Current tax is the expected tax payable on the taxable profit for the year. Taxable profit differs from net profit as reported in the consolidated income statement because it excludes items of income and expense that are taxable or deductible in other years and items that are never taxable or deductible. The group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

To enable the tax charge to be based on the profit for the year, deferred tax is provided in full on temporary timing differences, at the rates of tax expected to apply when these differences crystallise. Deferred tax assets are recognised only to the extent that it is probable that sufficient taxable profits will be available against which temporary differences can be set. Deferred tax liabilities are offset against deferred tax assets when there is both a legal right to set off and an intention to settle on a net basis.

(y) Cash and cash equivalents
For the purposes of the cash flow statement, cash and cash equivalents comprises cash and demand deposits with banks, together with short-term highly liquid investments that are readily convertible to known amounts of cash.

(z) Segmental reporting
Operating segments are reported in a manner consistent with the internal reporting provided to the Executive Committee, which is considered the group's chief operating decision maker. All transactions between business segments are conducted on an arm's length basis, with intra-segment revenue and costs being eliminated on consolidation. Income and expenses directly associated with each segment are included in determining business segment performance.

2. Critical Accounting Estimates and Judgements
The reported results of the group are sensitive to the accounting policies, assumptions and estimates that underlie the preparation of its financial statements. UK company law and IFRS require the directors, in preparing the group's financial statements, to select suitable accounting policies, apply them consistently and make judgements and estimates that are reasonable. The group's estimates and assumptions are based on historical experience and expectations of future events and are reviewed on an ongoing basis.

Critical accounting judgements
In the application of the group's accounting policies, which are described in note 1, judgements that are considered by the board to have the most significant effect on the amounts in the financial statements are as follows.

Revenue recognition
Interest income is recognised using the effective interest rate method, which applies a rate that discounts estimated future cash payments or receipts relating to a financial instrument to their net carrying amount. The estimated future cash flows take into account all contractual terms and expected behavioural life of the financial instrument including transaction fees and costs and all other premiums or discounts but not future credit losses. Other fees and commissions are recognised as services are provided or on completion of the execution of a significant act.

Judgement is required in determining the fees and costs which are integral to the yield and recognised as interest income and in determining the period over which to recognise non-interest income.

Expected credit losses
At 31 July 2020 the group's expected credit loss provision was £238.7 million (31 July 2019: £104.3 million). The calculation of the group's expected credit loss provision under IFRS 9 requires the group to make a number of judgements, assumptions and estimates. The most significant are set out below.

Significant increase in credit risk
Assets are transferred from Stage 1 to Stage 2 when there has been a significant increase in credit risk since initial recognition. The assessment, 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 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

The Notes continued

2. Critical Accounting Estimates and Judgements continued

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, it has been necessary to enhance the approach to determining whether a significant increase in credit risk has occurred for certain loans. A number of enhancements have been made to the above mentioned staging approach to fully incorporate the effects of Covid-19 into the significant increase in credit risk assessment:

- A Covid-19 payment concession or loan extension has not in itself 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 a distinction has been drawn between the impact of Covid-19 to consumers and businesses, with businesses expected to 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 at a divisional level:
  - Commercial: forbearance granted has 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, 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 forbearance; broadly, if up to date, the forbearance 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 forbearance has been considered an indicator of a significant increase in credit risk and the exposure has migrated to Stage 2.

Note 28 sets out the group's approach to Covid-19 related concessions.

Definition of default

The definition of default is an important building block for impairment 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 the 90 days past due backstop. These include an assessment of whether the borrower has significant financial difficulties which are expected to have a detrimental impact on their ability to pay interest or principal on the loan, and include events such as administration, insolvency, bankruptcy, distressed restructuring and fraud.

An asset is considered credit impaired when one or more events occur that have a detrimental impact on the estimated future cash flows of the financial asset. This comprises assets defined as defaulted and other individually assessed exposures where imminent default or actual loss is identified.

Key sources of estimation uncertainty

At the balance sheet date, the directors consider that expected credit loss provisions are a key source of estimation uncertainty which, depending on a range of factors, could result in a material adjustment to the carrying amounts of assets and liabilities in the next financial year.

Expected credit losses

The accuracy of the expected credit loss calculation can be impacted by unpredictable effects or unanticipated changes to model assumptions, resulting in modelled risk parameters varying from actual outcomes observed. In addition, forecast errors could 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. A representation of the core drivers of the macroeconomic scenarios that are deployed in our models is outlined on page 135. 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.

Forward-looking information

Determining expected credit losses under IFRS 9 requires the incorporation of forward-looking macroeconomic information that is reasonable and supportable. To capture the effect of changes to the economic environment, the calculation of expected credit losses incorporates forward-looking information and assumptions linked to economic variables that impact losses in each portfolio. 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 probability weighted forward-looking information varies across the group's lending businesses because of the differing sensitivity of each portfolio to specific macroeconomic variables.

The Group Risk and Compliance Committee ("GRCC") including the group chief executive officer, group finance director, group chief risk officer, chief credit risk officer, and head of treasury meets quarterly, to review and, if appropriate, agree changes to the economic scenarios and probability weightings assigned thereto. In light of the Covid-19 pandemic, the committee has discussed and assessed the suitability of the updated economic scenario forecasts and associated probability weighting on a monthly basis.

At 31 January 2020, the scenario weightings were maintained and consistent with the position at 31 July 2019, with 5% upside, 40% baseline, and 55% across the three downside scenarios. The scenarios at 31 January 2020 represented the benign economic environment prior to Covid-19, with GDP growth of 0.9% forecast for 2020, and unemployment of 4.3% under the baseline scenario.

Subsequently, as the effects of the Covid-19 pandemic began to be felt more acutely the Moody's forecasts were updated to reflect the deterioration in the economic outlook as a result of the Covid-19 pandemic and the weightings were also updated, to reflect the increased downside risk and ongoing uncertainty.

From 30 April 2020, the upside weighting was reduced to zero, baseline maintained at 40%, and additional weighting allocated to the more severe downside scenarios. Management believe that these weightings continue to appropriately reflect the prevailing macroeconomic challenges and uncertainties as at 31 July 2020, noting the narrow range in which the scenarios are operating.

Refreshed scenario forecasts have been deployed in the IFRS 9 macroeconomic models on a monthly basis since the start of the pandemic. As at year end, the latest baseline scenario forecasts GDP contraction of 8.5% in 2020, with unemployment of 7.1%. The baseline scenario forecasts economic recovery in Q2 2021, with positive GDP growth and falling unemployment.

The baseline Moody's scenario is based around a gradual reopening of the UK economy in the absence of a further national lockdown, with a combination of inflation remaining flat for several quarters, government-provided fiscal stimulus occurring in the second half of this year plus an expansion of quantitative easing to prevent rising borrowing costs.

The table below shows the key UK economic assumptions within each scenario, and the weighting applied to each at 31 July 2020. The numbers shown are the forecasts for 2020, 2021, and an average over the five-year period from 2020 to 2024. 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 fundamental basis of the scenario forecasts. Furthermore, this demonstrates the anticipated short-term severity of the recession, in addition to the gradual recovery that commences in 2021. On average, the portfolio has a residual maturity of 15 months, with c.98% of loan value having a maturity of five years or less.

The following tables show the forecasts for key metrics across the various scenarios for the next two years to demonstrate the short-term outlook deployed in the models. The weightings ascribed are the point in time weightings applied to each scenario at 31 July 2020.

	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%**	

	Baseline		Upside (strong)		Downside (mild)		Downside (moderate)		Downside (protracted)	
	2019	2020	2019	2020	2019	2020	2019	2020	2019	2020
At 31 July 2019										
UK GDP Growth	1.3%	1.4%	1.6%	3.4%	0.9%	0.0%	0.7%	(1.7%)	0.5%	(3.1%)
UK Unemployment	3.9%	4.3%	3.8%	3.3%	4.0%	5.1%	4.1%	5.9%	4.2%	6.3%
HPI Growth	1.5%	0.9%	2.1%	5.4%	1.2%	(2.0%)	1.0%	(5.5%)	0.7%	(8.3%)
BoE Base Rate	0.8%	0.9%	0.8%	1.1%	0.6%	0.3%	0.5%	0.0%	0.4%	0.0%
Weighting	**40%**		**5%**		**40%**		**10%**		**5%**	

	5 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%**

	5 year average (2019 – 2023)				
	Baseline	Upside (strong)	Downside (mild)	Downside (moderate)	Downside (protracted)
At 31 July 2019					
UK GDP Growth	1.5%	2.1%	1.2%	0.8%	0.3%
UK Unemployment	4.7%	3.7%	5.3%	6.4%	7.2%
HPI Growth	1.8%	3.7%	0.8%	(1.1%)	(3.0%)
BoE Base Rate	1.1%	1.5%	0.6%	0.2%	0.1%
Weighting	**40%**	**5%**	**40%**	**10%**	**5%**

The Notes continued

2. Critical Accounting Estimates and Judgements *continued*

The tables below provide a summary for the subsequent five-year period (31 July 2020 - 31 July 2024) of the peak to trough range of values of the key UK economic variables used within the economic scenarios at 31 July 2020 and 31 July 2019:

	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%**	

	Baseline		Upside (strong)		Downside (mild)		Downside (moderate)		Downside (protracted)	
	Peak	Trough	Peak	Trough	Peak	Trough	Peak	Trough	Peak	Trough
At 31 July 2019										
UK GDP Growth	1.7%	0.8%	3.9%	1.1%	2.1%	(0.6%)	2.5%	(2.0%)	2.5%	(3.6%)
UK Unemployment	5.0%	3.9%	3.8%	3.1%	5.6%	4.0%	7.2%	4.0%	8.4%	4.0%
HPI Growth	2.1%	0.3%	6.3%	0.8%	3.3%	(3.7%)	3.5%	(8.8%)	1.2%	(13.2%)
BoE Base Rate	1.5%	0.7%	2.0%	0.7%	1.1%	0.2%	0.6%	0.0%	0.4%	0.0%
Weighting	**40%**		**5%**		**40%**		**10%**		**5%**	

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 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 resulting impact on stage allocation as well as the measurement of the resulting provision.
- For some loans within the Retail Division a specific sensitivity approach has been adopted to gauge 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.
- All sensitivity analysis excludes expected credit loss provisions and loans and advances to customers in Stage 3 because the measurement of expected credit losses in this population is considered more sensitive to credit factors specific to the borrower than macroeconomic scenarios.

Based on the above analysis, at 31 July 2020, application of weighting to the upside strong scenario would decrease the expected credit loss by £18.3 million whilst application to the downside protracted scenario would increase the expected credit loss by £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 28. The modelled impact presented is based on gross loans and advances to customers at 31 July 2020; 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, comparison between the sensitivity results at 31 July 2020 and 31 July 2019 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 length and severity of the Covid-19 pandemic, as well as the effectiveness 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 (2019: 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 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	(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)
Operating profit/(loss) before tax from continuing operations	3.1	34.6	59.5	19.3	47.9	(23.5)	140.9
Profit before tax from discontinued operations	–	–	–	–	–	–	–
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, profit from discontinued operations and tax.

	Banking						
	Commercial £ million	Retail £ million	Property £ million	Asset Management £ million	Securities £ million	Group[2] £ million	Total £ million
Balance sheet information at 31 July 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.

The Notes continued

3. Segmental analysis continued

Equity is allocated across the group as set out below. Banking division equity, which is managed as a whole rather than on a segmental basis, reflects loan book and operating lease assets of £7,838.6 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 above.

	Banking £ million	Asset Management £ million	Securities £ million	Group £ million	Total £ million
Equity	**1,214.2**	**60.9**	**72.1**	**102.4**	**1,449.6**

	Banking						
	Commercial	Retail	Property	Asset Management	Securities	Group	Total
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.

	Banking						
	Commercial £ million	Retail £ million	Property £ million	Asset Management £ million	Securities £ million	Group £ million	Total £ million
Summary income statement for the year ended 31 July 2019							
Net interest income/(expense)	176.7	199.8	129.8	0.1	(0.7)	–	505.7
Non-interest income/(expense)	73.2	23.4	(0.3)	120.3	94.1	–	310.7
Operating income	249.9	223.2	129.5	120.4	93.4	–	816.4
Administrative expenses	(128.6)	(113.9)	(30.2)	(96.6)	(71.7)	(24.9)	(465.9)
Depreciation and amortisation	(11.5)	(11.6)	(4.7)	(1.9)	(1.7)	(0.1)	(31.5)
Impairment (losses)/gains on financial assets	(23.3)	(25.2)	0.1	(0.1)	–	–	(48.5)
Total operating expenses	(163.4)	(150.7)	(34.8)	(98.6)	(73.4)	(25.0)	(545.9)
Adjusted operating profit/(loss)[1]	86.5	72.5	94.7	21.8	20.0	(25.0)	270.5
Amortisation of intangible assets on acquisition	(1.6)	(0.3)	–	(3.9)	–	–	(5.8)
Operating profit/(loss) before tax from continuing operations	84.9	72.2	94.7	17.9	20.0	(25.0)	264.7
Profit before tax from discontinued operations	–	0.8	–	–	–	–	0.8
Operating profit/(loss) before tax	84.9	73.0	94.7	17.9	20.0	(25.0)	265.5
External operating income/(expense)	300.8	264.6	158.1	120.5	93.4	(121.0)	816.4
Inter segment operating (expense)/income	(50.9)	(41.4)	(28.6)	(0.1)	–	121.0	–
Segment operating income	249.9	223.2	129.5	120.4	93.4	–	816.4

1 Adjusted operating profit/(loss) is stated before amortisation of intangible assets on acquisition, loss from discontinued operations and tax.

	Banking						
	Commercial £ million	Retail £ million	Property £ million	Asset Management £ million	Securities £ million	Group[2] £ million	Total £ million
Balance sheet information at 31 July 2019							
Total assets[1]	3,211.7	2,810.7	1,847.6	115.9	723.8	1,851.6	10,561.3
Total liabilities	–	–	–	59.1	652.6	8,443.2	9,154.9

1 Total assets for the Banking operating segments comprise the loan book and operating lease assets only.
2 Balance sheet includes £1,856.2 million assets and £8,533.6 million liabilities attributable to the Banking division primarily comprising the treasury balances described in the second paragraph of this note.

	Banking £ million	Asset Management £ million	Securities £ million	Group £ million	Total £ million
Equity[1]	1,192.6	56.8	71.2	85.8	1,406.4

1 Equity of the Banking division reflects loan book and operating lease assets of £7,870.0 million, in addition to assets and liabilities of £1,856.2 million and £8,533.6 million respectively primarily comprising treasury balances which are included within the Group column in the balance sheet information above.

	Banking						
	Commercial	Retail	Property	Asset Management	Securities	Group	Total
Other segmental information for the year ended 31 July 2019							
Employees (average number)[1]	1,117	1,048	180	672	274	64	3,355

1 Banking segments are inclusive of a central function headcount allocation.

4. Operating Profit before Tax

	2020 £ million	2019 £ million
Interest income		
Cash and balances at central banks	**5.2**	6.2
Loans and advances to banks	**0.3**	0.5
Loans and advances to customers	**619.9**	623.1
Other interest income	**3.7**	5.8
	629.1	635.6
Interest expense		
Deposits by banks	**(0.1)**	(0.1)
Deposits by customers	**(82.6)**	(76.0)
Borrowings	**(41.6)**	(44.6)
Other interest expense	**(10.8)**	(9.2)
	(135.1)	(129.9)
Net interest income	**494.0**	505.7

	2020 £ million	2019 £ million
Fee and commission income		
Banking	**92.3**	93.6
Asset Management	**128.6**	120.3
Securities	**9.3**	11.0
	230.2	224.9
Fee and commission expense	**(17.6)**	(19.2)
Net fee and commission income	**212.6**	205.7

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 £92.3 million (2019: £93.6 million) and £15.4 million (2019: £17.1 million) respectively.

Fee income and expense arising from trust and other fiduciary activities amounted to £128.6 million (2019: £120.3 million) and £1.7 million (2019: £1.6 million) respectively.

The Notes continued

4. Operating Profit before Tax *continued*

	2020 £ million	2019 £ million
Other income		
Operating lease assets rental income	**69.1**	64.4
Other	**14.3**	13.0
	83.4	77.4

	2020 £ million	2019 £ million
Administrative expenses		
Staff costs:		
Wages and salaries	**269.2**	241.3
Social security costs	**36.6**	34.6
Share-based awards	**2.1**	3.7
Pension costs	**14.8**	12.8
	322.7	292.4
Depreciation and amortisation	**48.4**	31.5
Other administrative expenses	**167.3**	173.5
	538.4	497.4

5. Information Regarding the Auditor

	2020 £ million	2019 £ million
Fees payable		
Audit of the company's annual accounts	**0.2**	0.2
Audit of the company's subsidiaries pursuant to legislation	**1.8**	1.2
Audit related services	**0.5**	0.5
Other services	**–**	0.1
	2.5	2.0

The auditor of the group was PricewaterhouseCoopers LLP (2019: PricewaterhouseCoopers LLP).

6. Taxation

	2020 £ million	2019 £ million
Tax charged/(credited) to the income statement		
Current tax:		
UK corporation tax	**35.4**	59.4
Foreign tax	**0.2**	1.3
Adjustments in respect of previous years	**(10.0)**	(0.9)
	25.6	59.8
Deferred tax:		
Deferred tax (credit)/charge for the current year	**(3.1)**	3.7
Adjustments in respect of previous years	**8.9**	0.9
	31.4	64.4
Tax on items not (credited)/charged to the income statement		
Current tax relating to:		
Share-based payments	**(0.1)**	(0.1)
Deferred tax relating to:		
Cash flow hedging	**(0.6)**	(1.5)
Defined benefit pension scheme	**0.3**	0.4
Financial instruments classified as fair value through other comprehensive income	**(0.1)**	–
Share-based payments	**–**	0.8
Currency translation (losses)/gains	**(0.3)**	0.4
Acquisitions	**(0.2)**	0.2
	(1.0)	0.2
Reconciliation to tax expense		
UK corporation tax for the year at 19.0% (2019: 19.0%) on operating profit	**26.8**	50.3
Effect of different tax rates in other jurisdictions	**(0.2)**	(0.2)
Disallowable items and other permanent differences	**1.6**	0.3
Banking surcharge	**7.2**	14.0
Deferred tax impact of increased tax rates	**(2.9)**	–
Prior year tax provision	**(1.1)**	–
	31.4	64.4

The standard UK corporation tax rate for the financial year is 19.0% (2019: 19.0%). However, an additional 8% surcharge applies to banking company profits as defined in legislation. The effective tax rate of 22.3% (2019: 24.3%) is above the UK corporation tax rate primarily due to the surcharge applying to most of the group's profits.

The Notes continued

6. Taxation continued
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 2018	38.4	(1.1)	9.6	14.6	–	(4.1)	(0.3)	57.1
(Charge)/credit to the income statement	(3.3)	0.1	(0.5)	(1.9)	–	1.0	–	(4.6)
(Charge)/credit to other comprehensive income	(0.4)	(0.4)	–	–	1.5	–	–	0.7
Charge to equity	–	–	(0.8)	–	–	–	–	(0.8)
Acquisitions	–	–	–	–	–	(0.2)	–	(0.2)
At 31 July 2019	34.7	(1.4)	8.3	12.7	1.5	(3.3)	(0.3)	52.2
(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
Charge 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**

	Capital allowances £ million	Pension scheme £ million	Share-based payments and deferred compensation £ million	Total £ million
Company				
At 1 August 2018	0.2	(1.1)	2.9	2.0
Credit/(charge) to the income statement	–	0.1	(0.3)	(0.2)
Charge to statement of recognised gains and losses	–	(0.4)	–	(0.4)
At 31 July 2019	0.2	(1.4)	2.6	1.4
Charge to the income statement	(0.2)	–	(0.8)	(1.0)
Charge to statement of recognised gains and losses	–	(0.3)	–	(0.3)
At 31 July 2020	**–**	**(1.7)**	**1.8**	**0.1**

As the group has been and is expected to continue to be consistently profitable, the full deferred tax assets have been recognised.

7. Discontinued Operations and Non-Current Assets Held for Sale
On 1 January 2019, the group completed the sale of Close Brothers Retail Finance, which provides unsecured retail point of sale finance to consumers, to Klarna Bank AB. The transaction fulfilled the requirements of IFRS 5 to be classified as "discontinued operations" in the consolidated income statement.

The net assets of Close Brothers Retail Finance on 1 January 2019, the date of disposal, was £80.9 million, comprising largely of loans and advances to customers. In the 31 July 2018 consolidated balance sheet, net assets of £66.9 million relating to Close Brothers Retail Finance were presented as "held for sale". No impairment has been recognised in relation to these net assets in the year.

Results of discontinued operations

	2020 £ million	2019 £ million
Operating income	–	3.7
Operating expenses	–	(4.2)
Impairment losses on financial assets	–	(1.6)
Operating loss before tax	–	(2.1)
Tax	–	0.5
Impairment of plant, property and equipment and intangible assets	–	–
Loss after tax	–	(1.6)
Profit on disposal of discontinued operations, net of tax	–	2.7
Profit from discontinued operations	–	1.1

Cash flow from discontinued operations

	2020 £ million	2019 £ million
Net cash flow from operating activities	–	(16.1)
Net cash flow from investing activities	–	(0.3)

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.

	2020	2019
Continuing operations		
Basic	**72.8p**	133.5p
Diluted	**72.5p**	132.5p
Adjusted basic[1]	**74.5p**	136.7p
Adjusted diluted[1]	**74.2p**	135.7p
Continuing and discontinued operations[2]		
Basic	**72.8p**	134.2p
Diluted	**72.5p**	133.2p

1 Excludes amortisation of intangible assets on acquisition and their tax effects.
2 Discontinued operations relate to 2019 only.

	2020 £ million	2019 £ million
Profit attributable to shareholders	**109.5**	201.6
Less profit/(loss) from discontinued operations, net of tax	–	1.1
Profit attributable to shareholders on continuing operations	**109.5**	200.5
Adjustments:		
Amortisation of intangible assets on acquisition	**3.1**	5.8
Tax effect of adjustments	**(0.5)**	(1.0)
Adjusted profit attributable to shareholders on continuing operations	**112.1**	205.3

	2020 million	2019 million
Average number of shares		
Basic weighted	**150.4**	150.2
Effect of dilutive share options and awards	**0.7**	1.1
Diluted weighted	**151.1**	151.3

9. Dividends

	2020 £ million	2019 £ million
For each ordinary share		
Final dividend for previous financial year paid in November 2019: 44.0p (2018: 42.0p)	**65.8**	62.7
Interim dividend for current financial year paid in April 2020: 0.0p (2019: 22.0p)	–	32.8
	65.8	95.5

A final dividend relating to the year ended 31 July 2020 of 40.0p, amounting to an estimated £59.8 million, is proposed. This final dividend, which is due to be paid on 24 November 2020 to shareholders on the register at 16 October 2020, 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 2020	**98.5**	**12.0**	**10.3**	**2.9**	**2.1**	**125.8**
At 31 July 2019	93.4	0.4	1.9	10.3	2.9	108.9

The Notes continued

11. Loans and Advances to Customers

The following table sets out a maturity analysis of loans and advances to customers. At 31 July 2020 loans and advances to customers with a maturity of two years or less was £6,031.6 million representing 76.8% (31 July 2019: 78.4%) 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 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**
At 31 July 2019	80.7	2,288.8	2,381.0	1,332.0	1,556.3	115.1	7,753.9	(104.3)	7,649.6

(a) 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 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%**

		Stage 2				
	Stage 1 £ million	Less than 30 days past due £ million	Greater than or equal to 30 days past due £ million	Total £ million	Stage 3 £ million	Total £ million
At 31 July 2019						
Gross loans and advances to customers						
Commercial	2,647.7	293.1	17.6	310.7	84.7	3,043.1
Retail	2,577.1	239.3	4.9	244.2	26.5	2,847.8
Property	1,639.2	43.2	105.6	148.8	75.0	1,863.0
	6,864.0	**575.6**	**128.1**	**703.7**	**186.2**	**7,753.9**
Impairment provisions						
Commercial	12.5	10.8	1.1	11.9	27.4	51.8
Retail	10.4	11.2	0.5	11.7	15.0	37.1
Property	2.0	1.9	1.6	3.5	9.9	15.4
	24.9	**23.9**	**3.2**	**27.1**	**52.3**	**104.3**
Provision coverage ratio						
Commercial	0.5%	3.7%	6.3%	3.8%	32.3%	1.7%
Retail	0.4%	4.7%	10.2%	4.8%	56.6%	1.3%
Property	0.1%	4.4%	1.5%	2.4%	13.2%	0.8%
	0.4%	**4.2%**	**2.5%**	**3.9%**	**28.1%**	**1.3%**

Stage 1 loans and advances to customers have fallen during the year to £5,906.6 million (31 July 2019: £6,864.0 million), primarily as a result of migrations to Stages 2 and 3 during the second half of the year due to both macroeconomic and case-specific effects associated with Covid-19. Those same factors drove an increase in the Stage 1 impairment provisions to £57.6 million (31 July 2019: £24.9 million), which in turn increased the provision coverage ratio to 1.0% (31 July 2019: 0.4%).

Stage 2 loans and advances to customers increased by £870.5 million to £1,574.2 million (31 July 2019: £703.7 million) across all segments following an increased incidence of a significant increase in credit risk, as a result of the macroeconomic environment and its effect on our customers, reflective of our forbearance and associated staging detailed on page 134. Those same factors drove an increase in the Stage 2 impairment provisions to £87.3 million (31 July 2019: £27.1 million), which in turn increased the provision coverage ratio to 5.5% (31 July 2019: 3.9%).

Stage 3 loans and advances to customers similarly increased by £188.4 million to £374.6 million (31 July 2019: £186.2 million) with migrations occurring across all of our portfolios primarily in the wake of the effects of Covid-19, and Stage 3 impairment provisions increased to £93.8 million (31 July 2019: £52.3 million). Stage 3 Property exposures carry lower provision coverage than those in Retail and Commercial, reflecting the lower likelihood of loss. Property exposures comprise a greater proportion of total Stage 3 exposures than at 31 July 2019, and this has therefore resulted in a slight decrease in the provision coverage ratio for this population to 25.0% (31 July 2019: 28.1%).

All of the above resulted in an increase in the total provision coverage ratio to 3.0% (31 July 2019: 1.3%).

(b) 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. 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 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**

The Notes continued

11. Loans and Advances to Customers continued

	Stage 1 £ million	Stage 2 £ million	Stage 3 £ million	Total £ million
Gross loans and advances to customers				
At 1 August 2018	6,479.2	597.3	260.1	7,336.6
New financial assets originated	5,856.4	–	–	5,856.4
Transfers to Stage 1	204.6	(195.3)	(65.1)	(55.8)
Transfers to Stage 2	(918.4)	791.5	(11.3)	(138.2)
Transfers to Stage 3	(249.9)	(126.7)	315.4	(61.2)
Net transfers between stages and repayments[1]	(963.7)	469.5	239.0	(255.2)
Repayments while stage remained unchanged and final repayments	(4,573.0)	(369.3)	(134.8)	(5,077.1)
Changes to model methodologies	86.5	23.0	(109.5)	–
Write offs	(21.4)	(16.8)	(68.6)	(106.8)
At 31 July 2019	**6,864.0**	**703.7**	**186.2**	**7,753.9**

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 £689.4 million (2019: £275.0 million). A loss of £3.4 million (2019: £nil) was recognised as a result of these modifications. The loss relating to all loans which were modified during the year was £5.9 million. The gross carrying amount at 31 July 2020 of modified loans and advances to customers which transferred from Stage 2 or 3 to Stage 1 during the year was £52.8 million (31 July 2019: £55.4 million).

	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**

	Stage 1 £ million	Stage 2 £ million	Stage 3 £ million	Total £ million
Impairment provisions on loans and advances to customers				
At 31 July 2018				39.1
IFRS 9 transition				58.2
At 1 August 2018	23.7	24.8	48.8	97.3
New financial assets originated	26.5	–	–	26.5
Transfers to Stage 1	1.0	(4.4)	(0.4)	(3.8)
Transfers to Stage 2	(6.4)	20.8	(0.2)	14.2
Transfers to Stage 3	(2.1)	(4.7)	48.2	41.4
Net remeasurement of expected credit losses arising from transfers between stages and repayments[1]	(7.5)	11.7	47.6	51.8
Repayments and ECL movements while stage remained unchanged and final repayments	(17.5)	(7.5)	(11.4)	(36.4)
Changes to model methodologies	–	–	(0.3)	(0.3)
Charge to the income statement	1.5	4.2	35.9	41.6
Write offs	(0.3)	(1.9)	(32.4)	(34.6)
At 31 July 2019	**24.9**	**27.1**	**52.3**	**104.3**

1 Repayments relate only to financial assets which transferred between stages during the year. Other repayments are shown in the line below.

	2020 £ million	2019 £ million
Impairment losses relating to loans and advances to customers:		
Charge to income statement arising from movement in impairment provisions	**172.7**	41.6
Amounts written off directly to income statement, net of recoveries and other costs	**7.8**	5.8
	180.5	47.4
Impairment losses relating to other financial assets	**3.2**	1.1
Impairment losses on financial assets recognised in income statement	**183.7**	48.5

The contractual amount outstanding at 31 July 2020 on financial assets that were written off during the period and are still subject to recovery activity is £12.4 million (31 July 2019: £12.7 million).

(c) Finance lease and hire purchase agreement receivables

	2020 £ million	2019 £ million
Loans and advances to customers comprise		
Hire purchase agreement receivables	**2,998.0**	2,927.6
Finance lease receivables	**474.8**	453.1
Other loans and advances	**4,143.9**	4,268.9
At 31 July	**7,616.7**	7,649.6

The following table shows a reconciliation between gross investment in finance lease and hire purchase agreement receivables to present value of minimum lease and hire purchase payments:

	2020 £ million	2019 £ million
Gross investment in finance leases and hire purchase agreement receivables due:		
One year or within one year	**1,461.1**	1,408.2
One to two years	**1,520.6**	1,519.8
Two to three years	**660.3**	606.4
Three to four years	**309.9**	282.9
Four to five years	**102.7**	84.5
More than five years	**72.0**	73.3
	4,126.6	3,975.1
Unearned finance income	**(546.6)**	(531.0)
Present value of minimum lease and hire purchase agreement payments	**3,580.0**	3,444.1
Of which due:		
One year or within one year	**1,267.9**	1,218.9
One to two years	**1,320.7**	1,319.2
Two to three years	**573.8**	527.2
Three to four years	**268.7**	245.5
Four to five years	**88.6**	73.3
More than five years	**60.3**	60.0
	3,580.0	3,444.1

The aggregate cost of assets acquired for the purpose of letting under finance leases and hire purchase agreements was £6,183.4 million (2019: £6,060.4 million). The average effective interest rate on finance leases approximates to 10.2% (2019: 9.4%). 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.

The Notes continued

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	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**

	Fair value through profit or loss £ million	Fair value through other comprehensive income £ million	Amortised cost £ million	Total £ million
Long trading positions in debt securities	25.4	–	–	25.4
Certificates of deposit	–	–	240.7	240.7
Sovereign and central bank debt	–	48.3	–	48.3
At 31 July 2019	25.4	48.3	240.7	314.4

Movements on the book value of sovereign and central bank debt comprise:

	2020 £ million	2019 £ million
Sovereign and central bank debt at 1 August	**48.3**	44.5
Additions	**22.7**	–
Currency translation differences	**(0.8)**	1.0
Movement in value	**2.0**	2.8
Sovereign and central bank debt at 31 July	**72.2**	48.3

13. Equity Shares

	31 July 2020 £ million	31 July 2019 £ million
Long trading positions	**29.2**	35.3
Other equity shares	**0.8**	1.0
	30.0	36.3

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 2020			31 July 2019		
	Notional value £ million	Assets £ million	Liabilities £ million	Notional value £ million	Assets £ million	Liabilities £ million
Exchange rate contracts	**99.2**	**1.0**	**0.4**	260.5	1.2	5.6
Interest rate contracts	**3,132.8**	**38.9**	**20.4**	2,836.7	28.9	15.0
	3,232.0	**39.9**	**20.8**	3,097.2	30.1	20.6

Notional amounts of interest rate contracts totalling £2,130.2 million (31 July 2019: £2,282.7 million) have a residual maturity of more than one year.

Included in the derivatives above are the following cash flow and fair value hedges:

	31 July 2020			31 July 2019		
	Notional value £ million	Assets £ million	Liabilities £ million	Notional value £ million	Assets £ million	Liabilities £ million
Cash flow hedges						
Interest rate contracts	**747.1**	**–**	**8.4**	735.7	0.2	6.1
Fair value hedges						
Interest rate contracts	**1,234.3**	**35.3**	**7.9**	1,251.1	27.6	5.5

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 six (2019: seven) 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 2020	**–**	**4.9**	**40.5**	**382.1**	**404.6**	**402.2**	**1,234.3**
31 July 2019	–	–	–	62.0	826.6	362.5	1,251.1

Fair value hedges have an average fixed rate of 2.7% (31 July 2019: 2.8%).

Details of the hedging instruments for the group's hedge ineffectiveness assessment are set out below.

	Changes in fair value of hedging instrument used for calculating hedge ineffectiveness 2020 £ million	Hedge ineffectiveness recognised in income statement 2020 £ million	Changes in fair value of hedging instrument used for calculating hedge ineffectiveness 2019 £ million	Hedge ineffectiveness recognised in income statement 2019 £ million
Cash flow hedges				
Interest rate risk	**(2.0)**	**(0.1)**	(6.1)	–
Fair value hedges				
Interest rate risk	**4.8**	**0.1**	19.9	0.2

The carrying amount of hedging interest rate swaps is held within derivative financial instruments and the hedge ineffectiveness is held within other income.

The Notes continued

14. Derivative Financial Instruments continued
Details of the hedged exposures covered by the group's hedging strategies are set out below.

	Carrying amount of hedged item £ million	Accumulated amount of fair value adjustment on the hedged item £ million	Changes in fair value of hedged item used for calculating hedge ineffectiveness £ million
At 31 July 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)**

	Carrying amount of hedged item £ million	Accumulated amount of fair value adjustment on the hedged item £ million	Changes in fair value of hedged item used for calculating hedge ineffectiveness £ million
At 31 July 2019			
Fair value hedges			
Assets			
Debt securities	48.3	2.8	2.9
Loans and advances to customers and undrawn commitments	25.5	2.4	2.4
	73.8	5.2	5.3
Liabilities			
Deposits by customers	240.5	2.0	(1.6)
Debt securities in issue	752.8	20.7	(20.1)
Subordinated loan capital	175.1	0.9	(3.3)
	1,168.4	23.6	(25.0)

Details of the impact of hedging relationships on the income statement and other comprehensive income are set out below.

	Changes in fair value of hedged item used for calculating hedge ineffectiveness £ million	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 2020	**1.9**	**(1.9)**	**–**
31 July 2019	6.1	(6.1)	0.1

1 Amounts have been reclassified to other income since hedged cash flows will no longer occur.

15. Intangible Assets

	Goodwill £ million	Software £ million	Intangible assets on acquisition £ million	Group total £ million	Company software £ million
Cost					
At 1 August 2018	150.7	160.8	67.0	378.5	0.4
Additions	0.2	48.1	0.5	48.8	–
Disposals	(0.1)	(7.7)	–	(7.8)	–
At 31 July 2019	150.8	201.2	67.5	419.5	0.4
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**
Amortisation and impairment					
At 1 August 2018	47.9	87.9	41.4	177.2	0.4
Amortisation charge for the year	–	20.5	5.8	26.3	–
Disposals	–	(3.4)	–	(3.4)	–
At 31 July 2019	47.9	105.0	47.2	200.1	0.4
Amortisation charge for the year	–	25.3	3.1	28.4	–
Disposals	–	(14.8)	–	(14.8)	–
At 31 July 2020	**47.9**	**115.5**	**50.3**	**213.7**	**0.4**
Net book value at 31 July 2020	**105.1**	**117.8**	**17.2**	**240.1**	**0.1**
Net book value at 31 July 2019	102.9	96.2	20.3	219.4	–
Net book value at 1 August 2018	102.8	72.9	25.6	201.3	–

Intangible assets on acquisition relate to broker and customer relationships and are amortised over a period of eight to 20 years.

In the 2020 financial year £3.1 million (2019: £5.8 million) of the amortisation charge is included in amortisation of intangible assets on acquisition and £25.3 million (2019: £20.5 million) of the amortisation charge is included in administrative expenses shown in the consolidated income statement.

Impairment tests for goodwill
At 31 July 2020, goodwill has been allocated to nine individual CGUs. Seven are within the Banking division, one is the Asset Management division and the remaining one is the Securities division. Goodwill impairment reviews are carried out annually by assessing the recoverable amount of the group's CGUs, which is the higher of fair value less costs to sell and value in use. The recoverable amounts for all CGUs were measured based on value in use.

A value in use calculation uses discounted cash flow projections based on the most recent 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% (2019: 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 2020, the results of the review, which includes careful consideration of the impact of Covid-19, indicate there is no goodwill impairment. The inputs used in the value in use calculations are sensitive, primarily to the impact of changes in the assumptions for future cash flows, discount rates and long-term growth rates. Having performed stress tested value in use calculations, the group believes that any reasonably possible change in the key assumptions which have been used would not lead to the carrying value of any CGU to exceed its recoverable amount.

The Notes continued

15. Intangible Assets continued

Details of the CGUs in which the goodwill carrying amount is significant in comparison with total goodwill, together with the pre-tax discount rate used in determining value in use, are disclosed separately in the table below:

	31 July 2020		31 July 2019	
Cash generating unit	**Goodwill £ million**	**Pre-tax discount rate %**	Goodwill £ million	Pre-tax discount rate %
Close Brothers Asset Management	**38.3**	**9.0**	38.4	9.0
Winterflood Securities	**23.3**	**12.3**	23.3	10.6
Novitas	**12.1**	**12.1**	12.1	10.2
Other	**31.4**	**12.1-13.4**	29.1	10.2-11.3
	105.1		102.9	

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 2018	22.4	55.8	268.9	0.1	–	347.2
Additions	5.9	6.2	72.9	–	–	85.0
Disposals	(1.2)	(6.5)	(27.7)	–	–	(35.4)
At 31 July 2019	27.1	55.5	314.1	0.1	–	396.8
IFRS 16 transition (note 30)	–	–	–	–	44.8	44.8
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**
Depreciation						
At 1 August 2018	12.9	38.0	70.1	0.1	–	121.1
Charge for the year and impairment	2.7	8.3	36.1	–	–	47.1
Disposals	(1.0)	(6.1)	(12.5)	–	–	(19.6)
At 31 July 2019	14.6	40.2	93.7	0.1	–	148.6
Charge for the year and impairment	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**
Net book value at 31 July 2020	**10.7**	**17.2**	**221.9**	**–**	**47.4**	**297.2**
Net book value at 31 July 2019	12.5	15.3	220.4	–	–	248.2
Net book value at 1 August 2018	9.5	17.8	198.8	–	–	226.1

1 Right of use assets primarily relate to the group's leasehold properties.

There was no gain or loss from the sale of assets held under operating leases for the year ended 31 July 2020 (2019: £0.3 million gain).

	31 July 2020 £ million	31 July 2019 £ million
Future minimum lease rentals receivable under non-cancellable operating leases		
One year or within one year	**43.8**	42.0
One to two years	**28.5**	31.3
Two to three years	**15.9**	20.7
Three to four years	**6.7**	10.5
Four to five years	**2.2**	3.2
More than five years	**1.3**	0.6
	98.4	108.3

	Leasehold property £ million	Fixtures, fittings and equipment £ million	Right of use assets £ million	Total £ million
Company				
Cost				
At 1 August 2018	2.7	1.1	–	3.8
At 31 July 2019	2.7	1.1	–	3.8
IFRS 16 transition (note 30)	–	–	10.6	10.6
At 1 August 2019	2.7	1.1	10.6	14.4
Additions	0.3	5.1	9.5	14.9
Disposals	(1.9)	(0.7)	–	(2.6)
At 31 July 2020	**1.1**	**5.5**	**20.1**	**26.7**
Depreciation				
At 1 August 2018	2.7	1.1	–	3.8
At 31 July 2019	2.7	1.1	–	3.8
Charge for the year	–	–	1.8	1.8
Disposals	(1.9)	(0.7)	–	(2.6)
At 31 July 2020	**0.8**	**0.4**	**1.8**	**3.0**
Net book value at 31 July 2020	**0.3**	**5.1**	**18.3**	**23.7**
Net book value at 31 July 2019	–	–	–	–
Net book value at 1 August 2018	–	–	–	–

The net book value of leasehold property comprises:

	Group		Company	
	31 July 2020 £ million	31 July 2019 £ million	31 July 2020 £ million	31 July 2019 £ million
Long leasehold property	**1.6**	1.4	**0.3**	–
Short leasehold property	**9.1**	11.1	**–**	–
	10.7	12.5	**0.3**	–

The Notes continued

17. Other Assets and Other Liabilities

	31 July 2020 £ million	31 July 2019 £ million
Prepayments, accrued income and other assets		
Prepayments and accrued income	**154.9**	140.4
Trade and other receivables	**54.6**	50.0
	209.5	190.4
Accruals, deferred income and other liabilities		
Accruals and deferred income	**159.7**	144.5
Trade and other payables	**139.8**	70.9
Provisions	**15.8**	17.9
	315.3	233.3

Provisions movement in the year:

	Claims £ million	Property £ million	Other £ million	Total £ million
Group				
At 1 August 2018	–	8.1	13.4	21.5
Additions	0.5	1.0	3.8	5.3
Utilised	(0.1)	(0.1)	(4.8)	(5.0)
Released	(0.1)	(3.1)	(0.7)	(3.9)
At 31 July 2019	0.3	5.9	11.7	17.9
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**

	Property £ million	Other £ million	Total £ million
Company			
At 1 August 2018	2.1	4.0	6.1
Additions	–	1.2	1.2
Utilised	–	(0.8)	(0.8)
Released	(1.7)	–	(1.7)
At 31 July 2019	0.4	4.4	4.8
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**

Claims and other items for which provisions are made arise in the normal course of business and include those related to employee benefits. The timing and outcome of these claims and other items are uncertain. Property provisions are in respect of leaseholds where rents payable exceed the value to the group, potential dilapidations and onerous leases. These property provisions will be utilised and released over the remaining lives of the leases which range from one to ten years.

18. Settlement Balances and Short Positions

	31 July 2020 £ million	31 July 2019 £ million
Settlement balances	**587.5**	547.6
Short positions in:		
Debt securities	**8.3**	9.6
Equity shares	**9.1**	10.9
	17.4	20.5
	604.9	568.1

19. Financial Liabilities

	On demand £ million	Within three months £ million	Between three months and one year £ million	Between one and two years £ million	Between two and five years £ million	After more than five years £ million	Total £ million
Deposits by banks	**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**

	On demand £ million	Within three months £ million	Between three months and one year £ million	Between one and two years £ million	Between two and five years £ million	After more than five years £ million	Total £ million
Deposits by banks	12.5	15.7	29.8	–	–	–	58.0
Deposits by customers	78.3	1,232.7	2,817.9	1,157.2	352.3	–	5,638.4
Loans and overdrafts from banks	19.0	10.3	–	213.2	276.8	–	519.3
Debt securities in issue	20.7	27.4	143.6	937.8	459.5	271.1	1,860.1
At 31 July 2019	130.5	1,286.1	2,991.3	2,308.2	1,088.6	271.1	8,075.8

At 31 July 2020, the parent company held £250.8 million (31 July 2019: £250.3 million) debt securities in issue.

As discussed in note 28(c) the group has accessed £262.0 million (31 July 2019: £490.0 million) cash under the Bank of England's Term Funding Scheme and £228.0 million (31 July 2019: £nil) under the Term Funding Scheme with Additional Incentives for SMEs. 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 2020	**–**	**–**	**–**	**262.0**	**228.0**	**–**	**490.0**
At 31 July 2019	–	0.3	–	213.2	276.8	–	490.3

20. Subordinated Loan Capital

	Prepayment date	Initial interest rate	31 July 2020 £ million	31 July 2019 £ million
Final maturity date				
2026	2021	7.42%	**15.5**	15.5
2026	2021	7.62%	**31.0**	31.0
2027	2022	4.25%	**176.5**	175.1
			223.0	221.6

At 31 July 2020, the parent company held £176.5 million (31 July 2019: £175.1 million) of subordinated loan capital with a final maturity date of 2027.

The Notes continued

21. Share Capital and Reserves

	31 July 2020		31 July 2019	
	million	£ million	million	£ million
Group and company				
Allotted, issued and fully paid				
Ordinary shares of 25p each	**152.1**	**38.0**	152.1	38.0

Further analysis of the group's and company's share capital and reserves is shown on pages 124 and 127.

At 31 July 2020, the company's reserves available for distribution under section 830(2) and 831(2) of the Companies Act 2006 were £392.6 million (2019: £376.2 million). The directors have applied the guidance provided by ICAEW TECH 02/17 in determining this.

22. Capital

The group's policy is to be well capitalised and its approach to capital management is driven by strategic and organisational requirements, while also taking into account the regulatory and commercial environments in which it operates.

The Prudential Regulation Authority ("PRA") supervises the group on a consolidated basis and receives information on the capital adequacy of, and sets capital requirements for, the group as a whole. In addition, a number of subsidiaries are regulated for prudential purposes by either the PRA or the Financial Conduct Authority ("FCA"). The aim of the capital adequacy regime is to promote safety and soundness in the financial system. It is structured around three "pillars": Pillar 1 on minimum capital requirements; Pillar 2 on the supervisory review process; and Pillar 3 on market discipline. The group's Pillar 1 information is presented below. Under Pillar 2, the group completes an annual self-assessment of risks known as the Internal Capital Adequacy Assessment Process ("ICAAP"). The ICAAP is reviewed by the PRA which culminates in the PRA setting a Total Capital Requirement ("TCR") that the group and its regulated subsidiaries are required to hold at all times. The TCR is currently set at 9.8%, of which 5.5% 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 1.8%, of which 1.0% 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 8.0% and a minimum total capital ratio of 12.3%. 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).

A full analysis of the composition of regulatory capital and Pillar 1 risk weighted assets ("RWAs"), a reconciliation between equity and CET1 capital after deductions and a table showing the movement in CET1 capital during the year are shown on the following pages. All RWAs and capital ratios shown are unaudited.

At 31 July 2020, the group's CET1 capital ratio was 14.1% (31 July 2019: 13.0%). CET1 capital increased to £1,254.0 million (31 July 2019: £1,169.2 million) primarily due to retained profit with the impact of higher impairment charges largely offset by the capital add-back under transitional IFRS 9 arrangements.

RWAs, calculated using the standardised approaches, decreased to £8,863.2 million (31 July 2019: £8,967.4 million) due to a reduction in loan book RWAs including the impact of the accelerated application of the CRR2 SME supporting factor.

	31 July 2020 £ million	31 July 2019 £ million
CET1 capital		
Called up share capital	**38.0**	38.0
Retained earnings	**1,435.0**	1,392.5
Other reserves recognised for CET1 capital	**17.2**	19.0
Deductions from CET1 capital		
Intangible assets, net of associated deferred tax liabilities	**(236.9)**	(216.1)
Foreseeable dividend[1]	**(59.8)**	(65.7)
Investment in own shares	**(33.9)**	(37.7)
Pension asset, net of associated deferred tax liabilities	**(5.7)**	(5.3)
Prudent valuation adjustment	**(0.2)**	(0.1)
IFRS 9 transitional arrangements[2]	**100.3**	44.6
CET1 capital	**1,254.0**	1,169.2
Tier 2 capital – subordinated debt	**187.0**	195.4
Total regulatory capital[3]	**1,441.0**	1,364.6
RWAs (notional)[3] – unaudited		
Credit and counterparty credit risk	**7,789.0**	7,930.5
Operational risk[4]	**945.7**	884.4
Market risk[4]	**128.5**	152.5
	8,863.2	8,967.4
CET1 capital ratio[3] – unaudited	**14.1%**	13.0%
Total capital ratio[3] – unaudited	**16.3%**	15.2%

1 Under the Regulatory Technical Standard on own funds, a deduction has been recognised at 31 July 2020 and 31 July 2019 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 2020, which allow the capital impact of expected credit losses to be phased in over the transition period. For 31 July 2020 relief has been applied at 85%. The Covid-19 regulatory measures finalised in June 2020 will allow for 100% relief on stage 1 and stage 2 impairment provisions recognised since 1 January 2020. This additional relief will apply to the group's capital ratios throughout FY21 and FY22 before reducing on a straight line basis over the following four financial years.
3 Shown after applying IFRS 9 transitional arrangements and the Capital Requirements Regulations transitional and qualifying own funds arrangements. At 31 July 2020 the fully loaded CET1 capital ratio is 13.1% and total capital ratio is 15.1% (31 July 2019: CET1 capital ratio 12.6% and total capital ratio 14.5%).
4 Operational and market risk include a notional adjustment at 8% in order to determine notional RWAs.

The following table shows a reconciliation between equity and CET1 capital after deductions:

	31 July 2020 £ million	31 July 2019 £ million
Equity	**1,449.6**	1,406.4
Regulatory deductions from equity:		
Intangible assets, net of associated deferred tax liabilities	**(236.9)**	(216.1)
Foreseeable dividend[1]	**(59.8)**	(65.7)
IFRS 9 transitional arrangements[2]	**100.3**	44.6
Pension asset, net of associated deferred tax liabilities	**(5.7)**	(5.3)
Prudent valuation adjustment	**(0.2)**	(0.1)
Other reserves not recognised for CET1 capital:		
Cash flow hedging reserve	**5.7**	4.4
Non-controlling interests	**1.0**	1.0
CET1 capital	**1,254.0**	1,169.2

1 Under the Regulatory Technical Standard on own funds, a deduction has been recognised at 31 July 2020 and 31 July 2019 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 2020, which allow the capital impact of expected credit losses to be phased in over the transitional period.

The Notes continued

22. Capital continued

The following table shows the movement in CET1 capital during the year:

	£ million
CET1 capital at 31 July 2019	1,169.2
Profit in the period attributable to shareholders	109.5
Dividends paid and foreseen	(59.9)
IFRS 9 transitional arrangements	55.7
Increase in intangible assets, net of associated deferred tax liabilities	(20.8)
Other movements in reserves recognised for CET1 capital	(3.0)
Other movements in deductions from CET1 capital	3.3
CET1 capital at 31 July 2020	**1,254.0**

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 2020 £ million	31 July 2019 £ million	**31 July 2020 £ million**	31 July 2019 £ million
Guarantees and irrevocable letters of credit	**163.7**	163.1	**153.9**	156.6

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 2020 £ million	31 July 2019 £ million
Within one year[1]	**1,195.2**	1,100.6
	1,195.2	1,100.6

1 Includes both revocable and irrevocable commitments.

Operating lease commitments

IFRS 16 Leases was effective for the group from 1 August 2019. IFRS 16 replaced IAS 17 Leases and resulted in the group, where it was the lessee, recognising all leases on the balance sheet, subject to certain exemptions. See note 1 for the group's new accounting policy, note 16 for right of use assets recognised on the balance sheet under IFRS 16 and note 30 for the transition impact.

At 31 July 2019, the group had outstanding off balance sheet commitments for future minimum lease rentals payable under non-cancellable operating leases, which fell due as follows:

	31 July 2019	
	Premises £ million	Other £ million
Within one year	11.1	4.6
Between one and five years	28.9	6.1
After more than five years	4.5	–
	44.5	10.7

In the year ended 31 July 2019, minimum operating lease payments recognised in the consolidated income statement amounted to £9.5 million.

Other commitments
Subsidiaries had contracted capital commitments relating to capital expenditure of £28.9 million (2019: £8.9 million).

24. Related Party Transactions
Transactions with key management
Details of directors' remuneration and interests in shares are disclosed in the Directors' Remuneration Report on pages 87 to 114.

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:

	2020 £ million	2019 £ million
Emoluments		
Salaries and fees	**4.0**	3.9
Benefits and allowances	**0.4**	0.5
Performance related awards in respect of the current year:		
Cash	**3.6**	3.4
Deferred	**1.5**	2.1
	9.5	9.9
Share-based awards	**0.9**	1.7
	10.4	11.6

Gains upon exercise of options by key management personnel, expensed to the income statement in previous years, totalled £4.2 million (2019: £4.1 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 2020 attributable, in aggregate, to key management were £0.3 million (31 July 2019: £0.1 million).

The Notes continued

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 £14.5 million (2019: £12.6 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 2020 this scheme had 33 (31 July 2019: 37) deferred members and 52 (31 July 2019: 49) 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:

	2020 %	2019 %
Inflation rate (Retail Price Index)	**3.1**	3.4
Inflation rate (Consumer Price Index)	**2.4**	2.4
Discount rate for scheme liabilities[1]	**1.4**	2.0
Expected interest/expected long-term return on plan assets	**1.4**	2.0
Mortality assumptions[2]:		
Existing pensioners from age 65, life expectancy (years):		
Men	**23.9**	23.9
Women	**25.6**	25.5
Non-retired members currently aged 50, life expectancy from age 65 (years):		
Men	**24.8**	24.7
Women	**26.9**	26.8

1 Based on market yields at 31 July 2020 and 2019 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 (2019: 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 (2019: 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.

	2020 £ million	2019 £ million	2018 £ million	2017 £ million	2016 £ million
Fair value of scheme assets[1]:					
Equities	**14.0**	13.1	12.7	20.9	35.9
Bonds	**32.3**	29.9	28.7	20.6	8.7
Cash	**0.3**	0.2	0.1	0.3	0.2
Total fair value of scheme assets	**46.6**	43.2	41.5	41.8	44.8
Present value of scheme liabilities	**(39.2)**	(36.5)	(36.4)	(38.2)	(43.6)
Surplus	**7.4**	6.7	5.1	3.6	1.2

1 There are no amounts included within the fair value of scheme assets relating to the financial instruments of Close Brothers Group plc.

Movement in the present value of scheme liabilities during the year:

	2020 £ million	2019 £ million
Carrying amount at 1 August	**(36.5)**	(36.4)
Interest expense	**(0.8)**	(0.9)
Benefits paid	**1.3**	2.2
Actuarial losses	**(3.2)**	(1.4)
Carrying amount at 31 July	**(39.2)**	(36.5)

Movement in the fair value of scheme assets during the year:

	2020 £ million	2019 £ million
Carrying amount at 1 August	**43.2**	41.5
Interest income	**0.9**	1.0
Benefits paid	**(1.3)**	(2.2)
Administrative costs paid	**(0.3)**	(0.4)
Return on scheme assets, excluding interest income	**4.1**	3.3
Carrying amount at 31 July	**46.6**	43.2

Historical experience of actuarial gains/(losses) are shown below:

	2020 £ million	2019 £ million	2018 £ million	2017 £ million	2016 £ million
Experience gains on scheme assets	**4.1**	3.3	1.3	3.7	3.6
Experience gains on scheme liabilities	**–**	1.3	–	–	1.3
Impact of changes in assumptions on scheme liabilities	**(3.2)**	(2.7)	0.4	(1.0)	(6.8)
Total actuarial (losses)/gains on scheme liabilities	**(3.2)**	(1.4)	0.4	(1.0)	(5.5)
Total actuarial gains/(losses)	**0.9**	1.9	1.7	2.7	(1.9)

Total actuarial gains have been recognised in other comprehensive income. Income of £0.1 million (2019: £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 2020 and 2019 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)			
		2020		2019	
Key assumption	Sensitivity	%	£ million	%	£ million
Discount rate	0.25% increase	**(4.2)**	**(1.6)**	(4.2)	(1.5)
Price inflation (RPI and CPI)	0.25% increase	**1.8**	**0.7**	1.8	0.7
Mortality	Increase in life expectancy at age 65 by one year	**4.0**	**1.6**	4.0	1.5

Changes in the assumptions used in the valuation due to external factors would affect the carrying value of the scheme. The most significant risks are:

- Market factors (movements in equity and bond markets): The scheme's assets are invested 30% in global quoted equities, 69% in quoted bonds and 1% in cash (2019: 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 (2019: 17 years).

The Notes continued

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 87 to 114.

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 2020, 0.7 million (31 July 2019: 0.7 million) and 1.7 million (31 July 2019: 2.1 million) of these shares were held respectively and in total £33.9 million (2019: £37.7 million) was recognised within the share-based payments reserve. During the year £11.9 million (2019: £10.9 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 £18.3 million (2019: £19.5 million). The share-based awards charge of £2.1 million (2019: £3.7 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 2018	1,168,885	–	1,432,029	–	694,405	–	744,644	–
Granted	412,343	1,157.9p	449,411	–	394,686	–	–	–
Exercised	(275,697)	1,120.3p	(75,888)	–	(270,776)	–	(172,767)	–
Forfeited	(143,688)	1,156.2p	(197,158)	–	(32,704)	–	(47,557)	–
Lapsed	(4,449)	1,156.1p	(339,164)	–	–	–	(193,547)	–
At 31 July 2019	1,157,394	–	1,269,230	–	785,611	–	330,773	–
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**	**–**	**–**	**–**
Exercisable at:								
31 July 2020	**93,424**	**1,232.5p**	**1,334**	**–**	**7,742**	**–**	**–**	**–**
31 July 2019	13,259	1,133.0p	–	–	4,129	–	–	–

The table below shows the weighted average market price at the date of exercise:

	2020	2019
SAYE	**1,484.7p**	1,474.7p
LTIP	**1,355.9p**	1,537.5p
DSA	**1,373.8p**	1,493.4p
SMP	**1,351.6p**	1,547.0p

The range of exercise prices and weighted average remaining contractual life of awards and options outstanding are as follows:

	2020 Options outstanding		2019 Options outstanding	
	Number outstanding	**Weighted average remaining contractual life Years**	Number outstanding	Weighted average remaining contractual life Years
SAYE				
Between £8 and £9	**1,245,235**	**4.0**	–	–
Between £9 and £10	**150,010**	**3.2**	1,611	–
Between £11 and £12	**426,893**	**1.7**	1,011,814	2.4
Between £12 and £13	**98,968**	**0.5**	143,969	1.5
LTIP				
Nil	**1,373,119**	**2.1**	1,269,230	2.2
DSA				
Nil	**836,819**	**1.8**	785,611	1.9
SMP				
Nil	**–**	**–**	330,773	1.2
Total	**4,131,044**	**2.6**	3,543,008	2.1

For the share-based awards granted during the year, the weighted average fair value of those options at 31 July 2020 was 581.0p (31 July 2019: 1,097.3p). 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 2022 to 31 May 2023	1,355.0p	1,084.0p	21.0%	3	4.6%	0.5%
1 Dec 2024 to 31 May 2025	1,355.0p	1,084.0p	23.0%	5	4.6%	0.5%
1 Jun 2023 to 30 Nov 2023	1,111.0p	888.0p	28.0%	3	4.7%	0.0%
1 Jun 2025 to 30 Nov 2025	1,111.0p	888.0p	27.0%	5	4.6%	0.0%
LTIP						
3 Oct 2022 to 2 Oct 2023	1,366.4p	–	20.0%	3	4.3%	0.5%
DSA						
2 Oct 2020 to 1 Oct 2021	1,366.4p	–	–	–	–	–
2 Oct 2021 to 1 Oct 2022	1,366.4p	–	–	–	–	–
2 Oct 2022 to 1 Oct 2023	1,366.4p	–	–	–	–	–
28 Feb 2022 to 27 Feb 2023	1,281.0p	–	–	–	–	–
28 Feb 2023 to 27 Feb 2024	1,281.0p	–	–	–	–	–

Expected volatility was determined mainly by reviewing share price volatility for the expected life of each option up to the date of grant.

The Notes continued

27. Consolidated Cash Flow Statement Reconciliation

	31 July 2020 £ million	31 July 2019 £ million
(a) Reconciliation of operating profit before tax to net cash inflow from operating activities		
Operating profit before tax from continuing operations	**140.9**	264.7
Profit before tax from discontinued operations	**–**	0.8
Tax paid	**(86.6)**	(55.6)
Depreciation and amortisation	**95.8**	73.5
(Increase)/decrease in:		
Interest receivable and prepaid expenses	**(14.5)**	(4.8)
Net settlement balances and trading positions	**(12.9)**	(29.2)
Net loans from money brokers against stock advanced	**0.3**	15.8
Increase/(decrease) in interest payable and accrued expenses	**15.2**	(3.5)
Net cash inflow from trading activities	**138.2**	261.7
(Increase)/decrease in:		
Loans and advances to banks not repayable on demand	**(13.3)**	1.9
Loans and advances to customers	**(87.8)**	(416.6)
Assets let under operating leases	**(45.6)**	(62.7)
Certificates of deposit	**(45.2)**	9.8
Sovereign and central bank debt	**(22.7)**	–
Other assets less other liabilities	**142.6**	9.1
Increase/(decrease) in:		
Deposits by banks	**93.4**	2.8
Deposits by customers	**284.3**	141.2
Loans and overdrafts from banks	**(21.4)**	9.5
Issuance/redemption of debt securities, net of transaction costs	**6.9**	63.7
Net cash inflow from operating activities	**429.4**	20.4
(b) Analysis of net cash outflow in respect of the purchase of subsidiaries and non-controlling interests		
Cash consideration paid	**(4.6)**	(3.6)
(c) Analysis of net cash inflow in respect of the sale of discontinued operations and subsidiaries		
Cash consideration received	**0.5**	87.6
	0.5	87.6
(d) Analysis of cash and cash equivalents[1]		
Cash and balances at central banks	**1,362.8**	1,094.9
Loans and advances to banks	**98.5**	93.4
	1,461.3	1,188.3

1 Excludes Bank of England cash reserve account and amounts held as collateral.

During the year ended 31 July 2020, the non-cash changes on debt financing amounted to £16.2 million (31 July 2019: £18.6 million) arising largely from interest accretions and fair value hedging movements.

28. Financial Risk Management

As a financial services group, financial instruments are central to the group's activities. The risk associated with financial instruments represents a significant component of those faced by the group and is analysed in more detail below.

The group's financial risk management objectives are summarised within the Risk Report on pages 48 to 52. 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 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

The Notes continued

28. Financial Risk Management continued

	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 2019					
Assets					
Cash and balances at central banks	–	–	–	1,106.4	1,106.4
Settlement balances	–	–	–	562.9	562.9
Loans and advances to banks	–	–	–	108.9	108.9
Loans and advances to customers	–	–	–	7,649.6	7,649.6
Debt securities	–	25.4	48.3	240.7	314.4
Equity shares	–	36.3	–	–	36.3
Loans to money brokers against stock advanced	–	–	–	42.5	42.5
Derivative financial instruments	27.8	2.3	–	–	30.1
Other financial assets	–	2.1	–	48.3	50.4
	27.8	66.1	48.3	9,759.3	9,901.5
Liabilities					
Settlement balances and short positions	–	20.5	–	547.6	568.1
Deposits by banks	–	–	–	58.0	58.0
Deposits by customers	–	–	–	5,638.4	5,638.4
Loans and overdrafts from banks	–	–	–	519.3	519.3
Debt securities in issue	–	–	–	1,860.1	1,860.1
Loans from money brokers against stock advanced	–	–	–	14.3	14.3
Subordinated loan capital	–	–	–	221.6	221.6
Derivative financial instruments	11.6	9.0	–	–	20.6
Other financial liabilities	–	3.5	–	107.0	110.5
	11.6	33.0	–	8,966.3	9,010.9

(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 2020		31 July 2019	
	Fair value £ million	**Carrying value £ million**	Fair value £ million	Carrying value £ million
Subordinated loan capital	**227.0**	**223.0**	234.1	221.6
Debt securities in issue	**1,885.8**	**1,870.3**	1,891.2	1,860.1

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 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 2020 and 2019.

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 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**

	Level 1 £ million	Level 2 £ million	Level 3 £ million	Total £ million
At 31 July 2019				
Assets				
Debt securities:				
Long trading positions in debt securities	24.0	1.4	–	25.4
Sovereign and central bank debt	48.3	–	–	48.3
Equity shares	5.6	30.4	0.3	36.3
Derivative financial instruments	–	30.1	–	30.1
Contingent consideration	–	–	2.1	2.1
	77.9	61.9	2.4	142.2
Liabilities				
Short positions:				
Debt securities	7.9	1.7	–	9.6
Equity shares	2.7	8.2	–	10.9
Derivative financial instruments	–	20.6	–	20.6
Contingent consideration	–	–	6.0	6.0
	10.6	30.5	6.0	47.1

The Notes continued

28. Financial Risk Management continued
Movements in financial instruments categorised as Level 3 were:

	Equity shares £ million	Contingent consideration £ million
At 1 August 2018	0.5	(3.3)
Total losses recognised in the consolidated income statement	–	(1.2)
Purchases and issues	–	0.4
Sales and settlements	(0.2)	0.2
At 31 July 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)**

The losses recognised in the consolidated income statement relating to instruments held at the year end amounted to £0.4 million (2019: £nil).

(c) Credit risk
Credit risk is the risk of a reduction in earnings and/or value, as a result of the failure of a counterparty or associated party with whom the group has contracted to meet its obligations as they fall due. Credit risk across the group mainly arises through the lending and treasury activities of the Banking division.

The Banking division applies consistent and prudent lending criteria to mitigate credit risk. Its lending activities are predominantly secured across a diverse range of asset classes. Details of average tenor and loan size by business can be found on page 2 and 3 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. Unsecured lending accounts for 11.3% of assets, although 77% of this total benefits from some degree of structural protection. Whilst not necessarily comprising formal, tangible security, this protection provides various degrees of loss mitigation. Examples include so-called "soft" assets and After The Event insurance cover.

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 2020 £ million	31 July 2019 £ million
On balance sheet		
Cash and balances at central banks	**1,375.8**	1,106.4
Settlement balances	**619.7**	562.9
Loans and advances to banks	**125.8**	108.9
Loans and advances to customers	**7,616.7**	7,649.6
Debt securities	**382.5**	314.4
Loans to money brokers against stock advanced	**45.8**	42.5
Derivative financial instruments	**39.9**	30.1
Other financial assets	**53.8**	50.4
	10,260.0	9,865.2
Off balance sheet		
Irrevocable undrawn commitments	**210.4**	196.9
Total maximum exposure to credit risk	**10,470.4**	10,062.1

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 2020, the group was a participant of the Bank of England's Term Funding Scheme and Term Funding Scheme with Additional Incentives for SMEs. Under these schemes, asset finance loan receivables of £758.5 million (31 July 2019: £790.6 million) and retained notes relating to Motor Finance loan receivables of £109.0 million (31 July 2019: £35.4 million) were positioned as collateral with the Bank of England, against which £262.0 million of cash (31 July 2019: £490.0 million) was drawn under the Term Funding Scheme and £228.0 million (31 July 2019: £nil) under the Term Funding Scheme with Additional Incentives for SMEs. 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 £1,601.1 million (31 July 2019 restated: £1,418.9 million) of its insurance premium and motor loan receivables in return for cash and asset-backed securities in issue of £1,037.1 million (31 July 2019: £949.8 million). This includes the £109.0 million (31 July 2019: £35.4 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 173. Consistent and prudent lending criteria are applied across the whole loan book with emphasis on the quality of the security provided.

Financial assets: Loans and advances to customers

Credit risk management and monitoring

The overall credit risk appetite is set by the group board. The monitoring of credit policy is the responsibility of the Banking division's Risk and Compliance committees. Large loans are subject to approval by a credit committee.

Credit underwriting and in-life monitoring is undertaken either centrally or through regional office networks, appropriate to the diverse and specialised nature of the businesses and the size and complexity of the transaction. Underwriting authority is ultimately delegated from the Board Risk Committee and cascaded accordingly, with lending businesses approving lower risk exposures locally subject to compliance with credit policy and risk appetite.

This model is supported by central oversight and control. An independent central credit risk function provides ongoing monitoring of material credit risks through regular review of appetites and policy, and oversight and approval of large complex credit deals. This team reports through the chief credit risk officer ("CCRO") to the group chief risk officer ("GCRO") and provides monthly reporting to the Credit Risk Management Committee ("CRMC") and Group Risk and Compliance Committee ("GRCC"). The Banking division has a dual approach to mitigating credit risk by:

- Lending on a 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 allocated to this activity in light of the increase in required concessions relating to Covid-19.

Covid-19 approach

The past few months have been unprecedented in their severity and uncertainty with a large number of our customers approaching us for additional financial support. Further information on the support and concessions this comprises can be found in the forbearance section below entitled "Additional support for customers impacted by Covid-19".

As the global pandemic has progressed, the impact on our customers has been progressively assessed. We have been tracking closely the payment performance of our customers and the uptake of concessions, and have also deployed contact strategies to reach out to try and ascertain the short to medium term intentions of our customers with regard to resuming normal payments, or indeed the need for further concessions. The result of these individual contacts has informed our assessment of staging at an individual facility level. 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 monitors uptake of Covid-19 specific concessions and reports on these to the CRMC and GRCC, which utilise this enhanced forbearance reporting for tactical and strategic planning, and to assess the impacts of concessions granted. Our additional reporting tracks the trajectory of Covid-19 specific forbearance across our businesses and examines sector and asset concentrations.

In addition to the Covid-19 specific forbearance measures covered below, following accreditation, we have been able to offer many of our customers facilities 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 for small businesses. We have seen good demand for loans under these schemes with over 1,430 of these loans approved within our Invoice Finance, Property Finance, and Asset Finance and Leasing businesses.

We maintain a regular reporting cycle of the uptake of these facilities and monitor usage compared to approved overall credit limits. In addition to facilities already approved and drawn we have a strong pipeline of applications that are undergoing eligibility assessment. At 31 July 2020 lending under the CBILS and associated schemes totalled £194 million across 901 loans noting that CBILS constitutes the vast majority of such exposures. Additionally, at 31 July 2020, £159 million across 529 loans had been credit approved and were awaiting drawdown.

The Notes continued

28. Financial Risk Management continued

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 is still effective.

Additional support for customers impacted by Covid-19

The economic conditions resulting from Covid-19 have been unprecedented in terms of the financial support required by our customers who find themselves in difficulty, and we have introduced a range of additional forbearance measures to support them. Concessions granted to customers as a consequence of Covid-19 are varied across our lending businesses. In all instances, where further support is 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 increased to 66,153.

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 without the compounding of interest on the outstanding balance. 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. Our Commercial and Property businesses account for the vast majority of our forborne loan balances.

The cure periods of these forborne exposures are subject to expert judgement and are underpinned by carefully considered assumptions. Our cure approach varies dependent on divisional split and ranges from instant cure when concession ends (subject to confirmation of no adverse performance) to a three-month cure period applicable in other circumstances. In some instances where the facility is of short tenor the exposure may remain forborne for the residual life of the facility.

Other forbearance (non-Covid-19)

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, as well as other forms of forbearance such as moratorium, covenant waivers, and rate concessions.

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 2020 the gross carrying amount of exposures with forbearance measures was £1,596.2 million (31 July 2019: £174.5 million). The key driver of this increase is Covid-19 related forbearance which comprises 88% (£1,410.4 million) of forborne exposures at 31 July 2020. As set out on page 134, a Covid-19 related concession does not in itself constitute a significant increase in credit risk; accordingly 26% and 72% of these loans are in stages 1 and 2 respectively.

An analysis of forborne loans as at 31 July 2020 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 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**
31 July 2019	7,753.9				
Non-Covid-19 forbearance		174.5	2.3%	18.7	3,612
Covid-19 forbearance		–	–	–	–
	7,753.9	174.5	2.3%	18.7	3,612

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 2020 Covid-19 £ million	31 July 2020 Non-Covid-19 £ million	31 July 2020 Total forborne loans £ million	31 July 2019 Total forborne loans £ million
Commercial	832.8	50.1	882.9	70.9
Retail	251.0	4.1	255.1	5.9
Property	326.6	131.6	458.2	97.7
	1,410.4	**185.8**	**1,596.2**	174.5

The following is a breakdown of the number of customers supported by segment:

	31 July 2020 Covid-19	31 July 2020 Non-Covid-19	31 July 2020 Total number of customers supported	31 July 2019 Total number of customers supported
Commercial	7,322	284	7,606	265
Retail	58,644	2,700	61,344	3,308
Property	187	55	242	39
	66,153	**3,039**	**69,192**	3,612

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 2020 Covid-19 *related*	31 July 2020 Non-Covid-19 *related*	31 July 2020 Forborne *loans*	31 July 2019 Forborne loans
Extension outside terms	440.1	138.0	578.1	130.3
Refinancing	0.5	15.2	15.7	26.2
Moratorium	969.8	28.6	998.4	14.2
Other modifications	–	4.0	4.0	3.8
	1,410.4	**185.8**	**1,596.2**	174.5

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. 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.

The Notes continued

28. Financial Risk Management continued

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. The analysis of lending has been prepared based on the following risk categories:

Low risk: The credit risk profile of the borrower is considered acceptable with no concerns on ability to meet obligations as they fall due. Standard monitoring in place.

Medium risk: Evidence of deterioration in the credit risk profile of the borrower exists which requires increased monitoring. Potential concerns on ability to meet obligations as they fall due may exist.

High risk: Evidence of significant deterioration in the credit risk profile of the borrower exists which requires enhanced management. Full repayment may not be achieved with potential for loss identified.

	Stage 1 £ million	Stage 2 £ million	Stage 3 £ million	Total £ million
At 31 July 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**
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**

	Stage 1 £ million	Stage 2 £ million	Stage 3 £ million	Total £ million
At 31 July 2019				
Gross loans and advances to customers				
Low risk	6,837.6	477.8	55.2	7,370.6
Medium risk	14.9	224.3	45.7	284.9
High risk	–	1.2	79.5	80.7
Ungraded	11.5	0.4	5.8	17.7
	6,864.0	703.7	186.2	7,753.9
Undrawn commitments				
Low risk	1,083.9	8.5	3.8	1,096.2
Medium risk	–	4.4	–	4.4
	1,083.9	12.9	3.8	1,100.6
Trade receivables[1]				
Low risk	7.9	–	–	7.9
Medium risk	–	0.7	–	0.7
High risk	–	–	1.2	1.2
	7.9	0.7	1.2	9.8

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 89% of the overall portfolio (31 July 2019: 95%), reflecting the strong quality of the portfolio with the remaining 12% of loans in medium risk, high risk and ungraded (31 July 2019: 5%). The shift in loans to higher risk grades is primarily due to macroeconomic and case-specific effects of Covid-19.

Low risk and Stage 2 represent 14% (31 July 2019: 6%) of loans and advances to customers, primarily reflecting early arrears cases, or agreements which have triggered a significant increase in credit risk indicator, or a 30 days past due backstop. Covid-19 forbearance has precipitated migration from Stage 1 to Stage 2 in line with our approach outlined on page 134, which can be seen in the lower balances in low risk Stage 1 category compared to last year, and a resultant higher balance in the low risk Stage 2 category year on year. Loans and advances to customers reflected as low risk and Stage 3 primarily relate to agreements which have triggered the 90 days past due backstop but where full repayment is expected.

Medium risk agreements account for 6% (31 July 2019: 4%) of total loans and advances to customers. This is primarily driven by significant increase in credit risk indicators having been triggered, warranting increased monitoring. Loans and advances to customers reflected as medium risk and Stage 3 primarily relate to agreements that have triggered the 90 days past due backstop in addition to other significant increase in credit risk triggers.

High risk agreements account for 5% (31 July 2019: 1%) of total loans and advances to customers with the majority corresponding with Stage 3, largely driven by increased defaults as a result of Covid-19. The increase in high risk Stage 2 exposure partly reflects the impact of Covid-19, as well as enhancements made to our internal risk models which provide greater differentiation between accounts.

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 divisions include residential and commercial property and charges over business assets such as equipment, inventory and accounts receivable. Within the Retail division 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	**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[2]	**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**

1 Government lending scheme facilities 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[1]				
60% or lower	209.3	149.9	1,126.5	1,485.7
60% to 70%	276.1	159.1	626.8	1,062.0
70% to 80%	363.8	344.2	74.0	782.0
80% to 90%	696.5	1,109.9	7.1	1,813.5
90% to 100%	916.9	370.0	7.6	1,294.5
Greater than 100%	267.9	241.0	21.0	529.9
Structurally protected	157.1	378.7	–	535.8
Unsecured	155.5	95.0	–	250.5
At 31 July 2019	3,043.1	2,847.8	1,863.0	7,753.9

1 Restated to aid comparability. The analysis in the 2019 Annual Report included gross loans and advances to customers where exposure at origination exceeded £1.0 million only.

The Notes continued

28. Financial Risk Management continued

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	**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**

	Commercial[1] £ million	Retail £ million	Property £ million	Total £ million
LTV[1]				
60% or lower	1.9	0.4	10.1	12.4
60% to 70%	4.8	0.7	29.8	35.3
70% to 80%	8.3	2.2	12.5	23.0
80% to 90%	17.5	9.5	1.6	28.6
90% to 100%	21.3	4.3	–	25.6
Greater than 100%	17.3	5.1	21.0	43.4
Structurally protected	5.3	3.7	–	9.0
Unsecured	8.3	0.6	–	8.9
At 31 July 2019	84.7	26.5	75.0	186.2

1 Restated to aid comparability. The analysis in the 2019 Annual Report included gross loans and advances to customers where exposure at origination exceeded £1.0 million only.

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 £45.8 million (31 July 2019: £42.5 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 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 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**

	Stage 1 £ million	Stage 2 £ million	Stage 3 £ million	Impairment provisions £ million	Total £ million
At 31 July 2019					
Not past due	529.5	–	–	–	529.5
Less than 30 days past due	31.8	–	–	–	31.8
More than 30 days but less than 90 days past due	–	0.6	–	–	0.6
More than 90 days past due	–	–	1.0	–	1.0
	561.3	0.6	1.0	–	562.9

(d) Market risk
Market risk is the risk that a change in the value of an underlying market variable, such as interest or foreign exchange rates, will give rise to an adverse movement in the value of the group's assets.

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 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.

The table below sets out the earnings at risk ("EaR") due to a parallel shift in interest rates at 31 July 2020:

	2020 £ million	2019 £ million
0.5% increase	**(9.8)**	(4.0)
0.5% decrease	**1.7**	5.1

The average impact in 2020 on our EaR measure due to a parallel 0.5% increase or decrease in interest rates was a £8.2 million (2019: £4.3 million) decrease and £5.7 million (2019: £5.2 million) increase respectively.

In March 2020 the Bank of England reduced base rate twice from 0.75% to 0.10% following the onset of Covid-19 causing market rates to fall. This resulted in an increase in EaR under a 0.5% increase due to embedded floors on some variable rate loans becoming more profitable in the lower rate environment. This additional profit is at risk should rates rise back up and is reflected in a higher EaR measure. In the event of market rates decreasing further, additional profits would be generated primarily due to the optionality within some variable rate loans. No floor is applied to the stressed yield curves.

The table below sets out the assessed impact on our base case economic value ("EV") due to a shift in interest rates at 31 July 2020:

	2020 £ million	2019 £ million
0.5% increase	**(3.1)**	–
0.5% decrease	**3.3**	–

The average impact in 2020 on our base case EV measure due to a parallel 0.5% increase or decrease in interest rates was a £2.2 million (2019: £0.4 million) increase and £2.2 million (2019: £0.4 million) decrease respectively.

The EV measure used for monitoring was changed from a 'parallel shift up 0.5%' to a 'Short rates down, long rates up' yield curve stress in 2019 to reflect the bank's repricing profile and external interest rate environment. The impact on our base case EV due to a 'Short rates down, long rates up' shift in interest rates at 31 July 2020 was a reduction in the EV of £3.4 million (31 July 2019: reduction of £6.4 million).

Foreign currency risk
The group has limited exposure to foreign currency risk which derives from the equity balances of its overseas operations, which are not hedged. These balances are predominantly in euros. Foreign exchange differences which arise from the translation of these operations are recognised directly in equity.

The Notes continued

28. Financial Risk Management continued

A change in the euro exchange rate would decrease the group's equity by the following amounts:

	2020 £ million	2019 £ million
20% strengthening of sterling against the euro	**(2.8)**	(4.3)

The group has additional material currency assets and liabilities primarily as a result of treasury operations in the Banking division. These assets and liabilities are matched by currency, using exchange rate derivative contracts where necessary. Details of these contracts are disclosed in note 14. Other potential group exposures arise from share trading settled in foreign currency in the Securities division, and foreign currency equity investments. The group has policies and processes in place to manage foreign currency risk, and as such the impact of any reasonably expected exchange rate fluctuations would not be material.

Market price risks

Trading financial instruments: Equity shares and debt securities

The group's trading activities relate to Winterflood. The following table shows the group's trading book exposure to market price risk:

	Highest exposure £ million	Lowest exposure £ million	Average exposure £ million	Exposure at 31 July £ million
For the year ended 31 July 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**

	Highest exposure £ million	Lowest exposure £ million	Average exposure £ million	Exposure at 31 July £ million
For the year ended 31 July 2019				
Equity shares				
Long	39.8	24.5	30.9	35.3
Short	27.2	9.7	14.2	10.9
			16.7	24.4
Debt securities				
Long	32.1	22.0	25.6	25.5
Short	17.1	5.7	12.0	9.6
			13.6	15.9

With respect to the long and short positions on debt securities £12.4 million and £0.3 million (2019: £12.6 million and £0.4 million) were due to mature within one year respectively.

The average exposure has been calculated on a daily basis. The highest and lowest exposures occurred on different dates and therefore a net position of these exposures does not reflect a spread of the trading book.

Based upon the trading book exposure given above, a hypothetical fall of 10% in market prices would result in a £2.0 million decrease (2019: £2.4 million decrease) in the group's income and net assets on the equity trading book and a £1.6 million decrease (2019: £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 2020 of £10.2 billion (31 July 2019: £9.9 billion). This funding is significantly in excess of its loans and advances to customers at 31 July 2020 of £7.6 billion (31 July 2019: £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 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 (note 30)	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

	On demand £ million	In less than three months £ million	In more than three months but not more than six months £ million	In more than six months but not more than one year £ million	In more than one year but not more than five years £ million	In more than five years £ million	Total £ million
At 31 July 2019							
Settlement balances	–	547.6	–	–	–	–	547.6
Deposits by banks	12.5	15.7	27.8	2.0	–	–	58.0
Deposits by customers	69.7	1,235.7	1,137.7	1,700.5	1,573.9	–	5,717.5
Loans and overdrafts from banks	19.0	10.9	0.9	1.8	493.9	–	526.5
Debt securities in issue	–	32.9	37.1	130.9	1,465.0	292.1	1,958.0
Loans from money brokers against stock advanced	14.3	–	–	–	–	–	14.3
Subordinated loan capital	–	1.7	3.7	5.4	43.3	245.4	299.5
Derivative financial instruments	0.1	7.6	5.8	8.6	34.8	9.0	65.9
Other financial liabilities	11.6	89.5	6.1	1.7	10.6	2.3	121.8
Total	127.2	1,941.6	1,219.1	1,850.9	3,621.5	548.8	9,309.1

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 2020	–	79.5	3.5	7.6	21.9	5.2	117.7
At 31 July 2019	5.6	163.3	88.8	8.6	34.8	9.0	310.1

The Notes continued

28. Financial Risk Management continued

(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 2020				
Derivative financial assets	**39.9**	**(14.2)**	**(25.0)**	**0.7**
Derivative financial liabilities	**20.7**	**(14.2)**	**(4.0)**	**2.5**
At 31 July 2019				
Derivative financial assets	30.1	(14.9)	(12.4)	2.7
Derivative financial liabilities	20.6	(14.9)	(5.4)	0.2

29. Interest in Unconsolidated Structured Entities

Structured entities are those entities that have been designed so that voting or similar rights are not the dominant factor in deciding who has control, such as when any voting rights relate to administrative tasks only, or when the relevant activities are directed by means of contractual arrangements.

The group has interests in structured entities as a result of contractual arrangements arising from the management of assets on behalf of its clients as part of its Asset Management division. These structured entities consist of unitised vehicles such as Authorised Unit Trusts ("AUTs") and Open Ended Investment Companies ("OEICs") which entitle investors to a percentage of the vehicle's net asset value. The structured entities are financed by the purchase of units or shares by investors. The group does not hold direct investments in its structured entities.

As fund manager, the group does not guarantee returns on its funds or commit to financially support its funds. The business activity of all structured entities is the management of assets in order to maximise investment returns for investors from capital appreciation and/or investment income. The group earns a management fee from its structured entities, based on a percentage of the entity's net asset value.

The main risk the group faces from its interest in assets under management on behalf of external investors is the loss of fee income as a result of the withdrawal of funds by clients. Outflows from funds are dependent on market sentiment, asset performance and investor considerations. The assets under management of unconsolidated structured entities managed by the group were £4,821 million at 31 July 2020 (31 July 2019: £4,843 million). Included in revenue on the consolidated income statement is management fee income of £33.4 million (2019: £31.3 million) from unconsolidated structured entities managed by the group.

30. Implementation of IFRS 16

The group adopted IFRS 16 from 1 August 2019. The standard has been applied on a modified retrospective basis and comparative information has not been restated. More information on changes to the group's accounting policies can be found in note 1.

At transition date, the group applied the option to measure right of use assets at an amount equal to the lease liability, adjusted for prepaid or accrued payments. This resulted in the recognition on the balance sheet of right of use assets of £44.8 million and lease liabilities of £47.4 million, with no impact on shareholders' equity. The right of use assets and lease liabilities, which largely relate to properties previously accounted for as operating leases, are included within Property, plant and equipment and Other liabilities respectively.

The weighted average incremental borrowing rate applied to lease liabilities at transition date was 2%. At 31 July 2019, IAS 17 operating lease commitments as disclosed on page 138 of the Annual Report 2019 amounted to £55.2 million. The difference between this and total lease liabilities recognised at 1 August 2019 on transition largely relates to the impact of discounting.

The group did not reassess whether a contract is, or contains, a lease on transition as permitted by IFRS 16. In addition, the following practical expedients were applied on transition:

- Reliance on previous assessment of whether a lease is onerous;
- Recognition exemption for leases with a remaining term of less than 12 months at transition date;
- Exclusion of initial direct costs from the measurement of right of use assets;
- Use of hindsight in determining lease term if the contract contains options to extend or terminate; and
- Application of a single discount rate to a portfolio of leases with reasonably similar characteristics.

31. Investments in Subsidiaries

In accordance with section 409 of the Companies Act 2006, the following is a list of the group's subsidiaries at 31 July 2020, which are all wholly owned and incorporated in the UK unless otherwise stated.

Group
Close Brothers Holdings Limited[1]

Banking
Air and General Finance Limited[2]
Armed Services Finance Limited[5]
Arrow Audit Services Limited[1]
Brook Funding (No.1) Limited[12, 19]
Capital Lease Solutions Limited[1]
CBM Holdings Limited[1]
Close Asset Finance Limited[2]
Close Brewery Rentals Limited[6]
Close Brothers Asset Finance GmbH (Germany)[15]
Close Brothers Factoring GmbH (Germany)[15]
Close Brothers Finance plc[1]
Close Brothers Limited[1]
Close Brothers Military Services Limited[5]
Close Brothers Premium DAC (Ireland)[18]
Close Brothers Technology Services Limited[1]
Close Brothers Vehicle Hire Limited[14]
Close Business Finance Limited[2]
Close Credit Management (Holdings) Limited[1]
Close Finance (CI) Limited (Jersey)[16]
Close International Bank Holdings Limited (Guernsey)[4]
Close Invoice Finance Limited[1]
Close Leasing Limited[13]
Close Motor Finance Limited[5]
Close PF Funding I Limited[11, 19]
Commercial Acceptances Limited[7]
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[12, 19]
Orbita Funding 2017-1 plc[12, 19]
Orbita Funding 2020-1 plc[12, 19]
Orbita Holdings Limited[12, 19]
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, U.S.A.)[18]

Asset Management
Adrian Smith & Partners Limited[1]
Cavanagh Financial Management Limited8
CBF Wealth Management Limited (80% shareholding)[1]
CFSL Management Limited1
Close Asset Management Holdings Limited[1]
Close Asset Management Limited[1]
Close Asset Management (UK) Limited[1]
Close Investments Limited[1]
Close Portfolio Management Limited[1]
Close Properties Jersey Limited (Jersey)[9]
EOS Wealth Management Limited[1]
Lion Nominees Limited[1]
Place Campbell Close Brothers Limited (50% shareholding)[11]

Registered offices:
1 10 Crown Place, London EC2A 4FT, United Kingdom.
2 Wimbledon Bridge House, Hartfield Road, Wimbledon, London SW19 3RU, United Kingdom.
3 The Atrium Building Cannon Bridge, 25 Dowgate Hill, London EC4R 2GA, United Kingdom.
4 1st and 2nd Floors, Elizabeth House, Les Ruettes Brayes, St Peter Port GY1 1EW, Guernsey.
5 Roman House, Roman Road, Doncaster, South Yorkshire DN4 5EZ, United Kingdom.
6 Unit 1, Kingfisher Park, Headlands Business Park, Ringwood, Hampshire BH24 3NX, United Kingdom.
7 100 George Street, London W1U 8NU, United Kingdom.
8 4th Floor, The Athenaeum Building, 8 Nelson Mandela Place, Glasgow G2 1BT, United Kingdom.
9 Saltire Court, 3rd Floor, West Wing, 20 Castle Terrace, Edinburgh, Scotland EH1 2EN, United Kingdom.
10 Wilmington House, High Street, East Grinstead, West Sussex RH19 3AU, United Kingdom.
11 10th Floor, 5 Churchill Place, London E14 5HU, United Kingdom.
12 1 Bartholomew Lane, London EC2N 2AX, United Kingdom.
13 Olympic Court Third Avenue, Trafford Park Village, Manchester M17 1AP, United Kingdom.
14 Lows Lane, Stanton-By-Dale, Ilkeston, Derbyshire DE7 4QU, United Kingdom.
15 Grosse Bleiche 35-39, 55116, Mainz, Germany.
16 Conway House, Conway Street, St Helier JE4 5SR, Jersey.
17 1209 Orange Street, Wilmington 19801, New Castle, Delaware, U.S.A.
18 Swift Square, Building 1, Santry Demesne, Northwood, Dublin, DO9 AOE4, Ireland.

Subsidiaries by virtue of control:
19 The related undertakings are included in the consolidated financial statements as they are controlled by the group.

Glossary and Definition of Key Terms

12 month expected credit loss provision ("12 month ECL")	Losses that result from default events occurring within the next 12 months
Adjusted	Adjusted measures are used to increase comparability between periods and exclude amortisation of intangible assets on acquisition, any exceptional items and discontinued operations
Adjusted operating profit ("AOP")	Calculated as operating income less adjusted operating expenses and impairment losses on financial assets
Assets under administration	Total assets for which Winterflood Business Services provide custody and administrative services
Bad debt ratio	Impairment losses as a percentage of average net loans and advances to customers and operating lease assets
Bargains per day	Average number of Winterflood's trades with third parties
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 IV ("CRD IV")	European Union regulation implementing the Basel III requirements in Europe, alongside CRR
Capital Requirements Regulation ("CRR")	European Union regulation implementing the Basel III requirements in Europe, alongside CRD IV
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 intangible assets and certain 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
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
Discounting	The process of determining the present value of future payments
Dividend per share	Comprises the final dividend proposed for the respective year, together with the interim dividend declared and paid in the year
Earnings per share ("EPS")	Profit attributable to shareholders divided by number of basic shares
Effective interest rate ("EIR")	The interest rate at which revenue is recognised on loans and discounted to their carrying value over the life of the financial asset
Effective tax rate	Tax on operating profit/(loss) as a percentage of profit/(loss) on ordinary activities before tax
Employee engagement score	A measure, in percentage terms, of the extent to which staff are enthusiastic about their jobs, their level of commitment to the company, and how motivated they are to put effort into their work
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 adjusted 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

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	Include 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

Glossary and Definition of Key Terms continued

Net interest margin ("NIM")	Adjusted income generated by lending activities, including interest income net of interest expense, fees and commissions income net of fees and commissions expense, and operating lease income net of operating lease expense, less depreciation on operating lease assets, divided by average loans and advances to customers (net of impaired loans) and operating lease assets
Net Promoter Score ("NPS")	A measure of customer satisfaction by which unfavourable ratings are deducted from favourable ratings; hence a score above 0 is good, and above 50 is excellent
Operating margin	Adjusted operating profit divided by adjusted operating income
Personal Contract Plan ("PCP")	PCP is a form of vehicle finance where the customer defers a significant portion of credit to the final repayment at the end of the agreement, thereby lowering the monthly repayments compared to a standard hire purchase arrangement. At the final repayment date, the customer has the option to: (a) pay the final payment and take the ownership of the vehicle; (b) return the vehicle and not pay the final repayment; or (c) part-exchange the vehicle with any equity being put towards the cost of a new vehicle
Probability of default ("PD")	Probability that a customer will default on their loan
Prudential Regulation Authority ("PRA")	A financial regulatory body, responsible for regulating and supervising banks and other financial institutions in the UK
Return on assets	Adjusted profit attributable to shareholders divided by total closing assets at the balance sheet date
Return on average tangible equity	Adjusted profit attributable to shareholders from continuing operations 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 after tax and non-controlling interests divided by opening equity, excluding non-controlling interests
Revenue margin	Income from advice, investment management and related services divided by average total client assets. Average total client assets calculated as a two-point average
Risk weighted assets ("RWAs")	A measure of the amount of a bank's assets, adjusted for risk. It is used in determining the capital requirement for a financial institution
Save As You Earn ("SAYE")	Scheme intended to encourage saving and build long-term share ownership in the group
Secured debt	Debt backed or secured by collateral
Senior debt	Represents the type of debt that takes priority over other unsecured or more junior debt owed by the issuer. Senior debt is first to be repaid ahead of other lenders or creditors
Significant increase in credit risk ("SICR")	An assessment of whether credit risk has increased significantly since initial recognition of a loan using a range of triggers. Accounts which have experienced a significant increase in credit risk will be allocated to Stage 2
Standardised approach	Generic term for regulator-defined approaches for calculating credit, operational and market risk capital requirements as set out in the CRR
Subordinated debt	Represents debt that ranks below, and is repaid after claims of, other secured or senior debt owed by the issuer
Term Funding Scheme ("TFS")	The Bank of England's Term Funding Scheme
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 2020
Annual General Meeting	19 November 2020
Final dividend payment	24 November 2020
Pre-close trading update	January 2021
Half year end	31 January 2021
Interim results	March 2021
Third quarter trading update	May 2021
Pre-close trading update	July 2021
Financial year end	31 July 2021
Preliminary results	September 2021

The financial calendar is updated on a regular basis throughout the year. Please refer to our website www.closebrothers.com for up-to-date details.

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Certain statements included or incorporated by reference within this report may constitute "forward-looking statements" in respect of the group's operations, performance, prospects and/or financial condition. Forward-looking statements are sometimes, but not always, identified by their use of a date in the future or such words as "anticipates", "aims", "due", "could", "may", "will", "should", "expects", "believes", "intends", "plans", "potential", "targets", "goal" or "estimates". By their nature, forward-looking statements involve a number of risks, uncertainties and assumptions and actual results or events may differ materially from those expressed or implied by those statements. Accordingly, no assurance can be given that any particular expectation will be met and reliance should not be placed on any forward-looking statement. Additionally, forward-looking statements regarding past trends or activities should not be taken as a representation that such trends or activities will continue in the future. Except as may be required by law or regulation, no responsibility or obligation is accepted to update or revise any forward-looking statement resulting from new information, future events or otherwise. Nothing in this report should be construed as a profit forecast. Past performance is no guide to future performance and persons needing advice should consult an independent financial (or other professional) adviser.

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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.

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- 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 www.fca.org.uk/register.
- 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 www.fca.org.uk/register.
- 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 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.

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If fraudsters approach you, tell the FCA using the share fraud reporting form at www.fca.org.uk/consumers/reportscam-unauthorised-firm. You can also find out more about investment scams on the same web page. 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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