Enabling opportunities **since 1878**

Close Brothers Group plc
Annual Report 2024

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Our Highlights

for the year ended 31 July 2024

Adjusted[1] Operating Profit

£170.6m

2023: £113.5m

Operating Profit Before Tax

£142.0m

2023: £112.0m

Adjusted[1] Basic Earnings Per Share

76.1p

2023: 55.1p

Employee Engagement

83%

2023: 86%

Return on Average Tangible Equity[2]

8.3%

2023: 5.9%

Total Scope 1 and 2 Emissions (market-based) (tCO_2e)

2,579

2023: 2,384[3]

Customer Sentiment Scores

Asset Finance CSAT[4]

92%

2023: 92%

Motor Finance dealer NPS[5]

+67

2023: +75

Property Finance NPS[5]

+98

2023: +88

Savings online CSAT[4]

75%

2023: 80%

Premium Finance (personal lines) customer Net Ease

+80

2023: n/a

Asset Management Net Ease

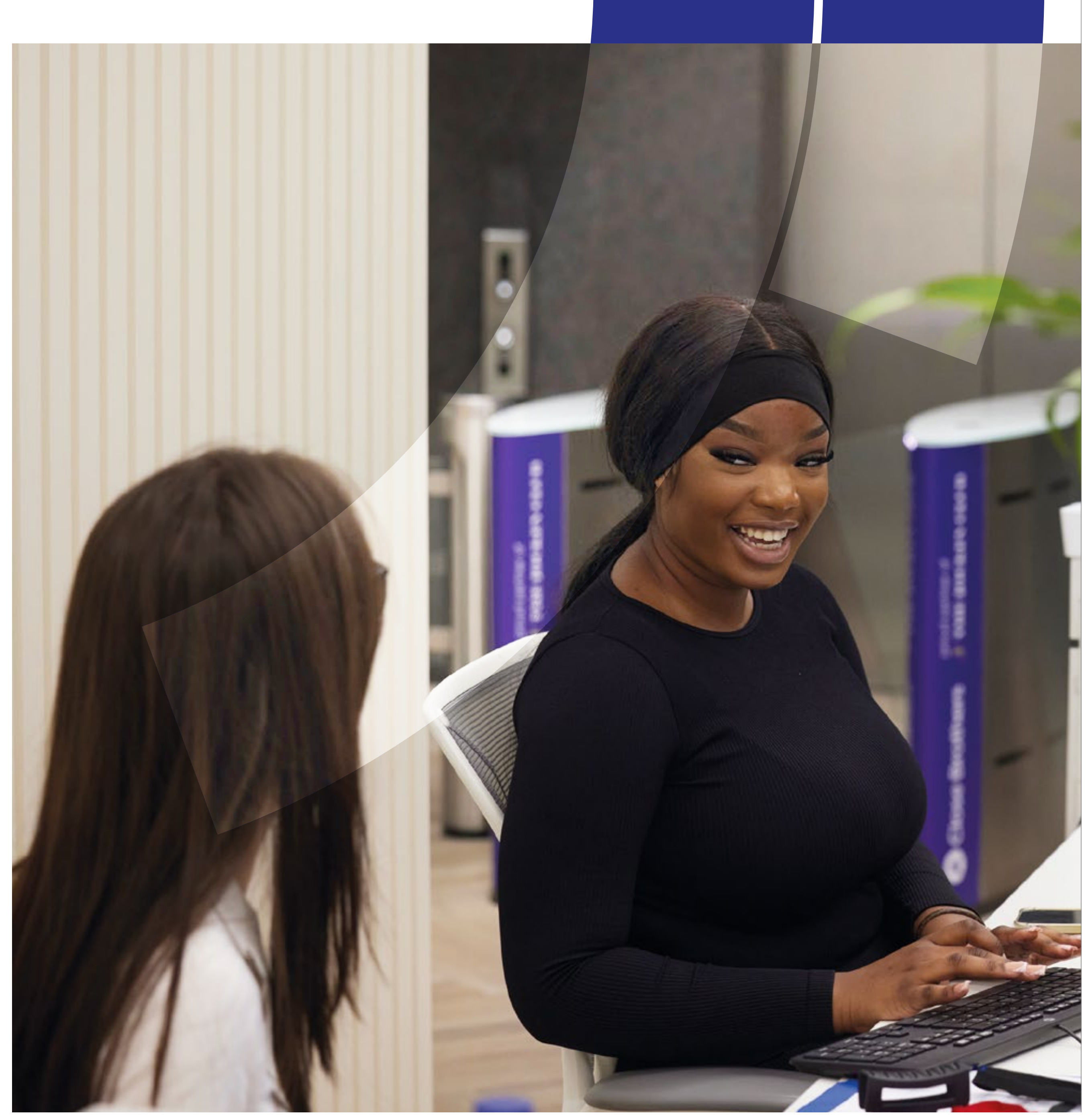
+72

2023: n/a

1. Adjusted measures are presented on a basis consistent with prior periods and exclude amortisation of intangible assets on acquisition, to present the performance of the group's acquired businesses in a manner consistent with its other businesses, and also exclude any exceptional and other adjusting items which do not reflect underlying trading performance. Please refer to Note 3 "Segmental Analysis" for further details on items excluded from the adjusted performance metrics.
2. Adjusted operating profit attributable to ordinary shareholders divided by average total shareholders' equity, excluding intangible assets and other equity instruments.
3. The total Scope 1 and 2 emissions for 2023 has been restated.
4. Customer satisfaction score ("CSAT").
5. Net promoter score ("NPS").

At Close Brothers, we are here 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. It means helping people and businesses unlock their potential and plan for the future with confidence, building relationships that stand the test of time. It also means that we continue to be there for the long term, whatever the economic climate, making decisions that are right for today and for generations to come.



Enabling opportunities **since 1878**

At Close Brothers we enable opportunities for our customers and clients through our dedication to fostering growth, empowering entrepreneurs and encouraging innovation – a commitment deeply rooted in our history since William Brooks Close founded the company in 1878.

Timeless values and modern thinking are the backbone of our success. Throughout our history, we have focused on delivering the highest levels of service and acting with integrity, while providing straightforward products and services, maintaining a prudent approach and strong financial position, and building long-term relationships.

We call it Modern Merchant Banking.

1878
Close Brothers is founded by William Brooks (WB) Close and his brothers Fred and James.

1897
WB Close paid £10,000 to the US government for the right to build a railway from Skagway, Alaska into the Yukon. Construction of the White Pass and Yukon Railway began in 1898.

1968
Century Factors Limited established, now known as Close Brothers Invoice Finance.

1972
Close Brothers starts specialising as a lender to smaller companies often overlooked by larger firms.

1977
Close Brothers Premium Finance established.

1978
Close Brothers centenary year.

Close Brothers embarks on the first management buy-out of a UK merchant bank.

1984
Close Brothers is listed on the London Stock Exchange.

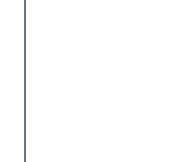
1985
Following the merger with Safeguard Industrial Investments PLC, a new Investment Management team was formed.

1987
Close Brothers Asset Finance established.

A new Property division was formed.

1991

Berisford Consumer Finance (Eastern) Limited acquired, now known as Close Brothers Motor Finance.



1993

Winterflood Securities acquired.

2007

Close Brothers Brewery Rentals established.

2008

Commercial Acceptances acquired.

2011

Close Brothers Commercial Finance established in Ireland.

2015

Close Brothers energy team established.

2016

Loan book grows to over £6 billion.

2018

Close Brothers celebrates its 140th anniversary.

2020

Adrian Sainsbury appointed Chief Executive.

Commercial and Retail businesses formed.

2023

Close Brothers opens the market at the London Stock Exchange.

Close Brothers acquires Bluestone Motor Finance (Ireland), rebranded to Close Brothers Motor Finance.

2024

Loan book exceeds £10 billion.

Close Brothers entered into an agreement to sell CBAM to funds managed by Oaktree Capital Management, L.P. (“Oaktree”)[1].

1. See Note 29: “Post Balance Sheet Event” for further information. The transaction is expected to complete in early 2025 calendar year and is conditional upon receipt of certain customary regulatory approvals.

At a Glance

Who we are

Close Brothers is a leading UK merchant banking group providing lending, deposit taking, wealth management services and securities trading.

Key highlights

c.4,000
employees

Constituent of the
FTSE 250

Serving approximately
three million
customers

64 offices
predominantly in the UK and Ireland

What we do

Banking

Banking provides specialist lending and deposits across three businesses: Commercial offers specialist and predominantly secured lending principally to the SME market; Retail provides intermediated finance through motor dealers, motor finance brokers and insurance brokers, and savings products for individuals and corporates; and Property offers residential development finance to established UK property developers, funding for commercial properties, and bridging and refurbishment loans.

Find out more on pages 63 to 70

£205.4 million
of Adjusted Operating Profit

Asset Management

Close Brothers Asset Management ("CBAM") is a leading, vertically integrated wealth manager, providing investment management and financial planning services to private clients in the UK. On 19 September 2024, the group announced that it entered into an agreement to sell CBAM to Oaktree[1].

Find out more on pages 70 to 72

£12.2 million
of Adjusted Operating Profit

Securities

Winterflood is a leading liquidity provider, also offering corporate advisory services to investment trusts and institutional sales trading. **Winterflood Business Services ("WBS")** provides outsourced dealing and custody solutions to c.60 corporate clients.

Find out more on pages 72 to 73

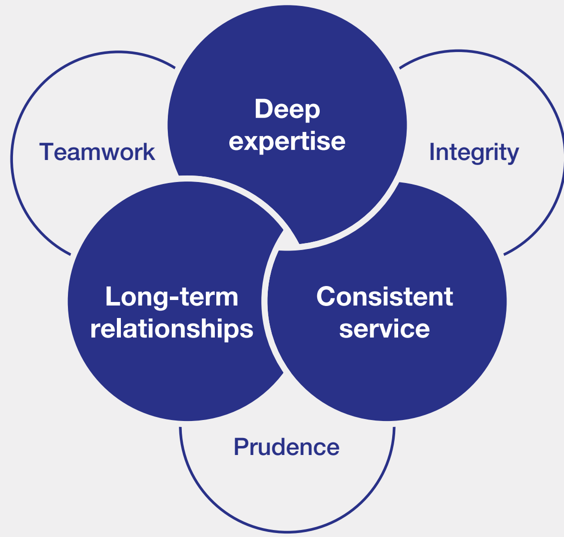
£(1.7) million
of Operating Loss

1. See Note 29: "Post Balance Sheet Event" for further information. The transaction is expected to complete in early 2025 calendar year and is conditional upon certain customary regulatory approvals.

The foundations of our success enable us to deliver on our purpose

Our Purpose: To help the people and businesses of Britain thrive over the long term

Our Values: Embody our distinctive culture and customer-centric approach



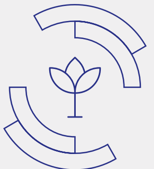
Our Strategy: Focuses on ensuring our business model continues to deliver in the long term

To provide exceptional service to our customers and clients across lending, deposit taking, wealth management services and securities trading.

Protect

Keeping it safe

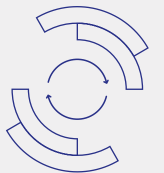
See pages 20 to 21



Grow

Delivering disciplined growth

See pages 22 to 23



Sustain

Doing it responsibly

See pages 24 to 25

Underpinned by: Our Responsibility

To help address the social, economic and environmental challenges facing our business, employees and clients, now and into the future.

Enabling us to: Create value and deliver positive outcomes for our stakeholders

Colleagues

See page 30

Customers, clients and partners

See page 30

Suppliers

See page 31

Regulators and government

See page 30

Communities and environment

See page 31

Investors

See page 31

Chairman's Statement

We have remained focused on safeguarding our valuable franchise and its core strengths

Michael N. Biggs
Chairman

"The board's overarching priority is to protect our valuable franchise. Given the uncertainty surrounding the FCA's review, our primary focus has been to work closely with the management team on developing and overseeing the implementation of a robust capital plan to protect the group, leaving it well positioned for a range of possible outcomes."

The 2024 financial year tested Close Brothers like never before, marked by the significant uncertainty introduced as a result of the FCA's review of historical motor finance commission arrangements announced in January.

The UK economy experienced a gradual recovery, with growth stabilisation and easing of inflation from elevated levels in the preceding year supporting a modest improvement in sentiment. However, the period was not without its challenges and political uncertainties, which resulted in SME businesses and consumers continuing to exercise a higher degree of caution in their investment and borrowing decisions.

Throughout this period, we have remained focused on safeguarding our valuable franchise and its core strengths.

Our financial performance demonstrates the resilience of our business and the strength of our team. In the 2024 financial year our lending business continued to deliver growth, albeit at a reduced pace due to the measures taken to moderate capital consumption. We maintained a strong net interest margin and stable credit quality, while continuing to focus on the delivery of a more efficient business. Our core Banking business model remains as relevant as ever as we continue to offer excellent and specialist service to our customers, while maintaining our pricing and underwriting discipline. In our market-facing divisions, CBAM continued to attract client assets and generate market-leading net inflows. However, short-term trading conditions remained challenging for Winterflood, resulting in a loss in the period.

Decisive Leadership in Uncertain Times

The board's overarching priority is to protect our valuable franchise. Given the uncertainty surrounding the FCA's review, our primary focus has been to work closely with the management team on developing and overseeing the implementation of a robust capital plan to protect the group. Our approach aligns with the group's long-standing commitment to maintaining a strong balance sheet and exercising prudence in the management of financial resources.

This challenging environment demanded a decisive and strong leadership and difficult decisions had to be made amidst uncertainty. This included the suspension of dividend payments for the 2024 financial year, which was an important step towards strengthening the group's capital position. The board is acutely aware of the paramount importance of the group's dividend to our shareholders. The reinstatement of dividends in 2025 and beyond will be reviewed once the FCA has concluded its process and any financial consequences for the group have been assessed.

As announced in March 2024, the board has identified a series of actions which, combined with the decision not to pay a dividend in the 2024 financial year, have the potential to strengthen the group's CET1 capital by approximately £400 million. We have made significant progress on the delivery of these actions. These include

a combination of selective loan book growth to optimise risk weighted assets and significant risk transfer of assets, as well as other potential management actions such as a continued review of our businesses, including the sale of portfolios.

While it is regrettable that we must temporarily moderate our lending activities to preserve capital at this juncture in the cycle, we are approaching this necessity with utmost care and strategic consideration. Our commitment to serving our customers remains unwavering, as we recognise the critical importance of protecting our valuable franchise.

We have mobilised further cost management initiatives expected to generate annualised savings of c.£20 million by the end of the 2025 financial year, as previously outlined, to partially offset the adverse impact from the capital actions identified on the group's profitability. The board recognises the importance of further cost management initiatives and believes that the group could emerge from these times as a more efficient organisation.

Following a comprehensive strategic review, the board is pleased to announce the agreed sale of CBAM to Oaktree. The transaction is expected to increase the group's common equity tier 1 capital by approximately 100 basis points, enhancing our position to navigate the current uncertain environment. The board has unanimously approved the transaction and believes that the agreed sale represents competitive value for our shareholders, allowing us to simplify the group and focus on our core lending business.

The uncertainties arising from the FCA's review of historical motor finance commission arrangements will inevitably be with us for some months to come. Whilst the board cannot change the environment that the group finds itself in, it is taking a series of clear, proactive steps to ensure the group is well positioned to take advantage of future opportunities.

Preserving Our Strong Culture and Employee Engagement

While our customers are, without question, a critical part of the group's long-term success, Close Brothers' culture is equally fundamental. The expertise of our people and a relentless focus on delivering excellent customer service is the cornerstone of our business model. Recognising this, we have made it a priority to preserve this vital pillar of our organisation. Our latest employee opinion survey ("EOS") was conducted in February 2024 to monitor overall engagement alongside colleague sentiment around inclusion, speaking up and treating customers and clients fairly. The board was pleased to see that we have retained high levels of employee engagement at 83% (2023: 86%), evidencing that our culture remains as resilient as ever, even in the face of adversity. Despite the challenges that we have faced, we have witnessed remarkable displays of teamwork, innovation and dedication from our colleagues.

You can read more about our people on pages 49 to 52 of this report.

Board Changes

Oliver Corbett and Peter Duffy resigned as directors of the board in November 2023 and February 2024, respectively. On behalf of the board, I would like to express my sincere gratitude to each of Oliver and Peter for their unwavering commitment to the group and their valued expertise and perspectives. Following Oliver's resignation, Kari Hale has been appointed as chair of the Audit Committee and as whistleblowing champion.

The board is committed to diversity at all levels while ensuring that its composition is consistent with the skills, experience and expertise required at a particular point in time. Our board is composed of 44% female directors which includes one director from a minority ethnic background. With this, we have met our own gender and ethnicity targets and I am pleased that we align with the recommendations of each of the FTSE Women Leaders and Parker Reviews in terms of composition of the board. While we do not currently meet the FCA Listing Rule requirement to have one of the senior board positions occupied by a female, we remain committed to ensuring that our board is able to meet the needs of all relevant stakeholders. The board recognises that the FCA Listing Rule requirement will be a consideration for future appointments to these roles.

Further information on the composition of the board and its diversity can be found on pages 122 to 126.

Playing Our Part in Addressing the Threat of Climate Change

This year, we have maintained our focus on the group's sustainability agenda. As a group supporting many sectors of the UK economy through our lending products and investment services, we recognise the important role we play in supporting our customers and clients transitioning to a low carbon economy.

We continue to play our part in addressing the threat of climate change from three angles: reducing our own emissions; realigning our financed emissions; and enabling the deployment of cleaner technologies through our green growth lending strategy.

In September 2022 we joined the Net Zero Banking Alliance ("NZBA") and, in March 2024, we published our first sector-based intermediate 2030 reduction ambition for transport assets, the largest carbon-intensive sector in our loan book. Furthermore, we committed to 18% of CBAM's assets under management being in line with net zero by 2050 as part of our initial target disclosure for the Net Zero Asset Managers ("NZAM") initiative. I am also pleased with the progress made on our green growth lending strategy. In September 2022, we set ourselves our first green growth ambition to provide funding for at least £1 billion of battery electric vehicles ("BEVs") by 2027. In the first two years, we have funded £316 million of BEVs.

You can read more about our climate disclosures on pages 35 to 47 of this report.

Gratitude and Commitment

Finally, I would like to take this opportunity to express my deepest gratitude to our colleagues, the board and our wider stakeholders for their hard work and dedication throughout this challenging period. Together, I am confident that we will emerge as a stronger organisation and will be well placed to continue to deliver on our purpose.

Michael N. Biggs
Chairman

19 September 2024

Chief Executive's Statement

The strengths of our model, being our long-term relationships, the deep expertise of our people and our customer-centric approach, leave us well placed to navigate the current uncertainty

Adrian Sainsbury
Chief Executive

"Our top priority has been to further strengthen our capital position and protect our valuable franchise, whilst continuing to support our nearly three million customers, including c.350,000 SME businesses, by offering them borrowing capacity to acquire essential assets."

This year's performance demonstrates the group's resilience. In Banking, we grew our loan book with strong margins and stable underlying credit quality, while progressing our cost actions to improve future efficiency. Close Brothers Asset Management delivered strong net inflows, although Winterflood's performance remained impacted by unfavourable market conditions.

The FCA's review of historical motor finance commission arrangements announced in January introduced significant uncertainty for the group. Against this backdrop, our top priority has been to further strengthen our capital position and protect our valuable franchise, whilst continuing to support our nearly three million customers, including c.350,000 SME businesses, by offering them borrowing capacity to acquire essential assets.

Notwithstanding this uncertainty, we have made significant progress in enhancing our business and customer offering over the year. We have written healthy levels of new business as demand from customers has remained strong; we acquired Close Brothers Motor Finance in Ireland and are re-establishing our presence in this strategic market; and we have made key strategic hires across our business franchise, as we further develop our capabilities. We have also taken this opportunity to review many of our processes and implement ways we can operate more efficiently in the future. This continued focus on protecting and sustaining our franchise means we are well positioned to take advantage of future opportunities.

Financial Performance

Statutory operating profit before tax increased 27% to £142.0 million (2023: £112.0 million). This was primarily driven by the non-recurrence of the significant impairment charges related to Novitas in the prior year. On an adjusted basis, excluding the impact from certain items which do not reflect the underlying performance of our business, the group's operating profit increased 50% to £170.6 million, as the significant decrease in impairment charges and 1% growth in income more than offset a 10% growth in adjusted operating expenses.

In Banking, adjusted operating profit increased materially to £205.4 million, driven by loan book growth of 6%, a strong net interest margin of 7.4%, and a stable credit performance when excluding the non-recurrence of prior year impairment charges related to Novitas. Banking costs increased by 8%, at the lower end of the 8-10% cost growth guidance range outlined previously, driven mainly by inflationary-related increases in staff costs, higher regulatory compliance and assurance expenses and continued investment, partly offset by the progress we have made on our tactical and strategic cost management initiatives.

We have made good progress on the delivery of the cost management initiatives previously announced, such as through our technology transformation programme, vacating our Wimbledon Bridge House office and through the review of our workforce. We recognise that there is more we can achieve in enhancing our future cost efficiency. Our focus remains on delivering annualised cost savings of c.£20 million, with the full benefit expected in the 2026 financial year.

CBAM delivered strong net inflows of 8%, although profit reduced, as income growth was more than offset by costs primarily related to wage inflation and new hires to support future growth.

Winterflood's performance remained impacted by lower trading income resulting from continued weakness in investor appetite and market uncertainty, with an operating loss of £1.7 million after incurring one-off dual-running property costs of c.£3 million. WBS continued to see good momentum, with income rising 17% to £17.3 million and a 21% increase in AuA to £15.6 billion.

Our capital position was strong, with our CET1 capital ratio at 12.8% (31 July 2023: 13.3%), significantly above our applicable requirement of 9.7%. Total funding increased 5% to £13.0 billion (31 July 2023: £12.4 billion), with 36% growth in our retail deposit base, demonstrating the strength of our Savings proposition. We maintained our prudent liquidity position, with our Liquidity Coverage Ratio over 1,000%, substantially exceeding regulatory requirements.

Continued Uncertainty Arising from the FCA's Review of the Motor Finance Industry

With respect to the FCA's review of discretionary commission arrangements in the motor finance market prior to the 2021 ban on these models, on 30 July 2024, the FCA announced that it now aims to set out next steps by the end of May 2025, rather than by September 2024 as previously expected. There remains significant uncertainty for the industry and the group regarding any potential remedial action as a result of the review. Close Brothers Motor Finance ("CBMF") has operated in the motor finance market for over three decades, during which we have sought to comply with the relevant regulatory requirements. There are a range of possible outcomes and we remain focused on further strengthening the group's capital position, with the priority of protecting and sustaining our valuable franchise.

We have a strong long-term dividend track record and the decision taken in February 2024 not to pay a dividend for the 2024 financial year was not made lightly. The reinstatement of dividends in 2025 and beyond will be reviewed once the FCA has concluded its process and any financial consequences for the group have been assessed.

As previously announced, we are implementing management actions which, combined with the decision not to pay a dividend in the 2024 financial year, have the potential to strengthen the group's available CET1 capital by approximately £400 million by the end of the 2025 financial year.

We have made significant progress against these management actions. Whilst the demand from customers has remained strong, we have been selectively growing our loan book to optimise risk weighted assets, alongside working diligently to find alternatives for writing further business with a lower capital consumption. Whilst we have written c.£8 billion of new business in the 2024 financial year, we estimate that at least c.£570 million in additional loans meeting our credit and pricing requirements could have been underwritten in the current environment.

Approximately £220 million of these loans would have been drawn in the year. While this is disappointing, we are confident that we will be well positioned to capture this demand and accelerate the growth of our loan book as soon as feasible. Additionally, we have concluded our work in preparation for a significant risk transfer of assets through motor finance securitisation and are ready to launch a transaction at the optimal time.

"Whilst the demand from customers has remained strong, we have been selectively growing our loan book to optimise risk weighted assets, alongside working diligently to find alternatives for writing further business with a lower capital consumption."

We have continued to deliver against the additional cost management initiatives previously announced. These initiatives aim to generate annualised savings of c.£20 million, reaching the full run rate by the end of the 2025 financial year. We are progressing a range of other potential management actions, as previously outlined, which include potential significant risk transfer of other portfolios through securitisation and a continued review of our business portfolios and other tactical actions.

Following a comprehensive strategic review, we are pleased to announce the agreed sale of CBAM to Oaktree. The transaction is expected to increase the group's common equity tier 1 capital ratio by approximately 100 basis points on a pro forma basis, marking significant progress towards the capital plan we outlined in March 2024. Additionally, the agreed sale represents competitive value for our shareholders and allows us to simplify the group, focusing on our core lending business. CBAM has delivered impressive growth over the past years and has developed into a strong franchise. Under the new ownership, it will benefit from additional resources to accelerate its growth trajectory. I would like to thank our CBAM colleagues for their dedication, professionalism and exceptional service to our clients.

Outlook

We remain committed to executing our strategy and protecting our valuable franchise. We are making significant progress against the initiatives previously outlined to further strengthen our capital position.

The strengths of our model, being our long-term relationships, the deep expertise of our people and our customer-centric approach, leave us well placed to navigate the current uncertainty. We continue to be encouraged by the strength of demand in our Banking business and see good growth prospects for our core business.

Adrian Sainsbury
Chief Executive

FCA's Review of Historical Motor Finance Commission Arrangements

On 11 January 2024, the FCA announced it would use its powers under section 166 of the Financial Services and Markets Act 2000 to review historical motor finance commission arrangements and sales at several firms, following high numbers of complaints from customers. The review followed the Financial Ombudsman Service ("FOS") publication of its first two decisions upholding customer complaints relating to discretionary commission arrangements ("DCAs") against two other lenders in the market.

The FCA issued an update to the market on 30 July 2024. In the announcement, it stated that due to delays in collecting and reviewing historical data, as well as relevant ongoing litigation, it would not be able to set out the next steps of its review by 24 September 2024 as it originally planned. The FCA now aims to set out next steps by the end of May 2025.

Overview of Commission Models Operated[1]

CBMF has operated in the motor finance market for over three decades, during which we have sought to comply with the relevant regulatory requirements.

Prior to 2016, CBMF operated an Upward Difference in Charges ("DIC") model. This allowed the dealer or broker full discretion over the customer rate and the commission earned on point-of-sale finance, subject to a hard cap on the amount of commission. Under the DIC model, commission, if any, was paid as a percentage of the total interest paid by the customer.

From 2016, CBMF introduced a Downward Scaled Commission ("DSM") model, which capped both the interest charged to the customer and commission paid to the dealer or broker. This meant that CBMF set the headline rate for the customer and the dealers could only reduce this by decreasing their level of commission. Under the DSM model, commission, if any, was paid as a percentage of the loan size.

From 2021 onwards, CBMF introduced a Risk Adjusted Pricing Model which set the rate for the customer and adjusted the rate according to the customer risk profile. Dealer discretion was removed entirely. Under the Risk Adjusted Pricing Model, commission, if any, is paid as a fixed percentage of the loan size.

All historical models included a "hard cap" on the commission amount paid to the broker or dealer. Commission disclosures were also reviewed and enhanced, as required, over time.

Impact on Close Brothers

The FCA review is progressing to determine whether there has been industry-wide failure to comply with regulatory requirements which has caused customers harm and, if so, whether it needs to take any actions. Based on the status at the end of the financial year and in accordance with the relevant accounting standards, the board has concluded that no legal or constructive obligation exists and it is currently not required or appropriate to recognise a provision at 31 July 2024 in relation to this matter. The FCA has indicated there could be a range of outcomes, with one potential outcome being an industry-wide consumer redress scheme. On 30 July 2024, the FCA indicated that, while no final decisions have been made, it is more likely than when it started its review that some kind of redress mechanism may be necessary. The estimated impact of any redress scheme, if required, is highly dependent on a number of factors including, for example, the time period covered; the DCA models impacted (the group operated a number of different models during the period under review); appropriate reference commission rates set for any redress; and response rates to any redress scheme. As such, the timing, scope and quantum of the potential financial impact on the group, if any, remain uncertain and cannot be reliably estimated at present. In addition, it is not currently practicable to estimate or disclose any potential financial impact arising from this issue.

The group is subject to a number of claims through the courts regarding historical motor finance commission arrangements. One of these, initially determined in the group's favour, was appealed by the claimant and the case was heard in early July 2024 by the Court of Appeal together with two separate claims made against another lender. The Court's decision is now awaited.

As of 31 August 2024, where individual cases were adjudicated in County Court, the courts found that there was no demonstrable customer harm and hence no compensation to pay in the majority of decided cases for Close Brothers. Nevertheless, there have been only a limited number of adjudicated cases at this time.

There are also a number of complaints that have been referred to the FOS for a determination. To date, no final FOS decisions have been made upholding complaints against Close Brothers. On 9 May 2024, the FOS announced that it would be unlikely to be able to issue final decisions on motor commission cases for some time due to the potential impact of a judicial review proceeding started by another lender in relation to one of its January 2024 decisions and also the outstanding Court of Appeal decisions.

1. For simplicity, dates shown above assume transition when substantially complete.

Since the announcement by the FCA of its review of historical motor finance commission arrangements in January 2024, we have seen a further increase in enquiries and complaints. We have also taken steps to enhance our operational capabilities to respond to increased complaints volumes and potential changes such as the implementation of a consumer redress scheme, if required. This financial year, we have incurred £6.9 million of costs associated with complaints handling and other operational costs associated with the FCA's review. This included increased resourcing in our complaints and legal teams, along with associated investments in data, systems and business processes. These costs are lower than our previous estimate of c.£10 million as we remain focused on mitigating the impact on resource expenses through outsourcing and deployment of automated solutions to assist in triaging new complaints, improving our processing speed. In the 2025 financial year, we currently estimate these costs will be between £10-15 million. We continue to monitor the impact on our current handling of these complaints and are following the playbooks in place to ensure we have the appropriate resources to respond effectively.

Further Strengthening our Capital Base to Continue to Support Customers and Protect our Valuable Franchise

While there is no certainty regarding any potential financial impact as a result of the FCA's review, the board recognises the need to plan for a range of possible outcomes. It is a long-standing priority of the group to maintain a strong balance sheet and prudent approach to managing its financial resources. To that end, the board considers it prudent for the group to further strengthen its capital position, balancing this with the need to continue supporting our customers and protecting our business franchise.

In March 2024, we announced a range of management actions which have the potential to strengthen the group's available CET1 capital by approximately £400 million by the end of the 2025 financial year (when compared to the group's projected CET1 capital ratio for 31 July 2025 at the time of our Half Year results announcement, prior to any management actions). We are now providing an update on the progress made since then.

We have retained c.£100 million of CET1 capital in the 2024 financial year as a result of the group's previously announced decision not to pay a dividend for the 2024 financial year.

We announced steps to further strengthen the group's capital position by optimising risk weighted assets ("RWAs"). We plan to reduce RWA growth by approximately £1 billion through a combination of selective loan book growth, partnerships and significant risk transfer of assets related to our Motor Finance business through securitisations. The combination of these actions could release c.£100 million of CET1 capital by the end of the 2025 financial year. In the second half, we grew the loan book selectively while maintaining support for our existing customers, with the impact reflected in the lower loan book growth of 2% in the six months since 31 January 2024. We currently plan for low single-digit percentage growth in the loan book in the 2025 financial year, with the associated impact to be reflected in the group's CET1 capital ratio over the course of the 2025 financial year. We have concluded the work in preparation for a significant risk transfer of assets in Motor Finance. Subject to market conditions, we are ready to launch a transaction at the optimal time to maximise the peak capital benefit, aligned to the revised timetable for the FCA's work in the motor finance market.

We have progressed on the delivery of the additional cost management initiatives previously announced to generate annualised savings of c.£20 million, reaching the full run rate by the end of the 2025 financial year. These initiatives include the continued rationalisation of third-party suppliers and simplification of our property footprint, as well as adjustments to our workforce to drive increased efficiency. We have partnered with a leading technology services and consulting company to help us drive our technology transformation programme, which has led to a headcount reduction of c.100 as we made increased use of outsourcing and the removal of over 115 IT applications to date. We have served notice to vacate our Wimbledon Bridge House office and establish a more suitable London footprint to meet the needs of the business, resulting in the removal of approximately 800 desks. As a result of the review of our workforce, we have incurred £3.1 million of restructuring costs, primarily relating to redundancy and associated costs.

We continue to progress a range of other potential management actions which include potential risk transfer of other portfolios through securitisation and a continued review of our business portfolios and other tactical actions. On 19 September 2024, the group announced that it entered into an agreement to sell CBAM to Oaktree. The transaction is expected to increase the group's common equity tier 1 capital by approximately £100 million, further strengthening our capital position.

Additionally, as our business continues to organically generate capital through 2025, the retention of earnings could potentially strengthen the group's capital position by a further £100 million, if required.

Subject to the execution of these management actions and capital generation, we have the potential to increase the group's CET1 capital ratio to between 14% and 15% at the end of the 2025 financial year (excluding any potential redress or provision related to the FCA's review of historical motor finance commission arrangements).

While there remains considerable uncertainty regarding the specifics of any potential redress scheme, if required, as well as its timing, the board is confident that these actions leave the group well positioned to navigate the current uncertain environment.

Investment Case

Specialism, expertise and discipline, with a strong historical track record

Key points of difference at Close Brothers are our specialism and expertise, long-term approach and the discipline behind our proven and resilient model. These ensure we are well positioned to protect our valuable franchise and continue building on our strong historical track record of growth, profitability and returns to our shareholders.

A Diversified Portfolio

Adjusted operating profit[1]

Banking: Commercial £89.5 million — 41%

Banking: Retail £37.9 million — 18%

Banking: Property £78.0 million — 36%

Asset Management[2] £12.2 million — 6%

Securities £(1.7) million — (1%)

1. Excludes group (central functions) net expenses.
2. On 19 September 2024, the group announced that it entered into an agreement to sell CBAM to Oaktree. See Note 29: "Post Balance Sheet Event" for further information on the transaction, which is expected to complete in early 2025 calendar year.

Specialism, Service and Expertise

92%
Asset Finance CSAT[1]

+80
Premium Finance (personal lines) customer Net Ease

+72
Motor Finance customer Net Ease

+67
Motor Finance dealer NPS[2]

75%
Savings online CSAT[1]

+98
Property Finance NPS[2]

+72
CBAM Net Ease

1. Customer satisfaction score ("CSAT").
2. Net promoter score ("NPS").

Prudent Management of Financial Resources with a Strong Balance Sheet

We have a strong balance sheet to support the delivery of our strategy and take a prudent approach to managing our financial resources.

Our disciplined underwriting criteria and the expertise of our people give us confidence in the quality of our loan book, which is diverse and over 90% secured or structurally protected. Our funding base is well diversified, sourced from both wholesale sectors and customer deposits, and has a prudent maturity profile.

We follow the "borrow long, lend short" principle and take a conservative approach to liquidity management, with liquidity levels comfortably ahead of both internal risk appetite and regulatory requirements.

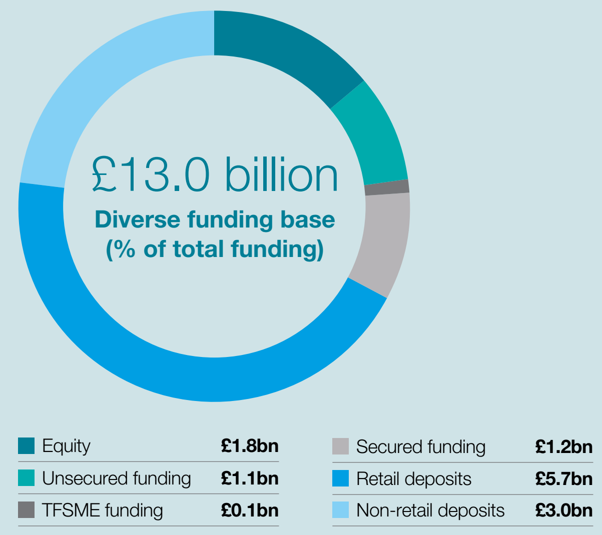
A fundamental part of our business model is ensuring we have a strong capital position which allows us to grow, invest and meet all regulatory requirements. Our short-term priority is to further strengthen our capital base and protect our valuable franchise, whilst continuing to support our customers.

Focused on Delivering Disciplined Growth, Building on Our Long History of Loan Book Growth Through the Cycle

We have a strong track record of delivering disciplined growth both through our existing book and in new markets.

We do not manage our business to a growth target but instead prioritise consistency of our lending criteria in our Banking division and maintaining strong returns across the businesses. Historically, we have benefited from this consistent application of our business model through the cycle, reflecting the differing market and competitive dynamics across our portfolio of businesses. We are there for our clients, lending responsibly even when others may pull back.

We continue to see significant opportunities for disciplined growth across our businesses as we look to extend our capabilities into new specialist sectors that fit with our model.



Numbers do not cast due to rounding.

Strong capital, with CET1 capital ratio of 12.8%

- c.310bps headroom over applicable requirement.

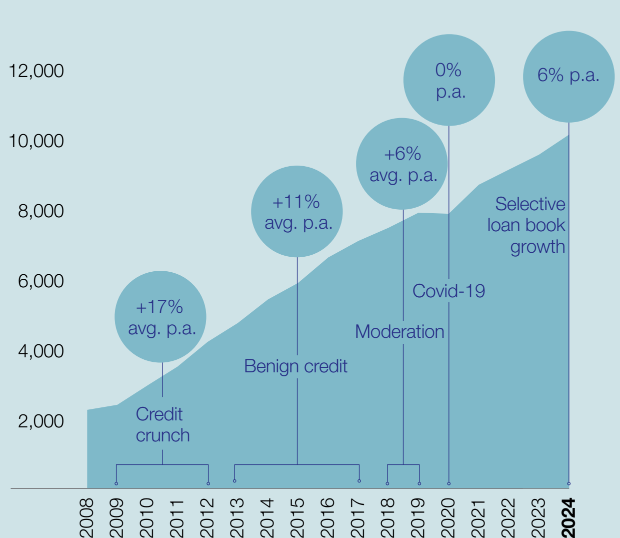
Prudent liquidity position

- Liquidity coverage ratio over 1,000%.

Borrow long, lend short

- Average maturity of funding exceeds the average loan book maturity by four months.

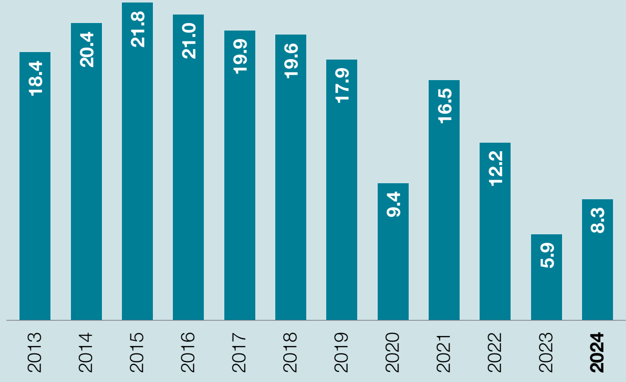
Net loan book trend (£ million)



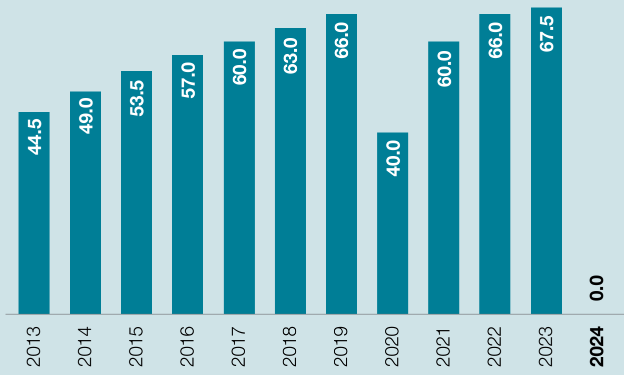
Generating Shareholder Value

Whilst our short-term priority is to further strengthen our capital base, which included the difficult decision taken to not pay an ordinary dividend in the 2024 financial year, we remain focused on protecting our valuable franchise and ultimately resuming our track record of earnings growth and returns.

Return on average tangible equity (%)



Dividend per share (pence)[1]



1. As announced on 15 February 2024, given the significant uncertainty regarding the outcome of the FCA's review of historical motor finance commission arrangements and any potential financial impact as a result, the group will not pay a dividend on its ordinary shares for the 2024 financial year. The reinstatement of dividends in the 2025 financial year and beyond will be reviewed once the FCA has concluded its processes and any financial consequences for the group have been assessed.

Our Business Model

How we generate value

What we do

We are a leading UK merchant banking group providing lending, deposit taking, wealth management services and securities trading.

We focus on delivering excellent service in specialist sectors we know and understand.

Banking

Specialist and secured lending and deposits for small businesses and individuals

Our Banking offering includes: hire purchase; leasing and loans for capital assets; debt factoring; invoice discounting; asset-based lending; other specialist financing for SMEs; used car, motorcycle and light commercial vehicle financing; insurance premium financing; development finance for residential properties; funding for commercial properties; refurbishment and bridging finance; and savings products for individuals and corporates.

Read more about Banking on pages 63 to 70

Close Brothers Asset Management[1]

A leading, vertically integrated UK wealth manager

Our CBAM offering includes: financial planning; bespoke investment management; a socially responsible investment service; an inheritance tax service; and investment solutions for both CBAM clients and distributed through third-party IFAs.

Read more about CBAM on pages 70 to 72

Securities

A leading liquidity provider supporting clients in all market conditions

Our Securities offering includes Winterflood, which provides market making, investment trusts advisory and broking services, and institutional sales trading. It also includes Winterflood Business Services, which provides outsourced custody and dealing services.

Read more about Securities on pages 72 to 73

Enabled by the distinctive strengths of our model

Deep expertise

See page 19

Consistent service

See page 28

Long-term relationships

See page 32

1. On 19 September 2024, the group announced that it entered into an agreement to sell CBAM to Oaktree. See Note 29: "Post Balance Sheet Event" for further information on the transaction, which is expected to complete in early 2025 calendar year.

How we do it

We maintain a long-term approach, applying this consistently through the cycle

Disciplined pricing and underwriting

Prudent management of financial resources

Customer-centric approach

Conservative approach to risk

Diversified portfolio of banking businesses

Our distinctive culture

We apply our lending criteria and pricing discipline consistently at all stages of the cycle, with the net interest margin we generate reflecting the specialist expertise of our teams. Our lending is predominantly secured or structurally protected, with conservative loan-to-value ratios, small loan sizes and short maturities.

A fundamental part of our model is having a strong capital position and taking a conservative approach to liquidity management and funding, as we focus on diversity of funding and a prudent maturity profile.

We listen to our customers, putting their needs at the heart of our business. We are there for our customers across all market conditions and seek to build long-lasting relationships with them.

Our prudent and conservative appetite to risk remains unchanged throughout the cycle. We are committed to sustaining high standards of business conduct and adherence to all applicable regulations.

We lend in a variety of sectors and locations across a diverse range of assets including transport, industrial equipment, renewable energy, wholesale finance, broker finance, used cars, light commercial vehicles and residential property.

We see our distinctive culture as our most valuable asset. Our culture, combined with our long-term approach, is embodied by our values of service, expertise, relationships, teamwork, integrity and prudence. These values are embedded at all levels across the organisation.

The value we create

Colleagues

83%

employee engagement

Customers, clients and partners

Strong customer sentiment scores

92% Asset Finance CSAT

+98 Property Finance NPS

Suppliers

70%

of our suppliers described doing business with us as "Easy" or "Very Easy"

Regulators and government

12.8%

CET1 capital ratio

Communities

£100,000

donated to charities aligned to our ESG goals

Environment

41.6%

reduction in Scope 1 and 2 emissions (market-based) since 2019

Investors

8.3%

return on average tangible equity

Operating Environment

Adapting to changes in our operating environment

Climate agenda

What we are seeing

- The climate agenda impacts all of our stakeholders and the decisions they make, and it guides our activities and operations as a business.
- With the change in government seen in the UK in July, clarity on the direction of travel and pace of change is elevating the focus on investments in green technologies.
- We recognise the important role we can play in helping people and businesses transition to a lower carbon future, as they invest in green assets including electric vehicles, renewables, grid infrastructure and energy efficiency.
- We need to support our stakeholders in making decisions by providing sufficient information on our climate strategy.
- Investors are increasingly taking ESG factors into consideration as part of their investment decisions and reporting standards require us to align our climate reporting to the recommendations of the Task Force on Climate-related Financial Disclosures ("TCFD").

How we are responding

- Our group climate strategy, considering both our operational impacts and the implications across our financed activities, continues to develop.
- Under our climate commitment, aligned with the Net Zero Banking Alliance ("NZBA"), we have set out our initial sector-based intermediate 2030 emissions reduction pathway for our lending on road vehicles.
- Our Asset Management division has recently set out its sustainability strategy in its inaugural TCFD-aligned entity report including its initial proportion of assets under management to be managed in line with net zero.
- We have continued to address our operational emissions including office optimisation (balancing with hybrid working) and reaching the milestone this year of more than half of our car fleet being fully electric.

Read more about our climate commitments in our TCFD report on pages 35 to 47.

Regulatory environment

What we are seeing

- The UK regulatory environment continues to see significant change.
- Operational and financial resilience, monitoring of material outsourcing and robust recovery and resolution planning continue to be priorities for the Prudential Regulation Authority ("PRA").
- Prudential monitoring of regulated firms takes place on an ongoing basis through stress testing, capital and liquidity requirements, increasing regulatory data reporting requirements and regular supervisory meetings.
- The FCA's Consumer Duty is leading to better customer outcomes in the market and has driven improvements in controls and arrangements in firms.
- The group has seen an increase in engagement with our regulatory bodies, for example with the FCA on market-wide reviews into historical discretionary commission arrangements in the motor finance sector and Borrowers in Financial Difficulty.
- The FCA continues to take steps to be a data-led regulator, including market-wide data requests and expansion of its Product Sales Data reporting requirements.
- The PRA Policy Statement PS 9/24 Implementation of the Basel 3.1 standards near-final part 2 was published on 12 September 2024, with an implementation date of 1 January 2026, six months later than previously anticipated. We expect the implementation of Basel 3.1 to have a less significant impact on the group's capital headroom position than initially anticipated.

How we are responding

- We continually monitor the landscape for regulatory change.
- We maintain an open and cooperative relationship with our regulatory bodies, including the FCA and PRA, who conduct regular monitoring of our position, including reviewing our stress testing of our liquidity and capital requirements.
- We have engaged constructively with our regulators in respect of historical discretionary commission arrangements in the motor finance sector.
- We have conducted a voluntary Past Business Review of customer forbearance related to our motor finance lending, with oversight from the FCA, as part of the FCA's market-wide Borrowers in Financial Difficulty review.
- Further to the FCA's Consumer Duty, we have conducted in-depth reviews across our businesses including a full review of requirements to implement Consumer Duty for books of business not open to new customers.
- We have recently completed our first Annual Assessment of Customer Outcomes, where the board is required to review and approve the assessment of delivering good customer outcomes.
- Our focus now is on continuing to embed Consumer Duty and staying abreast of new regulatory publications.

Customer behaviour

What we are seeing

- The expectations of customers continue to evolve, with experience across the end-to-end journey key to building loyalty.
- Customer service, clarity of communication, price and value of products, the ease of doing business and how customers feel about their experience are highly valued.
- Digital channels are perceived as the norm, particularly for straightforward interactions. Yet the human element continues to add value for customers and partners, strengthening long-term relationships and providing additional support.
- Customers seek to better understand their financial position; for example, in the motor finance market, consumers may research how much they can borrow and balance that against a vehicle that suits their needs.
- Customers are increasingly supporting the transition to net zero, with SME housebuilders making a significant contribution.

How we are responding

- While we have a range of products, routes to market and customer segments, we focus on good customer outcomes, providing excellent service and building long-term relationships.
- We have provided greater self-service functionality for our personal savings customers such as through our online calculator for visibility of early closure fees. Enhancements are being made to ensure our online customer journeys are more accessible.
- Our Asset Finance business has developed a new technology portal which allows customers to update details, view existing agreements and apply for new finance.
- We have created a Writing for Customers Guide for Premium Finance and Motor Finance, with the average readability of our communications having improved by over 35%.
- Our Motor Finance partnership with online credit broker Zuto provides the customer with a decision in principle on their finance application, without a hard search on their credit profile.
- In Property, insights from our fourth State of Play Survey alongside our partners, the Home Builders Federation and Travis Perkins, help us better understand our customers' needs and priorities.

Technology and digital adoption

What we are seeing

- Technology is enhancing customer and employee journeys, for example through the widespread use of digital channels and self-service models, as well as to create efficiencies, such as through automating non-value-adding processes.
- The rate of technology change continues to advance, with an increased use of Artificial Intelligence ("AI"), automation and cloud-based infrastructure and applications.
- This increasing adoption of new technologies changes the cyber threat landscape and increases the need for continued investment in operational resilience.

How we are responding

- The investment in our multi-year Asset Finance transformation programme has delivered seamless connectivity and visibility between sales, credit decisioning, origination, and billing and collections and has led to a better customer and colleague experience.
- Our technology transformation programme is focused on simplifying and modernising our technology estate, removing unnecessary cost and increasing our use of strategic partners, whilst creating a more digitally enabled, modern and agile IT environment that is secure, resilient and sustainable. We have partnered with Wipro, a leading technology services and consulting company, to help us drive our transformation.
- We continue to invest in exploring AI and developing robotics and have built automated solutions to assist in triaging new business imperatives whilst improving our processing speed and increasing operational efficiency.
- We continuously assess the maturity and effectiveness of our cyber security controls and make adjustments as necessary to address new threats. We have also completed a cyber incident exercise to enhance our readiness for any potential incidents. We will remain focused on enhancing our operational resilience across our business.

Economic environment

What we are seeing

- The market backdrop has been mixed this year. The economy has proved resilient, with a general improvement in macroeconomic indicators, low unemployment and strong wage growth. Nevertheless, uncertainty has persisted for both individuals and SMEs.
- Notwithstanding the reduction in the Bank of England base rate in August 2024 and the improvement in some economic indicators, headwinds remain, with interest rates at higher levels, inflation proving more persistent than expected and cost of living pressures continuing.
- The change in government seen in July 2024 is expected to lead to changes in policy which could have an impact on the UK's economic outlook.

How we are responding

- We recognise the challenges affecting our customers and continue to monitor the potential impact of ongoing uncertainty closely, prudently assessing affordability across lending proposals and offering additional support to customers where needed.
- Our IFRS 9 models are regularly updated to reflect current economic scenarios and forecasts from Moody's, with adjustments overlaid where needed to recognise additional risk not captured by the model.
- We continue to be there for our customers, lending to them on responsible terms and consistently applying our prudent underwriting and pricing discipline.

Competitive landscape

What we are seeing

- In Banking, borrower confidence remains mixed, with higher funding costs and the uncertain economic outlook weighing on market sentiment.
- We have seen a number of mergers and larger acquisitions in the banking sector in recent months. We expect this trend of consolidation to extend into the smaller and mid-market sector.
- The motor finance sector continues to be impacted in the short term by the ongoing FCA review of historical motor finance commission arrangements.
- The savings market remains highly competitive, with a number of new entrants in recent years and more interest being paid by high street banks, both from rising interest rates and from the FCA's market activities focusing on fair value.
- In the wealth management industry, consolidation remains a key theme, while Consumer Duty and FCA market-wide activities relating to fair value continue to be a major focus.
- Continued difficult market conditions have led to challenges for market makers and brokers, with a focus on managing costs and diversifying revenue streams.

How we are responding

- In Banking, we remain committed to our model of maintaining margin and underwriting discipline, notwithstanding competitor pricing. We continue to focus on delivering excellent client service and building deep relationships with our customers.
- Despite the current uncertainty, we continue to see growth opportunities as we look to extend our capabilities into new areas that fit with our model, either through partnerships or bringing in specialist teams to complement our expertise.
- Our Savings business has expanded its retail customer proposition to include an Easy Access Account, which constitutes a large proportion of the potential deposit pool. We carefully monitor pricing to help maximise opportunities, whilst ensuring fair outcomes for consumers.
- To realise the potential value of CBAM in the medium-term to the fullest extent possible, the group would need to continue to invest to accelerate the business' growth strategy in the short and medium term, including via acquisitions against a consolidating market backdrop. Following a comprehensive strategic review, the group announced that it entered into an agreement to sell CBAM to Oaktree on 19 September 2024.
- In Winterflood, we continue to diversify our revenue streams and explore growth opportunities, including WRAP (Winterflood Retail Access Platform) which provides retail investors access to primary and secondary fundraisings, including new gilt auctions, through their existing retail broker or wealth manager. Also, through WBS, which has helped to balance the cyclicality seen in the trading business.

Read more about the opportunities across our businesses on pages 63 to 73

Enabling opportunities **through our passion for partnerships**

"The knowledge and the information provided really helps. It was exactly what I needed to help grow my business."

Anonymous, Farnborough.

Deep expertise

Enhancing our face-to-face partnership offering and supporting dealers through the introduction of masterclasses

Close Brothers Motor Finance dealer masterclasses aim to inform, educate and share expertise with our dealer partners as we look for ways to add value to their business, enabling them to improve efficiency and maximise profitability.

This year, 19 masterclasses were delivered reaching 300 dealer partners face-to-face, with sessions covering the use of market insights and data trends.

Partners who attended a masterclass have since increased the number of customers they arrange finance for by 11% on average. Close Brothers Motor Finance has also approved an additional 21 stock funding applications from attendees to support their growth ambitions.

Feedback from our partners has been extremely positive. 88% of attendees said they would attend a future masterclass, with an overall rating of 4.8 out of 5.

Our Strategy: Protect

Keeping it safe

Maintaining and Enhancing the Key Strengths of our Business Model

Our differentiated and resilient business model has contributed to our long-term track record over many years. Protecting this valuable model and our long-standing business franchise is a key priority for the board as we navigate the current period of uncertainty.

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

We run our business prudently, maintaining a strong funding, liquidity and capital position. Our loan book is predominantly secured or structurally protected, with a focus on maintaining strong credit quality. We adopt a consistent approach, as we maintain pricing and underwriting discipline in our lending.

We ensure that we are operating efficiently and are using technology that appropriately supports our relationship-based model.

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

Our Strategic Objectives

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

Progress During FY 2024

- Implemented actions to further strengthen the group's capital position given the significant uncertainty regarding the outcome of the FCA's review of historical motor finance commission arrangements, which was announced in January 2024.
- Focused on optimising the allocation of capital across our portfolio of businesses, with selective loan book growth in the second half of the year.
- Issued the group's inaugural Additional Tier 1 ("AT1") in a £200 million transaction to optimise the capital structure, provide further flexibility to grow the business and strengthen the regulatory capital position.
- Strengthened our resilient funding base in the current period of uncertainty.
- Continued to support our customers and lend on responsible terms, adhering to our disciplined approach to underwriting and pricing, whilst maintaining a strong margin.
- Completed our Asset Finance transformation programme, which has introduced a single technology platform across the business, standardising processes, increasing efficiencies and improving customer and colleague experience.
- Made good progress on our strategic and tactical cost management initiatives as we implement measures to deliver annualised savings of c.£20 million, reaching the full run rate by the end of the 2025 financial year.
- Partnered with Wipro, a leading technology services and consulting company, to help us drive our technology transformation programme. To date, we have reduced our headcount by c.100 as we made increased use of outsourcing and removed over 115 IT applications.
- Undertook work across the business to embed compliance with the FCA's Consumer Duty and implement changes for books of business not open to new customers.
- Continued to engage with the PRA as part of our Internal Ratings Based ("IRB") application.
- Further enhanced our operational and cyber resilience, whilst undertaking a continuous cycle of improvements.

Future Priorities

- Continue to further strengthen our capital position, whilst protecting and sustaining our valuable franchise.
- Retaining our strong funding and liquidity position.
- Continuing to focus on pricing and prudent underwriting whilst lending through the cycle.
- Progressing further our cost management initiatives, with a view to achieving positive operating leverage in the 2026 financial year.
- Continuing preparations for a transition to the IRB approach, although the timetable remains under the direction of the PRA.
- Complying with regulatory changes, whilst further strengthening our operational and cyber resilience.
- Continuing to embed our compliance with Consumer Duty requirements.
- Monitoring and mitigating external threats, including the heightened uncertainty in the economic and geopolitical environment and competition from both established and emerging players.

Protecting our business:
Taking decisive actions to protect our valuable franchise

Progress update on management actions as presented at H1 2024, which have the potential to strengthen available CET1 capital by c.£400 million by July 2025[1]

- Management actions executed
- Management actions in progress
- Potential retention from FY25 earnings

+ c.£100m CET1 capital

FY24 dividend suspension

Progress update

In line with our previous announcement, no dividend will be paid in respect of the 2024 financial year

+ up to c.£100m CET1 capital

RWA optimisation and additional cost actions

Progress update

Selectively grew the loan book in H2 24

Ready to launch a significant risk transfer transaction at the optimal time to maximise the peak capital benefit

Progressed the delivery of the additional cost management initiatives

Exploring use of partnerships

+ c.£100m CET1 capital

Other potential management actions

Progress update

Agreed sale of CBAM

Continue to review portfolio of businesses and restructuring options

Potential significant risk transfer of other portfolios through securitisation

Sale of portfolios

Tactical actions and other levers

+ c.£100m CET1 capital

Potential retention from FY25 earnings

Progress update

The reinstatement of dividends in 2025 and beyond will be reviewed once the FCA has concluded its process and any financial consequences for the group have been assessed

On 11 January 2024, the FCA announced it is using its powers under section 166 of the Financial Services and Markets Act 2000 to review historical motor finance commission arrangements and sales at several firms, following high numbers of complaints from customers.

The review follows the Financial Ombudsman Service ("FOS") publication of its first two decisions upholding customer complaints relating to discretionary commission arrangements ("DCAs") against two other lenders in the market.

The FCA review is progressing to determine whether there has been industry-wide failure to comply with regulatory requirements which has caused customer harm and, if so, whether it needs to take any actions. The FCA now aims to set out next steps by the end of May 2025.

There remains significant uncertainty for the industry and the group regarding any potential remedial action as a result of the review.

Notwithstanding this, the board recognises the need to plan for a range of possible outcomes.

In March 2024, we announced a range of management actions which have the potential to strengthen the group's available CET1 capital by approximately £400 million by the end of the 2025 financial year.

We have retained c.£100 million of CET1 capital in the 2024 financial year as a result of the group's previously announced decision not to pay a dividend for the 2024 financial year.

We are making significant progress against the other identified management actions. To optimise risk weighted assets, we have been growing our loan book selectively, with the impact reflected in both the loan book growth rate delivered this year and the expected trajectory for the 2025 financial year.

We have concluded the work in preparation for a significant risk transfer of assets in Motor Finance. Subject to market conditions, we are ready to launch a transaction at the optimal time to maximise the peak capital benefit, aligned to the revised timetable for the FCA's work in the motor finance market.

We have continued to deliver against the cost management initiatives previously announced and have also progressed a range of other capital actions.

Following a comprehensive strategic review, we announced the agreed sale of CBAM to Oaktree on 19 September 2024. The transaction is expected to increase the group's common equity tier 1 capital ratio by approximately 100 basis points on a pro forma basis, marking significant progress towards the plan we outlined in March 2024 to strengthen our capital position in the current uncertain environment.

The board remains confident that these actions leave the group well positioned to navigate the current uncertainty.

1. Numbers are highly indicative. Relative to the group's projected CET1 capital ratio for 31 July 2025 at the time of our Half Year 2024 results announcement, prior to any management actions. Excludes any potential redress or provision related to the FCA's review.

Maximising Opportunities in Existing and New Markets

Our focus on delivering disciplined growth is critical in enabling us to protect our model, whilst maximising opportunities and taking the business forward. This focus allows us to prioritise consistent and prudent underwriting criteria and maintain strong returns across our businesses. Whilst we are currently selectively growing the loan book as we further strengthen our capital position, we do not typically manage the group to a growth target; rather, loan book growth is an output of the business model.

Notwithstanding our short-term focus on further strengthening our capital position, we continually assess existing and new markets for growth opportunities that fit with our model. We also continue to review our portfolio of businesses to ensure they each deliver attractive returns.

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

Our Strategic Objectives

- Maximising opportunities available to us in the current environment and capitalising on cyclical opportunities in each business.
- Extending our product offering and launching initiatives in line with our business model in new and existing markets.

Progress During FY 2024

- Delivered over £500 million of loan book growth and a strong net interest margin reflecting continued customer demand.
- Re-entered the Irish motor finance market with the acquisition of Bluestone Motor Finance (Ireland), which we have rebranded to Close Brothers Motor Finance.
- Continued success from our new initiatives in Commercial, with the Agricultural Equipment and Materials Handling teams writing healthy levels of new business and completing our second syndication deal in Invoice Finance.
- Approved to lend under the UK government's Growth Guarantee Scheme and the Irish Growth and Sustainability Loan Scheme.
- Provided a further £152 million of funding for battery electric vehicles, towards our £1 billion aim.
- Partnered with more finance technology providers in Motor Finance, giving us access to a wider pool of motor retailers.
- Evolved our Premium Finance proposition to best meet the needs of our customers and to support broker partners.
- Continued to grow and diversify our retail deposit base in Savings, with Easy Access balances at c.£540 million.
- Continued to see success in Property in expanding in the regions outside of London and the South East.
- Built on our strong track record of growth in CBAM as we delivered strong net inflows of 8% and acquired IFA business, Bottriell Adams.
- Further grew Winterflood Business Services, with assets under administration ("AuA") increasing to £15.6 billion.

Future Priorities

- Continue to capitalise on cyclical and structural growth opportunities in each of our businesses.
- Assess opportunities in new and existing markets, in line with the "Model Fit Assessment Framework".
- Continue to review our portfolio of businesses.
- Provide further funding for battery electric vehicles, as we progress towards our aim of £1 billion by FY 2027.
- Broaden our sustainability offering to capture demand within the green lending space.
- Continue to grow WBS and target AuA of over £20 billion by FY 2026, supported by our solid pipeline of clients.

Growing our Business

Delivering disciplined growth by ensuring the right fit in line with our "Model Fit Assessment Framework"

The eight criteria are all factors that we consider when assessing growth opportunities. They capture the key strengths of our model, which means that by taking them into account we ensure we are following a disciplined approach to growth and preserving the attributes that generate value for our shareholders.

Growing our business: Re-entering the Irish motor finance market through the acquisition of Bluestone Motor Finance (Ireland)

In October 2023, we completed the acquisition of Bluestone Motor Finance (Ireland) DAC (“Bluestone Motor Finance”), a motor finance specialist in Ireland, which has since been rebranded to Close Brothers Motor Finance (“CBMF”).

CBMF is already a well-established brand in Ireland, with over a decade of experience in this marketplace, having helped over 130,000 customers finance vehicles through a previous partnership, which ended in 2022.

The acquired business aligned closely with several of the “Model Fit Assessment Framework” criteria that we consider when assessing growth opportunities. In particular, there was a strong cultural fit centring around high standards of service for both partners and customers, making this an ideal opportunity for CBMF to re-enter the Irish market.

Like CBMF, the acquired business has invested in its digital capabilities and its online application. The technology is industry-leading in Ireland, while partnerships with online car distribution platforms provide substantial routes to market.

Through an established distribution network of over 650 dealer partners and an experienced sales and underwriting team, we have exciting plans for colleagues, customers and partners in Ireland in the months and years ahead.

Since acquiring the business, we have:

- Rebranded from Bluestone Motor Finance to Close Brothers Motor Finance, including all colleague, customer and partner-facing systems and materials.
- Integrated our new colleagues into the CBMF business, including the equipment and technology they use, the processes and procedures that underpin their activities, and the full range of Close Brothers benefits.
- Aligned the business to our annual reporting processes.
- Implemented our pricing and underwriting standards and credit risk appetite.

Looking ahead, we are planning to:

- Launch new products and services in the Irish market, closely aligned to those already offered in the UK.
- Evolve the business vision and strategy, enabling us to take advantage of opportunities in the Irish market.
- Grow the team by recruiting additional motor finance experts.

Our Strategy: Sustain

Doing it responsibly

Securing the Long-term Future of our Business, Customers and the World we Operate in

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

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

For our people, this means maintaining our focus on employee engagement to support the wellbeing and needs of our colleagues. We will continue to work to attract and recruit diverse talent into the organisation, enable growth for our people, retain them and support them throughout their careers, whilst also promoting an inclusive culture where our people can thrive.

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

Our Strategic Objectives

- Promoting an inclusive culture and social mobility.
- Ensuring our business model is sustainable for the long term.
- Reducing our impact on the environment and responding to the threats and opportunities of climate change.
- Promoting financial inclusion, helping borrowers who might be overlooked and enabling savers and investors to access financial markets and advice to plan for their future.
- Supporting our customers, clients and partners in the transition towards more sustainable practices.

Progress During FY 2024

- Positive results in our employee opinion survey reflect a strong sense of inclusion felt by colleagues, with a new question on “speaking up” receiving a high score of 92%.
- Continued to adapt our offering and introduced new digital capabilities to support changing customer behaviour.
- Continued to support social mobility programmes, hosting 35 interns across the group in partnership with the 10,000 Interns Foundation and upReach.
- Our 15 apprentices, funded through the Close Brothers SME Apprentice Programme, entered their second year of training.
- Launched our Group Diversity and Inclusion Strategy.
- Organised events and talks through our Diversity and Inclusion networks to mark events including National Inclusion Week, Black History Month, World Menopause Day, Remembrance Day, International Men’s and Women’s Day, Neurodiversity Celebration Week, Mental Health Week, National Carers Week, Pride Month and Social Mobility Awareness Day.
- Launched our Employee Ambassador Programme, with a cohort of over 30 colleagues, helping to promote and enhance our employer brand, generating positive awareness and engagement, and encouraging others to do the same.
- Reached the milestone of delivering 1,000 reading sessions to children through our partnership with Bookmark.
- Offered employees access to our financial education website, provided by CBAM.
- Reduced our Scope 1 and 2 emissions (market-based) by 41.6% since 2019.
- Published our first intermediate 2030 ambitions for transport assets as one of our commitments under the NZBA.
- Committed to 18% of CBAM’s assets under management (“AuM”) being in line with net zero by 2050 as part of our initial target disclosure for the Net Zero Asset Managers (“NZAM”) initiative.

Future Priorities

- Attract, develop and retain the best talent.
- Increase psychological safety to maintain our strong inclusive culture.
- Deliver good, sustainable outcomes for our customers and embed inclusion in our interactions with external partners.
- Expand our expertise in green and transition assets and broaden our sustainability offering as we support the transition to a net zero carbon economy.
- Become operationally net zero through our Scope 1 and 2 emissions by 2030.
- Set intermediate 2030 targets covering a significant majority of our financed emissions in our loan book in line with our NZBA commitment.
- Continue to adapt our offering based on horizon scanning and trends in the marketplace, as well as the evolving needs of our customers and clients, while taking into account the feedback they provide.

Sustaining our business: Implementing our three-year Group Diversity and Inclusion Strategy

We recognise that to help the people and businesses we work with thrive over the long term, we have a responsibility to help address the social, economic and environmental challenges facing our business, employees and customers. Diversity and inclusion ("D&I") are embedded into our values and culture internally, and we also know that in a changing external environment, embedding inclusion into our ways of working with customers and external partners will become increasingly important.

We designed a three-year strategy with focus areas, priorities and an action plan. Our thinking was informed by external research and internal insights from our employee networks, data on the employee life cycle stages and our employee opinion survey themes.

Our D&I strategy has three focus areas:

1. Attracting and recruiting more diverse talent, and supporting colleagues throughout their careers.
2. Increasing psychological safety to maintain our strong inclusive culture and promoting inclusive behaviours, respect and teamwork.
3. Delivering good, sustainable outcomes for our customers, and embedding inclusion in our interactions with customers, suppliers, charities and corporate partners.

We have committed to leadership and management engagement and accountability across all D&I actions.

By outlining our strategy and action plan, we are looking to help address our business challenges through a D&I lens, ensuring we are well positioned in the market and prepared for a changing external landscape for D&I.

Key Performance Indicators

Tracking our progress

Protect

Keeping it safe

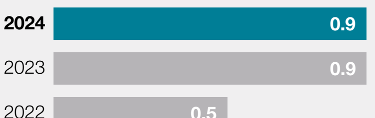
Common Equity Tier 1 capital ratio (%)

Our CET1 capital ratio is significantly above the applicable requirements. We have identified management actions which could strengthen the group's capital position materially and these are in the process of being implemented. Maintaining a strong capital position is a fundamental component of our model.

Net interest margin (%)

Net interest margin is a key measure of profitability and reflects both our pricing discipline on new lending and our funding costs. Prioritising margin over volumes is a key facet of our lending approach.

Bad debt ratio, excluding Novitas[1] (%)



Our bad debt ratio (excluding Novitas) remains below our long-term average of 1.2%[2]. The consistent application of our underwriting and responsible lending criteria at all stages of the economic cycle is fundamental to our long-term approach.

Total funding as a percentage of loan book[3] (%)

We adopt a conservative approach to funding based on the principle of "borrow long, lend short", with a prudent maturity profile. Our funding base is diverse, enabling us to adapt our position through the cycle, based on market conditions and demand.

Banking expense/income ratio (%)

We are focused on achieving positive operating leverage in the 2026 financial year and have mobilised additional cost saving initiatives which are expected to generate annualised savings of c.£20 million, reaching the full run rate by the end of the 2025 financial year.

Liquidity coverage ratio, 12-month average (%)

Our liquidity coverage ratio is substantially above regulatory requirements, as we continue to adopt a conservative liquidity position and prudently manage our financial resources.

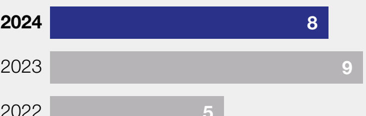
Grow

Delivering disciplined growth

Loan book growth[3] (%)

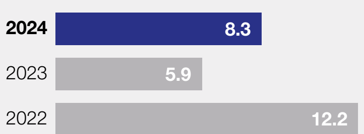
Loan book growth remains an output of our business model, as we prioritise our margins and credit quality. Whilst we have a strong track record of delivering disciplined growth, we are currently focused on selectively growing our loan book growth to optimise risk weighted assets and strengthen our capital position.

Net inflows (% of opening AuM)



CBAM has a long track record of generating healthy net inflows, with a target range of 6% to 10%.

Return on average tangible equity (%)



Over the medium term, we are focused on delivering for our shareholders and resuming our track record of earnings growth and returns through our focus on disciplined growth, cost efficiency and capital optimisation.

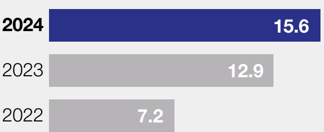
“As we navigate this period of significant uncertainty, our priority is to further strengthen our capital position, while protecting and sustaining our valuable franchise. We acknowledge that this will have an adverse impact on some of our metrics over the short term, and whilst this is disappointing, we remain focused on resuming our track record of earnings growth and attractive returns.”

Adrian Sainsbury, Chief Executive

Sustain

Doing it responsibly

WBS assets under administration (£ billion)

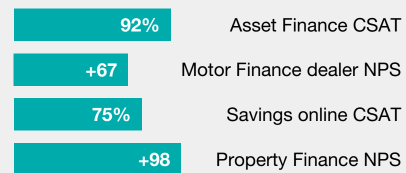


Winterflood Business Services (“WBS”) has seen strong growth in recent years, supported by a solid pipeline of clients. The growth of WBS supports the diversification of income streams in Winterflood.

Employee engagement (%)

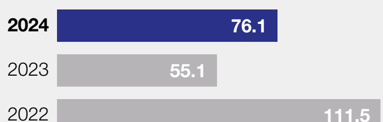
We are committed to fostering a culture that attracts and retains engaged and motivated employees.

Customer sentiment scores



Customers are at the heart of our model, as we focus on delivering high levels of service and sharing our deep industry expertise to meet their needs.

Adjusted basic earnings per share (pence)

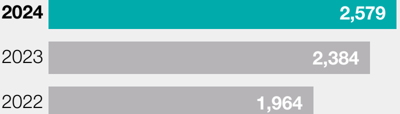


Over the medium term, we are focused on delivering for our shareholders and resuming our track record of earnings growth and increasing our adjusted basic earnings per share growth through our focus on disciplined growth, cost efficiency and capital optimisation.

Dividend per share (pence)

Whilst we have a strong long-term dividend track record, our current priority is to further strengthen the group’s capital position, which includes the decision not to pay a dividend on ordinary shares in the 2024 financial year. The reinstatement of dividends in the 2025 financial year and beyond will be reviewed once the FCA has concluded its review of historical motor finance commission arrangements and any financial consequences for the group have been assessed.

Total Scope 1 and 2 emissions (market-based) (tonnes CO_2e)[4]



We have committed to become operationally net zero across our Scope 1 and 2 emissions by 2030. In addition to energy efficiency, our roadmap includes full electrification of both our office buildings and our car fleet and sourcing of renewable energy.

See pages 248 to 251 for the full definitions of these key performance indicators

1. Bad debt ratio including Novitas of 1.0% in 2024, 2.2% in 2023 and 1.2% in 2022.
2. Long-term average bad debt ratio of 1.2% based on the average bad debt ratio for FY08-FY24, excluding Novitas.
3. Loan book including operating lease assets.
4. The total Scope 1 and 2 emissions for 2023 has been restated.

Enabling opportunities **by supporting innovation**

"If we were asked whether we would use Close Brothers again on our future projects I would say 100% yes."

Jonathan Houlston
Chief Operating Officer, Noviniti Limited

Consistent service

Providing high levels of personal service and specialism to help Noviniti Limited develop retail space for the NHS.

Noviniti Limited specialises in the provision of commercial spaces, predominantly for the healthcare sector at local, regional and national level. Their unique business model provides structures that allow the NHS Trust to obtain non-clinical facilities which are fully funded without any spend from government funds.

Working within a challenging timescale, Close Brothers Property Finance provided a loan facility to support Noviniti Limited in developing a new state-of-the-art main entrance and retail facilities at Basildon University Hospital.

Watch our video case study with Noviniti Limited.

Stakeholder Engagement

Delivering for our stakeholders

At Close Brothers, we have a long-term track record of creating value and delivering positive outcomes for all of our stakeholders.

We work hard to understand and meet the needs of our different stakeholder groups, engaging with them and adapting our service and offering to create value for them. We undertake a comprehensive programme of stakeholder engagement and consider the feedback provided, embedding this in the decision-making process throughout the group.

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

Section 172(1) of the Companies Act 2006 requires the directors of a company to act in a way that they consider, 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 received and discussed stakeholder insight and feedback and it ensured that stakeholder considerations were 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 will 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 at both board and executive level, and more widely throughout the group. For example, the schedule of matters reserved to the board and the terms of reference for each of the board's committees emphasise the importance of decision-making with regard to relevant factors under section 172(1) and broader stakeholder considerations.

Necessarily in a large and regulated group, some decisions are taken by management or the directors of subsidiary companies. These decisions are taken within parameters set by the board and there is a robust framework that ensures ongoing oversight, monitoring and challenge by the board and its committees (including certain decisions and activities that are always reserved to the board or its committees). The board has regard to relevant factors set out in section 172(1) in its activities in these areas, including considerations relating to the potential impact of delegated decisions on the long-term success of the group as a whole, the group's reputation for high standards of business conduct and the consequences of local decisions on the group's stakeholders.

Detail on the board's engagement with, and consideration of, the company's stakeholders can be found on pages 137 and 138 of the Corporate Governance Report.

Colleagues

With approximately 4,000 employees around the UK, in Ireland, the Channel Islands and Germany, we have a diverse and motivated workforce which delivers the highest levels of service to our customers, clients and partners. We are committed to the development of our colleagues, ensuring they are supported and engaged.

Listening to our colleagues enables us to build an engaged workforce, allowing us to develop and retain high levels of expertise. We are able to ensure we are considering the views of all colleagues and making sure everyone feels included.

Key priorities of our colleagues

- A safe working environment.
- A fair and inclusive culture where employee feedback is valued.
- Being appropriately rewarded for their contributions.
- Opportunities for training and development.

Our engagement during the year

- We conducted a pulse employee opinion survey, which closed in February 2024, to gather feedback from our colleagues anonymously. The results of this survey gave us insight into key topics including customers and clients, culture, a sense of belonging, and comfort in speaking up.
- Follow-up focus groups were conducted with different teams to understand more around colleague sentiment, with action plans created to ensure we are focusing on the areas that matter most to our colleagues, as well as ensuring we are meeting the needs of other stakeholders.
- We have eight employee-led inclusion networks which act as a voice for our minority colleague groups.
- We held regular town halls, providing employees with updates from across the business.

Customers, clients and partners

Our long-term success depends on the strength of our relationships with customers, clients and partners, our specialist expertise and the maintenance of high standards of service. Central to all decision-making is doing the right thing for customers, clients and partners, by helping them access financial solutions to meet their needs across all market conditions. We engage with our customers throughout their end-to-end journey and actively seek their feedback.

Key priorities of our customers, clients and partners

- Building and maintaining strong personal relationships based on trust, understanding and specialist expertise.
- Understanding, treating and valuing them as individuals.
- Fair and equitable conduct of business.
- Receiving consistent, responsive and supportive service delivered with simplicity, clarity and ease.
- Meeting their needs throughout changing economic cycles.
- Implementing customer-led propositions that meet their individual needs.

Our engagement during the year

- We have extended the reach of our “Operational Excellence Academy” customer-focused training programme to further enable a culture of continuous improvement to streamline processes and enhance the customer experience.
- We continued to hold customer forums, with feedback proactively reviewed and areas of improvement identified, as well as actions being taken to meet our customers’ changing needs and support better outcomes.
- Our Vulnerable Customer working group is establishing a charter that articulates our commitment and approach.
- We continue to invest in strengthening our capability to capture, consolidate and act upon customer, client and partner feedback by extending experience measurement to more interaction points.

Regulators and government

We are committed to sustaining high standards of business conduct in line with regulatory, governmental and legal expectations and operate prudently within the laws and regulations that apply to us.

We foster an open, transparent and cooperative relationship with all our regulators, government authorities and trade associations in the jurisdictions in which we operate. Active engagement helps to ensure we are aware of and adapting to the evolving regulatory framework.

Key priorities of our regulators and government

- Customer outcomes.
- Operational and financial resilience.
- Financial crime prevention.
- Diversity and inclusion.
- Digitisation and analytics.

Our engagement during the year

- We have engaged constructively with our regulators during this period of heightened regulatory scrutiny. We have provided information in support of the FCA’s focus on the cost of living and their market-wide review of Borrowers in Financial Difficulty, as well as in connection with the FCA’s review of historical motor finance commission arrangements.
- To align our approach with regulatory expectations, we have actively monitored the FCA’s formal and informal guidance of Consumer Duty including monitoring of customer outcomes management information metrics and the annual assessment of consumer outcomes.
- We continued to engage actively with the PRA on our IRB approach application.
- We undertook reporting and analysis as requested, enabling regulators to better understand our business activities and how we are operating in a controlled and prudent manner in line with their expectations.

Suppliers

Our business is supported by a broad range of suppliers, enabling us to provide high standards of service to our customers, clients and partners. We are focused on ensuring we have transparent and sustainable working relationships with our suppliers. Engagement is focused on driving an open and collaborative approach with our suppliers, as we work together to ensure services support us to meet our goals, whilst considering areas for improvement.

Key priorities of our suppliers

- Strong and sustainable relationships with Close Brothers.
- Fair and equitable conduct of business.
- Appropriate and clear payment procedures.
- An understanding of the Close Brothers purpose and strategy.
- Robust risk management framework.

Our engagement during the year

- We conducted our annual supplier survey to engage with our suppliers on topics such as how they feel about doing business with us, how likely they would be to recommend us as a client and the transparency of our strategies and priorities. This year's survey has indicated that:
  - 80% of our suppliers have described feeling "Very Satisfied" or "Satisfied" by our approach to supplier management.
  - 30% of our suppliers have described our transparency and fairness in doing business as "Extremely Clear", with an additional 45% voting "Very Clear".
- Our Code of Conduct has been updated to reflect feedback from our key strategic suppliers.
- Held regular review meetings with our suppliers, with strategic meetings taking place at least quarterly with our top-tier suppliers.

Communities and environment

Close Brothers is committed to contributing lasting value and making a positive impact on the communities in which we operate and the environment more broadly. This underpins the growing range of programmes and initiatives we support that benefit society and the environment.

Engaging with local communities helps the board and our employees develop their understanding of our clients, customers and partners so that we can support them and help them to achieve their ambitions, whilst also building employee engagement. We firmly believe that environmental considerations should form an integral part of our business decisions, and employees across the group are actively engaged on responsible behaviours and environmental issues.

Key priorities of our communities and the environment

- A suitable strategy for approaching sustainability issues.
- Support for community initiatives.
- Take active steps to ensure equity of opportunity, regardless of background or experience.
- A long-term focus on addressing the impacts of climate change.

Our engagement during the year

- Colleagues completed numerous volunteering activities to positively impact local communities, including volunteering at food banks and supporting youth groups such as Guides, Scouts and Cadet groups and children's sports teams.
- Several colleagues, including members of our Group Executive Committee, continue to fulfil trustee roles for various charities to support local communities.
- Extended our partnership with the University of Sheffield AMRC Training Centre, with our 15 apprentices funded through the Close Brothers SME Apprentice Programme entering their second year of training.
- Continued to support social mobility programmes, hosting 35 interns across the group in partnership with the 10,000 Interns Foundation and upReach.

Investors

Close Brothers has a proven and resilient business model and is focused on generating long-term, sustainable value for its investors, while also maintaining a strong 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 through an established and comprehensive programme throughout the year.

Key priorities of our investors

- Strong returns and financial resilience through the cycle.
- Capital generation and distributions.
- Sustainable and consistent business model.
- Appropriate governance practices and regard for environmental and social responsibility.
- Managing the potential impact on the group following the FCA's review on historical motor finance commission arrangements, while protecting our business franchise.

Our engagement during the year

- We increased our comprehensive programme of communication throughout the year, providing regular market updates and, in total, hosting over 170 meetings in the year with equity and debt investors. We held two analyst presentations and attended sales desk briefings and conferences.
- We undertook investor roadshows covering the UK, Europe and North America, meeting more than 80 existing and prospective shareholders.
- Our chairman held a corporate governance roadshow, meeting with 10 of our largest shareholders.
- As part of the group's inaugural AT1 capital issuance in November 2023, we held a number of meetings with existing debt holders and prospective investors.
- Welcomed retail investors at our AGM where they had the opportunity to engage with board members.
- Following the announcement of the FCA's review of historical motor finance commission arrangements, we engaged with 50% of our shareholder base (by holdings) and all of our sell-side analyst followers, as well as our credit rating agencies.

Enabling opportunities **by empowering entrepreneurs**

Long-term relationships

Creating a strong, long-term relationship with Daily Dose to support innovation and growth

Daily Dose began in 2016 with founder George Hughes-Davies making his own juices in his kitchen and supplying them to a local cafe.

Having identified a gap in the market where using wonky vegetables would reduce food waste and make for cheaper supplies, George set about building relationships with British farmers in the UK.

Sizeable upscaling happened between 2017 and 2020 to meet growing demand. With this, Daily Dose recognised invoice finance would play an important part to support business growth.

Having built a relationship with our Asset Finance business in their early years when funding for machinery was required, Close Brothers Invoice Finance was able to support further with an invoice discounting facility. Alongside a Recovery Loan Scheme top-up, this provided Daily Dose with improved cash flow to support the next stage of their expansion.

Sustainability Report

Our responsibility

“We recognise the important role we can play to support our customers and clients on their sustainability journeys, including the transition to a low carbon economy.”

Adrian Sainsbury, Group Chief Executive

Our purpose is to help the people and businesses of Britain thrive over the long term, and we are here to support them on that journey. Our strategy to achieve this purpose is built on our responsibility, being to help address the social, economic and environmental challenges facing our business, our people, customers and clients, now and into the future.

In this Sustainability Report we have set out our approach as well as progress across all elements of our sustainability strategy. We will play our part in supporting our people, customers and clients to achieve their best outcomes now and in the future. We see responsibility as a core part of our business and central to our success. It encourages us to look at how we operate our business, as we focus on achieving the best outcomes for our stakeholders whilst making a positive impact on society and the environment.

We are committed to achieving net zero across our operations, our supply chain and the activities we finance by 2050 or sooner. In September 2022 we joined the NZBA and this year we developed our first sector-based intermediate 2030 emissions reduction pathways for cars and vans, the largest carbon-intensive sectors in our loan book.

Our Asset Management division has recently set out its sustainability strategy in its inaugural TCFD-aligned entity report – supporting its commitment to align its operations and investments to a more sustainable future. Earlier in the financial year, the division announced its initial percentage of AuM to be managed in line with net zero, following its commitment to the Net Zero Asset Managers initiative.

A key enabler for our overall business success is our inclusive culture. We are proud to create an environment where colleagues can thrive and, in turn, deliver excellent outcomes for customers. We invest in and promote a range of diversity and inclusion initiatives. We have recently set out our Group Diversity and Inclusion Strategy from FY 2024 to 2027.

Central to all decision-making is doing the right thing for customers, clients and partners, by helping them access financial solutions to meet their needs across all market conditions. We engage with our customers throughout their end-to-end journey and actively seek their feedback.

Our Sustainability Objectives

Supporting our customers, clients and partners in the transition towards more sustainable practices

Promoting an inclusive culture in everything we do

Reducing our impact on the environment and responding to the threats and opportunities of climate change

Promoting financial inclusion, helping borrowers that might be overlooked by larger finance providers and enabling savers and investors to access financial markets and advice to plan for their future

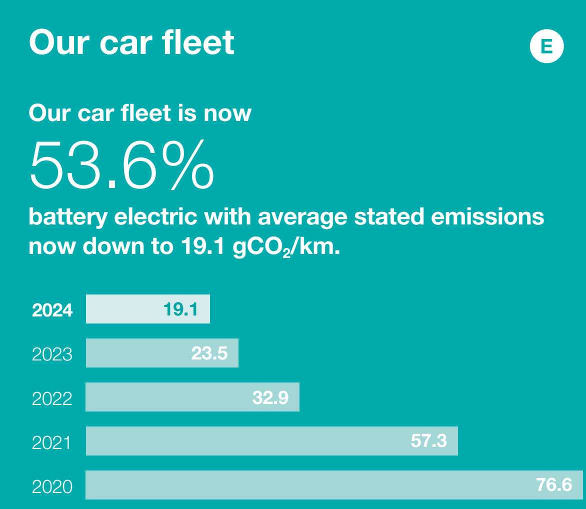
Read our March 2024 Net Zero Update report.

Read our Asset Management division’s inaugral TCFD-aligned entity report.

What sustainability means at Close Brothers

At Close Brothers, we are here to help the people and businesses of Britain thrive over the long term, working together to embrace change and capitalise on the opportunities it presents. This means supporting our colleagues, customers and clients, and the communities and environment in which we operate.

E Environmental
S Social
G Governance



Our emissions

E

Scope 1 and 2 emissions (market-based)

41.6%

reduction since 2019 (2023: 46.0%).

51.1%

renewable energy as a proportion of our energy use across our offices and Brewery Rentals business (2023: 50.0%).

Our green lending

£1 billion

lending ambition for zero emissions battery electric vehicles over the five years to FY 2027.

2024: £152.4m

lending for zero emissions battery electric vehicles achieved in this financial year and a total of £316.4m in the first two years of the five-year ambition period.

Our communities

386

employees used their volunteering day (2023: 200).

Our social mobility

Last summer, we welcomed 35 students to complete six-week internships with us. 28 students joined us through the 10,000 Interns Foundation and seven university students from lower socioeconomic backgrounds joined us through our partnership with upReach.

Our investments

67.8%

of companies within our equities and corporate bonds investment portfolio align with the goal of limiting temperature increases to below 2°C.

41.5%

of companies within our equities and corporate bonds investment portfolio align with the goal of limiting temperature increases to below 1.5°C.

Our inclusivity

90%

of our colleagues feel included (2023: 96%).

Our alliances

As a signatory to the NZBA, we commit to transition our lending and investment portfolios to align with net zero pathways by 2050.
We work closely with the Partnership for Carbon Accounting Financials and its local members in developing accounting principles for financial carbon emissions.

Task Force on Climate-related Financial Disclosures Report

We present our third Task Force on Climate-related Financial Disclosures ("TCFD") report. Our disclosures comply with the FCA's Listing Rule 9.8.6R (8) and are consistent with the 2017 Recommendations of the Task Force on Climate-related Financial Disclosures. We have also considered the additional 2021 Annexes where practical to do so.

TCFD recommendations	Our progress	Future focus
Sustainability and Climate Governance Describe the board's oversight of climate-related risks and opportunities. Describe management's role in assessing and managing climate-related risks and opportunities. *See pages 46 to 47*	• Board monitoring of climate-related risks and opportunities enabled through clear roles and responsibilities for the board and board committees. • Ongoing ESG and climate-specific training delivered to board and all group employees. • Group chief risk officer accountable under the Senior Managers and Certification Regime for identifying and managing the financial risks associated with climate change. • Continuous review of climate risk governance framework to ensure that ongoing embedding of climate risk within our risk management framework is fully encompassed. Climate risk actively embedded within management decision-making.	• Board to oversee the ongoing development of transition pathway. • Continue to build climate knowledge at board and senior management level. • Enhance data provision by decentralising to each business, maximising data provision, modelling and integration into decision-making. • Advance climate skills and competencies across our staff and stakeholders – with specific focus on the rapid evolution in technologies and deployment in the UK market.
Climate Strategy Describe the climate-related risks and opportunities the organisation has identified over the short, medium and long-term. Describe the impact of climate risks and opportunities on the organisation's business strategy and planning. Describe the resilience of the organisation's strategy taking into consideration different climate-related scenarios, including a 2°C or lower scenario. *See pages 36 to 37*	• Net zero roadmap developed with our main facilities management partner for our office estate to support our 2030 Scope 1 and 2 net zero ambition. • Climate engagement with some of our largest suppliers across the group. • Continued development of climate-related scenario analysis to inform commercial development and strengthen risk management. • Focused ESG lending team developing new products and partnerships across green assets. • Enhanced data capabilities across our carbon-intensive sectors. • Assessment of intermediate net zero ambition in key transport sectors. • New product development to support five-year ambition for funding battery electric vehicles. • Climate risks and opportunities considered within financial and strategic planning processes, using the firm's standard one to three-year time horizon.	• Advance our net zero transition plan for our Scope 1 and 2 emissions to 2030. • Build on our climate supplier engagement strategy to address our operational emissions. • Development of our transition plan for our financed emissions. • Continue to address key challenges related to the availability of climate data. • Respond to evolving regulatory requirements and developments in the broader industry, including the emergence of best practice. • Continue to develop capabilities to assess the resilience of our business model.
Risk Management Describe the organisation's processes for identifying and assessing climate-related risks. Describe the organisation's processes for managing climate-related risks. Describe how processes for identifying, assessing and managing climate-related risks are integrated into the organisation's overall risk management. *See pages 38 to 41*	• Further enhancements to data capabilities to deliver oversight, visibility and measurement of climate risk exposures. • Embedded processes to continually assess and monitor climate risk as a cross-cutting risk to our principal risks. • Transitional risk impacts monitored regularly within our emerging risk management and reporting processes. • Evolving reporting capabilities of credit exposure relative to climate-related risk impacts with further exposures captured in-year. • Other climate risk impacts embedded in the group-wide Enterprise Risk Management Framework. • Continued tailoring of climate risk within risk appetite statements. • Enhancement of standards and policies documents. • Maturing climate risk culture and acknowledgement of corporate responsibility.	• Determine opportunities to further develop data to support quantitative risk measurement and commercial strategic development. • Continue the exercise to explore expanded scenario analysis to align and support our stress-testing processes. • Broaden our work with customers, partners and suppliers, assessing climate-related impacts. • Continued assessment of climate impacts within our resilience framework. • Ongoing review of the analysis of internal and external risks and opportunities. • Continued horizon scanning to monitor for changes within the regulatory landscape.

TCFD recommendations	Our progress	Future focus
Metrics and Targets Disclose the metrics used by the organisation to assess climate-related risks and opportunities in line with its strategy and risk management process. Disclose Scope 1 and 2 and, if appropriate, Scope 3 greenhouse gas emissions and the related risks. Describe the targets used by the organisation to manage climate-related risks and opportunities and performance against targets. *See pages 42 to 45*	• Broadening of our climate strategy and targets to cover both net zero and Scope 1 and 2 operational targets, as well as specific targets relating to our financed emissions. • Enhanced capabilities to measure the carbon footprint for our operations, including measurement across Scope 3 operational emission categories. • Further enhanced assessment of Scope 3 financed emissions (primarily our loan book) using evolving Partnership for Carbon Accounting Financials ("PCAF") methodologies. • Developing transition plans as part of our commitment to net zero through the NZBA. • Continued collaboration with industry body forums including active engagement in PCAF specialist working groups. • Published our first sector-based intermediate 2030 emissions reduction pathways for cars and vans representing some of our largest carbon-intensive sectors of our loan book. • Received a 'B' management rating from CDP, a 'AA' ESG rating from MSCI, and a 22.8 ESG risk score from Sustainalytics.	• Build on our current operational emissions targets to cover our wider Scope 3 operational emissions. • Improved customer climate data capabilities across our portfolios to improve accuracy of financed emissions reporting, risk assessment and business strategy. • Progress further targets across our lending and investment activities to support our transition pathway.

Climate strategy

As a group supporting many sectors of the UK economy through our lending products and investment services, we understand our role in helping to enable the transition to a low carbon future.

We are committed to working with all of our stakeholder groups to meet the goals of the Paris Agreement. In 2022, we became a signatory to NZBA, committing to transition all operational and attributable greenhouse gas ("GHG") emissions from our lending and investment portfolios to align with pathways to net zero by 2050 or sooner.

We provide expert financing solutions for UK SMEs, and will need to align our lending with the transition pathways of our customers. As businesses in the UK develop and deliver their own transition plans to adopt clean technologies, greener assets and new business models, we are ready to support them by providing appropriate financing solutions; in doing so, facilitating change and supporting the wider transition of the economy.

Across the organisation we recognise the importance of addressing the threat of climate change, and the urgency needed in tackling the environmental, economic and social impacts that it brings, noting that these extend across all sections of society, affecting all key stakeholder groups.

Our ongoing work to identify the risks and opportunities of climate change to our business model remains a key area of strategic focus for the board and senior management.

The Three Pillars of our Climate Strategy

1. Achieving net zero operations

Achieving net zero emissions and reducing supply chain emissions, working with our partners and suppliers to minimise operational impacts.

Addressing the impact our own emissions have on the environment remains a key focus for us, demonstrating our commitment to our wider net zero ambition.

We have previously set ourselves challenging net zero aligned targets for our buildings and fleet – becoming operationally net zero through our Scope 1 and 2 emissions by 2030, and we have continued this year in developing our plans across our buildings to meet these.

Further to meeting all of the mandatory reporting requirements under the Streamlined Energy and Carbon Reporting ("SECR") standards, we provide enhanced disclosure across our wider operational impacts. As set out in our emissions reporting on page 43, we have assessed our full operational footprint, covering Scope 1 and 2 as well as all relevant Scope 3 categories.

We continue to advance our monitoring and calculation of these operational impacts – improving the data quality and availability. For example, this year, we have sourced reported Scope 1 and 2 emissions for 27% of our supplier spend to improve the quality of our Scope 3 category 1 disclosures.

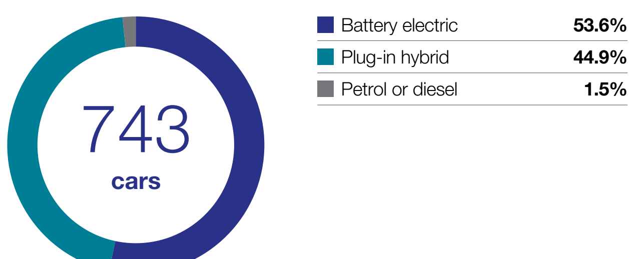
We are seeing the benefits of supply chain engagement on climate action both through our own engagement with our largest suppliers as well as engagement with some of our own business customers, where we represent a proportion of their supply chain emissions.

Our workplace team continue to work closely with our facilities management contractor to progress our net zero strategy for all of our properties (covering offices as well as our industrial sites operated by our brewery keg rental business). This has culminated in the team finalising our net zero strategy to 2030 for our estate and to develop a business case and investment options for the group to cover energy efficiency, heating electrification and renewable energy investments through this decade.

Our drive towards having a net zero emission car fleet has continued this year though the pace of change has slowed a little due to market dynamics in the UK's electric car market. With a recognised leading strategy of adopting battery electric vehicles ("BEVs") onto our fleet, this year we have passed the 50% mark and, at July 2024, our car fleet is 53.6% fully electric vehicles.

Our efforts to transition our car fleet have driven our fleet average emissions down further this year. The average CO_2 emissions for our car fleet is now 19.1 gCO_2/km (2023: 23.5 gCO_2/km).

Our car fleet



2. Reducing our financed emissions

Supporting the goals of the Paris Agreement through re-alignment of our financing and by assisting our customers in meeting their transitional targets.

Understanding the climate impacts across all of our lending and investments, alongside developing new green growth opportunities in our current and future markets, are crucial steps in us developing our climate transition plan and aligning our financing to our net zero commitments.

This year, we have continued to develop our climate assessment of the assets and businesses in our lending and investment activities. A summary of our assessed Scope 3 financed emissions is set out on pages 44 to 45.

As members of PCAF, we work closely with other peer banks to develop best practice data sourcing and carbon accounting for our range of financing activities – improving our understanding of the impacts of these assets and businesses and supporting our ongoing development of our climate strategy.

In 2022 we became a signatory to NZBA. We committed to develop sector-based intermediate 2030 emissions reduction pathways for the most carbon-intensive sectors in our loan book. In March this year, we set out our initial sector ambition covering road transport, specifically cars and light commercial vehicles/vans ("LCVs"). In the coming financial year, we will continue to expand our assessment across other carbon-intensive sectors in our loan book with likely next priorities in the power generation and construction sectors.

During FY 2024, our Asset Management division has continued to develop its climate strategy. In June, it published its inaugural TCFD-aligned entity report as well as TCFD-aligned reports for each of its funds. Through its sustainability strategy, raising awareness, holistic decision-making and continual sustainability assessment, it is progressing towards embedding ESG principles across all of its operations, reflecting a commitment to long-term development in sustainability.

3. Financing the transition

Enabling the deployment of cleaner technologies and business model adaptation through our green growth lending strategy, leveraging our expertise and ensuring alignment with agreed risk appetite.

We recognise the significant growth opportunities for green asset lending across several of our existing asset classes, as well as new ones. As a specialist, adaptable lender, with deep understanding of our customers' needs, we can support our clients in their transition to new, cleaner technologies to meet their own sustainability targets.

One of our largest lending sectors is road transport and we are already seeing deployment of BEVs by our fleet customers in both passenger and goods vehicles, as they seek to reduce their costs, carbon emissions and local air pollution.

In 2022, we set ourselves our first green growth ambition, which was to provide funding for at least £1.0 billion of BEVs in the five years from 2023 to 2027. In the first two years, we have funded £316.4 million for BEVs, putting us close to target to meet this ambition.

Risk management

How we Identify, Assess and Manage Climate-related Risks

Our group Enterprise Risk Management Framework, as outlined on page 74 of the Risk Report, facilitates a consistent application of all features of the group's risk management approach to the risks associated with climate change. This extends to both the physical risks, which are considered a cross-cutting risk impacting across our suite of principal risks, as well as transitional risks, which are additionally measured and monitored in line with our emerging risks.

Description		Timeline	Potential impacts
Physical Climate Impacts			
Extreme weather events (including persistent heat and severe flooding events) as well as long-term shifts in climatic conditions. Increased frequency and magnitude of weather events.	Physical damage to customers' assets. Disruption to sector productivity (such as labour impacts in our construction sector customers, crop yields in our agriculture customer base).	Medium to long term	Credit risk – counterparty and collateral.
	Disruption or damage to our own properties or those of our suppliers/ partners (such as data centres and call centres).	Long term	Supply chain risk. Business continuity impacts and disruption to customers.
Transitional Climate Impacts			
Changing markets through the transition to a low carbon economy – driven by new regulation, policy, technologies and customer appetites.	Significant shift in a sector's technology – such as the current impacts on some of our existing transport activities.	Medium to long term	Credit risk – counterparty and collateral. Uncertainty around new and legacy asset values.
	Uncertainty and change in many sectors in the UK where our SME customer base operates. Changing demands and expectations from their customers. A growing focus on energy efficiency and environmental performance.	Medium to long term	Credit risk – counterparty and collateral. Uncertainty in markets could lead to reduced investment activity by customers in the short term.
	Changing operating models for customers and higher capital investments in clean assets – such as growing opportunity for businesses to adopt onsite renewable generation, energy storage and electric vehicle charging assets. Leading to the need for new products and underwriting approaches.	Medium term	New business models. Need for new skills and capabilities across the bank.
Changing stakeholder climate expectations.	Our stakeholders (including our investors, customers, staff) scrutinising our climate transition plan and delivery against targets. Evolving market appetites towards lending to high carbon sectors (including fossil fuel extraction, carbon intensive transport).	Medium to long term	Reputational risk – ability to attract or retain talent. Impact on attractiveness to investors and savers.

Alignment of Group-wide Framework with Climate-related Risks and Opportunities

The alignment of our risk management framework with climate-related risks and opportunities remains a priority as we continue to develop ongoing risk assessment and monitoring of our banking book and impacts across other principal risks. Continual enhancement of standards and policies supports the increasing maturity of climate risk within our end-to-end risk processes.

We recognise that this is a multi-year journey with the impacts of physical and transitional risks, and supporting frameworks to assess these, still evolving across the industry. The impact of climate change across time horizons and our proportional response will continue to be considered within our wider risk assessment, financial planning and strategy development.

Our business planning time horizons

Short term (0-1 year)	Time horizon for annual budgeting and capital assessment.
Medium term (1-3 years)	Time horizon for business strategy and financial planning. Also aligns with typical ICAAP scenario analysis horizon.
Long term (more than 3 years)	Time horizon beyond typical financial planning cycle. Impacts primarily assessed through the use of long-term scenario analysis noting most material climate risks will crystallise in this horizon.

Risk culture and awareness

A risk culture with strong foundations runs throughout the group, consistent with the group's purpose, strategy, cultural attributes and values. The management of climate risk and opportunities is enveloped within this.

Specialist role-specific training on climate change impacts is undertaken and all colleagues are offered training and webinars to ensure they are kept abreast of regulatory developments, expectations of corporate responsibility and wider market sentiment.

Internal controls

To support ongoing embedding of climate risk in our control environment, in-year enhancements have focused on continuing to reinforce climate risk within our policy documentation and on ensuring that internal process is complemented by the activities of our key suppliers and partners.

Governance

A key component of embedding climate risk into our group-wide framework is a coherent three lines of defence model. As our climate risk framework continues to mature, it has afforded additional opportunities to further refine our governance structure to manage an integrated approach to both climate risks and opportunities and to ensure that recent enhancements are fully encompassed. The structure currently in place is on page 46.

Stress testing

Furthering our previous work on long horizon scenario analysis, recent activities recognise the short tenor of our loan book (15 months), and accordingly our focus is on further integrating climate exercises into wider group stress testing exercises, e.g. Internal Capital Adequacy Assessment Process ("ICAAP") and resilience scenarios. Specific concentration focus is being placed on transport and energy sectors.

Risk appetite

Consideration of climate risk is integrated into the group's risk appetite statements, which align risk management with group strategy. While quantitative measures are, in the main, currently included for monitoring purposes, we are continuing to develop more tailored, formal risk appetites, particularly for credit risk where measurement of quantifiable metrics against limits specific to business considerations is more readily achievable. We expect these to be based on sectoral transition risk assessments, aligned to our ambition to meet the goal of the Paris Agreement to reach net zero by 2050.

Addressing Data and Future Enhancements

Data quality remains a key challenge and we are committed to developing enriched climate risk data that will support more accurate measurement and monitoring. In turn, this will support effective risk mitigation and strategic alignment.

Making progress in our climate and broader sustainability reporting and management information capabilities will facilitate more decision-useful insights, supporting the evolution of the group's strategy for managing risks and opportunities and the development of more tailored risk appetites.

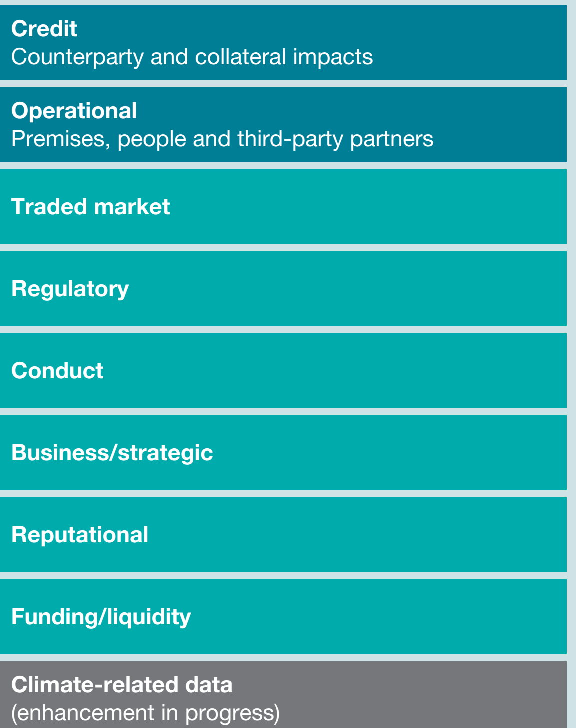
Climate Cross-cutting Risks

Impacts arising from the physical nature of climate change have the potential to affect several of our existing principal risks.

Noting the longer time horizons for some transitional climate impacts to crystallise (such as on policy and regulation) we track climate risk as one of our core emerging risks.

See page 84

Risks identified across the group with potential climate-related impacts



A Cross-cutting Risk Impacting Across Multiple Principal Risks

In assessing both the risks and opportunities of climate impacts and in preparing our TCFD disclosures, we have sought to provide sufficient granularity, proportionate to the materiality of the climate-related risks identified across the group. An extensive analysis of risks has been completed across our risk universe which indicates we are not materially exposed to loss or disruption over the short to medium term. Over the long term, increased risk has been identified, primarily driven by potential transitional impacts. In respect of physical risk, we consider severe impacts are only likely to present in the long term, albeit we recognise acute physical events are already happening. Risks identified are largely mitigated through our resilient business model, benefiting from an average tenor of 15 months, and a customer base that is predominantly in the UK and Republic of Ireland, with strategic management actions to support our customers and strategic partners on their own transition pathways.

Our focus remains primarily centred on credit and operational risk impacts consistent with our view that these represent greatest potential impact. We acknowledge that developments which may have a transitional impact over the medium to longer term could carry additional exposure should appropriate, timely management actions not be taken to maintain the resilience of our business operating model. For more details of our management of emerging risks please see page 84 of the Risk Report.

We anticipate incremental enhancements to assessment, monitoring and reporting to support a greater quantitative lens, augmenting the qualitative assessment already established.

Credit risk

The focus remains largely on credit risk, given its materiality to the Banking division and wider group, and importantly its sensitivity to potential climate impacts, noting that both physical and transitional drivers have the potential to impact both counterparty and collateral risk.

Our current methodology deployed across £9.0 billion (88%) of the Banking division loan book continues to identify exposures deemed to have the most sensitivity to climate change, noting it does not account for time horizons over which climate impacts are expected to crystallise. It does, however, prove useful in identifying those exposures deemed as having the most potential sensitivity to climate change, including energy-consuming assets such as motor vehicles in our Motor Finance and Asset Finance businesses, non-renewable energy generation assets, and general business lending in high-impact sectors.

Sensitivity dashboards continue to be presented at regular risk committees, ensuring engagement in the climate risk agenda occurs vertically throughout the organisation. For an overview of risk committees see pages 76-77.

Operational risk

Recognising the potential for climate change to impact buildings and service provision capabilities, the group has conducted a review of its existing business continuity plans as well as its broader approach to crisis management to ensure potential impacts on our people, customers and infrastructure have been assessed and that the group is adequately prepared.

Relevant operational risk standards consider the causal impacts presented by climate change, while work continues to incorporate climate impact considerations within our assessment of operational resilience for critical services and change management risk assessments.

The group also recognises the potential for key third parties and suppliers to be impacted by climate change (due either to physical or transitional factors), causing disruption to day-to-day business operations. To maintain pace with the evolving regulatory landscape, the group's third-party management framework has been strengthened to include enhanced supplier due diligence questionnaires to gather climate and ESG data for all of our Tier 1 and Tier 2 suppliers, while our tendering process has been updated to consider environmental and climate considerations alongside sustainability innovation and performance. Our suppliers are increasingly focused on reducing carbon emissions, aiming for at least 50% reductions by 2030 as well as supporting a low-carbon global economy.

Other risks

Work to integrate consideration of climate risk across other identified risk areas continues to progress in line with climate change, and the group's response to it, forming an integral part of our business strategy. This includes continued assessment of the resilience of our model, to ensure we are sufficiently prepared to manage the risks posed by it. As outlined in the Governance section (pages 46-47) strong oversight of strategic delivery is maintained through our committee framework, with consideration of climate risks now embedded within our strategic planning.

The rapidly evolving regulatory landscape also presents risk and we recognise our responsibility to comply with new and emerging requirements. Horizon scanning capabilities have been enhanced in response, to ensure new requirements are identified and assigned to the relevant functions.

Climate impacts are considered part of our overall commitment and conduct responsibilities to deliver good customer outcomes.

Funding and liquidity impacts are subject to ongoing reassessment with regular updates provided to relevant Treasury committees. Primary focus areas include implications for debt capital markets, potential behavioural changes in our investor base, and possible direct and indirect reputational impacts, including those related to evolving disclosure requirements.

We continue to assess traded market risk implications for Winterflood, although the role of the business as a market maker means we do not take long-term positions, mitigating potential risk exposure.

Meanwhile, our Asset Management division has integrated responsible investment practices into our investment process to aid us in creating long-term value for clients and beneficiaries. The practices include explicitly considering and integrating the impact of material environmental, social and governance factors on the long-term financial risk and return of our investments. Our Asset Management division is a signatory to the Principles for Responsible Investment and has been accepted as a signatory to the Financial Reporting Council's Stewardship Code for the third year running, illustrating our commitment to strong stewardship of our clients' capital.

The product offering for clients who wish to further align their investments to their values continues to grow; we offer ethical screening, sustainable funds and our socially responsible investment service. Following its commitment to NZAM in 2022, our Asset Management division set out its climate strategy and ESG risk management in June 2024 when it published its inaugural TCFD disclosures.

Over the longer term, increased reputational risk could crystallise, primarily driven by failure to address transitional impacts such as changes to regulation, technological advancement and the evolution of customer preferences. We will continue to assess the climate impacts across the whole spectrum of principal risks to ensure we meet the expectations of our people, customers, clients, investors, shareholders, regulators and other key stakeholder partners.

Metrics and targets

Our climate strategy, led by our commitment through the NZBA, spans both our operational emissions as well as the emissions related to our lending and investment portfolios. Set out in this section are our targets, measurement and reduction of our operational emissions on pages 42 to 44, followed by our assessment and ambitions for our financed emissions on pages 44 to 45.

Operational Emissions

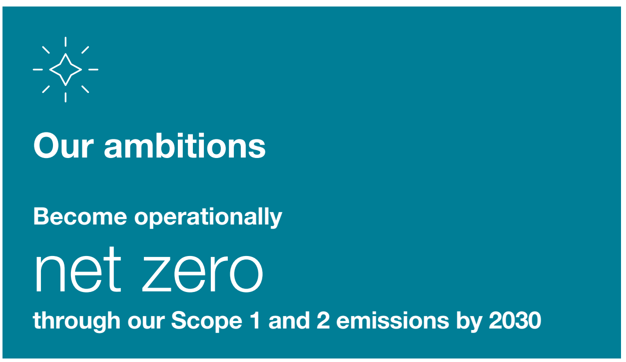
Our approach to developing our carbon reduction plan to achieve these net zero targets is set out in our strategy section on pages 36 to 37.

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, GHG Protocol Corporate Value Chain Accounting 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. We have also reported our indirect Scope 3 operational emissions across all categories where we have any material emissions.

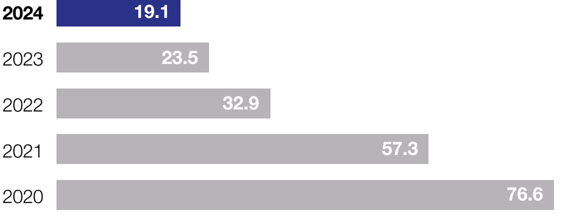
For our building emissions (including our industrial processes in our Brewery Rentals sites) we have continued to develop our energy efficiency plans for our sites, working with our facilities management partner. These plans consider our 2030 net zero ambition, ensuring we make investment choices for each of our sites that lead us towards that ambitious goal. Important considerations include energy-efficient equipment, control and monitoring infrastructure, electrification solutions and renewable energy options.

We have continued to electrify our company car fleet (total of 743 cars). At the end of this financial year we have a car fleet where 53.6% of the cars are fully electric, and with 98.5% being either fully electric or plug-in hybrid.

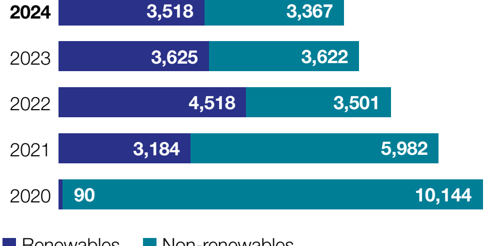
Through this financial year, we have greatly enhanced our in-house climate data capability, allowing us to enhance our operational footprinting across all Scope 1 and 2 as well as relevant Scope 3 categories. Our climate data working group is working closely with all relevant departments internally to fully operationalise these carbon accounting processes and to allow more frequent climate-related management information to be used across the group.



Company car fleet (gCO_2/km)



Proportion of renewable energy used in our offices and Brewery Rentals sites (MWh)



Renewables Non-renewables

Our operational impacts

Greenhouse gas emissions[1,2,4]	Emissions source	Market-based 2024 tCO_2e	Market-based 2023 tCO_2e	Location-based 2024 tCO_2e	Location-based 2023 tCO_2e
Scope 1	Buildings – fuel and refrigerants[3]	**341**	373	**370**	417
	Owned vehicles – fuel[3]	**1,713**	1,496	**1,713**	1,496
Total Scope 1		**2,054**	1,869	**2,083**	1,913
Of which UK total Scope 1		**2,030**	1,845	**2,059**	1,889
Scope 2	Buildings – electricity[3]	**366**	371	**984**	966
	Owned vehicles – electricity[3]	**159**	144	**159**	144
Total Scope 2		**525**	515	**1,143**	1,110
Of which UK total Scope 2		**496**	487	**1,108**	1,075
Total Scope 1 and 2 (Operational)		**2,579**	2,384	**3,226**	3,023
Of which UK total Scope 1 and 2		**2,526**	2,332	**3,167**	2,964
Scope 3 (Operational)	Category 1 – Purchased goods and services[3]			**24,124**	44,176
	Category 2 – Capital goods[3]			**9,507**	3,921
	Category 3 – Fuel and energy-related emissions[3]			**449**	474
	Category 4 – Upstream transportation and distribution			**94**	278
	Category 5 – Waste generated in operations[3]			**30**	44
	Category 6 – Business travel			**829**	750
	Category 7 – Employee commuting[3]			**4,828**	4,907
	Category 9 – Downstream transport and distribution[3]			**391**	448
Total Scope 3 (Operational)				**40,252**	54,998
Total Scope 1, 2 and 3 (Operational)				**43,478**	58,021

Energy use	2024 GWh	2023 GWh
Total energy use	**15.86**	15.21
Of which UK total energy use	**15.17**	14.79

Emissions intensity	Market-based tCO_2e per employee 2024	Market-based tCO_2e per employee 2023	Location-based tCO_2e per employee 2024	Location-based tCO_2e per employee 2023
Operational Scope 1 and 2 emissions intensity	**0.65**	0.59	**0.81**	0.74
Operational Scope 1, 2 and 3 emissions intensity			**10.89**	14.29
Calculated using: Average number of employees in year	**3,994**	4,060	**3,994**	4,060

1. We have reported on all emission sources required under the Companies (Directors' Report) and Limited Liability Partnerships (Energy and Carbon Report) Regulations 2018. Our reporting year runs from August 2023 to July 2024. The emissions reporting boundary is defined as all entities and facilities either owned or under our operational control.
2. Emissions have been calculated using the Greenhouse Gas Protocol Corporate Standard and cover all greenhouse gases (converted to tCO_2e). We have used emissions factors published by the UK government's Department for Business, Energy & Industrial Strategy, and the International Energy Agency.
3. During the year-end carbon accounting process we identified some adjustments needed to our 2023 comparable Scope 1,2 and 3 emissions. The 2023 Scope 1, 2 and 3 emissions above have been restated to ensure consistency with this year's disclosed emissions methodologies as well as to address some issues with the quality of the data collected last year for 2023.
4. These reported emissions have not been audited by a third party.

Our ongoing approach across our operations of energy efficiency and sourcing of renewable energy continues to drive down our Scope 1 and 2 emissions. We have now achieved a reduction of 41.6% in our Scope 1 and 2 emissions since 2019 under a market-based approach, which demonstrates good progress towards becoming operationally net zero by 2030.

In the 2024 financial year, our total Scope 1 and 2 location-based GHG emissions were 3,226 tonnes of carbon dioxide equivalent (tCO_2e), equating to 0.81 tCO_2e per employee, up 6.7% overall and up by 8.6% per employee from 2023. This increase is primarily due to increased activity in our transport fleets, covering both our car fleet and our commercial vehicles in our Brewery Rentals business.

Throughout the 2024 financial year, our premises have continued to source renewable energy wherever under our control. This has helped our market-based building emissions to track 48% lower than our location-based building emissions at just 707 tCO_2e.

The continued challenge of rising energy prices and our strategic journey towards a net zero portfolio of premises has increased the focus on responsibly reducing our energy consumption. Across the 2024 financial year, energy audits have been completed within larger premises and are being used to develop our carbon reduction roadmap out to 2030. During the past year, our energy efficiency programme has implemented a number of energy-saving initiatives across our office estate, including:

- Disposal of our oversized Brighton office with a move to a premises 50% smaller. This office is a modern, sustainable build achieving BREEAM Excellent rating with solar photovoltaic and low energy heating, ventilation and air-conditioning ("HVAC") systems. We anticipate a reduction of emissions for this business by 60%.
- Full building modernisation and decarbonisation of our Dundonald office. This has seen the removal of gas from the property, substantial insulation improvements and upgrade of our HVAC systems to fully electric heat pump solutions. All lighting has been replaced with modern LED. We expect to see an energy reduction of 40% for this property.
- Replacement of the 10 Crown Place building management system has enabled us to control our building services closer, monitor consumption in more detail and identify peaks in energy consumption for action.

Financed Emissions – Banking

The greatest opportunity we have to support reductions in greenhouse gas emissions is by working with our customers on their transition to a low carbon economy – helping them to adopt energy-efficient and low carbon technologies. To measure our progress requires us to measure the attributable emissions of the assets and businesses in our loan book, enabling us to meet our targets and ambitions within our climate strategy.

Over the past three years we have developed our financed emissions, improving our data quality and data availability. Set out below is our assessment of financed emissions relating to our loan book at 31 July 2024 and our initial assessment of investee emissions relating to the activities of our Asset Management division (at 31 July 2023).

Financed emissions in our Banking activities

In the past year, working alongside our peers in PCAF, we have continued to improve our methodologies in assessing our financed emissions – combining our own loan book data with a number of external data sources, providing a more accurate assessment of these emissions, especially across our carbon-intensive sector of transport.

In our assessment of our loan book this year, we have used the PCAF methodologies, applying their latest guidance from their Financed Emissions Standard 2nd edition, and drawing on three of their developed methodologies: business loans, project financing and motor vehicle loans. On review, 94.6% of our loan book is in scope of GHG assessment under the current PCAF standard. Of this, 56.1% has been assessed under the business loans methodology, and we have apportioned an amount of emissions from these businesses which is in line with the value we finance. A further 2.7% of our total loan book has been assessed under the project finance methodology. Here, we have accounted for the apportioned emissions of the project due to our contribution. The final 35.8% of our loan book has been assessed using the motor vehicle loans methodology, and covers the annual in-use emissions of the vehicles that we finance.

Our financed impacts – Banking[2,4]

Financed emissions in loan book – bank	PCAF methodology	Proportion of loan book	Financed emissions[1,2] tCO_2e	PCAF data quality score (1-high, 5-low)	Economic emissions intensity $ktCO_2e$/£m
Scope 3 (category 15 – loan book only)	Motor vehicle loans	35.8%	595,124	2.8	0.17
	Business loans	56.1%	326,655	5.0	0.06
	Project finance	2.7%	242,849	5.0	0.91
	Not assessed/out of scope[3]	5.4%	n/a	n/a	n/a
Scope 3 (category 13 – downstream leased assets)	Relating to vehicle hire		270,948	1.0	
	Total emissions		**1,435,576**		

1. Currently, our financed emissions calculations only include the customer or asset's Scope 1 and 2 emissions. In the future, we will consider the wider emissions related to financed assets and businesses. Initial sectors are likely to include (i) motor vehicles (upstream embedded emissions of manufacture) and (ii) property construction finance (embedded emissions from materials and in-use emissions of housing).
2. PCAF data quality score in our first assessment in 2022 was around 5. We have made significant improvements to our data sourcing from both internal systems and third-party sources. In particular, for motor vehicles, we have sourced vehicle-specific emissions and actual mileage from UK government agencies.
3. A small proportion of our loan book has not been assessed this year (or is out of scope) due to lack of market-agreed carbon accounting methodologies. We continue to work with PCAF and other banks to consider these areas.
4. These reported emissions have not been audited by a third party.

In March 2024 we published our initial sector-based intermediate 2030 emissions reduction ambitions, covering cars and vans. To align our ambition to a credible scenario, and as the vehicles we finance are predominantly in the UK, we chose the UK Climate Change Committee's Balanced Net Zero Pathway ("CCC BNZP") from the Sixth Carbon Budget.

The average emission intensities of both cars and LCVs in our loan book in 2023 are lower than the CCC BNZP.

The average emission intensity (gCO_2e/km) for cars in our loan book in 2023 is 130 gCO_2e/km. This would need to reduce by 41% to reach an average of 76 gCO_2e/km by 2030 to align with the CCC BNZP.

The average emission intensity (gCO_2e/km) for LCVs in our loan book in 2023 is 190 gCO_2e/km. This would need to reduce by 39% to reach an average of 116 gCO_2e/km by 2030 to align with the CCC BNZP.

Our ambitions

To reach net zero emissions

by 2050

across attributable GHG emissions from our lending and investment portfolios.

Provide over

£1 billion

of lending for zero emission battery electric vehicles over the five-year period 2023 to 2027.

Intermediate 2030 Sector Ambition (surface transport)

Sector	Baseline 2023 – financed emissions: Emission intensity gCO_2e/km	Total financed emissions $ktCO_2e$	PCAF score	Intermediate ambition 2030: Sector ambition	Emission intensity aligned to CCC-BNZP gCO_2e/km
Cars	130	263	1.9	Reduction in the average emission intensity of cars by 41% by 2030	76
LCVs	190	157	2.1	Reduction in the average emission intensity of cars by 39% by 2030	116

Financed Emissions in our Asset Management Activities

In 2023, our Asset Management division made its inaugural climate target disclosure to the NZAM initiative. The disclosure was based on the Net Zero Investment Framework. 18% of the division's AuM was initially committed to its climate targets. The targets disclosed were:

- **Portfolio coverage target** – 100% of AuM in material sectors will be considered net zero, aligned or aligning by 2050.
- **Portfolio decarbonisation reference** – target weighted average carbon intensity 50% below relevant benchmarks for each portfolio by 2030 from a 2019 baseline.
- **Engagement threshold target** – by 2025, 70% of financed emissions (Scopes 1 and 2) are either aligned to a net zero pathway or subject to direct or collective engagement and stewardship actions.

Our financed impacts: Asset Management

Other emissions related to investments – Asset Management		Proportion of investments	Financed emissions tCO_2e	Scopes	Economic emissions intensity $tCO_2e/£m$
Scope 3 (category 15 – investments only)	Listed equity and corporate bonds	99%	410,754	1 and 2	59
		99%	3,916,763	1,2 and 3	563

Sustainability and climate governance

The Integration of Climate into our Governance Structure

The group has an established governance framework into which climate has been integrated. This ensures effective oversight and delivery of our sustainability and climate strategy, as well as climate risk.

As our climate risk framework matures and becomes further embedded, during the year we have further refined our governance structure to manage an integrated approach to both climate risks and opportunities.

Oversight of climate-related risks and opportunities continues to be supported by the establishment of clear roles and responsibilities, extending across board and executive committees, and the three lines of defence more generally. Integral to this is the provision of regular framework status updates to appropriate committees and forums.

Reporting and management information are provided to relevant committees, providing important insights to enable climate considerations to be embedded within both strategic planning and the setting of group-level risk appetites. An established link exists between the delivery of the group's climate strategy and executive remuneration through the inclusion of climate/ESG objectives within both the Executive Committee's scorecard and Long Term Incentive Plan.

Board Oversight

Board

The board is responsible for the long-term success of the group and the delivery of sustainable value to its shareholders and wider stakeholders. It discharges some of its responsibilities directly and others through its subsidiary committees.

In ensuring the long-term sustainability of the group, the board is also responsible for the overall delivery of the firm's climate and ESG strategy. It reviews and approves the strategy and receives regular updates on its execution from relevant members of the executive team. The board is also responsible for approving the group's risk appetite statements, including risk appetites associated with climate risk.

Board Risk Committee

Operating on authority delegated by the board, the Board Risk Committee ("BRC") oversees the management of risk across the group, including the risks presented by climate change.

Sustainability and Climate Governance

Strategy	Disclosures	Risk management
The board	The board	The board
Nomination and Governance Committee	Audit Committee	Risk Committee
Group Executive Committee		Group Risk and Compliance Committee
		Credit Risk Management Committee
		Local Risk and Compliance Committee

Group Climate Committee

- Commercial green growth
- Operational climate impacts
- Asset Management – climate strategy
- Climate targets and reporting
- Climate risk

Climate data | Tooling | People | Partnerships

The BRC provides oversight of the measures taken to manage climate risk and receives regular updates on the development and subsequent embedding of the firm's climate risk framework. This includes the ongoing review of emerging portfolio management information, monitoring the evolution of associated risk appetites and the consideration of climate-related risks and opportunities via scenario analysis exercises.

Audit Committee

Operating on authority delegated by the board, the Audit Committee oversees the management of financial and regulatory reporting across the group, as well as the firm's internal financial controls. The committee is responsible for ensuring the clarity and completeness of environmental and sustainability disclosures and climate commitments included within the group's Annual Report.

Nomination and Governance Committee

The Nomination and Governance Committee monitors environmental, social and governance ("ESG") and sustainability developments relevant to the group (including developments relating to climate change).

The role of management

The chief executive has ultimate responsibility for climate-related issues affecting the group and its customers and overall accountability to the board and shareholders for ensuring sustainable and responsible practices, including those associated with the environment. Accountability for the group's climate and ESG strategy similarly rests with the chief executive, albeit with various responsibilities delegated to members of the executive team as appropriate to ensure strategic delivery and embedment within ways of working.

Within the Banking division, and in line with expectations under the Senior Managers Regime, the group chief risk officer ("GCRO") is specifically responsible for climate risk management. This includes:

- embedding climate change risks within business planning and risk appetite statements;
- conducting scenario analysis over different time horizons;
- ensuring sufficient board-level visibility and a clear allocation of roles/responsibilities; and
- considering risk materiality as part of the annual Internal Capital Adequacy Assessment Process ("ICAAP").

The GCRO is supported by the board and the executive team who collectively oversee delivery of the firm's climate risk objectives and are also responsible for challenging and approving the firm's broader climate and ESG strategy.

Executive Committee

The Executive Committee evaluates and implements initiatives to ensure a sustainable business model that considers all risks and opportunities, including ESG and climate.

Group Climate Committee

The Group Climate Committee oversees the development of the group's climate strategy, including the advancement of climate ambitions, and associated operational and financing activities, targets and metrics. It supports the group chief executive and Executive Committee in their recommendations to the board for approval.

The Group Climate Committee is supported by five working groups focused on the different aspects of the group's climate strategy, each with its own Executive Committee sponsor.

Working group	Executive Committee sponsor
Commercial green growth	Divisional chief executive officer
Operational climate impacts (including supply chain emissions)	Group chief operating officer
Climate strategy of the group's Asset Management business	Asset Management chief executive
Climate risk	Group chief risk officer
Climate targets and reporting	Group finance director

Group Risk and Compliance Committee

At an executive level, climate risk management is primarily overseen by the Group Risk and Compliance Committee ("GRCC"), which is responsible for reviewing and challenging the risk framework employed to manage the financial risks from climate change. To support this, regular framework updates are presented to the committee with relevant climate risk MI also embedded within its long-established risk reporting mechanisms.

Credit Risk Management Committee

The Credit Risk Management Committee ("CRMC") is specifically responsible for monitoring the group's credit risk profile. Accordingly, it is responsible for overseeing the management of climate-related credit risk considerations.

Over the last year it has received regular updates on the embedded Banking division's credit risk assessment framework, as well as the initial MI reporting stemming from this, designed to illustrate the potential climate risk sensitivity of different sectors and asset classes.

The committee has also periodically reviewed and approved the integration of climate considerations within credit risk policies and standards.

Training and competency

Both the board and executive team are committed to building and embedding a requisite skill set across climate and ESG competencies. The regular updates provided to the board and management committees over the course of the last year have played a key role in this regard, helping to educate key populations on the risks and opportunities that climate change presents, as well as the firm's progress in addressing these. This year, the board received training sessions on (i) updates on sustainability reporting and disclosures, and (ii) insights on the evolution of the UK energy mix and electrification of road transport.

To support awareness more broadly across the organisation, a new mandatory training module was issued to all UK-based staff across the group during the year to support the development of a core level of understanding of climate risk considerations. Tailored updates on the group's sustainability and climate strategies were delivered to relevant business and function-specific forums.

Going forward, additional capability and expertise will be enabled through further training of our people, including the undertaking of accredited climate qualifications where relevant. This year, our climate data manager completed the new PCAF academy's learning programme for PCAF signatories to deepen their knowledge of the application of the PCAF standards and elevate their understanding of financed emission accounting.

Our policies

We are committed to acting responsibly through all our ways of working, and have a number of group-wide policies and procedures in place to ensure we continue to operate in a socially responsible and compliant manner.

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 life cycle events, for example in recruitment, training, promotion and flexible working requests.

Additionally, our people with disabilities are encouraged to share their impairment with us, to ensure any reasonable adjustments can be made. We are also members of the Business Disability Forum to support our inclusive approach to hiring, retention, training, career development and promotion of employees with disabilities.

Whistleblowing Policy

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

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

Employee Health and Safety Policy

Our Health and Safety Policy demonstrates our commitment to ensuring our employees and visitors are safe and sets the framework for our safety culture. We continue to provide a safe and healthy working environment for our employees and visitors in accordance with the Health and Safety at Work etc. Act 1974 and 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 67 incidents across all of our sites. Of these, two were reportable under the Reporting of Injuries, Diseases and Dangerous Occurrences Regulations 2013. We continue to use an online risk assessment tool to manage site-specific risks as appropriate and our Display Screen Equipment risk assessment programme. We also carry out annual audits of all premises and monitor findings through a live dashboard.

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.

Our people

Valuing our People

We are committed to creating an environment where our colleagues feel motivated, proud to work for us and can reach their full potential. A key enabler for our overall business success is our inclusive culture. We are proud to create an environment where colleagues can thrive and, in turn, deliver excellent outcomes for our customers, clients and partners.

The "Close Brothers Way" Code of Conduct sets out the values and behaviours we expect from our people. Our culture is defined through our cultural attributes. These are displayed by our senior leadership teams, setting the tone from the top by which we operate. We continue to run inclusive leadership training sessions for our managers, senior managers and group executives, highlighting how actions and behaviours can shape our inclusive culture.

We are signatories to a wide range of charters and commitments across a broad spectrum of inclusion themes, including: the Women in Finance Charter, Race at Work Charter, The Valuable 500, Mental Health at Work Commitment, Disability Confident Employer Scheme, and the Armed Forces Covenant. We partner with leading organisations and participate in wider membership bodies, including Stonewall, the Business Disability Forum, Hidden Disabilities and the Diversity Project, to help inform our thinking and subsequent actions.

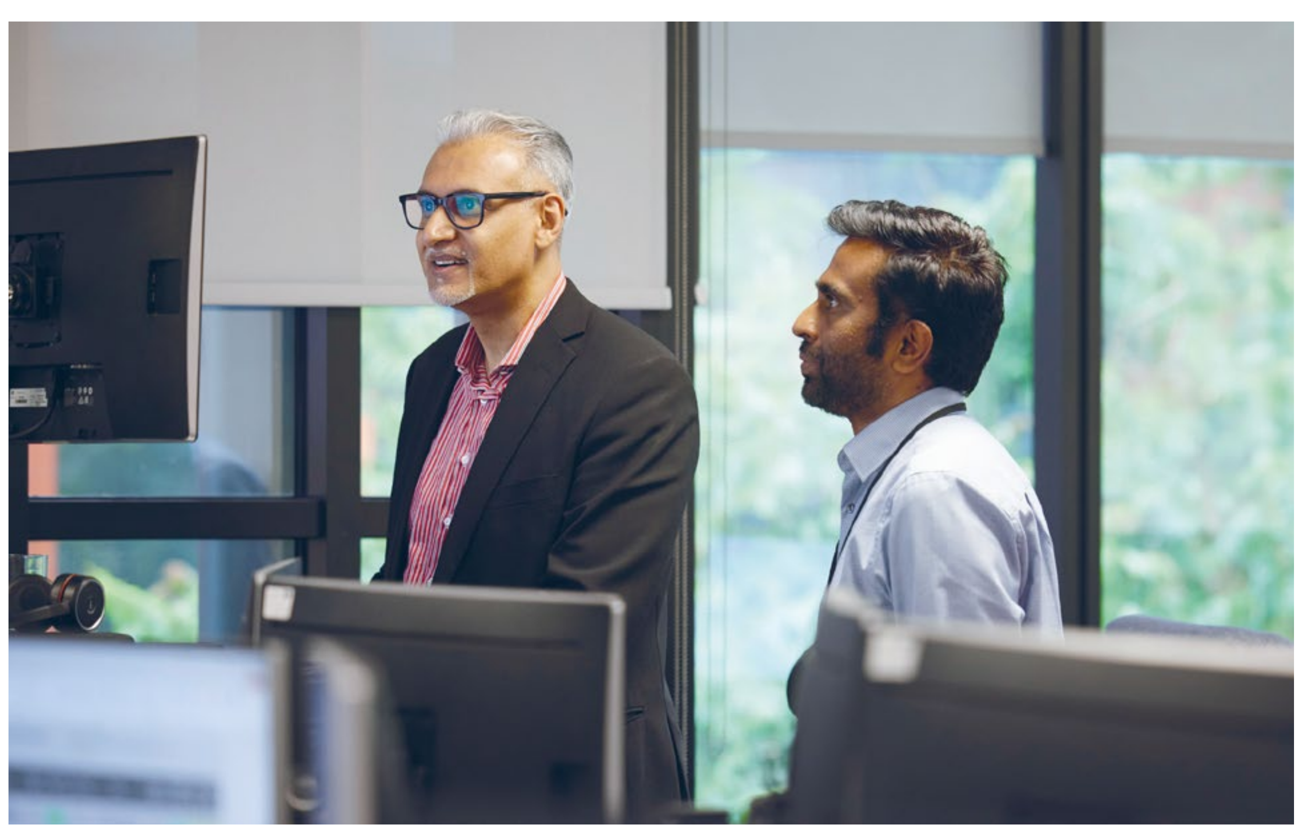
We are committed to attracting, developing and retaining the best talent, and we actively seek diversity – it applies to all of us and goes beyond visible or demographic characteristics. It includes diversity of thought, working styles, skills and experience. We continue to champion inclusive recruitment practices and aim to attract a diverse group of candidates for every open job role. We guide hiring managers in writing inclusive job descriptions, for example the importance of using non-gendered language.

We have also removed unnecessary criteria from our recruitment processes. We aim for balanced shortlists when recruiting both directly and through our partner agencies. We also ensure our interview panels are diverse and gender-balanced where possible. Hiring managers attend our "Licence to Recruit" training where we educate them about biases that can impact interviews and how to manage them. We aim to promote flexibility through offering positions as full time, part time or job share opportunities where possible.

Portraying a genuine, authentic view of our culture externally has been a real focus this year. We launched our Employee Brand Ambassador programme with over 30 delegates from across the bank attending a series of sessions over a six-month period. The aim of the programme was to promote and enhance our employer brand, generating positive awareness and engagement, and encouraging others to do the same.

We are proud of the enthusiasm, passion and hard work of our eight executive-sponsored group-wide employee inclusion networks, three working groups and multiple local D&I forums. These include our newly launched Veterans Network, which has received a bronze award from the Defence Employer Recognition Scheme. Ongoing collaboration across our networks helps create a deeper level of understanding and supporting our commitment to intersectionality.

We celebrate National Inclusion Week group-wide, as well as culture weeks locally in our business areas. Our employee networks, groups and forums further deliver excellent sessions and employee engagement opportunities throughout the year. Examples include Black History Month, Social Mobility Day, Mental Health Awareness Week, book and film clubs and bring your child to work days.



Our executive-sponsored inclusion networks

Accessibility Network
Angela Yotov

Gender Balance Network
Phil Hooper

Mental Wellbeing Network
Ian Cowie

R.E.A.C.H (Race, Ethnicity and Cultural Heritage) Network
Naz Kazi

Social Mobility Network
Matt Roper

Unity Network
Rebekah Etherington

Veterans Network
Simon Jacobs

Working Parents and Carers Network
Eddy Reynolds

Our Diversity and Inclusion Strategy

In May 2024, we launched our new Group Diversity and Inclusion Strategy. Despite our best efforts across the group, disappointingly we have not progressed towards meeting our 2025 representation targets. The introduction of our new Group Diversity and Inclusion Strategy outlines our priorities and focus areas for the next three years.

The market for diverse talent remains competitive, with most firms seeking to improve their representation. By outlining our strategy and action plan, we will ensure we are well positioned against our competitors and prepared for a changing regulatory landscape for diversity and inclusion.

Our primary focus is to attract and recruit more diverse talent, and to support colleagues throughout their careers. We actively seek diversity and it is critical that we continue to promote inclusive behaviours, respect and teamwork, to help us maintain our inclusive culture.

Our second aim is to maintain an environment in which all colleagues feel psychologically safe and provide targeted support for minority groups in particular.

Finally, we take pride in helping small businesses and individuals, through creating jobs and opportunities in local communities across all our regions, and we take care to ensure that environmental and social factors are considered in the decisions we make as a business. That is why our third diversity and inclusion focus area is to embed inclusion in our interactions with external partners.

In support of our Group Diversity and Inclusion Strategy, we launched our new Transgender Inclusion Policy, and also shared improvements to our family-friendly benefits, including:

- Increasing our maternity leave and adoption leave offering from 18 to 22 weeks' full pay.
- Providing up to two weeks' paid time off for fertility treatment and recovery (applicable to both partners).
- Offering two weeks' paid time off for all forms of pregnancy loss (applicable to both partners).

Gender diversity

	31 July 2024	
	Male	Female
Number of board directors[1]	5	4
Number of subsidiary directors[2]	48	9
Number of senior managers other than board directors[3]	218	105
Number of employees other than board directors and senior employees	1,918	1,724
Total	**2,189**	**1,842**

1. Includes non-executive directors, excluded from group headcount calculations.
2. Includes subsidiary directors who are excluded from group headcount calculations.
3. Senior managers are defined as those managers with the line management responsibility for a line manager, in accordance with the representation shared in our gender pay gap report. They are generally heads of departments, functions of larger teams. This figure excludes 40 male and 9 female employees who are reported under directors or directors of subsidiaries.

Neurodiversity pillar launch

This year we launched a neurodiversity pillar within our Accessibility network. The group has run a number of neurodiversity roundtables in multiple offices, and also led a successful Neurodiversity Celebration Week which received high levels of engagement with 3,500 views of related posts on our company intranet in just one week.

Engagement

Listening to the views of our colleagues is essential to drive and maintain employee engagement, ensuring our culture is one where everyone feels like they belong, can thrive and is proud to work for us.

This year, we ran a group-wide pulse survey to monitor overall engagement alongside colleague sentiment around inclusion, speaking up and treating customers and clients fairly. Our FY 2024 employee opinion scores remained closely aligned to last year with overall engagement at 83% (FY 2023: 86%). Introducing a new question around speaking up, we were particularly pleased that 92% of colleagues feel comfortable to contribute to meetings.

In addition to our group-wide survey this year, we have focused on introducing more continual employee listening through gathering data at different stages of the employee life cycle. Our employee experience team engages directly with colleagues at the point of joining, returning from parental leave and when celebrating work anniversaries. Colleagues are asked to complete short surveys to share their views on company culture and their personal experience of working at Close Brothers, with 'inclusive' and 'friendly' being the most commonly used words to describe our culture.

Supporting our People

All employees have access to our 24/7 Employee Assistance Programme, mental health first aiders and the Thrive app that offers techniques for meditation and cognitive behavioural therapy. Employees can also book one additional day a year off to focus on their mental health and wellbeing. Our Wellbeing network further supports us with education and awareness raising initiatives.

Our benefits are regularly reviewed and publicised. We support everyday flexible working – empowering colleagues to achieve an optimal work/life balance. We are seeking to enhance Close Brothers' reputation as a family-friendly workplace through the provision of benefits such as emergency care cover. In response to feedback from colleagues, this year we have expanded our private medical plan to include menopause cover. We have an active menopause colleague working group and in July 2024, we were nominated as a finalist in the Menopause Friendly Employer Awards for "Most Open Culture" and "Best Peer-to-Peer Support" categories.

The group continues to pay all staff at or above the national living wage. For members of the group's pension plans, we contribute between 6% and 10% towards colleagues' pensions, which is above required levels. We offer both a Save As You Earn scheme as well as a Buy As You Earn share incentive plan, which allow employees to acquire shares on a monthly basis out of pre-tax earnings.

Gender diversity awards

The "Women in Motor" group within Close Brothers Motor Finance had two of its members nominated as "Advocate of the Year" at the "Women in Credit Awards". This is in recognition of their efforts to champion incredible women and those who empower them across the entire credit and financial services industry. Close Brothers Asset Management was also highly commended for "Contribution to Gender Diversity" at the "Women in Financial Advice Awards 2023" with one of our colleagues winning the Award for Financial Adviser of the Year for the Northwest.

Participation rates in our long-term ownership schemes remain strong at 46% of all permanent and fixed term employees who are eligible.

Development Programmes

We run two internship programmes in partnership with 10,000 Interns Foundation and upReach. These aim to increase social mobility, accessibility and ethnic diversity in our industry and organisation. We are building inclusion through mutual mentoring where currently we are matching members of our senior leadership team with junior colleagues in some business areas. Externally, we partner with Moving Ahead on mentorship programmes for women and all under-represented groups.

Over the past nine years the Close Brothers SME Apprentice Programme has helped to fund 110 apprenticeships by partnering with the AMRC Training Centre, Make UK, the Manufacturing Technologies Association and the Road Haulage Association. As part of our responsibility to help address the social and economic challenges facing businesses today, the programme helps SMEs to fill skills gaps, develop their future workforce and improve long-term growth prospects, while providing a vital opportunity to invest in local talent.

Developing our People

We provide a full range of training and development for our people irrespective of where they are in their careers. We work with our colleagues from induction through to management, leadership, talent development programmes and supporting professional development qualifications as well as utilising the apprenticeship levy where appropriate.

Our workforce remains diverse, with 46% (2023: 45%) female employees, and we have a broad age range of employees, with 21% (2023: 22%) of our employees being under 30 years old and 22% (2023: 21%) over 50.

All colleagues have access to our learning portal where they can access a broad range of learning offerings including practical tools and e-learning modules on a wide variety of topics. The average number of training hours across the group was 16 per employee during the year, reflecting an increase in regulatory modules and delivering more training online to make it more accessible.

We require all employees to complete relevant regulatory training on an annual basis with further training offered when required. This year, we achieved 100% completion rate of mandatory training by the last working day of the financial year.

We continue to run open application processes for cross- company mentoring schemes that are delivered in partnership with Moving Ahead; these include both Mission Include (supporting those who identify as being from a minority background) and Gender Equity (with a focus on supporting females in progressing to senior roles).

The formal development of our talent pipeline remains a key focus. We continue to support our entry-level programmes through our school leaver programme, Aspire, as our current first year cohort move into their second year rotations and those completing the programme are supported to find permanent roles across the group. This two-year scheme offers placements in two business areas within our Banking division, where individuals rotate around client-facing and front office teams whilst also having the opportunity to gain an apprenticeship qualification. Upon completion, we offer the option for Aspire trainees to complete apprenticeship qualifications should they wish to do so. We also have our 2022 graduate cohort rolling off the scheme this year to fill entry-level roles across the group.

To support our high potential colleagues, our FY 2024 emerging leaders programme saw 19 individuals across the group taking part. 16% of the cohort received a promotion either during or following completion of the programme.

To support our inclusive culture through further embedding our code of conduct, we continue to ensure all our new starters receive our "Close Brothers Way" e-learning module, focusing on our cultural attributes and expected behaviours. This year, we will be working with members of our employee inclusion networks to further update the content for further rollout in 2025 to all colleagues.

Employees in the Community

Creating long-term, lasting value in the communities where we operate, remains a key priority for the group. We understand that volunteers are often the driving force behind many community and charity activities and we are committed to supporting our employees to get involved in these wherever possible.

As part of the relationships we have with our charity partners, we encourage employee engagement through involvement in the volunteering initiatives offered. For every hour of volunteered time, we donate £13.15 directly to the charity under our Matched Giving Scheme, and we also encourage people to take advantage of one paid volunteering day each year through our Employee Volunteering Policy.

In FY 2024, over 350 colleagues made use of their volunteering day and a number of teams chose to use their days to make a positive environmental impact.

Our partnership with the children's literacy charity, Bookmark, continues and in May 2024 we reached the milestone of being the first corporate volunteering partner to deliver over 1,000 reading sessions for the charity.

Our colleagues have also volunteered with our other corporate charities including carrying out "Wild at Work" days with The Wildlife Trusts.

Charity

Our two main corporate charity partners are chosen by our colleagues as part of our employee opinion survey and these remain Make-A-Wish Foundation, who grant wishes for children with life-threatening illnesses, and Cancer Research UK, which we have now supported for 11 consecutive years. To date, we are delighted to have raised over £630,000 for Cancer Research UK as well as donating clothing and items to be sold across their 600 shops, nationwide.

Over the last five years, we have raised over £270,000 for Make-A-Wish Foundation, enabling them to grant over 135 magical wishes for critically ill children and their families.

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.

Alongside our group-wide charity week in May, we also ran many other events throughout the year to raise funds for other charitable causes. We supported "Bring your dog to work day" raising money for Dogs for Good and we ran a Christmas jumper day to raise money for Save the Children.

Several of our employee-led networks have encouraged charitable giving alongside their events, with our Unity Network raising money for the Terrance Higgins Trust, our Accessibility network celebrating World Sight Day and raising money for Guide Dogs and our R.E.A.C.H. Network raising money for Sistah Space during Black History Month.

We also had over 80 colleagues sign up to donate blood as part of an annual campaign, raising over £850 for the NHS Blood and Transplant Charity Fund through Close Brothers donating an amount for every colleague who signed up.

We match 50% of funds that our colleagues raise for charities under the Close Brothers Matched Giving Scheme. We also encourage our employees to collaborate on raising money for causes that are most meaningful to them by matching funds raised through locally organised fundraising events and activities.

This year we have continued to support additional charities that align with our ESG goals, donating a total of £100,000 to Stop Hate UK, The Wildlife Trusts, Smart Works and Bookmark. In response to the conflict in Israel and Palestine, the devastating flooding in Libya, the earthquake in Morocco and the earthquake in Afghanistan, we have donated over £11,000 to date, including matching 100% of colleague donations, to the British Red Cross in support of their politically neutral Disaster Fund.

Our Payroll Giving Scheme matches charitable contributions while allowing employee donations to be made directly from pre-tax salary. After 13 years of receiving the Payroll Giving Quality Mark Gold Award, this year we have been given a Platinum award in recognition of our overall engagement in the scheme.

Our customer commitment

The needs and expectations of our customers, clients and partners are accelerating. At Close Brothers we continue to evolve to meet these needs and expectations whilst ensuring fairness and good outcomes.

Our customer principles keep the customer at the heart of all we do: 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; and we build relationships based on quality and trust.

This is supported by our Customer Commitment Framework which sets out how we want our customers and our colleagues to feel: valued, happy, understood, confident, and that it is easy to do business with us.

This commitment embeds our customer-centric approach across the group and helps us to "walk in the shoes of customers", designing and delivering products, services and experiences for our customers, gaining their loyalty.

In Savings, in-person training has been delivered to all front-line colleagues to embed the Customer Commitment Framework into day-to-day tasks, using interactive scenario-based exercises to promote good customer outcomes and maintain customer loyalty. Colleagues can identify and relate to the desired customer experience, whilst learning how to better tailor the delivery of this experience. We measure the success of this through customer experience metrics and analyse what's working well to support development of future customer-first initiatives.

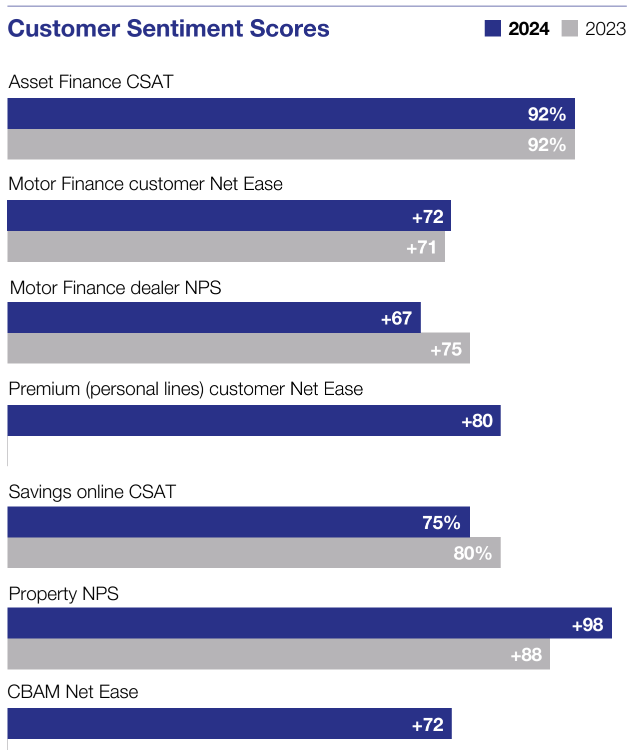
Voice of the Customer

Close Brothers continues to invest in strengthening its capability around customer experience measurement so that we listen, learn and act. We have been running our customer forums for over 10 years and in that time we have been developing our capabilities and governance to bring the voice of the customer into our day-to-day decision-making processes, which remains a key priority for Close Brothers.

Delivering excellent client experiences and outcomes is at the heart of our business. To ensure Close Brothers Asset Management continues to provide outstanding services to our clients now and in the future, we have undertaken research to better understand the evolving needs and expectations of our clients. Using this insight, we have worked with c.70 colleagues to document over 500 features in a Service Design Blueprint that defines the future state experience we will strive to deliver to meet client needs.

At Close Brothers, we have dedicated forums for complaints and vulnerable customers. At a group level, we use these forums to share best practice, collaborate and innovate on opportunities to enhance the customer experience. We have extended our "language line" to support Motor Finance customers. This functionality, which is already available in Premium Finance, is designed for customers where English is not their first language. Changes have been made so that we can identify vulnerable customers through automated processes and additional training is provided to contact centre colleagues.

We continue to monitor customer sentiment across each of our business areas by gathering feedback regularly. We are pleased with the strong responses from across our diverse customer groups and our customer forums will continue to review and act on customer sentiment.



There are four key pillars to our Customer Commitment:

Communication and Learning

Developing and strengthening the customer experience skills within our teams, and continually demonstrating how the Customer Commitment supports our purpose to help the people and businesses of Britain thrive over the long term.

Rewards and Recognition

Our colleagues drive our success and delivering good customer experience is embedded within their objectives to help support this.

Metrics

Evolving our customer metrics to better identify where and how we can enhance our customers' experience and earn their brand loyalty.

Governance

Anchoring the voice of the customer within the heart of our structures, critical decisions and forums to ensure we listen, act, and learn to continue to deliver for our customers.

Focusing on Continuously Improving the Customer Experience

Across the group we are focused on continuous improvement, supported by colleagues in each business as well as our central Operational Excellence team.

By expanding the reach of our Lean Academy, we've purposely enabled a culture of continuous improvement so that opportunities to improve the customer experience are identified and delivered. Our Operational Excellence team diagnose where service can be improved and efficiencies generated. They work closely with subject matter experts in each area to balance process and colleague benefits with enhanced customer, client and partner experiences.

This approach to continuous improvement shows how we are delivering on our customer principles.

- **Motor Finance**: The Customer Support team saw a 31% improvement in speed of answering calls by enhanced standardisation of processes, automation of appropriate tasks, and optimising how customers are routed through the phone line. We're now helping our customers faster when they need us most.
- **Premium Finance**: Streamlining commercial large deal underwriting delivered a 36% reduction in credit decision time for large credit applications, whilst maintaining appropriate risk appetite and prudence. The broker experience has been improved by streamlining processes, improving data quality and creating a workflow system across sales and underwriting, further strengthening our long-term strategic relationships.
- **Property Finance**: We have created an automated workflow that runs monthly to summarise all transactions across a customer's live accounts, saving their accounting team time and effort consolidating the same information manually.
- **Asset Management**: Operations have launched a new "Simply Better" initiative that provides colleagues with the opportunity to raise and implement continuous improvement ideas that enhance the customer experience. In the last 12 months, Operations colleagues have implemented 122 ideas, removed 108 pain points and delivered 15 additional benefits.

The Way Ahead

- Looking forward, we are committed to continuously improving our ability to capture, consolidate and act upon customer, client and partner sentiment across all end-to-end journeys that will help us to deliver a differentiated experience and earn customer loyalty.
- We recognise the challenging macroeconomic environment facing our customers, clients and partners, and will continue to support them through high standards of service, strong relationships and our recognised expertise.
- We regularly measure and track customer performance via several key customer metrics and will continue to enhance these metrics so that we deliver good customer experience and outcomes.

Property Finance: Supporting zero-carbon homes

Citu are an award-winning, sustainable, urban property developer, who use a modular approach to construction, which uses less energy and is more cost effective for the consumer. Citu creates amazing spaces with thoughtful and innovative design and technology, using low embodied carbon materials.

Property Finance are providing a revolving credit facility for a scheme of 51 zero-carbon homes in Stall, Leeds, which are being built to passive house standards in Citu's factory which is located near to the site.

Watch our video case study with Citu.

Premium Finance: Pioneering data analytics

Foresight is our innovative data enrichment product giving brokers insight about customer cancellation risk at point of quote. Our models are built on large data sets and use advanced machine learning techniques resulting in accurate predictions. This enhances our long-term relationships with brokers by providing unique insights so they can reduce cancellation risk and expand into new customer segments.

Enabling opportunities **through supporting colleagues**

Championing diversity, inclusion and wellbeing through our Employee Inclusion Networks

At Close Brothers we pride ourselves on building a diverse and inclusive culture where everyone feels they belong and are able to thrive.

We celebrate diversity and are proud of the enthusiasm, passion and hard work of our eight group-wide Employee Inclusion Networks, allies, multiple diversity and inclusion working groups, and local forums.

Our networks have three primary objectives: to create a safe space for our colleagues so they feel heard and supported; to raise awareness about inclusion topics by arranging events and activities throughout the year; and to advocate for positive change, for example by reviewing our policies and supporting our process reviews through an inclusion lens.

We value our partnerships and pledges across a broad spectrum of inclusion themes, many of which our networks engage with to help inform our thinking and ensure our approach to diversity, inclusion and wellbeing is developed and understood.

Non-Financial and Sustainability 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	• Group Credit Risk Policy and Bank Credit Risk Standards • Environmental Policy	• Operating Environment, page 16 to 18 • Stakeholder Engagement, pages 29 to 31 • Our Strategy, pages 20 to 25 • Our Responsibility, page 33 to 34 • Sustainability Report, pages 33 to 54 • Climate-related Disclosures, pages 35 to 47
Employees	• Health and Safety Policy • Whistleblowing Policy • Key Customer Principles • Equal Opportunity and Dignity at Work Policy	• Business Model, pages 14 to 15 • Stakeholder Engagement, pages 29 to 31 • Our Strategy, pages 20 to 25 • Our Responsibility, page 33 to 34 • Sustainability Report, pages 33 to 54 • Corporate Governance Report, pages 120 to 138
Social Matters	• Key Customer Principles • Group Credit Risk Policy and Bank Credit Risk Standards • Volunteering Standards • Matched Giving Guidelines • Dignity at Work Policy	• Stakeholder Engagement, pages 29 to 31 • Our Strategy, pages 20 to 25 • Our Responsibility, page 33 to 34 • Sustainability Report, pages 33 to 54 • Corporate Governance Report, pages 120 to 138
Respect for Human Rights	• Human Rights and Modern Slavery Act • Data Protection Policy • Cyber Security Policy • Information Security Policy • Third Party Management Policy	• Sustainability Report, page 33 to 54 • Risk Report, pages 74 to 116
Anti-Corruption and Anti-Bribery	• Financial Crime Compliance Policy • Anti-Bribery and Corruption Policy Statement • External and Internal Fraud Policy Statement • Cyber Security Policy	• Sustainability Report, page 33 to 54
Stakeholders	• Environmental Policy • Key Customer Principles • Third Party Management Policy	• Stakeholder Engagement, pages 29 to 31 • Sustainability Report, page 33 to 54
Description of the Business Model		• At A Glance, pages 4 to 5 • Investment Case, pages 12 to 13 • Business Model, pages 14 to 15 • Our Strategy, pages 20 to 25
Description of Principal Risks and Impact of Business Activity	• Enterprise Risk Management Framework	• Principal Risks, pages 82 to 83 • Emerging Risks and Uncertainties, page 84 • Risk Committee Report, pages 147 to 149
Non-Financial Key Performance Indicators		• Our Strategy, pages 20 to 25 • Key Performance Indicators, pages 26 to 27 • Sustainability Report, pages 33 to 54
Climate-related Disclosures	Enterprise Risk Management Policy	• TCFD – Climate-related disclosures, pages 35 to 47

Financial Overview

Summary Group Income Statement[1]

	2024 £ million	2023 £ million	Change %
Operating income	**944.2**	932.6	1
Adjusted operating expenses	**(674.8)**	(615.0)	10
Impairment losses on financial assets	**(98.8)**	(204.1)	(52)
Adjusted operating profit	**170.6**	113.5	50
Banking	**205.4**	120.1	71
Banking excluding Novitas	**205.6**	226.7	(9)
Commercial	**89.5**	15.9	463
Of which: Novitas	**(0.2)**	(106.6)	(100)
Retail	**37.9**	34.7	9
Property	**78.0**	69.5	12
Asset Management	**12.2**	15.9	(23)
Winterflood	**(1.7)**	3.5	(148)
Group (central functions)	**(45.3)**	(26.0)	74
Adjusting items:			
Complaints handling and other operational costs associated with the FCA's review of historical motor finance commission arrangements	**(6.9)**	–	–
Provision in relation to the BiFD review	**(17.2)**	–	–
Restructuring costs	**(3.1)**	–	–
Amortisation of intangible assets on acquisition	**(1.4)**	(1.5)	(7)
Statutory operating profit before tax	**142.0**	112.0	27
Tax	**(41.6)**	(30.9)	35
Profit after tax	**100.4**	81.1	24
Profit attributable to shareholders	**100.4**	81.1	24
Adjusted basic earnings per share[2]	**76.1p**	55.1p	
Basic earnings per share[2]	**59.7p**	54.3p	
Ordinary dividend per share	**–**	67.5p	
Return on opening equity	**6.9%**	5.0%	
Return on average tangible equity	**8.3%**	5.9%	

1. Adjusted measures are presented on a basis consistent with prior periods and exclude amortisation of intangible assets on acquisition, to present the performance of the group's acquired businesses consistent with its other businesses; and any exceptional and other adjusting items which do not reflect underlying trading performance. Further detail on the reconciliation between operating and adjusted measures can be found in Note 3 "Segmental Analysis".
2. Refer to Note 7 "Earnings per Share" for the calculation of basic and adjusted earnings per share.

Basis of Presentation

Results are presented both on a statutory and an adjusted basis to aid comparability between periods. Adjusted measures are presented on a basis consistent with prior periods and exclude costs associated with complaints handling and other operational costs associated with the FCA's review of historical motor finance commission arrangements, provisions in relation to the Borrowers in Financial Difficulty review, restructuring costs and amortisation of intangible assets on acquisition, to present the performance of the group's acquired businesses consistent with its other businesses; and any exceptional and other adjusting items which do not reflect underlying trading performance. The adjusting items are presented within administrative expenses on a statutory basis. Please refer to Note 3 "Segmental Analysis" for further details on items excluded from the adjusted performance metrics.

Statutory Operating Profit

Statutory operating profit before tax increased 27% to £142.0 million (2023: £112.0 million), reflecting higher profitability in the Banking division, driven primarily by the non-recurrence of the significant impairment charges incurred in relation to Novitas in the prior year. This was partly offset by costs associated with the handling of complaints and other operational costs associated with the FCA's review of historical motor finance commission arrangements, a provision recognised in relation to the Past Business Review and expected customer compensation in respect of forbearance related to motor finance lending following discussions with the FCA in relation to its market-wide review of Borrowers in Financial Difficulty ("BiFD"), and an increase in Group (central functions) net expenses.

Adjusted Operating Profit

Adjusted operating profit increased 50% to £170.6 million (2023: £113.5 million), as the significant decrease in impairment charges and 1% growth in income offset a 10% growth in adjusted operating expenses. Excluding Novitas, adjusted operating profit decreased to £170.8 million (2023: £220.1 million).

Banking adjusted operating profit increased to £205.4 million (2023: £120.1 million), with the prior year including an impairment charge of £116.8 million taken in relation to Novitas. Excluding Novitas, Banking adjusted operating profit decreased to £205.6 million (2023: £226.7 million) as higher income from loan book growth was more than offset by cost growth in line with guidance. In the Asset Management division, adjusted operating profit declined by 23% to £12.2 million (2023: £15.9 million) as higher income was offset by an increase in costs as we invested in new hires in our bespoke investment management business. Winterflood delivered an operating loss of £1.7 million (2023: operating profit of £3.5 million), primarily reflecting lower trading income in a challenging market environment and one-off dual-running property costs. Group (central functions) net expenses, which include the central functions such as finance, legal and compliance, risk and human resources, increased to £45.3 million (H1 2024: £21.0 million, H2 2024: £24.3 million, 2023: £26.0 million), driven primarily by interest charges of £19.4 million (2023: £2.5 million) incurred on the group's £250 million senior unsecured bond issued in June 2023 at an interest rate of 7.75% and an increase in professional fees and expenses associated with the potential impact on the group of the FCA's review of historical motor finance commission arrangements.

We expect Group (central functions) net expenses to increase to between £55 million and £60 million in the 2025 financial year, primarily reflecting an elevated level of professional fees and expenses associated with the potential impact on the group of the FCA's review of historical motor finance commission arrangements and its revised timetable, as well as a decline in interest income received from the proceeds of the group bond being placed on deposit with the reduction in interest rates.

Return on opening equity increased to 6.9% (2023: 5.0%) and return on average tangible equity increased to 8.3% (2023: 5.9%).

Operating Income

Operating income increased 1% to £944.2 million (2023: £932.6 million), with growth in both Asset Management and Banking offsetting a decline in Winterflood and higher interest expenses from the group senior unsecured bond.

Income in the Banking division increased 2%. This reflected good loan book growth and strong, albeit reduced, margins as we maintained our focus on pricing discipline and optimising funding costs in the higher rate environment, although experienced margin pressures and lower activity-driven fee income in the Commercial businesses. As previously highlighted, Banking income in the prior year benefited from one-off items related to movements through profit and loss from derivatives outside of a hedge accounting relationship and Novitas income. Excluding the impact of these items, Banking income grew 4%. Income in Asset Management increased 9%, driven by higher investment management income, reflecting growth in AuM delivered by our bespoke investment management business. Income in Winterflood reduced 3% as the decline in trading income more than offset growth in WBS. Income decreased in the Group (central functions) to £(11.5) million (2023: £(1.3) million), driven by interest charges incurred on the group's £250 million senior unsecured bond issued in June 2023 at an interest rate of 7.75%, partly offset by interest income received from the proceeds being placed on deposit.

Operating Expenses

Adjusted operating expenses rose 10% to £674.8 million (2023: £615.0 million), primarily driven by increased staff costs across the group, as well as continued investment in Banking. In the Banking division, costs grew 8%, at the lower end of the guidance provided, as we incurred inflationary-related increases in staff costs, higher regulatory compliance and assurance expenses and continued to invest in our strategic programmes. We also made good progress on our strategic and tactical cost management initiatives as we implement measures to deliver annualised cost savings of c.£20 million, reaching the full run rate by the end of the 2025 financial year, with the total benefit, in the 2026 financial year. Costs rose 13% in Asset Management, mainly reflecting wage inflation and new hires to support future growth. Winterflood's costs increased 4%, primarily reflecting one-off costs incurred by relocating premises. Expenses in the Group (central functions) rose to £33.8 million (2023: £24.7 million), reflecting an increase in professional fees and expenses associated with the potential impact on the group of the FCA's review of historical motor finance commission arrangements, as well as performance-driven compensation and share-based awards.

Overall, the group's expense/income ratio increased to 71% (2023: 66%), whilst the compensation ratio increased to 41% (2023: 37%), reflecting inflation-related wage increases and new hires in CBAM.

Impairment Charges and IFRS 9 Provisioning

Impairment charges decreased significantly to £98.8 million (2023: £204.1 million), corresponding to a bad debt ratio of 1.0% (2023: 2.2%) with the prior year including a charge of £116.8 million in relation to Novitas. Overall, provision coverage increased to 4.3% (31 July 2023: 3.9%).

Excluding Novitas, impairment charges rose 6% to £92.4 million (2023: £87.3 million), mainly driven by loan book growth and the ongoing review of provisions and coverage across our loan portfolios, partly offset by improvements to the macroeconomic outlook. The bad debt ratio, excluding Novitas, remained stable at 0.9% (2023: 0.9%) and remains below our long-term bad debt ratio of 1.2%. The coverage ratio increased slightly to 2.3% (31 July 2023: 2.1%), excluding Novitas.

Since the 2023 financial year end, we have updated the macroeconomic scenarios to reflect the latest available information regarding the macroeconomic environment and improved outlook, although the weightings assigned to them

remain unchanged. At 31 July 2024, there was a 30% weighting to the strong upside, 32.5% weighting to the baseline, 20% weighting to the mild downside, 10.5% weighting to the moderate downside and 7% weighting to the protracted downside.

Whilst we have not seen a significant impact on credit performance, we continue to monitor closely the evolving impacts of inflation and cost of living on our customers. We remain confident in the quality of our loan book, which is predominantly secured or structurally protected, prudently underwritten, diverse, and supported by the deep expertise of our people. Looking forward, we expect the bad debt ratio for the 2025 financial year to remain below our long-term average of 1.2%.

Adjusting Items

We recognised £28.6 million of adjusting items in the 2024 financial year, of which £2.9 million were incurred in the first half (consisting of £0.6 million of amortisation of intangible assets on acquisition and £2.3 million relating to complaints handling expenses and other operational costs associated with the FCA's review of historical motor finance commission arrangements, which have been recategorised as an adjusting item).

We incurred £6.9 million of complaints handling expenses and other operational costs associated with the FCA's review of historical motor finance commission arrangements.

As highlighted in the Q3 trading update, following discussions with the FCA in relation to its market-wide review of Borrowers in Financial Difficulty, which assessed forbearance and related practices, the group has conducted a Past Business Review of customer forbearance related to its motor finance lending. This has now concluded and a provision of £17.2 million has been recognised in respect of the review and expected customer compensation. We have commenced making compensation payments to customers, with the resulting remediation programme expected to be materially complete this calendar year. This provision, which should sufficiently address the outcomes of the review, is higher than previously estimated, reflecting our decision to both widen the population of in-scope customers and increase the assumptions for average distress and inconvenience payments, in line with our commitment to achieving fair customer outcomes.

In addition, we incurred £3.1 million of restructuring costs in the 2024 financial year primarily relating to redundancy and associated costs. We have made good progress on streamlining the workforce, which has been achieved through the consolidation of roles across our businesses and functions, as well as through the management of vacancies.

Tax Expense

The tax expense was £41.6 million (2023: £30.9 million), which corresponds to an effective tax rate of 29.3% (2023: 27.6%).

The standard UK corporation tax rate for the financial year is 25.0% (2023: 21.0%). The effective tax rate is above the UK corporation tax rate primarily due to disallowable expenditure, including expected customer compensation following the BiFD review, partly offset by tax relief from the Additional Tier 1 ("AT1") securities coupon payments. An additional banking surcharge of 3% (2023: 6.3%) applies to banking company profits as defined in legislation, but only above a certain amount, resulting in a nil (2023: 5.5%) surcharge impact.

Earnings Per Share

Adjusted basic earnings per share ("EPS") increased to 76.1p (2023: 55.1p) and basic EPS increased to 59.7p (2023: 54.3p). Both the adjusted and basic EPS calculation include the payment of the coupon related to the Fixed Rate Resetting AT1 Perpetual Subordinated Contingent Convertible Securities, at an annual rate of 11.125%, on 29 May 2024. The associated coupon is due on 29 May and 29 November of each year, with any AT1 coupons paid deducted from retained earnings, reducing the profit attributable to ordinary shareholders.

Dividend

Given the significant uncertainty regarding the outcome of the FCA's review of historical motor finance commission arrangements and any potential financial impact as a result, the board has considered it prudent for the group to further strengthen its capital position, while supporting our customers and business franchise. Therefore, as announced on 15 February 2024, the group will not pay a dividend on its ordinary shares for the 2024 financial year.

The reinstatement of dividends in the 2025 financial year and beyond will be reviewed once the FCA has concluded its process and any financial consequences for the group have been assessed.

Summary Group Balance Sheet

	31 July 2024 £ million	31 July 2023 £ million
Loans and advances to customers and operating lease assets[1]	**10,098.7**	9,526.2
Treasury assets[2]	**2,300.9**	2,229.4
Market-making assets[3]	**691.8**	787.6
Other assets	**989.4**	1,007.1
Total assets	**14,080.8**	13,550.3
Deposits by customers	**8,693.6**	7,724.5
Borrowings[4]	**2,339.2**	2,839.4
Market-making liabilities[3]	**631.6**	700.7
Other liabilities	**573.9**	640.8
Total liabilities	**12,238.3**	11,905.4
Equity[5]	**1,842.5**	1,644.9
Total liabilities and equity	**14,080.8**	13,550.3

1. Includes operating lease assets of £267.9 million (31 July 2023: £271.2 million).
2. Treasury assets comprise cash and balances at central banks and debt securities held to support the Banking division.
3. Market-making assets and liabilities comprise settlement balances, long and short trading positions and loans to or from money brokers.
4. Borrowings comprise debt securities in issue, loans and overdrafts from banks and subordinated loan capital.
5. Equity includes the group's £200.0 million Fixed Rate Reset Perpetual Subordinated Contingent Convertible Securities (AT1 securities), net of transaction costs, which are classified as an equity instrument under IAS 32.

The group maintained a strong balance sheet and a prudent approach to managing its financial resources. The fundamental structure of the balance sheet remains unchanged, with most of the assets and liabilities relating to our Banking activities. Loans and advances make up the majority of assets. Other items on the balance sheet include treasury assets held for liquidity purposes, and settlement balances in Winterflood. Intangibles, property, plant and equipment, and prepayments are included as other assets. Liabilities are predominantly made up of customer deposits and both secured and unsecured borrowings to fund the loan book.

Total assets increased 4% to £14.1 billion (31 July 2023: £13.6 billion), mainly reflecting growth in the loan book and higher Treasury assets. Total liabilities were 3% higher at £12.2 billion (31 July 2023: £11.9 billion), driven primarily by higher customer deposits, partly offset by a reduction in borrowings. Both market-making assets and liabilities, which related to trading activity at Winterflood, were lower due to a decrease in value traded at the end of the year.

Total equity increased 12% to £1.8 billion (31 July 2023: £1.6 billion), primarily reflecting the issuance of AT1 securities net of transaction costs and profit in the year, which was partially offset by dividend payments for the 2023 financial year of £67.1 million (2023: £99.1 million) and the AT1 coupon payment of £11.1 million (2023: £nil). The group's return on assets increased to 0.8% (2023: 0.6%).

Movements in Capital and Other Regulatory Metrics

The CET1 capital ratio reduced from 13.3% to 12.8%, mainly driven by loan book growth (-c.100bps), a decrease in IFRS 9 transitional arrangements (-c.20bps), Bluestone Motor Finance (Ireland) DAC acquisition (-c.20bps) and AT1 coupon (-c.10bps). This was partly offset by profits for the current financial year (c.90bps).

CET1 capital increased 5% to £1,374.8 million (31 July 2023: £1,310.8 million), mainly driven by £100.4 million of profits, partly offset by the dividends paid and foreseen related to the AT1 coupon of £15.0 million and a decrease in the transitional IFRS 9 add-back to capital of £19.7 million.

Tier 1 capital increased 20% to £1,574.8 million (31 July 2023: £1,310.8 million), driven by the issuance of the group's inaugural AT1 in a £200 million transaction to optimise the capital structure and provide further flexibility to grow the business. The transaction strengthened the regulatory capital position and was in line with the group's strategy and capital management framework.

Total capital increased 17% to £1,774.8 million (31 July 2023: £1,510.8 million), primarily reflecting the AT1 issuance.

RWAs increased 9% to £10.7 billion (31 July 2023: £9.8 billion), driven by loan book growth (c.£790 million) primarily in Commercial and Property, the acquisition of Bluestone Motor Finance (Ireland) DAC (c.£120 million), and a decrease in operational risk RWAs (c.£40 million), reflecting a reduction in average income in Winterflood partly offset by loan book growth.

As a result, CET1, tier 1 and total capital ratios were 12.8% (31 July 2023: 13.3%), 14.7% (31 July 2023: 13.3%) and 16.6% (31 July 2023: 15.3%), respectively.

The applicable CET1, tier 1 and total capital ratio requirements, including Capital Requirements Directive ("CRD") buffers but excluding any applicable Prudential Regulation Authority ("PRA") buffer, were 9.7%, 11.4% and 13.7%, respectively, at 31 July 2024. Accordingly, we continue to have headroom significantly above the applicable requirements of c.310bps in the CET1 capital ratio, c.330bps in the tier 1 capital ratio and c.290bps in the total capital ratio.

The group applies IFRS 9 regulatory transitional arrangements which allow 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. On a fully loaded basis, without their application, the CET1, tier 1 and total capital ratios would be 12.7%, 14.6% and 16.5%, respectively.

The leverage ratio, which is a transparent measure of capital strength not affected by risk weightings, increased to 12.7% (31 July 2023: 11.4%) primarily due to the increase in tier 1 capital.

The PRA Policy Statement PS 9/24 Implementation of the Basel 3.1 standards near-final part 2 was published on 12 September 2024, with an implementation date of 1 January 2026, six months later than previously anticipated. The majority of rules applicable to the group remain unchanged, including the proposed removal of the small and medium-sized enterprises ("SME") supporting factor, new conversion factor for cancellable facilities and new market risk rules. As a result, we continue to expect implementation to result in an increase of up to c.10% in the group's RWAs calculated under the standardised approach. However, the PRA has proposed to apply an SME lending adjustment as part of Pillar 2a, to ensure that the removal of the SME support factor does not result in an increase in overall capital requirements for SME lending. Whilst this adjustment is subject to PRA confirmation and a resulting restatement of the group's total capital requirements, we would reasonably expect the UK implementation of Basel 3.1 to have a less significant impact on the group's capital headroom position than initially anticipated.

As outlined at the Half Year 2024 results, following our application (in December 2020) to transition to the Internal Ratings Based ("IRB") approach, the application has successfully moved to Phase 2 of the process and engagement with the regulator continues. Our Motor Finance, Property Finance and Energy portfolios, where the use of models is most mature, were submitted with our initial application.

Further Strengthening our Capital Position

In March 2024, we announced a range of management actions which have the potential to strengthen the group's available CET1 capital by approximately £400 million by the end of the 2025 financial year (when compared to the group's projected CET1 capital ratio for 31 July 2025 at the time of our Half Year results announcement, prior to any management actions). While there remains considerable uncertainty regarding the specifics of any potential redress scheme, if required, as well as its timing, the board is confident that these actions leave the group well positioned to navigate the current uncertainty.

Subject to the execution of these management actions and capital generation, we have the potential to increase the group's CET1 capital ratio to between 14% and 15% at the end of the 2025 financial year (excluding any potential redress or provision related to the FCA's review of historical motor finance commission arrangements). Over the medium term, we remain committed to our previous CET1 capital target range of 12% to 13%.

Group Capital

	31 July 2024 £ million	31 July 2023 £ million
Common Equity Tier 1 capital	**1,374.8**	1,310.8
Tier 1 capital	**1,574.8**	1,310.8
Total capital	**1,774.8**	1,510.8
Risk weighted assets	**10,701.2**	9,847.6
Common Equity Tier 1 capital ratio (transitional)	**12.8%**	13.3%
Tier 1 capital ratio (transitional)	**14.7%**	13.3%
Total capital ratio (transitional)	**16.6%**	15.3%
Leverage ratio[1]	**12.7%**	11.4%

1. The leverage ratio is calculated as tier 1 capital as a percentage of total balance sheet assets excluding central bank claims, adjusting for certain capital deductions, including intangible assets, and off-balance sheet exposures, in line with the UK leverage framework under the UK Capital Requirements Regulation.

Group Funding[1]

	31 July 2024 £ million	31 July 2023 £ million
Customer deposits	**8,693.6**	7,724.5
Secured funding	**1,205.1**	1,676.6
Unsecured funding[2]	**1,219.1**	1,308.6
Equity	**1,842.5**	1,644.9
Total available funding[3]	**12,960.3**	12,354.6
Total funding as a percentage of loan book[4]	**128%**	130%
Average maturity of funding allocated to loan book[5]	**20 months**	21 months

1. Numbers relate to core funding and exclude working capital facilities at the business level.
2. Unsecured funding excludes £55.7 million (31 July 2023: £44.3 million) of non-facility overdrafts included in borrowings and includes £140.0 million (31 July 2023: £190.0 million) of undrawn facilities.
3. Includes £250 million of funds raised via a senior unsecured bond with a five-year tenor by Close Brothers Group plc, the group's holding company, in June 2023, with proceeds currently used for general corporate purposes.
4. Total funding as a percentage of loan book includes £267.9 million (31 July 2023: £271.2 million) of operating lease assets in the loan book figure.
5. Average maturity of total available funding, excluding equity and funding held for liquidity purposes.

Our Treasury function is focused on managing funding and liquidity to support the Banking businesses, as well as 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. We have maintained a prudent maturity profile, with the average maturity of funding allocated to the loan book at 20 months (31 July 2023: 21 months), ahead of the average loan book maturity at 16 months (31 July 2023: 16 months).

Our funding draws on a wide range of wholesale and deposit markets including several public debt securities at both group and operating company level, as well as public and private secured funding programmes and a diverse mix of customer deposits. This broad funding base reduces concentration risk and ensures we can adapt our position through the cycle.

Total funding increased by 5% over the year to £13.0 billion (31 July 2023: £12.4 billion), which accounted for 128% (31 July 2023: 130%) of the loan book at the balance sheet date, as we actively sought to grow our customer deposit base over the year. The average cost of funding in Banking increased to 5.5% (2023: 3.2%) reflecting the stabilisation of interest rates at a higher level and the corresponding impact on deposit pricing pressure. With macroeconomic indicators showing improvement in the second half of the financial year, the Bank of England base rate cut in August 2024 and further expectations of interest rate reductions, the pressure on cost of funding has begun to ease in recent months. We are well positioned to continue benefiting from our diverse funding base.

Customer deposits increased 13% to £8.7 billion (31 July 2023: £7.7 billion). Of this, non-retail deposits decreased 15% to £3.0 billion (31 July 2023: £3.5 billion) and retail deposits increased by 36% to £5.7 billion (31 July 2023: £4.2 billion), as we actively sought to grow our retail deposit base and product offering. In line with our prudent and conservative approach to funding, our deposits are predominantly term, with only 8% of total deposits available on demand and over 65% having at least three months to maturity. At 31 July 2024, approximately 86% of retail deposits were protected by the Financial Services Compensation Scheme.

Secured funding decreased 28% to £1.2 billion (31 July 2023: £1.7 billion), with our fifth public Motor Finance securitisation completed in November 2023 more than offset by a £250 million repayment related to our Motor Finance warehouse securitisation and the repayment of £490 million of the Term Funding Scheme for Small and Medium-sized Enterprises ("TFSME") ahead of the scheduled maturity date. This takes our remaining drawings under the scheme to £110 million (31 July 2023: £600 million), which will mature in October 2025, and which we expect to replace in line with our diverse funding profile, dependent on market conditions and demand.

Unsecured funding, which includes senior unsecured and subordinated bonds and undrawn committed revolving facilities, reduced 7% to £1.2 billion (31 July 2023: £1.3 billion).

Group Liquidity

	31 July 2024 £ million	31 July 2023 £ million
Cash and balances at central banks	**1,584.0**	1,937.0
Sovereign and central bank debt	**383.7**	186.1
Supranational, sub-sovereigns and agency ("SSA") bonds	**145.5**	–
Covered bonds	**187.7**	106.3
Treasury assets	**2,300.9**	2,229.4

The investment in our customer deposit platform continues to deliver tangible benefits and provide us with scalability. Deposits held through this platform have now grown to over £6.3 billion and we have continued to expand and diversify our products, with Easy Access complementing our existing offering of Notice Accounts and Fixed Rate Cash ISAs. The introduction of Easy Access provides us access to a large potential deposit pool, with balances of c.£540 million (at 31 July 2024). We have also recently onboarded an additional depositor aggregator partner, which has provided another avenue for us to secure fixed retail funding. We remain focused on growing our retail funding base from a variety of segments, further optimising our cost of funding and maturity profile.

Our Savings business provides simple and straightforward savings products to both individuals and businesses, whilst being committed to providing the highest level of customer service. In the second half of the financial year, we conducted a review aimed at enhancing operational efficiency and supporting our retail deposit growth ambitions. As a result, our Savings business has been integrated into the Retail business. This strategic move will leverage established shared operations, supporting the continued expansion of the business.

Our credit ratings continue to reflect the group's inherent financial strength, diversified business model and consistent risk appetite. Moody's Investors Services ("Moody's") ratings for CBG and CBL are A3/P2 and A1/P1 respectively (at 14 August 2024) with a negative outlook. Moody's ratings for Close Brothers Group's senior unsecured and subordinated debt is A3 (at 14 August 2024). Fitch Ratings ("Fitch") Issuer Default Ratings ("IDRs") for CBG and CBL are BBB+/F2 with a "negative outlook" (at 20 February 2024).

Group Liquidity

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

In light of the significant uncertainty regarding the outcome of the FCA's review of historical motor finance commission arrangements, we have deliberately maintained a higher level of liquidity. We have continued to diversify our large, high quality liquid asset portfolio held mainly in cash and government bonds. Over the year, treasury assets increased 3% to £2.3 billion (31 July 2023: £2.2 billion) and were predominantly held on deposit with the Bank of England.

We regularly assess and stress test the group's liquidity requirements and continue to exceed the liquidity coverage ratio ("LCR") regulatory requirements, with a 12-month average LCR to 31 July 2024 of 1,034% (31 July 2023: 1,143%). In addition to internal measures, we monitor funding risk based on the CRR rules for the net stable funding ratio ("NSFR"). The four-quarter average NSFR to 31 July 2024 was 134.4% (31 July 2023: 126.0%).

Post Balance Sheet Event

Following a comprehensive strategic review, on 19 September 2024 the group announced that it entered into an agreement to sell CBAM to Oaktree for an equity value of up to £200 million.

The upfront proceeds would increase the group's common equity tier 1 ("CET1") capital ratio by approximately 100 basis points on a pro forma basis. This calculation is based on a net asset value of £121.8 million at 31 July 2024, a tangible net asset value of £66.1 million, and assumes an immediate reduction in credit risk weighted assets ("RWAs") associated with the CBAM business. It does not include any immediate reduction in operational risk RWAs and excludes any capital impact in respect of the contingent deferred consideration. This estimate is subject to change before completion.

The transaction is expected to complete in early 2025 calendar year and is conditional upon receipt of certain customary regulatory approvals.

Further details of the financial impacts of the sale agreement on the group can be found in Note 29: "Post Balance Sheet Event".

Banking

Key Financials

	2024 £ million	2023 £ million	Change %
Operating income	**724.9**	713.8	2
Adjusted operating expenses	**(420.6)**	(389.7)	8
Impairment losses on financial assets	**(98.9)**	(204.0)	(52)
Adjusted operating profit	**205.4**	120.1	71
Adjusted operating profit, pre provisions	**304.3**	324.1	(6)
Adjusting items:			
Complaints handling and other operational costs associated with the FCA's review of historical motor finance commission arrangements	**(6.9)**	–	–
Provision in relation to the BiFD review	**(17.2)**	–	–
Restructuring costs	**(3.1)**	–	–
Amortisation of intangible assets on acquisition	**(0.2)**	(0.1)	100
Statutory operating profit	**178.0**	120.0	48
Net interest margin	**7.4%**	7.7%	
Expense/income ratio	**58.0%**	54.6%	
Bad debt ratio	**1.0%**	2.2%	
Return on net loan book	**2.1%**	1.3%	
Return on opening equity	**10.6%**	6.6%	
Closing loan book and operating lease assets	**10,098.7**	9,526.2	6

Key Financials (Excluding Novitas)

	2024 £ million	2023 £ million	Change %
Operating income	**713.9**	694.9	3
Adjusted operating expenses	**(415.8)**	(381.0)	9
Impairment losses on financial assets	**(92.5)**	(87.2)	6
Adjusted operating profit	**205.6**	226.7	(9)
Adjusted operating profit, pre provisions	**298.1**	313.9	(5)
Net interest margin	**7.3%**	7.6%	
Expense/income ratio	**58.2%**	54.8%	
Bad debt ratio	**0.9%**	0.9%	
Closing loan book and operating lease assets	**10,036.3**	9,466.3	6

Robust Profit Performance Reflecting our Focus on Costs and Pricing Discipline

Whilst the market backdrop was mixed in the first half of the year, with the continued uncertainty testing the resilience of SMEs and consumers, we saw an overall improvement in sentiment in the second part of the year as inflation fell and interest rates peaked, with the Bank of England base rate reduced in August 2024.

In Commercial, we have delivered good loan book growth of 6% and are starting to benefit from the investment in our Asset Finance transformation programme. Net interest margin has declined to 6.6%, driven by a combination of pressure on new business margins in the higher interest rate environment, a reduction in activity-driven fee income and a higher proportion of growth in some of our portfolios with larger loan sizes and lower margin. Whilst the Retail business has faced a challenging regulatory backdrop, we have remained focused on providing excellent service for our customers and delivered a 9% increase in adjusted operating profit. Motor Finance has continued to see good customer demand in the UK and is rebuilding its presence in the Irish market, with the loan book up 3%. Premium Finance has delivered a strong performance overall, notwithstanding a 3% decline in the loan book. The Property business has had a strong year, with profitability up 12% and the loan book at c.£2 billion, as optimism returns to the UK property market and we continue to build customer advocacy through our relationship-led model. This resilient performance has been delivered notwithstanding the challenging regulatory backdrop, as we have sought to balance supporting our customers whilst protecting our franchise.

Banking adjusted operating profit increased to £205.4 million (2023: £120.1 million), with the prior year including an impairment charge of £116.8 million in relation to Novitas. Excluding Novitas, Banking adjusted operating profit decreased 9% to £205.6 million (2023: £226.7 million), as growth in income, driven by good loan book growth and a strong, albeit reduced, net interest margin, was more than offset by higher costs and an increase in impairment charges.

On a statutory basis, operating profit increased to £178.0 million (2023: £120.0 million), notwithstanding £27.4 million of adjusting items which included £6.9 million of costs associated with the handling of complaints and other operational costs associated with the FCA's review of historical motor finance commission arrangements, including increased resourcing in our complaints and legal teams and £3.1 million of restructuring costs.

In addition, in respect of the FCA's market-wide review of BiFD, which is focused on providing a stronger framework for firms to protect customers facing payment difficulties and covers matters such as affordability, forbearance and vulnerable customers, we have conducted a Past Business Review of customer forbearance related to motor finance lending. This was a voluntary review undertaken with oversight from the FCA. A provision of £17.2 million has been recognised in respect of the review and expected customer compensation. We have commenced making compensation payments to customers, with the resulting remediation programme expected to be materially complete this calendar year.

The loan book grew 6% over the year to £10.1 billion (31 July 2023: £9.5 billion), reflecting healthy drawdowns in Property and strong new business in Invoice Finance, as well as good demand in Motor Finance and in Asset Finance, driven by the Leasing business. This was partly offset by a decline in Premium Finance and the run-off of the legacy Republic of Ireland Motor Finance loan book. Overall, the loan book grew 4% in the first half of the year and slowed to 2% in the second half, reflecting the selective loan book actions identified at the Half Year 2024 results.

Excluding the businesses in run-off, Novitas and the legacy Republic of Ireland Motor Finance business, the loan book grew 7% to £9.9 billion (31 July 2023: £9.3 billion).

Operating income increased 2% to £724.9 million (2023: £713.8 million), reflecting good loan book growth and strong, albeit reduced, margins. As previously highlighted, the prior year benefited from Novitas income (£19 million in 2023 versus £11 million in 2024) and movements through profit and loss from derivatives outside of a hedge accounting relationship (£2 million benefit in 2023 versus £5 million adverse impact in 2024). Excluding the impact of Novitas and these movements in derivatives, operating income rose 4%, driven by loan book growth.

Whilst the net interest margin remained strong as we maintained our focus on pricing discipline and optimising funding costs in the higher rate environment, it decreased to 7.4% (2023: 7.7%), with c.12bps of margin reduction reflecting the movements through profit and loss from derivatives outside of a hedge accounting relationship and Novitas income benefiting the prior year. Excluding the impact of these items, the net interest margin decreased by c.16bps, primarily reflecting margin pressures and lower activity-driven fee income in the Commercial businesses, partly offset by the pass through of higher rates in Retail. We are well positioned to sustain the net interest margin delivered in the second half of the 2024 financial year of 7.2%.

Adjusted operating expenses increased 8% to £420.6 million (2023: £389.7 million), driven mainly by inflationary-related increases in staff costs, higher regulatory compliance and assurance expenses and continued investment, partly offset by the progress we have made on our tactical and strategic cost management initiatives. This also included £6.5 million (2023: £0.8 million) of costs related to the acquisition, integration and running of Close Brothers Motor Finance in Ireland, which completed in October 2023, and spend of £4.8 million (2023: £8.7 million) related to Novitas as we continue to wind down the business. The expense/income ratio increased to 58.0% (2023: 54.6%) and the compensation ratio rose to 32% (2023: 30%), reflecting inflation-related wage increases.

Overall Banking cost growth was at the lower end of the 8-10% guidance range provided at the Full Year 2023 results on a like-for-like basis, with an 8% increase to £421.0 million (2023: £388.9 million), when including £6.9 million (2023: £nil) of costs associated with the handling of complaints and other operational costs associated with the FCA's review of historical motor finance commission arrangements and excluding £6.5 million (2023: £0.8 million) related to Close Brothers Motor Finance in Ireland.

Over the year, we have continued to make good progress on our strategic cost management initiatives. Our technology transformation programme, initiated in 2023, is focused on simplifying and modernising our technology estate, removing unnecessary cost and increasing our use of strategic partners, whilst creating a more digitally enabled and agile IT environment that is secure, resilient and sustainable. We have partnered with Wipro, a leading technology services and consulting company, to help us drive our transformation. To date, we have reduced our headcount by c.100, as we made increased use of outsourcing, and removed over 115 IT applications.

As outlined at the Half Year 2024 results, we have also mobilised additional cost management initiatives to support the ongoing profitability of the business, particularly in light of the capital actions and their expected impact on future income. These initiatives are expected to generate annualised savings of c.£20 million, reaching the full run rate by the end of the 2025 financial year, with the total benefit in the 2026 financial year. These include rationalising our third-party suppliers and property footprint and adjusting our workforce to drive increased efficiency and effectiveness. In recent months, we have served notice to vacate our Wimbledon Bridge House office and establish a more suitable London footprint to meet the needs of the business, resulting in the removal of approximately 800 desks.

We have incurred £3.1 million of restructuring costs, which have been recognised as an adjusting item in the 2024 financial year, primarily relating to redundancy and associated costs. We expect to incur £5-10 million of restructuring costs in the 2025 financial year as we continue to implement cost management actions to improve future efficiency.

We expect income and adjusted operating expenses growth, excluding the impact of adjusting items which do not reflect the underlying performance of our business, to be aligned in the 2025 financial year and to deliver positive operating leverage in the 2026 financial year.

Impairment charges decreased significantly to £98.9 million (2023: £204.0 million), corresponding to a bad debt ratio of 1.0% (2023: 2.2%) with the prior year including a charge of £116.8 million in relation to Novitas. Overall, provision coverage increased to 4.3% (31 July 2023: 3.9%).

Excluding Novitas, impairment charges rose 6% to £92.5 million (2023: £87.2 million), mainly driven by loan book growth and the ongoing review of provisions and coverage across our loan portfolios, partly offset by improvements to the macroeconomic outlook. The bad debt ratio, excluding Novitas, remained stable at 0.9% (2023: 0.9%) and remains below our long-term bad debt ratio of 1.2%. The coverage ratio increased slightly to 2.3% (31 July 2023: 2.1%), excluding Novitas.

Whilst we have not seen a significant impact on credit performance, we continue to monitor closely the evolving impacts of inflation and cost of living on our customers. We remain confident in the quality of our loan book, which is predominantly secured or structurally protected, prudently underwritten, diverse, and supported by the deep expertise of our people. Looking forward, we expect the bad debt ratio for the 2025 financial year to remain below our long-term average.

Loan Book Analysis

	31 July 2024 £ million	31 July 2023 £ million	Change %
Commercial	**5,101.6**	4,821.3	6
Commercial – Excluding Novitas	**5,039.2**	4,761.4	6
Asset Finance[1]	**3,655.4**	3,481.3	5
Invoice and Speciality Finance[1]	**1,446.2**	1,340.0	8
Invoice and Speciality Finance – Excluding Novitas[1]	**1,383.8**	1,280.1	8
Retail	**3,041.9**	3,001.8	1
Motor Finance[2]	**2,016.0**	1,948.4	3
Premium Finance	**1,025.9**	1,053.4	(3)
Property	**1,955.2**	1,703.1	15
Closing loan book and operating lease assets[3]	**10,098.7**	9,526.2	6
Closing loan book and operating lease assets – Excluding Novitas	**10,036.3**	9,466.3	6

1. The Asset Finance and Invoice and Speciality Finance loan books have been re-presented for 31 July 2023 to reflect the recategorisation of Close Brothers Brewery Rentals ("CBBR") from Invoice and Speciality Finance to Asset Finance.
2. The Motor Finance loan book includes £92.8 million (31 July 2023: £206.7 million) relating to the Republic of Ireland Motor Finance business, which is in run-off following the cessation of our previous partnership in the Republic of Ireland from 30 June 2022.
3. Includes operating lease assets of £267.9 million (31 July 2023: £271.2 million).

Update on Progress Relating to Novitas

The decision was made to wind down Novitas and withdraw from the legal services financing market following a strategic review in July 2021, which concluded that the overall risk profile of the business was no longer compatible with our long-term strategy and risk appetite. As announced in H1 2023, we have accelerated our efforts to resolve the issues surrounding this business and continue to pursue formal legal action issued against one of the After the Event ("ATE") insurers in November 2022. We are actively seeking recovery from a second insurer and entered into a settlement with another smaller ATE insurer in July 2023.

During the year, we recognised impairment charges of £6.4 million (2023: £116.8 million) in relation to Novitas, primarily as a result of increased time to recovery assumptions and legal costs associated with the insurer disputes. While we will continue to review provisioning levels in light of future developments, including the experienced credit performance of the book and the outcome of the group's initiated legal action, we believe the provisions adequately reflect the remaining risk of credit losses for the Novitas loan book (c.£62 million net loan book at 31 July 2024).

In addition, in line with IFRS 9 requirements, a proportion of the expected credit loss is expected to unwind, over the estimated time to recovery period, to interest income. The group remains focused on maximising the recovery of remaining loan balances, either through successful outcome of cases or recourse to the customers' ATE insurers, whilst complying with its regulatory obligations and always focusing on ensuring good customer outcomes.

Good Loan Book Growth from Continued Customer Demand

The loan book grew 6% over the year to £10.1 billion (31 July 2023: £9.5 billion), reflecting healthy drawdowns in Property and strong new business in Invoice Finance, as well as good demand in Motor Finance and in Asset Finance, driven by the Leasing business. This was partly offset by a decline in Premium Finance and the run-off of the legacy Republic of Ireland Motor Finance loan book. Overall, the loan book grew 4% in the first half of the year and slowed to 2% in the second half, reflecting the selective loan book actions identified at the Half Year 2024 results.

Excluding the businesses in run-off, Novitas and the legacy Republic of Ireland Motor Finance business, the loan book grew 7% to £9.9 billion (31 July 2023: £9.3 billion).

The Commercial loan book grew 6% to £5.1 billion (31 July 2023: £4.8 billion). Asset Finance delivered loan book growth of 5%, reflecting good demand in the Leasing business particularly from the Contract Hire, Energy and Materials Handling portfolios, notwithstanding a stabilisation in the second half of the year. Invoice and Speciality Finance grew 8% over the year, despite the typical seasonal decline seen in the first half, driven by strong new business volumes and higher level of utilisations. Excluding Novitas, the Commercial book increased 6% to £5.0 billion (31 July 2023: £4.8 billion).

The Retail loan book grew 1% to £3.0 billion (31 July 2023: £3.0 billion). Motor Finance grew 3% as strong new business volumes in the UK Motor Finance business more than offset the run-off of the legacy Republic of Ireland loan book. Following the acquisition of Bluestone Motor Finance (Ireland) DAC, which completed in October 2023, this business has been rebranded as Close Brothers Motor Finance and had a loan book of £38.8 million at 31 July 2024. The Premium Finance loan book contracted 3%, reflecting the competitive market environment and marginally reduced demand from business customers in the higher interest rate environment.

The legacy Republic of Ireland Motor Finance business accounted for 5% of the Motor Finance loan book (31 July 2023: 11%) and 1% of the Banking loan book (31 July 2023: 2%).

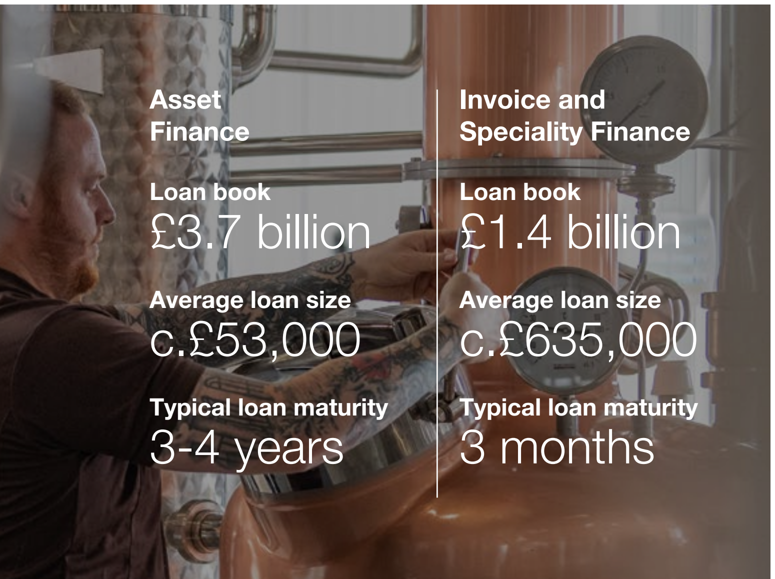
The Property loan book grew 15% as we saw healthy drawdowns from our new business pipeline, as the market benefited from the stabilisation of interest rates and improving market sentiment.

Whilst we remain focused on delivering disciplined growth over the medium term, our priority in the short term is to further strengthen our capital position through identified management actions, including selective loan book growth. Within Commercial and Property, we are exploring the use of partnerships and capital efficient government lending schemes. Across our businesses, we are continuing to prioritise pricing discipline and credit quality and are centred on optimising the allocation of capital across our portfolio of businesses. As a result, we currently plan for low single-digit percentage growth in the loan book for the 2025 financial year.

Banking – Commercial: At a Glance

Commercial lends to more than 28,000 small and medium-sized enterprises and 35,000 individuals through our in-house teams, where loans are originated via our direct sales force or introduced by third-party distribution channels.

Asset Finance provides commercial asset financing, hire purchase and leasing solutions for a diverse range of assets and sectors. Invoice and Speciality Finance works with small businesses to provide debt factoring, invoice discounting and asset-based lending and includes some of our smaller specialist businesses.



Banking: Commercial

	2024 £ million	2023 £ million	Change %
Operating income	**329.6**	347.8	(5)
Adjusted operating expenses	**(208.4)**	(194.4)	7
Impairment losses on financial assets	**(31.7)**	(137.5)	(77)
Adjusted operating profit	**89.5**	15.9	463
Adjusted operating profit, pre provisions	**121.2**	153.4	(21)
Adjusting items:			
Provision in relation to the BiFD review	**(0.6)**	–	–
Restructuring costs	**(2.2)**	–	–
Amortisation of intangible assets on acquisition	**–**	(0.1)	(100)
Statutory operating profit	**86.7**	15.8	449
Net interest margin	**6.6%**	7.4%	
Expense/income ratio	**63.2%**	55.9%	
Bad debt ratio	**0.6%**	2.9%	
Closing loan book and operating lease assets[1]	**5,101.6**	4,821.3	6

Commercial Key Metrics Excluding Novitas

	2024 £ million	2023 £ million	Change %
Operating income	**318.6**	328.9	(3)
Adjusted operating expenses	**(203.6)**	(185.7)	10
Impairment losses on financial assets	**(25.3)**	(20.7)	22
Adjusted operating profit	**89.7**	122.5	(27)
Adjusted operating profit, pre provisions	**115.0**	143.2	(20)
Net interest margin	**6.5%**	7.2%	
Expense/income ratio	**63.9%**	56.5%	
Bad debt ratio	**0.5%**	0.5%	
Closing loan book and operating lease assets[1]	**5,039.2**	4,761.4	6

1. Operating lease assets of £267.9 million (31 July 2023: £271.2 million).

Continued Demand in Commercial, Reflecting the Diversity of our Offering

The Commercial businesses provide specialist, predominantly secured lending principally to the SME market and include Asset Finance and Invoice and Speciality Finance. We finance a diverse range of sectors, with Asset Finance offering commercial asset financing, hire purchase and leasing solutions across a broad range of assets including commercial vehicles, machine tools, contractors' plant, printing equipment, company car fleets, energy project finance, and aircraft and marine vessels, as well as our Vehicle Hire and Brewery Rentals businesses. The Invoice and Speciality Finance business provides debt factoring, invoice discounting and asset-based lending, and also includes Novitas. As previously announced, Novitas ceased lending to new customers in July 2021.

Whilst market uncertainty has continued over the year, we have seen the resilience of SME businesses. Customer demand has remained relatively robust, notwithstanding the competitive marketplace, reflecting the diversity of our offering and the strength of our customer relationships. Our growth initiatives continue to prove successful, with healthy new business volumes written by both our Materials Handling and Agricultural Equipment teams and our second syndication deal completed in Invoice Finance. We have also been approved to lend under the UK government's Growth Guarantee Scheme, launched in July 2024, and the Irish Growth and Sustainability Loan Scheme, which launched in August 2024.

During the year, we completed an internal restructure and created a Broker and Professional Solutions business to simplify and improve our offering to the broker market.

Adjusted operating profit for Commercial increased to £89.5 million (2023: £15.9 million), reflecting a significant decrease in impairment charges. On a pre-provision basis, adjusted operating profit reduced 21% to £121.2 million (2023: £153.4 million), reflecting both a decline in income and cost growth. Excluding Novitas, adjusted operating profit decreased 27% to £89.7 million (2023: £122.5 million).

On a statutory basis, operating profit increased to £86.7 million (2023: £15.8 million) and includes £2.8 million of adjusting items. These primarily relate to £2.2 million of restructuring costs and a £0.6 million provision in relation to the Past Business Review and expected customer compensation in respect of customer forbearance related to motor finance lending.

Operating income reduced 5% to £329.6 million (2023: £347.8 million) as loan book growth was more than offset by pressure on new business margins and activity-driven fee income, as well as reduction in Novitas income. The net interest margin declined to 6.6% (2023: 7.4%), reflecting both lower fee income and the need to balance the repricing of new business written in Asset Finance with our focus on maintaining support to our customers impacted by the higher interest rate environment, as highlighted in the first half. Furthermore, we saw a higher proportion of loan book growth in some of our portfolios with larger loan sizes and lower margin. Excluding Novitas, the net interest margin decreased to 6.5% (2023: 7.2%).

Adjusted operating expenses grew 7% to £208.4 million (2023: £194.4 million), mainly driven by increased staff costs and investment spend, which has been partly offset by lower costs in relation to Novitas. As a result, the Commercial expense/income ratio increased to 63.2% (2023: 55.9%).

During the year, we completed the Asset Finance transformation programme, which has introduced a single technology platform across the business that has standardised processes, increased efficiencies and improved customer and colleague experience.

Impairment charges decreased materially to £31.7 million (2023: £137.5 million), with £116.8 million incurred in relation to Novitas in the prior year. Provision coverage increased marginally to 5.7% (31 July 2023: 5.2%).

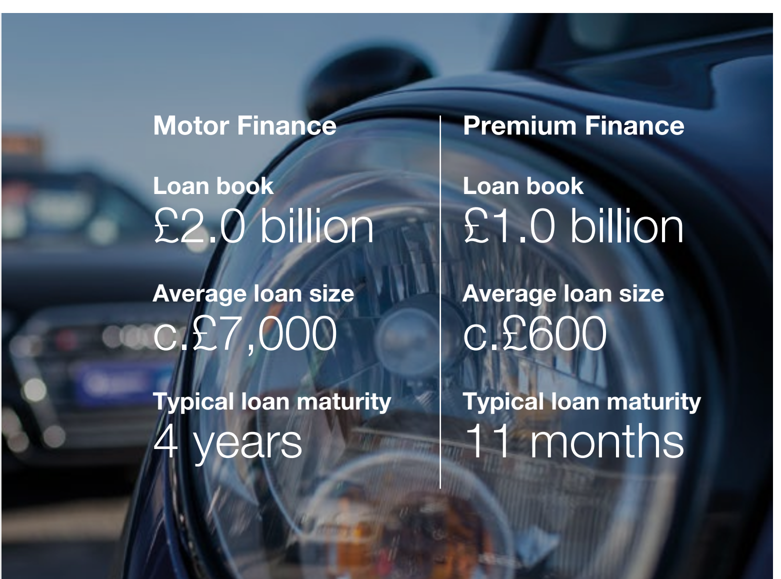
Excluding Novitas, there was an increase in impairment charges to £25.3 million (2023: £20.7 million), reflecting loan book growth and the ongoing review of provisions and coverage, including a slight uptick in arrears in Asset Finance as we enter a more normalised credit environment. This corresponded to a bad debt ratio of 0.5% (2023: 0.5%) and a stable coverage ratio (excluding Novitas) of 1.4% (31 July 2023: 1.4%).

Banking – Retail: At a Glance

Retail provides finance to individuals and businesses through a network of intermediaries.

Motor Finance provides several products at point of sale in a dealership, or online via a broker, which allow consumers to buy vehicles from over 4,250 retailers in the UK and 650 in Ireland.

Premium Finance helps make insurance payments more manageable for people and businesses, by allowing them to spread the cost over fixed instalments. It works with c.1,300 insurance brokers in the UK and Ireland.



Banking: Retail

	2024 £ million	2023 £ million	Change %
Operating income	**262.4**	248.1	6
Adjusted operating expenses	**(177.3)**	(164.4)	8
Impairment losses on financial assets	**(47.2)**	(49.0)	(4)
Adjusted operating profit	**37.9**	34.7	9
Adjusted operating profit, pre provisions	**85.1**	83.7	2
Adjusting items:			
Complaints handling and other operational costs associated with the FCA's review of historical motor finance commission arrangements	**(6.9)**	–	–
Provision in relation to the BiFD review	**(16.6)**	–	–
Restructuring costs	**(0.6)**	–	–
Amortisation of intangible assets on acquisition	**(0.2)**	–	–
Statutory operating profit	**13.6**	34.7	(61)
Net interest margin	**8.7%**	8.2%	
Expense/income ratio	**67.6%**	66.3%	
Bad debt ratio	**1.6%**	1.6%	
Closing loan book[1]	**3,041.9**	3,001.8	1

1. The Motor Finance loan book includes £92.8 million (31 July 2023: £206.7 million) relating to the legacy Republic of Ireland Motor Finance business, which is in run-off following the cessation of our previous partnership in the Republic of Ireland from 30 June 2022.

Focus on Maintaining our Margins and Underwriting Discipline in a Challenging Backdrop

The Retail businesses provide intermediated finance, through motor dealers, motor finance brokers and insurance brokers. Finance is provided to both individuals and to a broad spectrum of UK businesses.

Whilst the market backdrop has presented challenges, with significant uncertainty in relation to the FCA's motor finance work, we have seen good demand over the year and have remained focused on providing excellent service to our customers and partners. In Motor Finance, we have seen strong volumes as we have benefited from expanding our routes to market and our ability to partner with more finance technology providers, such as iVendi and AutoConvert, as part of our strategy to be where the consumer chooses finance. Whilst the Premium Finance business operates in a mature and competitive market, in which we have continued to deepen and evolve our proposition to best meet the needs of our customers and to support broker partners in simplifying premium finance in their businesses. More broadly across our Retail businesses, we have been focused on monitoring our delivery of good customer outcomes in respect of Consumer Duty.

We completed the acquisition of Bluestone Motor Finance (Ireland) (DAC) in October 2023 and have since rebranded the business to Close Brothers Motor Finance. This year, we have focused on the integration and alignment of our pricing and underwriting standards and credit risk appetite. Demand has been healthy and, looking forward, we plan to launch new products and services, enabling us to take advantage of opportunities in the Irish market.

During the second half of the financial year, we integrated our Savings business, which provides simple and straightforward savings products to both individuals and businesses, into Retail. This strategic move will leverage established shared operations, supporting the continued expansion of our retail deposit offering. The presentation of the Retail business financial performance is not impacted by this move.

Adjusted operating profit for Retail rose to £37.9 million (2023: £34.7 million), as growth in income and lower impairment charges were partly offset by higher costs. On a pre-provision basis, adjusted operating profit increased 2% to £85.1 million (2023: £83.7 million).

On a statutory basis, operating profit decreased to £13.6 million (2023: £34.7 million) and was driven mainly by £6.9 million of costs associated with the handling of complaints and other operational costs associated with the FCA's review of historical motor finance commission arrangements, a £16.6 million provision in relation to the Past Business Review and expected customer compensation in respect of customer forbearance related to motor finance lending and £0.6 million of restructuring costs.

Operating income increased 6% to £262.4 million (2023: £248.1 million), driven by both growth in Retail loan book and a strengthening of the net interest margin to 8.7% (2023: 8.2%), as we focused on pricing discipline in the higher rate environment.

Adjusted operating expenses grew 8% to £177.3 million (2023: £164.4 million), driven primarily by the acquisition of Close Brothers Motor Finance in Ireland, higher staff costs and increased regulatory costs. As a result, the expense/income ratio increased to 67.6% (2023: 66.3%).

As previously outlined, the FCA is conducting a review of historical motor finance commission arrangements and sales at several firms, following high numbers of complaints from customers. The estimated impact of any redress scheme, if required, is highly dependent on a number of factors and as such, at this early stage, the timing, scope and quantum of a potential financial impact on the group, if any, cannot be reliably estimated at present. Since the announcement by the FCA of its review of historical motor finance commission arrangements in January 2024, we have seen a further increase in enquiries and complaints. We have also taken steps to enhance our operational capabilities to respond to increased complaints volumes and potential changes such as the implementation of a consumer redress scheme, if required. We remain focused on mitigating the impact on resource expenses through outsourcing and deployment of automated solutions to assist in triaging new complaints, improving our processing speed. We continue to monitor the impact on our current handling of these complaints and are following the playbooks in place to ensure we have the appropriate resources to respond effectively.

Impairment charges decreased marginally to £47.2 million (2023: £49.0 million), driven primarily by an improvement in the macroeconomic outlook compared to the prior year. As previously highlighted, in Motor Finance, arrears levels have stabilised at a higher level than pre-pandemic, reflecting the continued cost of living pressures on our customers. The bad debt ratio remained stable at 1.6% (2023: 1.6%), with the provision coverage ratio increasing modestly to 3.0% (31 July 2023: 2.9%).

We remain confident in the credit quality of the Retail loan book. The Motor Finance loan book is predominantly secured on second hand vehicles which are less exposed to depreciation or significant declines in value than new cars. Our core Motor Finance product remains conditional sale and hire-purchase contracts, with less exposure to residual value risk associated with Personal Contract Purchase ("PCP"), which accounted for c.10% of the Motor Finance loan book at 31 July 2024 (31 July 2023: c.9%). The Premium Finance loan book benefits from various forms of structural protection including premium refundability and, in most cases, broker recourse for the personal lines product.

Banking – Property: At a Glance

Property provides residential development finance, bridging finance and commercial development loans to experienced property developers and investors across mainland UK and Northern Ireland, through its two brands, Close Brothers Property Finance and Commercial Acceptances. Lends to c.700 professional property developers with a focus on small to medium-sized residential developments.

Banking: Property

	2024 £ million	2023 £ million	Change %
Operating income	**132.9**	117.9	13
Adjusted operating expenses	**(34.9)**	(30.9)	13
Impairment losses on financial assets	**(20.0)**	(17.5)	14
Adjusted operating profit	**78.0**	69.5	12
Adjusted operating profit, pre provisions	**98.0**	87.0	13
Adjusting items:			
Restructuring costs	**(0.3)**	–	–
Statutory operating profit	**77.7**	69.5	12
Net interest margin	**7.3%**	7.4%	
Expense/income ratio	**26.3%**	26.2%	
Bad debt ratio	**1.1%**	1.1%	
Closing loan book	**1,955.2**	1,703.1	15

Healthy Drawdowns Driving Strong Loan Book Growth

Property comprises Property Finance and Commercial Acceptances. The Property Finance business is focused on specialist residential development finance to established SME housebuilders and professional developers in the UK. Property Finance also provides funding for commercial properties, housing associations and refurbishment and bridging finance. Commercial Acceptances provides bridging and short-term loans for auction properties, refurbishment projects and small residential development projects.

Although the backdrop has been mixed over the year, with SME housebuilders having faced a challenging period, we have seen positive sentiment return to the UK property market. The economic environment is more stable, housebuilding is a focus area for the new UK government and the mortgage market remains competitive. We delivered a strong financial performance, supported by our relationship-led proposition and excellent customer service. Our focus on expanding in the regions outside of London and the South East is continuing to prove successful, and our pipeline remains healthy at c.£850 million (2023: c.£1 billion). We are also seeing a benefit through our initiatives including Tomorrow's Developer.

Adjusted operating profit rose 12% to £78.0 million (2023: £69.5 million), as the business achieved neutral operating leverage. On a pre-provision basis, operating profit increased 13% to £98.0 million (2023: £87.0 million).

On a statutory basis, operating profit also increased 12% to £77.7 million (2023: £69.5 million) and included £0.3 million of restructuring costs.

Operating income rose 13% to £132.9 million (2023: £117.9 million), driven by strong loan book growth, although the net interest margin decreased marginally to 7.3% (2023: 7.4%), mainly reflecting one-off early redemptions benefiting the prior year and lower fee yields due to the higher utilisation of loan facilities.

Adjusted operating expenses also rose 13% to £34.9 million (2023: £30.9 million), reflecting an increase in staff costs and a higher apportionment of indirect central resources in line with loan book growth. The expense/income ratio remained stable at 26.3% (2023: 26.2%).

Impairment charges increased to £20.0 million (2023: £17.5 million), corresponding to a bad debt ratio of 1.1% (2023: 1.1%). This was driven primarily by loan book growth and an ongoing review of provisions and coverage, which included increased specific provisions relating to legacy facilities. The provision coverage ratio increased to 3.0% (31 July 2023: 2.4%).

The Property loan book is conservatively underwritten. We work with experienced, professional developers, predominantly SMEs with a focus on delivering mid-priced family housing, and have minimal exposure to the prime central London market, with our regional loan book making up over 50% of the Property Finance portfolio. 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.

Asset Management: At a Glance

Close Brothers Asset Management ("CBAM") is a leading, vertically integrated wealth manager, providing investment management and financial planning services to private clients in the UK. CBAM operates out of 15 offices with more than 170 investment professionals and c.870 employees.

Managed assets
£19.3 billion

Total client assets
£20.4 billion

Clients
c.22,000

Building on our Successful Growth Track Record

Close Brothers Asset Management provides personal financial advice and investment management services to private clients in the UK, including full bespoke management, managed portfolios and funds, distributed both directly via our advisers and investment managers, and through third-party financial advisers.

Total operating income rose 9% to £157.8 million (2023: £144.8 million), reflecting positive net inflows and market movements, with growth in AuM delivered by our bespoke investment management business resulting in higher investment management income. This was partially offset by a decrease in income from advice and other services due to a shift in product mix and an increase in higher value clients where an initial fee is typically not charged. The revenue margin reduced to 82bps (2023: 84bps) primarily due to a change in the mix of business into more lower margin passive and fixed income products and a move to larger client size with a typically lower fee margin.

Adjusted operating expenses increased 13% to £145.6 million (2023: £128.8 million), reflecting wage inflation and new hires to support future growth. Of this, £10.4 million (2023: £4.7 million) of costs related to the hiring of

Asset Management

Key Financials[1]

	2024 £ million	2023 £ million	Change %
Investment management	**126.9**	113.3	12
Advice and other services	**28.4**	29.9	(5)
Other income[2]	**2.5**	1.6	56
Operating income	**157.8**	144.8	9
Adjusted operating expenses[1]	**(145.6)**	(128.8)	13
Impairment losses on financial assets	**–**	(0.1)	(100)
Adjusted operating profit	**12.2**	15.9	(23)
Adjusting items:			
Amortisation of intangible assets on acquisition	**(1.2)**	(1.5)	(20)
Statutory operating profit	**11.0**	14.4	(24)
Revenue margin (bps)	**82**	84	
Operating margin	**8%**	11%	
Return on opening equity[3]	**7.3%**	12.0%	

1. Adjusted measures are presented on a basis consistent with prior periods and exclude amortisation of intangible assets on acquisition, to present the performance of the group's acquired businesses consistent with its other businesses; and any exceptional and other adjusting items which do not reflect underlying trading performance. Further detail on the reconciliation between operating and adjusted measures can be found in Note 3 "Segmental Analysis".
2. Other income includes net interest income and expense, income on principal investments and other income.
3. Prior year comparative has been restated following a misstatement. The figure reported in the prior year was 15.5%.

investment managers and the associated AuM in the bespoke investment management business. The expense/income ratio grew to 92.3% (2023: 89.0%), with the compensation ratio also increasing to 64% (2023: 59%).

Adjusted operating profit in CBAM decreased 23% to £12.2 million (2023: £15.9 million) as income growth was more than offset by higher costs, reflecting investment in new hires. The operating margin reduced to 8% (2023: 11%), corresponding to 14% (2023: 14%) when excluding the costs related to the hiring of investment managers and the associated AuM in the bespoke investment management business. Statutory operating profit before tax was £11.0 million (2023: £14.4 million).

CBAM has a strong track record of growth, with net inflows delivered through successfully servicing existing clients and attracting new clients, as well as through selective in-fill acquisitions. In March, we completed the acquisition of Bottriell Adams, an IFA business based in Dorset with c.£220 million of assets, as we expand our regional presence in the South West. During the year, we also hired 12 bespoke investment managers (H1 2024: nine, H2 2024: three, 2023: 14) and following a period of strong growth in our Bespoke business, our priority in this channel is to now strengthen our position and maximise opportunities to accelerate our profitability.

Strong Net Inflows Delivered in a Mixed Macroeconomic Environment

Whilst the backdrop has been fairly mixed and presented challenges over the year, the general improvement in economic indicators in the second half of the year has led to a strengthening in equity markets and positive investor sentiment. Over the year, net inflows remained healthy at £1.3 billion (2023: £1.3 billion) and delivered a net inflow rate of 8% (2023: 9%), with the bespoke investment management business contributing significantly to the overall inflow rate.

Total managed assets increased 18% to £19.3 billion (31 July 2023: £16.4 billion), driven by strong net inflows and positive market performance. Total client assets, which includes advised and managed assets, also increased by 18% to £20.4 billion (31 July 2023: £17.3 billion) and includes the associated client assets following the acquisition of Bottriell Adams.

Fund Performance

Our funds and segregated bespoke portfolios are designed to provide attractive risk-adjusted returns for our clients, consistent with their long-term goals and investment objectives. Fund performance has been good across asset classes, with all our funds delivering positive absolute returns during the period and 13 out of 15 outperforming their peer group and delivering first and second quartile returns, demonstrating the strength of our investment team.

Our Sustainable Funds and Net Zero Commitment

At CBAM, we continue to look at how to develop and enhance our sustainable proposition as more of our clients seek to make a difference with their investments. Complementing our Socially Responsible Investment Service and the ethical screening we can offer our Bespoke clients, we are growing our range of Sustainable Funds. Our Sustainable Select Fixed Income Fund, which utilises a sustainable investment methodology to target a reduction in CO_2 emissions intensity versus its benchmark, continues to see healthy net inflows. Over the last five years to the end of July 2024, the fund returned 16.8% against its benchmark of 8%.

We became signatories to the Net Zero Asset Managers ("NZAM") initiative in September 2022 and as part of our initial target disclosure, committed to 18% of our AuM (as at 31 July 2022) being in line with net zero by 2050. We have also been developing a stewardship and engagement strategy focused on our NZAM targets and are developing a climate risk management process to track and \ support the achievement of these targets. We also published our first Task Force on Climate-related Financial Disclosures ("TCFD") aligned entity report in June 2024, along with product-level disclosures aligned with TCFD recommendations.

Movement in Client Assets

	31 July 2024 £ million	31 July 2023 £ million
Opening managed assets	**16,419**	15,302
Inflows	**3,231**	2,729
Outflows	**(1,928)**	(1,411)
Net inflows	**1,303**	1,318
Market movements	**1,609**	(201)
Total managed assets	**19,331**	16,419
Advised only assets	**1,091**	907
Total client assets[1]	**20,422**	17,326
Net flows as percentage of opening managed assets	**8%**	9%

1. Total client assets include £5.3 billion of assets (31 July 2023: £4.9 billion) that are both advised and managed.

The FCA Sustainability Disclosure Requirements (“SDR”) regulations for fund managers came into force during 2024 which included anti-greenwashing rules and a name and labelling regime for sustainable investment funds. We are working through these regulations to align our sustainable funds with the SDR regulations for the December 2024 implementation date.

Well Placed to Strengthen CBAM’s Position

Following a period of strong growth and investment, our focus is to strengthen our position and maximise opportunities to accelerate profitability through providing excellent service, building on the strength of our client relationships. In the Bespoke business, we are shifting our focus to only selective hiring of investment managers. We continue to target net inflows in the range of 6-10%.

Sale Agreement with Oaktree

Following a comprehensive strategic review, on 19 September 2024, the group announced that it entered into an agreement to sell CBAM to Oaktree for an equity value of up to £200 million.

CBAM is a well-regarded UK wealth management franchise with a strong track record of growth, healthy net inflows and significant growth potential. To realise the potential value of the business in the medium-term to the fullest extent possible, the group would need to continue to invest to accelerate CBAM’s growth strategy in the short and medium term, including via acquisitions against a consolidating market backdrop.

The transaction marks significant progress towards the plan we outlined in March 2024 to strengthen our capital base. Additionally, this sale represents competitive value for the group’s shareholders and allows us to simplify the group, focusing on our core lending business.

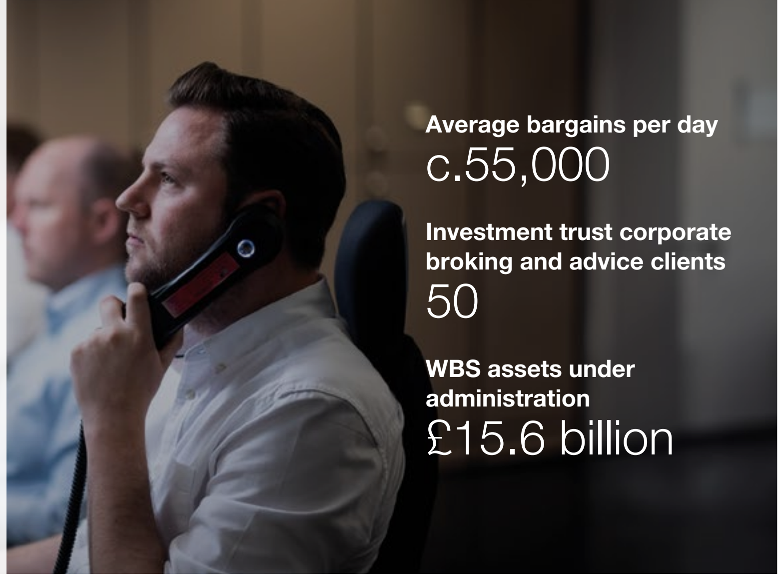
The transaction will also enable CBAM to accelerate its growth strategy under Oaktree’s ownership, which recognises CBAM’s value and its potential to become a leading UK wealth manager of scale. In order to achieve this, Oaktree intends to provide CBAM with the incremental investment required to increase its profitability and presence in the wealth management sector.

The transaction is expected to complete in early 2025 calendar year and is conditional upon receipt of certain customary regulatory approvals. The details regarding the transaction can be found in the relevant announcement published on 19 September 2024, available on the Investor Relations website.

Further details of the financial impacts of the sale agreement on the group can be found in Note 29: “Post Balance Sheet Event”.

Securities: At a Glance

Winterflood is a leading UK liquidity provider, delivering high-quality execution services to over 500 stockbrokers, wealth managers, institutional investors and other market counterparties. It also provides corporate advisory services to investment trusts and institutional sales trading. Winterflood Business Services (“WBS”) provides outsourced dealing and custody solutions to over 60 corporate clients.



Winterflood

Key Financials

	2024 £ million	2023 £ million	Change %
Operating income	**73.0**	75.3	(3)
Operating expenses	**(74.8)**	(71.8)	4
Impairment gains on financial assets	**0.1**	–	–
Operating (loss)/profit	**(1.7)**	3.5	(148)
Average bargains per day ('000)	**55**	60	
Operating margin	**(2)%**	5%	
Return on opening equity	**(2.5)%**	2.6%	
Loss days	**3**	1	
Winterflood Business Services assets under administration (£ billion)	**15.6**	12.9	21

Uncertain Macroeconomic Outlook Continued to Negatively Affect Trading Performance

Winterflood is a leading UK liquidity provider, delivering high-quality execution services to platforms, stockbrokers, wealth managers and institutional investors, as well as providing corporate advisory services to investment trusts and outsourced dealing and custody services via Winterflood Business Services ("WBS").

Over the year, uncertainty in the macroeconomic environment, combined with geopolitical concerns, have continued to weigh on domestic markets and impact investor appetite. With investors currently able to achieve equity-like returns from money markets and debt instruments, which have a lower risk profile, we have seen a reduction in trading volumes and subdued Investment Trusts corporate activity. As a result, Winterflood experienced a reduction in trading income in the year and delivered an operating loss of £1.7 million (2023: operating profit of £3.5 million), after incurring one-off dual-running property costs of c.£3 million.

Operating income reduced 3% to £73.0 million (2023: £75.3 million), as lower trading volumes have driven a decline in trading income, which more than offset growth in WBS.

Trading income decreased 12% to £51.8 million (2023: £58.6 million) reflecting the unfavourable market conditions, particularly in the first quarter where we incurred three loss days (2023: one loss day), as equity and bond prices declined. Whilst there was an improvement in general market conditions in the second half of the year, AIM, Small Cap and FTSE 350 trading sectors recorded a decline against the prior year. Average daily bargains for the year were 55k, down 8% year-on-year (2023: 60k) and marginally lower than pre-pandemic levels (2019: 56k).

Notwithstanding low issuance and transaction volumes in the year, income from the Investments Trusts corporate business increased 60% to £4.0 million (2023: £2.5 million).

WBS continued to see good momentum, with income rising 17% to £17.3 million (2023: £14.8 million). AuA increased 21% to £15.6 billion (H1 2024: £13.8 billion, 2023: £12.9 billion), supported by net inflows and positive market movements as equity markets improved in the second half of the year.

Operating expenses increased 4% to £74.8 million (2023: £71.8 million), primarily driven by one-off dual-running property costs of c.£3 million incurred by relocating premises. As highlighted in the Half Year 2024 results, we have undertaken a cost review during the year to right-size elements of the business, to ensure we are appropriately and efficiently organised to meet current business requirements, whilst remaining scalable for future growth. This cost review will result in annualised fixed cost savings of £4.0 million from the 2025 financial year onwards, with the impact in 2024 of £0.9 million, helping to offset inflationary pressures.

We continue to explore growth opportunities which are additive to the trading business, whilst remaining focused on driving efficiencies and optimising organisational resilience which maintains the strengths of the franchise. WBS remains focused on developing its client relationships and investing in its award-winning proprietary technology to provide highly scalable and bespoke solutions for clients. WBS is well positioned for further growth, both organically and supported by a healthy pipeline of clients, and expects to grow AuA to over £20 billion by 2026.

We have also developed Winterflood Retail Access Platform ("WRAP") using in-house technology and expertise. This is an end-to-end retail distribution platform that enables retail investors to participate in capital markets transactions such as initial public offerings and secondary fundraisings through retail intermediaries, across both equity and fixed income instruments. Since inception, WRAP has raised over £47 million from retail investors, across both equity and gilt offerings. In 2024, WRAP has been mandated on 17 transactions, representing approximately a third of the total retail platform offers executed in the UK market. WRAP combines the expertise of Winterflood's whole of retail market reach with comprehensive in-house delivery across implementation, order aggregation and settlement.

While short-term trading conditions remain challenging, we are confident that Winterflood remains well positioned to retain its market position and benefit when investor appetite returns.

Risk Report

Effective management of the risks we face is central to everything we do.

The group faces a number of risks in the normal course of its 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 14 to 15;
- implementing an integrated risk management approach based on the concept of three lines of defence; and
- setting and operating within clearly defined risk appetites, monitored with defined metrics and limits.

This Risk Report provides a summary of our approach to risk management, covering each of the key aspects of the group's Enterprise Risk Management Framework. Information on each of the group's principal risks, including an overview of the frameworks in place to manage them, is also included, together with an overview of current emerging risks and uncertainties.

All disclosures in the Risk Report are unaudited unless otherwise stated.

Enterprise Risk Management

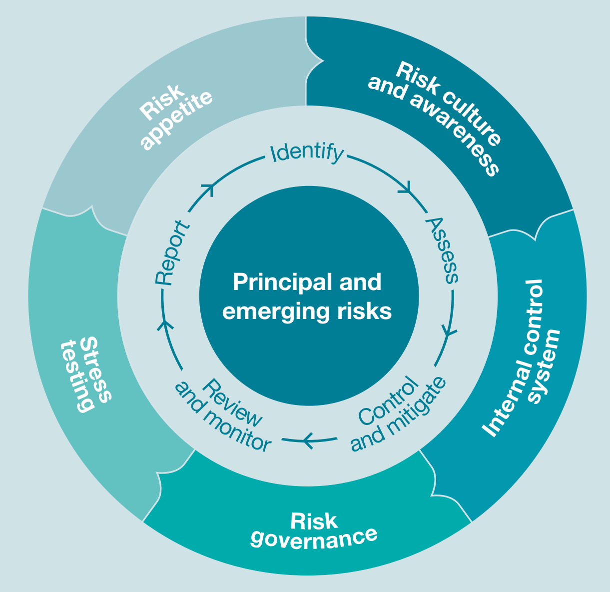
An enterprise-wide framework designed to provide the board and senior management with oversight of the group's financial position as well as the risks that might adversely affect it

The framework details the core risk management components and structures used across the group, and defines a consistent and measurable approach to identifying, assessing, controlling and mitigating, reviewing and monitoring, and reporting risk – the risk process life cycle.

This sets out the activities, tools, techniques and organisational arrangements designed to identify the principal and emerging risks facing the group; and that appropriate responses are in place to mitigate these risks and prevent detriment to its customers and colleagues. This is an enabler for the group to meet its goals and enhance 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



Risk Culture and Awareness

An effective risk culture is embedded throughout the group

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

The risk culture:

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

While risk management is led centrally, it is embedded locally within our businesses. Managers actively promote a culture in which risks are identified, assessed, managed and reported in an open, transparent and objective manner, and 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.

The group risk management function operates independently of the business, providing oversight and advice on the operation of the risk framework, assurance that agreed processes operate effectively and that a risk and conduct culture is embedded within the business.

The relationship between risk and reward is also a key priority with all staff evaluated against both agreed objectives (the "what") and desired behaviours (the "how"). This encourages long-term stewardship behaviours together with a strong and appropriate risk and conduct culture.

For further information on our approach to remuneration for the group's directors see pages 150 to 175.

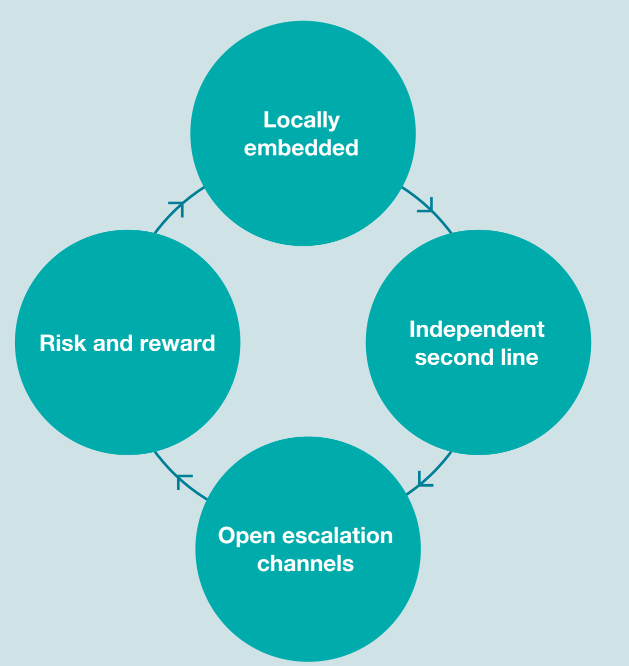
Risk Culture

Locally embedded
Risks managed in an open, transparent and objective manner.

Independent second line
Providing oversight, advice and assurance.

Open escalation channels
Escalation of risks and concerns encouraged; driving individual accountability.

Risk and reward
Regular evaluations encourage long-term stewardship behaviours.



Risk governance

Role of the Board

The board retains overall responsibility for overseeing the maintenance of a system of internal control, to ensure that an effective risk management framework and oversight process operate 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. On an annual basis, the board reviews the effectiveness of the group's risk management and internal control systems. Further details on the board review of risk management and internal controls is provided on pages 128 and 129.

Risk management across the group is overseen by the 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 147 to 149.

The group closely monitors its risk profile to ensure that it continues to align with its strategic objectives as documented on pages 20 to 25. The board considers that the group's current risk profile remains consistent with its strategic objectives.

Risk Committee Structure

The board

Risk Committee

Executive committees	Risk-specific committees	Divisional committees
Group Risk and Compliance Committee	Credit Risk Management Committee	Divisional risk and compliance committees
Model Governance Committee	Group Credit Committee	
Capital Adequacy Committee	Impairment Adequacy Committee	
Bank Asset and Liability Committee	Operations and Technology Risk Committee	
Group Asset and Liability Committee		

Together, these committees facilitate an effective flow of key risk information, as well as functioning to support appropriate risk management at each stage of the risk process life cycle. They also provide an escalation channel for any risks or concerns, supporting the maintenance of an effective risk culture. The group's risk governance framework is designed to enable the group to respond to changes in the risk and the broader regulatory environment in a considered and effective manner, with oversight from the board. During the year the effectiveness of these committees was reviewed to ensure they remain fit for purpose and all committees continue to work efficiently and effectively. During 2024, further enhancements have been made to the risk reporting packs and management information to support strengthened risk evaluation and management.

Risk Committee Overview

Aligned to these core principles, the governance framework operates through various delegations of authority from the board downwards, with a number of committees focused on risk management. The delegations of authority cover both individual authorities as well as authorities exercised via the group's risk committee structure.

Committee	Role
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.
Bank Asset and Liability Committee	Provides oversight of the Banking division's risk management and internal controls and its subsidiaries across liquidity, funding and non-traded market risk.
Group Asset and Liability Committee	Provides oversight of the company and wider group's risk management and internal controls 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 Banking division'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.

Three Lines of Defence

The group's risk management approach is underpinned by a strong governance framework founded on a three lines of defence model.

The governance framework is considered appropriate to both the size and strategic intentions of the group. The key principles underlying this approach are that:

- business management owns all the risks assumed throughout the group and is responsible for their day-to-day management to ensure that risk and reward 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.

Three Lines of Defence

First line of defence	Key features
The businesses **Group Risk and Compliance Committee (reports to the Risk Committee)** The chief executive delegates to divisional and operating business chief executives the 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, including controls framework and effectiveness; • reporting risks; • committee structure and reporting; and • management and self-assessment of operational resilience capabilities.	• 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 and ongoing self-assessment. • Promotes a culture of focus on good customer outcomes. • Promotes responsibility for ongoing monitoring of positions and management and control of risks and controls effectiveness, including testing of controls, alongside portfolio optimisation.

Second line of defence	Key features
Risk and compliance **Risk Committee (reports to the board)** The Risk Committee delegates day-to-day responsibility for oversight and challenge on risk-related issues to the group chief risk officer. Risk functions (including compliance) provide support, assurance and independent challenge on: • the design and operation of the risk framework and methodologies; • risk assessment; • risk appetite and strategy; • risk reporting; • adequacy of mitigation plans and effectiveness of risk decisions taken by business management; • group risk profile; and • committee governance and challenge.	• Oversees embedding of the risk framework and supporting methodologies, taking an integrated approach to risk and compliance (qualitative and quantitative). • Promotes a strong and effective risk and control culture across the group. • Undertakes compliance monitoring and risk assurance activities. • Supports through developing and advising on risk and compliance strategies. • Facilitates constructive check and challenge. • Oversight of business conduct and customer outcomes.

Third line of defence	Key features
Internal audit **Audit Committee (reports to the board)** The Audit Committee mandates the group head of 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.	• Draws on deep knowledge of the group and its businesses. • Provides independent assurance on the activities of the group, including the risk management framework. • Assesses the appropriateness and effectiveness of internal controls. • Incorporates review of culture, conduct and customer outcomes.

Risk Management and Internal Controls

Supporting the foundation of a strong risk management structure

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

The main features of these controls with respect to financial reporting 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 group policy framework, overseen by the board, is a key component of the group's Enterprise Risk Management Framework, supporting the foundation of a strong risk management structure. Group policies are supported by group standards, and by 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. The accounting policies form part of this broader policy framework, alongside policies and standards relating to the group's principal risks.

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

Review of effectiveness of risk management and internal control systems

Throughout the year, the board, assisted by the Risk Committee and the Audit Committee, actively monitors the group's risk management and internal control systems and reviews their effectiveness to ensure the maintenance of an effective risk management and internal control framework. A review of the effectiveness has been performed, covering all material controls, including financial, operational and compliance controls. Further detail on the board review of the risk management and internal controls is provided on page 129.

Group Policy Framework

Enterprise Risk Management Framework

Group policies

Group standards

Divisional and business policies

Procedures

Risk Appetite

Enabling key risk decisions in delivering the group's strategic objectives

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 via an established framework that facilitates ongoing communication between the board and management with respect to the group's evolving risk profile. This enables key decisions concerning the allocation of group resources to be made on an informed basis.

Risk appetite is set on a top-down basis by the board with consideration to business requests and executive recommendation. Appetite measures, both qualitative and quantitative, are applied to inform both decision-making and monitoring and reporting processes. Early-warning triggers 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 to align 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

Assessing and understanding future levels of risk

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 group's strategic objectives. All stress testing activities are overseen by the Scenario Planning Forum, who consider the various risks impacting the business and recommend actions required to enhance the group's stress testing ability.

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

1. inform capital and liquidity planning – including liquidity and funding risk assessment, contingency planning and recovery and resolution planning;
2. support ongoing risk and portfolio management – including risk appetite calibration, strategic decisioning and planning, risk and reward optimisation and business resilience planning; and
3. provide a check on the outputs and accuracy of risk models – including the identification of non-linear effects when aggregating risks.

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

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

Principal and emerging risks

Principal Risks

At the core of the Enterprise Risk Management Framework and risk process life cycle sits the group's suite of principal risks.

These are the risks which have been identified as those most material in the delivery of the group's strategic objectives. This suite is subject to ongoing review to ensure that the framework remains aligned to the prevailing risk environment.

The group's activities, business model and strategy remain unchanged; as a result, following review and challenge, it has been determined that at present the principal risks themselves remain broadly consistent with those detailed in our prior year's report, although the underlying risk drivers may have changed and our approach to mitigating these has evolved in step with them.

The table on pages 82 and 83 gives an overview of these principal risks and possible impacts, as well as the outlook pertaining to these. More detailed information on each of these follows on pages 85 to 116 which set out the frameworks in place to manage these risks.

This 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 could have a significant impact on its future performance.

Climate Risk

Running alongside the suite of principal risks is climate risk, which the group categorises as a cross-cutting risk, as the impacts arising from climate change have the ability to impact across the spectrum of principal risks. In addition, transitional risks from climate change which may have a medium to longer-term impact on the group's product offering, operations and strategic direction are captured in the group's emerging risks. For further information on the group's climate risk response, see the group Sustainability Report on pages 33 to 54.

Climate risk represents a continued area of focus, and the group continues to closely monitor government and regulatory developments in parallel to managing its own carbon footprint and supporting its customers to manage their climate risk impacts. The short-dated tenor of the lending book and strong business model resilience capabilities mitigate current risk exposure while the continued embedding of the climate framework will enable the group to review the evolution of the risk landscape on an ongoing basis.

Emerging Risks

The group's suite of principal risks is accompanied by a portfolio of emerging risks reflecting broader market uncertainties. The group defines an emerging risk as a risk that may potentially become material in the delivery of the group's strategic objectives but the risk and its applicability to the group may not yet be fully understood or assessed. 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 ("GRCC") and the board.

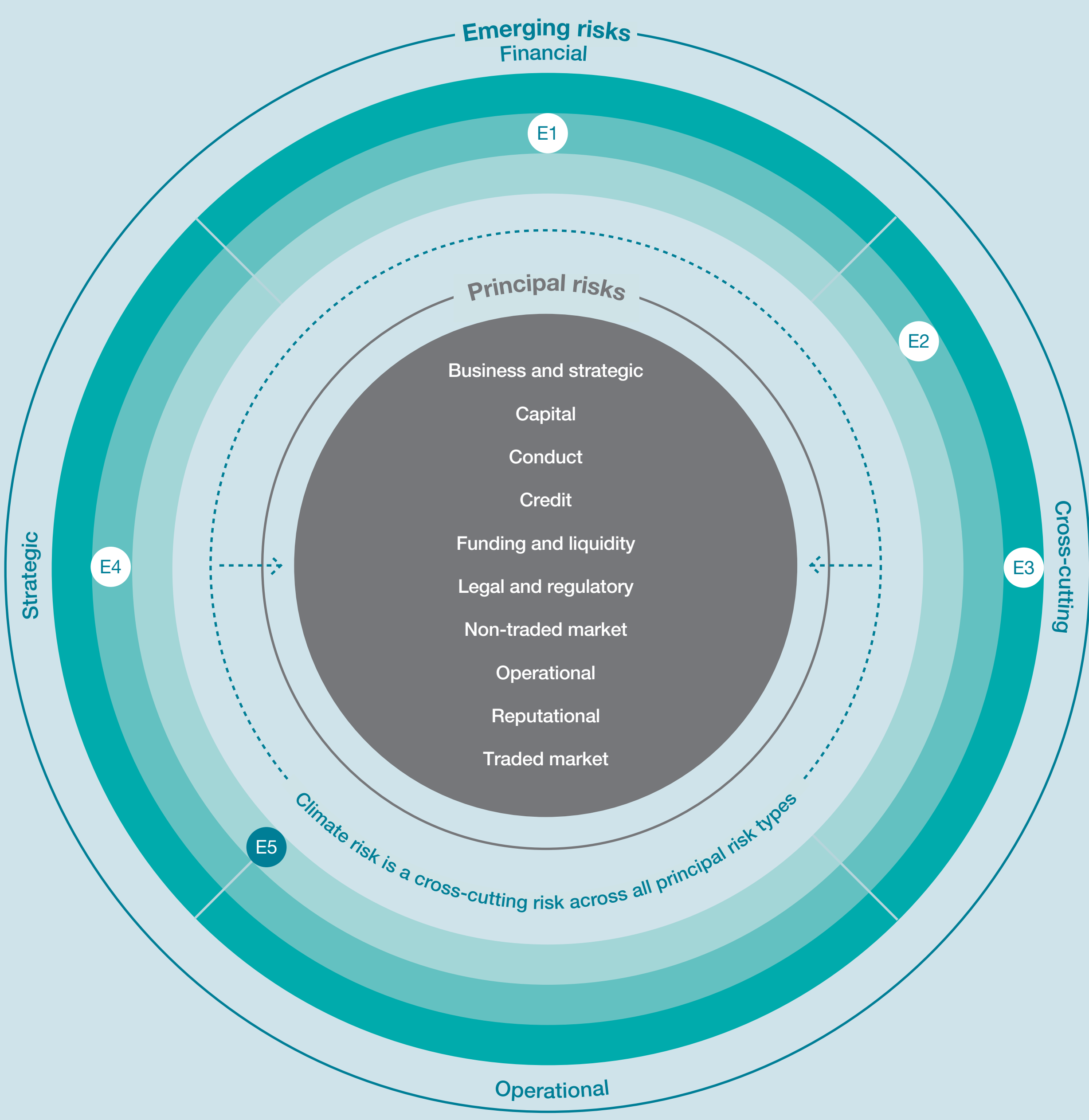
Bottom-up: identified at a business level and escalated, where appropriate, via risk updates to the GRCC.

The established framework for monitoring these risks supports the group's organisational readiness to respond. Group-level emerging risks are monitored by the GRCC and Risk Committee on an ongoing basis, with agreed mitigating actions in place to ensure the group's preparedness should a risk crystallise. Ongoing monitoring also tracks several sub-risks to support identification of key themes and any patterns of deterioration or potential risk crystallisations.

Emerging risks are considered on both an internal and external basis with careful consideration given to likely emergence periods. Additionally, active monitoring of the correlation impacts across emerging risks, uncertainties and principal risks is undertaken.

During the year, to reflect the evolving nature of risks that accompany the implementation of group strategy, supply chain risk and legal and regulatory change risk have been removed as emerging risks and will continue to be monitored under business as usual cadence. In line with changes to the Corporate Governance Code, published by the Financial Reporting Council ("FRC") in 2024, the group continues to progress a programme of work to enhance the risk and controls management framework and monitoring of existing and horizon emerging risks.

Principal and Emerging Risks



Emerging risks

- E1: Economic uncertainty
- E2: Geopolitical uncertainty
- E3: Medium to long-term transitional climate risks
- E4: Strategic disruption
- E5: Change execution risk

Risk emergence time frame

- Short term
- Medium term
- Long term

Emerging risks key

- Internal
- External

Principal risk	Outlook

Business and Strategic Risk

The risk of realising lower than anticipated profits or experiencing a loss rather than a profit due to failure to adapt to changing market conditions, pursuing an ineffective strategy or ineffective implementation of strategy.

See page 85.

Outlook

- Whilst in the continued uncertain macroeconomic environment the group's business model remains proven and resilient, there is uncertainty in relation to the FCA's review of historical motor finance commission arrangements.
- We continue to focus on supporting our customers, maintaining underwriting standards and investing to support future income generation, maintain operational resilience and generate operational efficiency and cost savings.
- A number of management actions are in train and actively progressing to leave the group well placed to navigate the current uncertainty, as referenced in the H1 2024 announcement.
- We continue to be encouraged by the strength of demand in our Banking business and see good growth prospects for the group, as we focus on resuming our track record of earnings growth and attractive returns.
- The group remains prepared for a range of different economic and business scenarios to help ensure it has the resources and operational capability to perform effectively.

Capital Risk

The risk that the group has insufficient regulatory capital (including equity and other loss-absorbing debt instruments) to operate effectively, including meeting minimum regulatory requirements, and to operate within board-approved risk appetite and support its strategic goals.

See page 86.

Outlook

- The FCA's review of historical motor finance commission arrangements may result in the need to raise a customer redress provision.
- The PRA Policy Statement PS9/24 ("Implementation of the Basel 3.1 standards near-final part 2") could have an impact on the group's capital ratio.

Conduct Risk

The risk that the group's behaviours, or those of its colleagues, whether intentional or unintentional, result in poor outcomes for customers or the markets in which it operates. It is rooted in the importance of delivering good customer outcomes at every stage of the customer journey.

See page 89.

Outlook

- As Consumer Duty continues to be embedded within the businesses, the group will continue to keep abreast of regulatory guidance and developments to enable adherence to regulatory expectations in relation to the delivery of good customer outcomes.
- The external macroeconomic environment continues to increase financial pressure on consumers.

Credit Risk

The risk of a reduction in earnings and/or value due to the failure of a counterparty or associated party, with whom the group has contracted or is exposed as part of its operations, to meet its obligations in a timely manner.

See page 90.

Outlook

- Notwithstanding signs of resilience in the economy over the last 12 months, uncertainty has remained for both individuals and SMEs. This could result in higher credit losses in the future.
- The loan book continues to display resilience resulting from the application of consistent prudent lending criteria and risk appetite.

Protect Grow Sustain Risk increase Stable Risk decrease

Principal risk | **Outlook**

Funding and Liquidity Risk

Funding risk is the risk of loss caused by the inability to raise funds at an acceptable price or to access markets in a timely manner or any decrease in the stability of the current funding base.

Liquidity risk is defined as the risk that the group, or any of its entities, do not have sufficient liquid assets to meet liabilities as they come due during normal and disrupted markets.

See page 104.

Outlook

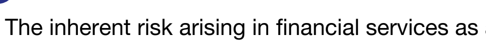
- The group has a long-standing approach based on the principle of "borrow long, lend short" and the group continues to benefit from the diverse funding mix and prudent maturity profile.
- Consistent with the funding plan, growth in retail deposits is expected to continue.

Legal and Regulatory Risk

The risk of non-compliance with laws and regulations which could give rise to fines, litigation, sanctions and/or direct claims by customers and the potential for material adverse impact upon the group.

See page 106.

Outlook



- The inherent risk arising in financial services as an industry in the jurisdictions in which we operate continues to increase.
- Notwithstanding the strong controls in effect limiting residual risk exposure arising from regulatory expectations, external changes may have a follow-on impact to the group's residual exposure.
- Legal risks such as the approach from the Financial Ombudsman Service ("FOS") relating to motor commissions, and uncertainty of: the outcome of the FCA's review of historical motor finance commission arrangements; position of the courts in relation to litigation and the Judicial Review of FOS (issued by Barclays); and the increase of activity from claim management companies, is likely to increase costs to the business and may give rise to potential future obligations to compensate customers.

Non-traded Market Risk

Is the current or prospective risk to the group's capital or earnings, arising from changes in interest rates, credit spreads and foreign exchange rates applied to the group's non-trading book.

See page 107.

Outlook

- The group expects exposure to interest rate risk, credit spread risk and foreign exchange ("FX") risk to remain broadly stable.

Operational Risk

Operational risk is the risk of loss or customer harm resulting from inadequate or failed internal processes, people and systems or external events. This includes the risk of being unable to recover systems quickly and maintain critical services.

See page 109.

Outlook

- In addition to the continuing investment required to sustain the group's systems and processes, an accelerating pace of external technology and market changes is increasing the imperative for the group to evolve and adapt its processes, risks and controls and the associated necessary staff capabilities.
- Possible outcomes of the FCA's review of historical motor finance commission arrangements could strain operations and technology capacity, notwithstanding advance preparatory work.
- Allocation of capital investment funding and change delivery capacity continue to be areas of management focus, to enable safe delivery of change programmes that enable the group's strategy and associated technology transformation.

Reputational Risk

The risk of detriment to stakeholder perception of the group, leading to impairment of its reputation and future goals, due to any action or inaction of the company, its employees or associated third parties.

See page 113.

Outlook

- Established group-wide and employee-level focus on responsibility and sustainability enables an approach in all businesses that aligns to a range of stakeholder expectations, which is supported by group-level oversight.
- Increased media attention, including in relation to the FCA's review of historical motor finance commission arrangements, may lead to an adverse perception of the group.

Traded Market Risk

The risk that a change in the value of an underlying market variable will give rise to an adverse movement in the value of the group's trading assets and liabilities.

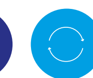
See page 115.

Outlook

- The external macroeconomic environment may continue to impact market volumes and suppress some market valuations.

Emerging risk/uncertainty	Mitigating actions and key developments
Cross-cutting Risks	
Geopolitical uncertainty The risk that UK or global political events result in disruption to the business or negatively impact business performance or prospects.	• The group operates predominantly in the UK and Republic of Ireland, covering approximately 98% of the loan book exposure. Nevertheless, monitoring is in place to track changes in the geopolitical landscape that could impact the group's operations, customers and supply chain. • The group has a strong financial position, maintaining capital and liquidity levels in excess of regulatory minima. • Regular stress testing is undertaken on performance and financial position in the event of various adverse conditions to test the robustness and resilience of the group. • Risk appetite is regularly reviewed to ensure it remains appropriate in the prevailing geopolitical and macroeconomic environment.
Medium to long-term transitional climate risks The risk that the move to a low carbon economy impacts demand for the group's products and services.	• Transitional climate risks across the medium to long term may potentially impact the group's product offering, operations and strategic direction. Monitoring is in place to continually identify and assess climate risks and opportunities, supported by annual consideration of climate-related scenario analysis. • Regular updates are provided to the Group Climate Committee and Risk Committee, which retains oversight responsibility, while senior management responsibility is assigned to the group chief risk officer. • The group continues to evolve its intermediate green lending ambitions, aligning to its wider net zero commitments under NZBA.
Financial Risks	
Economic uncertainty The risk that changes in the external macroeconomic environment or consumer sentiment negatively impact on the group's performance or prospects.	• Persisting national or international macroeconomic uncertainty (for example, from financial volatility or changes to macroeconomic policies) can impact business, customer and broader market confidence. • The group's business model aims to enable it to trade successfully and support clients in a wide range of economic conditions. By maintaining a strong financial and capital position, the group aims to be able to absorb short-term economic downturns, respond to any change in activity or market demand, and in so doing build long-term relationships by supporting clients when it really matters. • The group focuses on credit quality and returns rather than overall growth or market share and continues to invest in the business for the long term, to support customers and clients through the cycle. • Risk appetite is regularly reviewed to ensure it remains appropriate in the prevailing macroeconomic environment. Regular stress testing is undertaken on performance and financial position in the event of various adverse conditions to test the robustness and resilience of the group.
Strategic Risks	
Change execution risk Strategic, reputation, regulatory or financial risk as a result of failure to execute, embed and deliver the outcomes of change successfully.	• The group faces the risk that poorly executed change, or failure to deliver the outcomes and benefits of change, results in the failure to deliver good customer outcomes or meet strategic objectives and regulatory obligations. • Various large, complex projects and initiatives executed concurrently can place high demand on the group's operational capacity, increasing potential failure in achieving the required outcomes. The execution of a large portfolio of change could place demand on key subject matter experts and cause disruption and uncertainty to colleagues across the business. • Regular portfolio and project updates are provided to senior management, supporting oversight and governance of execution risks and ensuring appropriate resources are deployed to promote successful delivery.
Strategic disruption The risk that changes in competition, technology, competitor business models or client expectations negatively impact on demand for the group's products and services.	• Strategic disruption may arise from technological change or new business models that may impact the group's market position and future profitability. • While regulation remains a barrier to entry for many potential competitors, consumer expectations continue to evolve, challenging existing capabilities and traditional approaches. • Competitors are adapting in response, while new financial technology companies develop alternative business models. For example, cloud-delivered solutions reduce barriers to entry and new product time to market, allowing new competitors and start-ups to compete in the marketplace more rapidly. • The growing prevalence of AI increases the effectiveness and efficiency in delivering customer-centric products and services for those competitors unable to deploy solutions at scale. The group acknowledges the benefits of investment in technology platforms and will consider the exploitation of new capabilities such as cloud and AI solutions where possible within capacity and financial constraints. • Market developments are closely monitored through horizon scanning to identify emerging dynamics as well as evolving preferences of the group's customers. The group prides itself on its knowledge of its customers, clients and the industries and sectors in which they operate.

S Short-term emergence M Medium-term emergence L Long-term emergence



Business and strategic risk

Business and strategic risk is the risk of realising lower than anticipated profits or experiencing a loss rather than a profit, due to failure to adapt to changing market conditions, pursuing an ineffective strategy or ineffective implementation of strategy.

Exposure

The group operates in an environment where it is exposed to various independent influencing factors. Its profitability can be impacted by: the broader UK economic climate; front-line sales performance; changes in technology, regulation and customer behaviour; cost movements; and competition from traditional and new players. All of these can vary in both nature and extent across its divisions.

Changes in these factors may affect the Banking division's ability to advance loans or products as it seeks to maintain its desired risk and reward criteria, result in lower new business levels in Close Brothers Asset Management, impact levels of trading activity at Winterflood, or result in additional investment requirements and higher costs across the group.

Risk Appetite

The group seeks to address business and strategic risk through executing a sustainable business model based on:

- focusing on specialist markets where the group can build leading market positions based on service, expertise and relationships;
- focusing on credit quality and returns rather than loan book growth or market share;
- investing in the business for the long term;
- maintaining a strong balance sheet and prudently managing the group's financial resources;
- consistently supporting our customers and clients; and
- acting sustainably and responsibly, considering the interests of all stakeholders and growing demand for sustainable products and services.

Measurement

Business and strategic risk is measured through a number of key performance metrics (including those set out on pages 26 and 27) and risk indicators at a business, divisional and group level which provide transparency on progress and execution against strategy. These indicators are typically reported monthly via relevant committees, with oversight via the board, most notably through its review of key financial metrics and underlying performance trends.

The status of key group initiatives and projects is also tracked and discussed, noting the importance of their successful delivery to the group's strategic trajectory.

Mitigation

To support the management of its strategy, and help mitigate potential business and strategic risk, the group maintains a comprehensive and rigorous framework of consideration and approval covering the design and endorsement of strategy, and the ongoing monitoring of its implementation.

The group's strategic pillars are regularly reviewed to ensure continued focus on strategic priorities that support the business model and enable the group to adapt to changes and expectations in the operating environment. Whilst these pillars remain unchanged, the group's strategic priority in the short term is to further strengthen the capital position, while protecting our business franchise.

Notwithstanding the current focus on optimising risk weighted assets, in part through selective loan book growth, the group's long track record of successful growth and profitability is supported by a consistent and disciplined approach to pricing and credit quality. This allows the group to support customers throughout the financial cycle.

The group builds and maintains long-term relationships with its clients and intermediaries based on:

- speed and flexibility of services;
- its local presence and personal approach;
- the experience and expertise of its people; and
- an offering of tailored and client-driven product solutions.

This differentiated and consistent approach combining our focus on credit quality and relationships with our clients results in strong customer engagement and high levels of repeat business.

The group is further protected by the diversity of its businesses and products, which provides resilience against competitive pressure or market weakness in any of the sectors it operates in.

Monitoring

On an ongoing basis, strategy is formulated and managed at an individual business level through local executive committees with top-down oversight maintained through the group's Executive Committee. Outputs also feed into the group's annual budgeting and planning process which typically operates on a three-year time horizon. The group's budget and plan are subject to review and challenge, initially at a business level and subsequently by the group's Executive Committee, ahead of submission to the board, which reviews, challenges and agrees the group's budget for the following year.

The ongoing strategic planning process is supplemented by an annual board strategy day, which takes a thematic approach to the review and challenge of group and business-level strategic priorities. Additionally, a deep dive on strategy for each business is presented to the board for discussion regularly.

New growth initiatives and potential acquisitions are assessed against the group's strategic objectives and its Model Fit Assessment Framework, to ensure consistency with the group's strategic priorities and the key attributes of its business model.

Capital and liquidity adequacy planning conducted as part of both the annual ICAAP and ILAAP is used to assess the resilience of the group's current strategy and business model in the event of different stress scenarios. Although not formally linked, outputs and analysis from both exercises are used to guide strategic planning.

The annual risk appetite statement review also ensures the group's risk appetite and supporting key risk indicators are aligned with the financial and strategic plan. Agreed appetite is communicated throughout the group through the review and approval of divisional risk appetite statements and business-level key risk indicators.

The group conducts monitoring focused on the external environment (for example, key market indices, and growth of sustainable products and services). Within credit risk, all Banking businesses monitor agreed external early warning

indicators (for example, movement in housing indices) with a view to supporting the early identification of negative trends, and enhancing the group's ability to respond appropriately, minimising potential impact on performance.

In addition, emerging risks are also monitored and debated on an ongoing basis at all levels of the group and across all functions. These include developments in areas such as technology, regulation and sustainability, which could present both opportunities and threats. Within the risk function, reporting capabilities continue to be enhanced to further support the group's ability to identify and respond effectively to changes in the external environment and in customer behaviours with a view to mitigating any potential impact on business performance.

Outlook

Whilst in the continued uncertain macroeconomic environment our business model remains proven and resilient, there is significant uncertainty in relation to the FCA's review of historical motor finance commission arrangements.

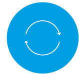
We continue to focus on supporting our customers, maintaining underwriting standards and investing to support future income generation, maintain operational resilience and generate operational efficiency and cost savings.

A number of management actions are in train and actively progressing to leave the group well placed to navigate the current uncertainty.

We continue to be encouraged by the strength of demand in our Banking business and see good growth prospects for the group, as we focus on resuming our track record of earnings growth and attractive returns.

The group remains prepared for a range of different economic and business scenarios to help ensure it has the resources and operational capability to perform effectively.

For further details on emerging risks and uncertainties see page 84. In addition, further commentary on the market environment and its impact on each division is outlined on pages 57 to 73.



Capital risk

Capital risk is the risk that the group has insufficient regulatory capital (including equity and other loss-absorbing debt instruments) to operate effectively, including meeting minimum regulatory requirements, operating within board-approved risk appetite and supporting its strategic goals.

Exposure

The group's exposure to capital risk principally arises from its requirement to meet minimum regulatory requirements set out in the Capital Requirements Regulation ("CRR") and PRA requirements and guidelines and is usually specified in terms of minimum capital ratios which assess the level of regulatory capital and RWAs. The group operates a prudent business model which results in comparatively low levels of leverage and so risk-based capital requirements are, and are likely to remain, the group's binding constraint.

The 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 FCA. The group's Pillar 1 information is presented in the first table of the "Measurement" section. Under Pillar 2, the group completes an annual self-assessment of risks known as the 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.

During the 2024 financial year the PRA reset the group's Pillar 2a requirements from 1% of RWAs to 1.3%. The TCR is now set at 9.3%, of which 5.2% 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 1.3%, of which 0.7% needs to be met with CET1 capital.

There are no planned increases to the UK countercyclical buffer ("CCyB") at this time, and the rate remains at 2%.

During the 2024 financial year, a planned increase of 1% to the Ireland CCyB rate has come into effect, with an applicable rate of 1.5% in effect from 7 June 2024. This change had a minimal impact on the group's CCyB, which remains at 1.9%.

Pillar 3 requires firms to publish a set of disclosures which allow market participants to assess information on the firm'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 at www.closebrothers.com/investor-relations/investor-information/results-reports-and-presentations.

Risk Appetite

The group maintains a strong base level and composition of capital, sufficient to support the development and growth of the business, continue to meet Pillar 1 requirements, TCR, additional Capital Requirements Directive ("CRD") buffers and leverage ratio requirements, and be able to withstand a severe but plausible stress scenario with satisfactory capital and leverage ratios.

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. Accordingly, a prudent capital position is a core part of the group's business model, allowing it to grow and invest in the business, support paying dividends to shareholders and meet regulatory requirements.

Capital triggers and limits are maintained within the risk appetite framework and are approved by the board at least annually.

The group has set a management target for the CET1 capital ratio to operate in a range between 12.0% and 13.0% in the medium term, which provides for a significant surplus

amount of capital to support the group's capital risk policy. Given the capital headwinds the group is facing, actions are being taken to build and preserve capital strength.

Measurement

The group maintains a strong capital base to support the development of the business and to ensure the group meets the TCR and additional regulatory buffers at all times. As a result, the group maintains capital adequacy ratios above minimum regulatory requirements, which are currently set at a minimum CET1 capital ratio of 9.7% and a minimum total capital ratio of 13.7%. The minimum CET1 capital requirements are inclusive of the capital conservation buffer (2.5% of RWAs) and the CCyB (currently 1.9% of RWAs), and exclusive of any applicable PRA buffer.

Analysis of the composition of regulatory capital and Pillar 1 RWAs and a table showing the movement in CET1 capital during the year are shown on the following pages. A comprehensive analysis of the composition of regulatory capital and RWAs is provided in the group's Pillar 3 disclosures.

The CET1 capital ratio reduced from 13.3% to 12.8%, mainly driven by growth in loan book (-c.100 bps), a decrease in IFRS 9 transitional arrangements (-c.20 bps), the Bluestone acquisition (-c.20 bps) and AT1 coupon (-c.10 bps). This was partly offset by profits for the current financial year (c.90 bps).

CET1 capital increased by 5% to £1,374.8 million (31 July 2023: £1,310.8 million) mainly driven by £100.4 million of profits, partly offset by the dividend paid and foreseen related to AT1 coupon of £15.0 million and a decrease in the transitional IFRS 9 add-back to capital of £19.7 million.

Tier 1 capital increased 20% to £1,574.8 million (31 July 2023: £1,310.8 million), driven by the issuance of the group's inaugural AT1 in a £200 million transaction to optimise the capital structure and provide further flexibility to grow the business. The transaction strengthened the regulatory capital position and was in line with the group's strategy and capital management framework.

Total capital increased 17% to £1,774.8 million (31 July 2023: £1,510.8 million), primarily reflecting the AT1 issuance.

RWAs increased 9% to £10.7 billion (31 July 2023: £9.8 billion), driven by loan book growth (c.£790 million) primarily in Commercial and Property, and the acquisition of Bluestone Motor Finance (Ireland) DAC (c.£120 million), and a decrease in operational risk RWAs (c.£40 million) reflecting a reduction in average income in Winterflood, partly offset by loan book growth.

As a result, CET1, tier 1 and total capital ratios were 12.8% (31 July 2023: 13.3%), 14.7% (31 July 2023: 13.3%) and 16.6% (31 July 2023: 15.3%), respectively.

Composition of regulatory capital and Pillar 1 RWAs (unaudited)

	31 July 2024 £ million	31 July 2023 £ million
CET1 capital		
Shareholders' equity per balance sheet	**1,842.5**	1,644.9
Regulatory adjustments to CET1 capital		
Contingent convertible securities recognised as AT1 capital[1]	**(197.6)**	–
Intangible assets, net of associated deferred tax liabilities	**(264.0)**	(262.8)
Foreseeable dividend[2]	**(3.8)**	(67.0)
Cash flow hedging reserve	**(13.0)**	(34.4)
Pension asset, net of associated deferred tax liabilities	**(0.6)**	(1.0)
Prudent valuation adjustment	**(0.8)**	(0.4)
Insufficient coverage for non-performing exposures[3]	**–**	(0.4)
IFRS 9 transitional arrangements[4]	**12.1**	31.9
CET1 capital[5]	**1,374.8**	1,310.8
Additional Tier 1 capital	**200.0**	–
Total Tier 1 capital[5]	**1,574.8**	1,310.8
Tier 2 capital – subordinated debt	**200.0**	200.0
Total regulatory capital[5]	**1,774.8**	1,510.8
RWAs		
Credit and counterparty credit risk	**9,548.4**	8,655.4
Operational risk[5]	**1,044.5**	1,084.0
Market risk[5]	**108.3**	108.2
	10,701.2	9,847.6
CET1 capital ratio[5]	**12.8%**	13.3%
Tier 1 capital ratio[5]	**14.7%**	13.3%
Total capital ratio[5]	**16.6%**	15.3%

1. The contingent convertible securities are classified as an equity instrument for accounting but treated as AT1 for regulatory capital purposes, note 20 to the financial statements.
2. Under CRR Article 26, a deduction for a foreseeable dividend and charges has been recognised at 31 July 2024 and 31 July 2023. The deduction at 31 July 2024 reflects charges for the coupon on the group's contingent convertible securities.
3. In line with the amendment to Own Funds Part of the PRA Rulebook confirmed in PS 14/23, CET1 capital at 31 July 2024 no longer includes a regulatory deduction for insufficient coverage for non-performing exposures as this is no longer applicable (31 July 2023: £0.4 million).
4. The group has elected to apply IFRS 9 transitional arrangements for 31 July 2024, which allow the capital impact of expected credit losses to be phased in over the transitional period.
5. Shown after applying IFRS 9 transitional arrangements and the CRR transitional and qualifying own funds arrangements in force at the time. Without their application, at 31 July 2024 the CET1 capital ratio would be 12.7%, tier 1 capital ratio 14.6% and total capital ratio 16.5% (31 July 2023: CET1 capital ratio 13.0% and total capital ratio 15.1%).

Movement in CET1 capital during the year (unaudited)

	2024 £ million	2023 £ million
CET1 capital at 1 August	**1,310.8**	1,396.7
Profit in the period attributable to shareholders	**100.4**	81.1
Dividends paid and foreseen	**(15.0)**	(100.5)
IFRS 9 transitional arrangements	**(19.7)**	(51.1)
Increase in intangible assets, net of associated deferred tax liabilities	**(1.2)**	(12.1)
Other movements in reserves recognised for CET1 capital	**(0.8)**	(7.3)
Other movements in adjustments from CET1 capital	**0.3**	4.0
CET1 capital at 31 July	**1,374.8**	1,310.8

Mitigation

The group has a range of capital risk mitigants available including the cancellation of dividends, RWA optimisation activities and efficiency savings which support the strong organic capital-generating capacity of the group. In February 2024, the group announced that it will not pay any dividends on its ordinary shares for the current financial year.

In addition, the group has a strong track record of access to capital markets including issuance of £200 million Additional Tier 1 capital in November 2023, noting that currently there is an opportunity to optimise the group's capital position further through the issuance of Tier 2.

Monitoring

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

The CAC is responsible for the management of capital risk and for the allocation of capital across the group, which includes the setting of the group's capital strategy and the setting and monitoring of a comprehensive capital risk appetite framework. These are managed through a series of group policies, standards and methodology documents and supported by capital reporting and planning control frameworks. The CAC, whose membership consists of finance, business and risk executives, is responsible for measuring and monitoring the actual and forecast capital position on a monthly basis. Key capital metrics are reported to the board on a regular basis, with any changes to the capital structure of the group reserved for the group board. The CAC also monitors actual, forecast and stressed capital metrics using an IRB approach in order to prepare for anticipated future transition to this approach.

Outlook

With respect to the FCA's review of discretionary commission arrangements in the motor finance market prior to the 2021 ban on these models, on 30 July 2024, the FCA announced that it now aims to set out next steps by the end of May 2025, rather than by September 2024 as previously expected. Therefore, there remains significant uncertainty for the industry and the group regarding any potential remedial action as a result of the review. There are a range of possible outcomes and we remain focused on further strengthening the group's capital position, with the priority of protecting and sustaining our valuable franchise.

As previously announced, we are implementing management actions which include selective loan book growth initiatives, potential risk transfer through securitisation, a continued review of our business portfolios, capital retention opportunities and identified cost savings, which, combined with the decision not to pay a dividend in the 2024 financial year, have the potential to strengthen the group's available CET1 capital by approximately £400 million by the end of the 2025 financial year.

Following a comprehensive strategic review, the group announced that it entered into an agreement to sell CBAM to Oaktree on 19 September 2024. The transaction is expected to increase the group's CET1 capital ratio by approximately 100 basis points on a pro forma basis.

Nevertheless, there remains considerable uncertainty regarding the specifics of any potential redress scheme, if required, as well as its timing. Subject to the execution of management actions and capital generation, we have the potential to increase the group's CET1 capital ratio to be between 14% and 15% at the end of the 2025 financial year (excluding any potential redress or provision related to the FCA's review of historical motor finance commission arrangements).

The PRA Policy Statement PS 9/24 Implementation of the Basel 3.1 standards near-final part 2 was published on 12 September 2024, with an implementation date of 1 January 2026, six months later than previously anticipated. The majority of rules applicable to the group remain unchanged, including the proposed removal of the small and medium-sized enterprises ("SME") supporting factor, new conversion factor for cancellable facilities and new market risk rules. As a result, we continue to expect implementation to result in an increase of up to c.10% in the group's RWAs calculated under the standardised approach. However, the PRA has proposed to apply an SME lending adjustment as part of Pillar 2a, to ensure that the removal of the SME support factor under Pillar 1 does not result in an increase in overall capital requirements for SME lending. Whilst this adjustment is subject to PRA confirmation and a resulting restatement of the group's TCR, we would reasonably expect the UK implementation of Basel 3.1 to have a less significant impact on the group's overall capital headroom position than initially anticipated.

Conduct risk

Conduct risk is the risk that the group's behaviours, or those of its colleagues, whether intentional or unintentional, result in poor outcomes for customers or the markets in which it operates. It is rooted in the importance of delivering good customer outcomes at every stage of the customer journey.

Exposure

The group is exposed to conduct risk in its provision of products and services to customers either directly or via its distributors, and through other business activities that enable delivery. The regulatory change agenda continues at pace and is expected in the near term to continue to enhance consumer protection given the macroeconomic environment. Regulatory expectations, including with respect to retail customer savings and borrowing, wealth advisory, and trading activities continue to evolve, with impact on the group's businesses in each of these markets. Failure to evidence delivery of good customer outcomes may lead to reputational harm, legal or regulatory sanctions and/or customer redress.

Risk Appetite

The group recognises the importance of delivering good customer outcomes and seeks to reasonably avoid customer detriment or foreseeable harm resulting from inappropriate judgements or behaviours in the creation and execution of business activities. To support this, it strives to maintain a culture aligned to its values which places the customer at the heart of the business model and remains dedicated to addressing customer dissatisfaction or detriment in a timely and fair manner to ensure good customer outcomes.

The group is committed to maintaining the integrity of the markets in which it operates, avoiding any abusive or anti-competitive behaviour.

Measurement

Conduct risk is measured throughout the Enterprise Risk Management Framework by management information and risk indicators. A number of quantitative and qualitative key risk indicators are determined at an individual business level, with reporting to and oversight via the relevant divisional Risk and Compliance Committee ("RCC"). Performance against the key risk indicators is reported to the GRCC and the Risk Committee.

Customer outcome monitoring metrics are key contributors to conduct risk monitoring. Customer outcome monitoring metrics are designed to identify potential or actual poor customer outcomes. Where potential or actual customer harm is identified via outcome monitoring, businesses are required to consider and deploy, where appropriate, remedial actions.

For businesses with products in scope of the FCA's Consumer Duty, indicators feed into the local and group reporting (RCCs/GRCC) and into the quarterly Customer Outcomes Report which is shared with the board.
The aforementioned report supports the annual assessment of customer outcomes where the board is required to review and approve an assessment of whether the firm is delivering good customer outcomes.

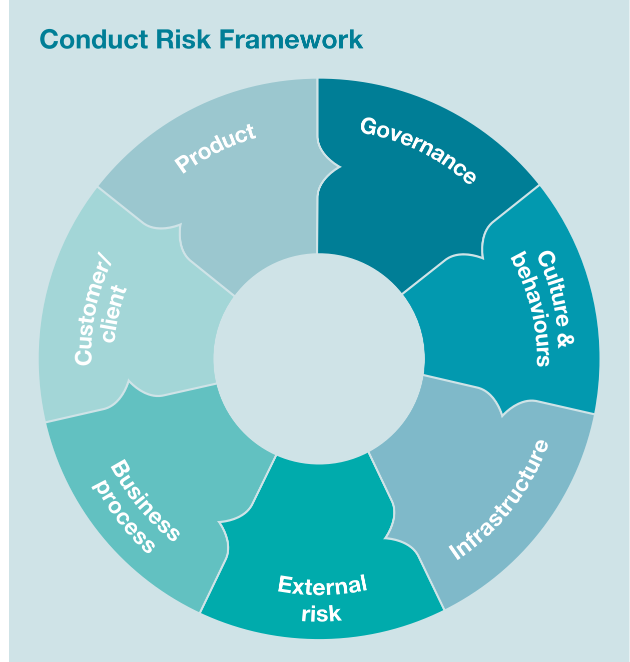
Mitigation

The following controls and procedures are in place to help mitigate conduct risk:

- The group takes steps to proactively identify conduct risks and encourages all individuals across the organisation to feel responsible for managing conduct risks within their business area and/or function.
- The group provides support to colleagues to enable them to improve the conduct of their business or function, including group-wide and specialist training where required.
- The group's remuneration strategy is designed to incentivise good behaviours and due consideration is given to individual conduct as part of any remuneration.
- Policies and standards set out expectations of employees and key controls to ensure conduct risk is managed within the agreed risk appetite, including for essential areas such as dealing with clients, dealing with markets, complaint handling, vulnerable customers and conflicts of interest. Mandatory staff training on key conduct areas is provided on a regular basis.
- All products are subject to a robust risk-based product development and review process.

Implementation activities for Consumer Duty continued with further embedding and enhancements to processes introduced in 2023 for open book products and completion of work in relation to closed book products in 2024.
The board has actively engaged with the Consumer Duty journey of each division in the light of each unique market and considers the distinct conduct risks that present across the business lines. The board has oversight of each regulated entity and their own annual assessment of customer outcomes.

On an ongoing basis, the board actively oversees Consumer Duty, including through engagement with regular management information to identify risks to these outcomes, and through monitoring the status of work to improve outcomes where necessary.



Monitoring

Risk identification and timely management action are undertaken by management and employees as the first line of defence. The risk and compliance functions provide support, review and independent challenge to ensure conduct risk reporting is robust, remains fit for purpose, and agreed management actions appropriately mitigate the identified risks.

The compliance monitoring function undertakes regular reviews of key areas, such as complaint handling, vulnerable customer processes and customer communications, to confirm customers are experiencing good outcomes. Group internal audit provides independent assurance on the adequacy, completeness and control effectiveness of key areas using a risk-based approach. Compliance monitoring and audit findings assist with early detection of potential conduct risk or poor customer outcomes in order that appropriate action plans can be put in place.

All RCCs are required to review conduct risk reporting and outputs and consider any required action. Where appropriate, issues may be escalated to both the GRCC and the Risk Committee.

Conduct risk reporting has continued to mature, providing increased transparency and visibility aiding management's monitoring of conduct risk. With the introduction of the enhanced regulatory requirements of the FCA's Consumer Duty for retail customers, reporting has been evolved and enhanced. Metrics will continue to be evaluated with the introduction of new regulatory requirements.

Outlook

Conduct risk remains elevated as the macroeconomic environment continues to place financial pressure on customers as a result of the cost of living and interest rates. Whilst there has been moderation in inflation within the past financial year, the medium to long-term outlook remains uncertain. This may increase the stresses on individuals and businesses requiring credit. As a result, the importance of appropriate support for customers in financial difficulty, including vulnerable customers, is expected to remain elevated. The group is focused on maintaining its culture which enables tailoring its approach to supporting customers to drive good customer outcomes.

The group's regulators continue to evolve market-wide expectations for firms to deliver good customer outcomes. The group continues to engage with its regulators in an open and cooperative manner, including with respect to this evolving agenda. Where it becomes evident that good customer outcomes may not have been achieved, the group has moved to understand where any shortcomings may have arisen and to address those, such as through the recent Past Business Review of forbearance practices and associated redress relating to the group's motor finance lending.

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 arises mainly 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. This ensures concentration risk is controlled in both the loan book and associated collateral. Credit risk appetites are set around unsecured and structurally protected lending to ensure portfolios remain predominantly secured. At 31 July 2024, secured lending accounts for 90.0% (31 July 2023: 90.4%) of the loan book.

The group has established limits for all financial 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 are monitored in accordance with the regulatory large exposures framework.

The group's principal credit risk exposure is to the loan book, which is the focus of the credit risk part of the Risk Report.

Managing Credit Risk

Exposure

As a lender to businesses and individuals, the group is exposed to credit losses if customers are unable to repay loans and outstanding interest and fees. At 31 July 2024, gross loans and advances to customers was £10.3 billion (31 July 2023: £9.6 billion).

Further details on loans and advances to customers and debt securities held are in notes 10 and 11 to the Financial Statements. Further commentary on the credit quality of the loan book is outlined on pages 93 to 103.

Risk appetite

The group seeks to maintain the discipline of its lending criteria, both to preserve its business model and to maintain an acceptable return that appropriately balances risk and reward. This is underpinned by a strong customer focus and credit culture that extend across people, structures, policies and principles. This in turn provides an environment for long-term sustainable growth and low, predictable loan losses.

To support this approach, the group maintains a credit risk appetite framework to define and align credit risk strategy with its overall appetite for risk and business strategies, as defined by the board.

The group Credit Risk Appetite Statement ("CRAS") outlines the specific level of credit risk that the group is willing to assume, utilising defined quantitative limits and triggers against agreed measures, and covers both credit concentration and portfolio performance measures.

The measures supporting the group CRAS are based on the following key principles:

- To lend within familiar asset classes, in well-known and understood markets.
- To operate as a predominantly secured, or structurally protected, lender against identifiable and accessible assets, and maintain conservative loan-to-value ("LTV") ratios across the Banking division's portfolios.
- To maintain a diversified loan portfolio (by business, asset class and UK geography), as well as a short average tenor and low average loan size.
- To rely on local underwriting expertise, with authority delegated from the Risk Committee, and ongoing central oversight.
- To maintain rigorous and timely collections and arrears management processes.
- To operate strong control and governance within the lending businesses, overseen by a central group credit risk team.

Ultimate responsibility for the approval and governance of the group CRAS lies with the board, on recommendation from the GRCC, with support from the Credit Risk Management Committee ("CRMC"). Performance is monitored against agreed appetites on a monthly basis.

The CRAS is embedded into business unit credit risk management through a hierarchy of local triggers and limits, which are approved by the chief credit officer ("CCO") and noted at CRMC. Performance is also monitored monthly via divisional RCCs. Material breaches are escalated via established governance channels.

CRAS metrics are closely aligned with the group's overall strategy to facilitate monitoring of the composition and quality of the loan book to ensure it remains within defined appetite.

Measurement

A consolidated central credit reporting framework is in place and facilitates effective credit risk management and measurement by the central group credit risk team. The framework enables the identification, measurement, monitoring and control of all material credit risks within the lending portfolios, setting clear credit risk appetite within which all lending is originated and ensuring that asset portfolios are grown responsibly and profitably.

A centralised framework incorporates:

- the use of common data definitions across all business units;
- consistent and controlled extraction and housing of credit data from the bank's core business systems;
- dynamic credit risk management to improve strategic policy decision-making;
- oversight and control of the profile of the lending book to manage credit risk appetite; and
- identification, monitoring and control of material credit risks against a clear and communicated CRAS.

Mitigation (Audited)

Credit assessment and lending criteria

The Banking division's general approach to credit mitigation is based on the provision of affordable lending on a secured or structurally protected basis, against assets that are known and understood. These assets are typically easily realisable with strong secondary markets and predictable values, and spread across a broad range of classes within established sectors.

Whilst diverse, the businesses adhere to a set of common lending principles resulting in stable portfolio credit quality and consistently low loss rates through the cycle.

The common lending principles are as follows:

- Predominantly secured lending: 97.6% of loan book secured or structurally protected.
- Short average tenor: portfolio residual maturity of 15 months.
- Small average loan size and low single-name concentration risk: balance for the top 10 facility limits represents less than 6% of book.
- Further diversification by sector, asset class and UK geography.
- Local underwriting expertise with central oversight: focus on assets that are known and understood.

All lending criteria and assessment procedures are thoroughly documented in robust credit policies and standards, at both a bank and business level.

Expertise

Across the various businesses, credit risk employees are specialists in their area and can support loan book growth in a manner that is consistent with both risk strategy and appetite. This business-level distribution allows the formation of strong relationships with customers and intermediaries based on a deep understanding of their needs and the markets in which they operate. Consistent underwriting discipline and lending against assets that are known and understood benefits customers through the cycle and allows maintenance of a track record of strong margins and profitability.

Governance Framework and Oversight

Lending is underpinned by a strong control and governance framework both within the lending businesses and through oversight via a central group credit risk team.

Credit underwriting is undertaken either centrally or through regional office networks, depending on the nature of the business and the size and complexity of the transaction. Underwriting authority is delegated from the Risk Committee, with lending businesses approving lower-risk exposures locally subject to compliance with credit policy and risk appetite.

Local risk directors assure the quality of underwriting decisions for all facilities within the business' delegated sanctioning authority level via a quality assurance programme. This programme samples new business underwritten, with a particular focus on lending hotspots: for example, long-tenor agreements, new asset classes or high LTVs. Outputs are reported biannually with consolidated summaries presented to the CRMC.

These underwriting approaches are reinforced by timely collections and arrears management, working in conjunction with the customer to ensure the best possible outcome for customers.

The local model is supported by central oversight and control. An independent central group credit risk team provides ongoing monitoring of material credit risks through regular reviews of appetite and policy.

Monitoring

High-level requirements are outlined in documented standards covering the identification, monitoring and management of customers in financial difficulty, with detailed credit policy and guidance formalised within local credit policies, including guidelines on the identification and treatment of vulnerable customers.

Documented policy includes business-specific definitions for identifying customers in, or likely to experience, financial difficulty. There are accompanying courses of action outlined that protect the group's position, taking account of the terms/covenants of facilities, security enforcement options, legal remedies and third-party intervention (for example, brokers).

This process is owned by the risk directors, ensuring that prompt action is taken to review the financial conditions of customers when warning signs indicate deterioration in financial health, credit quality, covenant compliance or asset strength/coverage. Where possible, credit limits are amended where there is evidence of delinquency or deteriorating financial condition/capacity to repay.

The credit risk framework aligns with the broader three lines of defence approach, with a governance structure flowing from local first-line business teams up to second-line risk directors (and key oversight committees such as credit committees, divisional RCCs, the CRMC, the Model Governance Committee ("MGC") and the Risk Committee) overlaid with a third line formed by the group internal audit function.

First line of defence: Credit risk management

Banking businesses have primary responsibility for ensuring that a robust risk and control environment is established as part of day-to-day operations, and that good-quality credit applications are brought forward for consideration.

They are also responsible for ensuring that their activities are compliant with the rules and guidance set out in local credit policies and processes. Each business unit has its own formalised credit risk appetite and policy documents, approved by divisional RCCs. This risk culture is facilitated by local profit and loss ownership, ensuring a long-term approach is taken, with an understanding of how loans will be repaid.

Second line of defence: Risk oversight and control

The second line of defence has three tiers: business-aligned risk directors and their teams, the central group credit risk team, and oversight committees. The risk directors in the bank, who report to the CCO, are responsible for setting and communicating credit risk strategy, identifying exceptions and ensuring local compliance. Similarly, the risk heads in the Asset Management and Securities divisions, and the asset and liability management function, ensure that their respective operations are performed in line with the group financial institution and non-banking financial institution credit risk standards and also report up through their divisional RCCs. The central group credit risk team provides a further layer of oversight and approval, supported by credit committees, and the CRMC, MGC, GRCC and Risk Committee. Together, the second line of defence provides a clear tactical and strategic understanding of credit risk, proposing enhancements to the credit risk framework for ongoing effective management and control.

Third line of defence: Internal audit

The third line of defence is the group internal audit function. This team uses both a risk-based approach and a rolling programme of reviews to ensure that the first and second lines of defence are working effectively.

Banking Overview

The Commercial business 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 comprises loans of less than £2.5 million. Credit quality is assessed predominantly on an individual loan-by-loan basis. During and after the Covid-19 pandemic, the Commercial business has provided additional support to customers using the CBILS, Coronavirus Large Business Interruption Loan Scheme ("CLBILS") and RLS products, which benefit from UK government guarantees. Collection and recovery activity is executed promptly by experts with relevant experience in specialised assets. This approach allows remedial action to be implemented at the appropriate time to minimise potential loss and support good and fair customer outcomes.

The Retail business is predominantly high-volume secured or structurally protected lending. The majority of the loan book comprises 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 restore customers to a performing status, with recovery methods applied to minimise potential loss.

The Property business is predominantly a low-volume, specialised lending portfolio with credit quality assessed on an individual loan-by-loan basis. The majority of the loan book comprises 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 monthly by independently appointed project monitoring surveyors 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 the original build plan.

In the Commercial and Property businesses, performing loans with elevated levels of credit risk may be placed on watch lists depending on the perceived severity of the credit risk.

Outlook

Expected credit losses increased in the year to 31 July 2024, primarily resulting from loan book growth across all divisions, Novitas Stage 3 interest accrual plus changes to time to recover assumptions, increases to existing impaired accounts and migrations into Stage 3. This increase is set against a backdrop of ongoing market uncertainty, which continues to be monitored closely.

The market backdrop has been mixed this year. The economy has proved resilient, with a general improvement in macroeconomic indicators, low unemployment and strong wage growth. Nevertheless, uncertainty has persisted for both individuals and SMEs.

Notwithstanding the reduction in the Bank of England base rate in August 2024 and the improvement in some economic indicators, headwinds remain, with interest rates at higher levels, inflation proving more persistent than expected and cost of living pressures continuing, all of which could result in higher credit losses in the future.

The change in government seen in July 2024 is expected to lead to changes in policy which could have an impact on the UK's economic outlook.

Risk appetite has remained consistent, maintaining the Banking division's prudent, through-the-cycle underwriting standards.

Forborne balances have increased year-on-year. They remain lower than peaks observed during the pandemic; however, they are above pre-pandemic levels.

Further details on loans and advances to customers and debt securities held are in notes 10 and 11 to the Financial Statements.

Credit Risk Highlights (Audited)[1]

	31 July 2024 £ million	31 July 2023 £ million
Gross loans and advances to customers		
Property business	**2,015.4**	1,744.8
Retail business	**3,136.8**	3,091.2
Commercial business	**5,112.6**	4,799.6
Of which Novitas:	*283.1*	*244.0*
Excluding Novitas:	*4,829.5*	*4,555.6*
Total gross loans and advances to customers	**10,264.8**	9,635.6
Impairment provisions		
Property business	**60.2**	41.7
Retail business	**94.9**	89.4
Commercial business	**290.7**	249.5
Of which Novitas:	*220.7*	*184.1*
Excluding Novitas:	*70.0*	*65.4*
Total impairment provision	**445.8**	380.6
Provision coverage ratio		
Property business	**3.0%**	2.4%
Retail business	**3.0%**	2.9%
Commercial business	**5.7%**	5.2%
Novitas only:	*78.0%*	*75.5%*
Excluding Novitas:	*1.4%*	*1.4%*
Total impairment coverage ratio	**4.3%**	3.9%
Part and non-performing loans		
Loans in Stage 2	**1,128.8**	1,062.0
Of which Novitas:	*1.0*	*1.3*
Loans in Stage 3	**725.5**	583.4
Of which Novitas:	*282.1*	*241.7*
Stage 2 coverage	**2.8%**	3.0%
Excluding Novitas:	*2.7%*	*3.0%*
Stage 3 coverage	**49.9%**	49.8%
Excluding Novitas:	*32.2%*	*31.2%*

1. The credit risk highlights table relates to assets held at amortised cost, which excludes £11.8 million of loans held at fair value through profit and loss ("FVTPL") under IFRS 9.

Disclosures are provided for loans and advances to customers held at amortised cost under IFRS 9. This excludes £11.8 million of loans and advances to customers measured at fair value through profit or loss which are managed on a consistent basis as detailed on pages 90 to 92, but do not attract an ECL under IFRS 9. Stage allocation of loans and advances to customers has been applied in line with the definitions set out in note 1 to the Financial Statements.

During the year the staging profile of loans and advances to customers deteriorated, primarily as a result of stage migrations in Asset Finance, Motor Finance and Property Finance offsetting strong Stage 1 loan book growth in the Leasing and Property Finance businesses.

At 31 July 2024, 81.9% (31 July 2023: 82.9%) of gross loans and advances to customers were Stage 1. Stage 2 loans and advances to customers remained stable at 11.0% (31 July 2023: 11.0%). The remaining 7.1% (31 July 2023: 6.1%) of loans and advances to customers were deemed to be credit-impaired and were classified as Stage 3.

Overall impairment provisions increased to £445.8 million (31 July 2023: £380.6 million), following regular reviews of staging and provision coverage for individual loans and portfolios. The movement in impairment provisions was mainly driven by Novitas Stage 3 interest accrual in line with the requirement under IFRS 9 to recognise interest on a net basis, plus changes to time to recover assumptions.

Excluding Novitas, impairment provisions increased across the Banking division to £225.1 million (31 July 2023: £196.5 million), reflecting overall loan book growth, increases to existing impaired accounts and migrations into Stage 3. These factors are set against the backdrop of persistent external pressures resulting from uncertainty in the macroeconomic environment.

As a result, there has been an increase in provision coverage to 4.3% (31 July 2023: 3.9%).

Provision Coverage Analysis by Business (Audited)

In Commercial, the impairment coverage ratio increased to 5.7% (31 July 2023: 5.2%), reflecting the impacts of Novitas Stage 3 interest accrual in line with the requirement under IFRS 9 to recognise interest on a net basis.

Excluding Novitas, the Commercial provision coverage ratio remained stable at 1.4% (31 July 2023: 1.4%) as strong Stage 1 new business levels offset the impacts of migrations into Stages 2 and 3 during the financial year.

In Retail, the provision coverage ratio increased to 3.0% (31 July 2023: 2.9%), reflecting resilient portfolio performance in light of sustained macroeconomic uncertainty and heightened levels of arrears and forbearance in the Motor Finance business as a result of persistent cost of living pressures on customers.

In Property, the provision coverage ratio increased to 3.0% (31 July 2023: 2.4%), as a result of migrations to Stage 3 and increased individual provisions for some existing impaired accounts during the financial year.

See note 10 to the Financial Statements for full staging tables and analysis, and pages 97 to 99 for additional detail on changes to macroeconomic forecasts that have impacted provisions during this financial year.

Measuring Credit Risk Across Our Businesses

To assess credit risk effectively across the Banking division, a number of judgements and estimates are used. These are based on historical experience and reasonable expectations of future events and are reviewed on an ongoing basis.

In particular, 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, which have a material impact on the accounts.

This assessment, which requires judgement, is unbiased and probability-weighted and uses historical, current and forward-looking information. The most significant judgements and estimates are set out below.

While the impact of climate change represents a source of uncertainty, the group does not consider climate-related risks to be a critical accounting judgement or estimate at 31 July 2024. Climate risk continues to be a key area of focus for the group and the Banking division continues to assess the sensitivity of assets and customers to climate-related risks as part of regular credit monitoring. Transitional climate risks are considered to be largely mitigated by short average loan book tenors (15 months), conservatively secured and diversified portfolios, and the rigorous underwriting, monitoring and control processes that are in place.

Use of Judgements (Audited)

In the application of the group's accounting policies, which are described in note 1 to the Financial Statements, judgements that are considered by the board to have the most significant effect on the amounts in the Financial Statements are as follows.

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. Typically, the group assesses whether a significant increase in credit risk has occurred based on a quantitative and qualitative assessment, with a "30 days past due" backstop.

Due to the diverse nature of the group's lending businesses, the specific indicators of a significant increase in credit risk vary by business and may include some or all of the following factors:

- quantitative assessment: the lifetime probability of default ("PD") has increased by more than an agreed threshold relative to the equivalent at origination. Thresholds are based on a fixed number of risk grade movements which are bespoke to each business to ensure that the increased risk since origination is appropriately captured;
- qualitative assessment: events or observed behaviour indicate credit deterioration. 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.

Definition of default

The definition of default is an important building block for expected credit loss models and is considered a key judgement. A default is considered to have occurred if any unlikeliness to pay criterion is met or when a financial asset meets a "90 days past due" backstop. While some criteria are factual (e.g. administration, insolvency or bankruptcy), others require a judgemental assessment of whether the borrower has financial difficulties which are expected to have a detrimental impact on their ability to meet contractual obligations. A change in the definition of default may have a material impact on the expected credit loss provision.

Use of Estimates (Audited)

Expected credit loss provisions are a key source of estimation uncertainty which, depending on a wide range of factors, could result in a material adjustment to the carrying amounts of assets and liabilities in the next financial year.

The accuracy of expected credit loss provisions can be impacted by unpredictable effects or unanticipated changes to modelled estimates. In addition, forecasting errors could also occur due to macroeconomic scenarios or weightings differing from actual outcomes observed. Regular model monitoring, validations and provision adequacy reviews are key mechanisms to manage estimation uncertainty across model estimates. Provisions relating to Novitas loans are also sensitive to specific estimation uncertainty associated with case failure rates, expected recovery rates and time to recover periods. Further detail on these most significant estimates is set out in the following section.

Modelled estimates

The calculation of expected credit losses ("ECL") for loans and advances to customers, either on a 12-month or lifetime basis, is based on the PD, the exposure at default ("EAD") and the loss given default ("LGD") and includes forward-looking macroeconomic information where appropriate.

PD, EAD and LGD parameters are projected over the remaining life of each exposure. ECL is calculated for each future quarter by multiplying the three parameters and is then discounted back to the reporting date and summed. The discount rate used in the ECL calculation is the effective interest rate.

IFRS 9 risk parameters are estimated using historical data wherever possible, and in the absence of sufficient loss history an expert judgement approach is considered for some parameters.

Probability of default

PD estimates represent the likelihood of a borrower defaulting on their financial obligation. Bespoke model-based approaches to estimate PDs are employed across the Commercial, Retail and Property businesses. The framework applied typically includes an economic response model to quantify the impact of macroeconomic forecasts and a risk ranking mechanism (e.g. a scorecard) to quantify obligor-level likelihood of default. Risk characteristics that feed into the PD model framework include current and past information related to borrowers, transaction and payment profiles, and future economic forecasts. Statistical techniques, based on evidence observed in historical data, and business knowledge are used to determine which characteristics are predictive of default behaviour.

Exposure at default

EAD represents the amounts expected to be owed at the time of default and is estimated using an amortising schedule for the large majority of exposures, or a credit conversion factor, depending on the nature of lending.

Loss given 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 and other credit risk mitigants. LGD methodologies vary by the nature of assets financed and can include estimates for the likelihood of collateral recovery and a separate calculation for the likely loss on recovery. For some businesses, LGDs are estimated using liquidation curves based on historical cash flows. Recoveries are adjusted to account for the impact of discounting using the effective interest rate.

Novitas loans

Novitas provided funding to individuals who wished to pursue legal cases. The majority of the Novitas portfolio, and therefore provision, relates to civil litigation cases. To protect customers in the event that their case failed, it was a condition of the Novitas loan agreements that an individual purchased an After the Event ("ATE") insurance policy which covered the loan.

As previously announced, following a strategic review, in July 2021 the group decided to cease permanently the approval of lending to new customers across all of the products offered by Novitas and withdraw from the legal services financing market. Since that time, the Novitas loan book has been in run-off, and the business has continued to work with solicitors and insurers, with a focus on supporting existing customers and managing the existing book to ensure good customer outcomes, where it is within Novitas' ability to do so.

In the financial year under review, management has maintained its assumptions for expected case failure rates, and expected recovery rates which continue to appropriately reflect experienced credit performance and ongoing dialogue with customers' insurers. Within the 2024 financial year impairment charge for Novitas of £6.4 million, an adjustment has been made for extended time to recovery assumptions from insurers. This reflects management's latest assessment of negotiations with customers' insurers and the current timeline of litigation proceedings.

Based on the current position, the majority of loans in the portfolio continue to be assessed as credit-impaired and are considered Stage 3. Expected credit losses for the portfolio have been calculated by comparing the gross loan balance to expected cash flows discounted at the original effective interest rate, over an appropriate time to recovery period. In line with IFRS 9, a proportion of the expected credit loss is expected to unwind, over the estimated time to recover period, to interest income, which reflects the requirement to recognise interest income on Stage 3 loans on a net basis.

Since 31 July 2023, expected credit loss provisions have increased by £36.6 million to £220.7 million (31 July 2023: £184.1 million). This increase is a primarily a result of interest accrual on civil litigation accounts, for which a full loss provision is applied, and the update to the time to recover assumption.

Given that the majority of the Novitas portfolio is in Stage 3, the key sources of estimation uncertainty for the portfolio's expected credit loss provision are time to recover periods and recovery rates for the civil litigation portfolio. On this basis, management assessed and completed sensitivity analysis when compared to the expected credit loss provision for Novitas of £220.7 million (31 July 2023: £184.1 million).

At 31 July 2024, a 10% absolute deterioration or improvement in recovery rates would increase or decrease the ECL provision by £13.4 million. Separately, a 12-month improvement in the time to recover period will reduce the ECL provision by £13.4 million, while a 12-month delay in the time to recover period will increase the ECL provision by £11.0 million.

Further detail on the impairment provision is included in note 10 to the Financial Statements.

Forward-looking information

Determining expected credit losses under IFRS 9 requires the incorporation of forward-looking macroeconomic information that is reasonable, supportable and includes assumptions linked to economic variables that impact losses in each portfolio. The introduction of macroeconomic information introduces additional volatility to provisions.

In order to calculate forward-looking provisions, economic scenarios are sourced from Moody's Analytics. These cover a range of plausible economic paths that are used in conjunction with PD, EAD and LGD parameters for each portfolio to assess expected credit loss provisions across a range of conditions. An overview of these scenarios using key macroeconomic indicators is provided on pages 97 to 99. Ongoing benchmarking of the scenarios to other economic providers is carried out monthly to provide management with comfort on Moody's Analytics scenario paths.

Five different projected economic scenarios are currently considered to cover a range of possible outcomes. These include a baseline scenario, which reflects the best view of future economic events. In addition, one upside scenario and three downside scenario paths are defined relative to the baseline. Management assigns the scenarios a probability weighting to reflect the likelihood of specific scenarios, and therefore loss outcomes, materialising, using a combination of quantitative analysis and expert judgement.

The impact of forward-looking information varies across the group's lending businesses because of the differing sensitivity of each portfolio to specific macroeconomic variables.

This is reflected through the development of bespoke macroeconomic models that recognise the specific response of each business to the macroeconomic environment.

The modelled impact of macroeconomic scenarios and their respective weightings is reviewed by business experts in relation to stage allocation and coverage ratios at the individual and portfolio level, incorporating management's experience and knowledge of customers, the sectors in which they operate, and the assets financed.

This includes assessment of the reaction of the ECL in the context of the prevailing and forecast economic conditions, for example where currently higher interest rates and inflationary conditions exist compared to recent periods.

Economic forecasts have evolved over the course of 2024 and reflect the mixed external backdrop observed in the year. Forecasts deployed in IFRS 9 macroeconomic models are updated on a monthly basis. At 31 July 2024, the latest baseline scenario forecasts gross domestic product ("GDP") growth of 1.0% in calendar year 2024 and an average base rate of 5.1% across calendar year 2024. Consumer Price Index ("CPI") inflation is forecast to be 2.5% in calendar year 2024 in the baseline scenario, with 0.7% forecast in the protracted downside scenario over the same period.

At 31 July 2024, the scenario weightings were: 30% strong upside, 32.5% baseline, 20% mild downside, 10.5% moderate downside and 7% protracted downside. As economic forecasts are considered to appropriately recognise developments in the macroeconomic environment, no change has been made to the weightings ascribed to the scenarios since 31 July 2023.

Given the current economic uncertainty, further analysis has been undertaken to assess the appropriateness of the five scenarios used. This included benchmarking the baseline scenario to consensus economic views, as well as consideration of an additional forecast related to stagflation, which could be considered as an alternative downside scenario.

Compared to the scenarios in use in the expected credit losses calculation, the stagflation scenario includes a longer period of higher interest rates coupled with a shallower but extended impact on GDP. Due to the relatively short tenor of the portfolios, the stagflation scenario is considered to be of less relevance than those deployed. This is supported by the fact that, due to the higher severity of recessionary factors in the existing scenarios, using the stagflation scenario instead of the moderate or protracted downside scenario would result in lower expected credit losses.

The final scenarios deployed reflect general improvement in the UK economic outlook relative to 31 July 2023. Under the baseline scenario, UK headline CPI inflation is expected to stabilise at current levels as a result of sustained base rate increases in 2022 and 2023 and eased supply chain pressures. Aligned to recent reductions in inflation, the Bank of England base rate is forecast to gradually reduce in all scenarios. House price outlook has improved across all scenarios, recognising more resilient housing market performance than previously anticipated. Unemployment rate forecasts have marginally deteriorated compared to 31 July 2023.

The tables on pages 97 to 98 show economic assumptions within each scenario, and the weighting applied to each at 31 July 2024. The metrics shown are key UK economic indicators, chosen to describe the economic scenarios. These are the main metrics used to set scenario paths, which then influence a wide range of additional metrics that are used in expected credit loss models. The first tables show the forecasts of the key metrics for the scenarios utilised for calendar years 2024 and 2025. The subsequent tables show averages and peak-to-trough ranges for the same key metrics over the five-year period from 2024 to 2028.

Scenario forecasts and weights

	Baseline		**Upside (strong)**		**Downside (mild)**		**Downside (moderate)**		**Downside (protracted)**	
	2024	2025	**2024**	2025	**2024**	2025	**2024**	2025	**2024**	2025
At 31 July 2024										
UK GDP growth	**1.0%**	1.2%	**1.8%**	3.9%	**0.3%**	(1.4)%	**(0.1)%**	(3.9)%	**(0.3)%**	(5.4)%
UK unemployment	**4.4%**	4.5%	**4.2%**	4.0%	**4.5%**	4.9%	**4.7%**	6.6%	**4.8%**	7.8%
UK HPI growth	**0.7%**	3.2%	**7.1%**	13.3%	**(2.3)%**	(2.6)%	**(4.1)%**	(9.2)%	**(6.0)%**	(16.4)%
BoE base rate	**5.1%**	4.2%	**5.2%**	4.4%	**5.0%**	3.5%	**5.0%**	2.9%	**4.8%**	2.3%
Consumer Price Index	**2.5%**	2.1%	**2.6%**	2.2%	**1.6%**	0.4%	**1.1%**	(0.5)%	**0.7%**	(1.0)%
Weighting	**32.5%**		**30%**		**20%**		**10.5%**		**7%**	

	Baseline		Upside (strong)		Downside (mild)		Downside (moderate)		Downside (protracted)	
	2023	2024	2023	2024	2023	2024	2023	2024	2023	2024
At 31 July 2023										
UK GDP growth	0.5%	0.3%	1.3%	3.0%	(0.2)%	(2.3)%	(0.6)%	(4.8)%	(0.8)%	(6.2)%
UK unemployment	4.1%	4.4%	3.9%	3.9%	4.2%	4.8%	4.4%	6.5%	4.5%	7.7%
UK HPI growth	(6.3)%	(1.4)%	(0.4)%	8.3%	(9.1)%	(6.9)%	(10.8)%	(13.2)%	(12.6)%	(20.1)%
BoE base rate	4.9%	5.5%	4.9%	5.7%	4.8%	4.8%	4.7%	4.2%	4.5%	3.6%
Consumer Price Index	5.2%	2.2%	4.8%	2.2%	3.8%	1.2%	3.0%	(0.3)%	1.5%	(2.3)%
Weighting	32.5%		30%		20%		10.5%		7%	

Notes:
UK GDP growth: National Accounts Annual Real Gross Domestic Product, Seasonally Adjusted – year-on-year change (%).
UK unemployment: ONS Labour Force Survey, Seasonally Adjusted – Average (%).
UK HPI growth: Average nominal house prices, Land Registry, Seasonally Adjusted – Q4-to-Q4 change (%).
BoE base rate: Bank of England base rate – Average (%).
Consumer Price Index: ONS, All items, annual inflation – Q4-to-Q4 change (%).

	Five-year average (calendar years 2024 to 2028)				
	Baseline	**Upside (strong)**	**Downside (mild)**	**Downside (moderate)**	**Downside (protracted)**
At 31 July 2024					
UK GDP growth	**1.5%**	**2.3%**	**1.1%**	**0.6%**	**0.4%**
UK unemployment	**4.6%**	**4.0%**	**4.8%**	**6.6%**	**7.4%**
UK HPI growth	**2.5%**	**4.2%**	**0.9%**	**(1.0)%**	**(3.5)%**
BoE base rate	**3.5%**	**3.6%**	**3.2%**	**2.5%**	**2.0%**
Consumer Price Index	**2.1%**	**2.2%**	**1.5%**	**1.2%**	**0.8%**
Weighting	**32.5%**	**30%**	**20%**	**10.5%**	**7%**

	Five-year average (calendar years 2023 to 2027)				
	Baseline	Upside (strong)	Downside (mild)	Downside (moderate)	Downside (protracted)
At 31 July 2023					
UK GDP growth	0.9%	1.7%	0.5%	0.0%	(0.1)%
UK unemployment	4.4%	3.9%	4.6%	6.4%	7.3%
UK HPI growth	0.5%	2.1%	(1.1)%	(2.9)%	(5.4)%
BoE base rate	3.8%	3.8%	3.5%	2.8%	2.3%
Consumer Price Index	2.6%	2.6%	2.1%	1.6%	0.7%
Weighting	32.5%	30%	20%	10.5%	7%

Notes:
UK GDP growth: National Accounts Annual Real Gross Domestic Product, Seasonally Adjusted – CAGR (%).
UK unemployment: ONS Labour Force Survey, Seasonally Adjusted – Average (%).
UK HPI growth: Average nominal house prices, Land Registry, Seasonally Adjusted – CAGR (%).
BoE base rate: Bank of England base rate – Average (%).
Consumer Price Index: ONS, All items, annual inflation – CAGR (%).

The forecasts represent an economic view at 31 July 2024, after which there have been further economic developments, including the Bank of England base rate cut to 5.0%. These developments, including the potential for further rate reductions, and their impact on scenarios and weightings, are subject to ongoing monitoring by management.

These periods have been included as they demonstrate the short, medium and long-term outlooks for the key macroeconomic indicators which form the basis of the scenario forecasts. The portfolio has an average residual maturity of 15 months, with 99% of loan value having a maturity of five years or less.

The following charts on pages 98 to 99 represent the quarterly forecast data included in the above tables incorporating actual metrics up to 31 July 2024. The dark blue line shows the baseline scenario, while the other lines represent the various upside and downside scenarios.

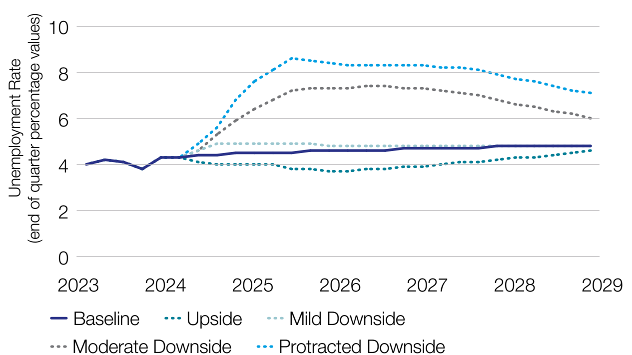
The tables below provide a summary for the five-year period (calendar years 2024 to 2028) of the peak-to-trough range of values of the key UK economic variables used within the economic scenarios at 31 July 2024 and 31 July 2023.

	Five-year period (calendar year 2024 to 2028)									
	Baseline		**Upside (strong)**		**Downside (mild)**		**Downside (moderate)**		**Downside (protracted)**	
	Peak	**Trough**	**Peak**	**Trough**	**Peak**	**Trough**	**Peak**	**Trough**	**Peak**	**Trough**
At 31 July 2024										
UK GDP growth	**7.7%**	**0.7%**	**11.8%**	**0.7%**	**5.5%**	**(1.4)%**	**2.8%**	**(4.2)%**	**2.2%**	**(6.3)%**
UK unemployment	**4.8%**	**4.3%**	**4.3%**	**3.7%**	**4.9%**	**4.3%**	**7.4%**	**4.3%**	**8.6%**	**4.3%**
UK HPI growth	**13.3%**	**0.7%**	**27.2%**	**0.7%**	**4.4%**	**(5.7)%**	**0.9%**	**(14.2)%**	**0.9%**	**(23.4)%**
BoE base rate	**5.3%**	**2.5%**	**5.3%**	**2.5%**	**5.3%**	**2.1%**	**5.3%**	**1.1%**	**5.3%**	**0.6%**
Consumer Price Index	**3.6%**	**2.0%**	**3.6%**	**2.0%**	**3.6%**	**(0.4)%**	**3.6%**	**(1.1)%**	**3.6%**	**(2.0)%**
Weighting	**32.5%**		**30%**		**20%**		**10.5%**		**7%**	

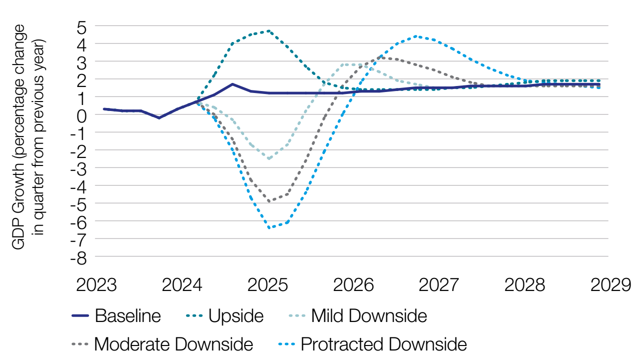
	Five-year period (calendar year 2023 to 2027)									
	Baseline		Upside (strong)		Downside (mild)		Downside (moderate)		Downside (protracted)	
	Peak	Trough	Peak	Trough	Peak	Trough	Peak	Trough	Peak	Trough
At 31 July 2023										
UK GDP growth	4.6%	0.1%	8.7%	0.1%	2.5%	(3.0)%	0.3%	(5.9)%	0.3%	(8.1)%
UK unemployment	4.6%	3.9%	4.1%	3.7%	4.9%	3.9%	7.3%	3.9%	8.5%	3.9%
UK HPI growth	2.6%	(7.8)%	12.9%	(3.1)%	(0.5)%	(15.4)%	(0.5)%	(24.0)%	(0.5)%	(32.1)%
BoE base rate	5.8%	2.3%	5.9%	2.3%	5.4%	2.2%	5.2%	1.3%	5.2%	0.6%
Consumer Price Index	10.2%	1.8%	10.2%	1.8%	10.2%	0.8%	10.2%	(1.0)%	10.2%	(3.8)%
Weighting	32.5%		30%		20%		10.5%		7%	

Notes:
UK GDP growth: Maximum and minimum quarterly GDP as a percentage change from start of period (%).
UK unemployment: Maximum and minimum unemployment rate (%).
UK HPI growth: Maximum and minimum average nominal house price as a percentage change from start of period (%).
BoE base rate: Maximum and minimum Bank of England base rate (%).
Consumer Price Index: Maximum and minimum inflation rate over the five-year period (%).

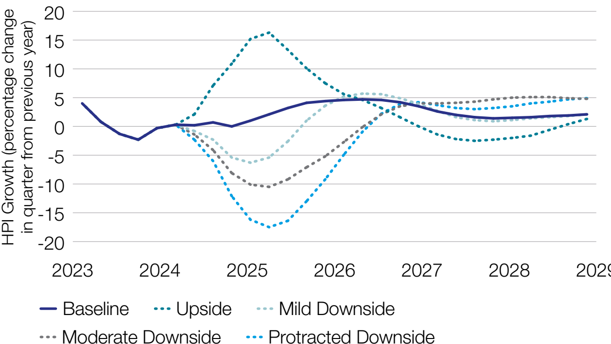
Unemployment Rate (%)



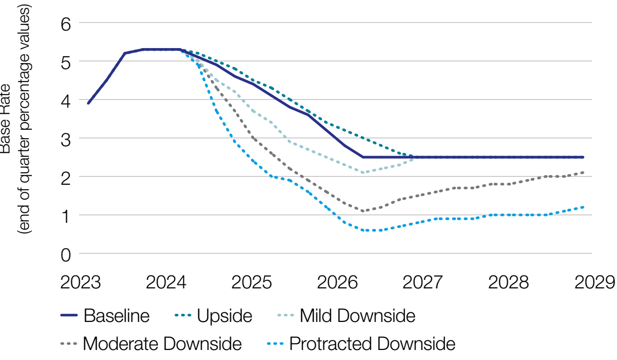
Real Gross Domestic Product (Annual % Change)



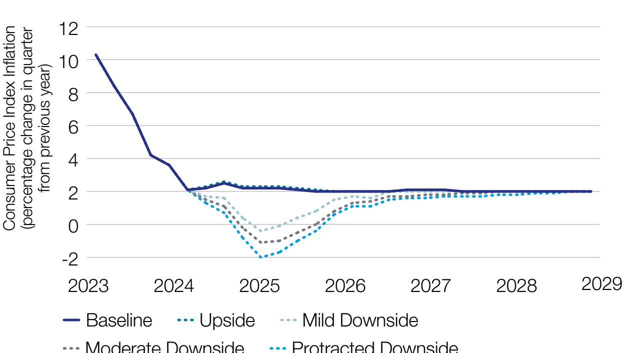
House Price Index – Current Prices (Annual % Change)



Bank of England Base Rate (%)



Consumer Price Index (Annual % Change)



Scenario Sensitivity Analysis

The expected credit loss provision is sensitive to judgements and estimations made with regard to the selection and weighting of multiple economic scenarios. As a result, management has assessed and considered the sensitivity of the provision as follows:

- For the majority of the portfolios, the modelled expected credit loss provision has been recalculated under the upside strong and downside protracted scenarios described above, applying a 100% weighting to each scenario in turn. The change in provision requirement is driven by the movement in risk metrics under each scenario and resulting impact on stage allocation.
- Expected credit losses based on a simplified approach, which do not utilise a macroeconomic model and require expert judgement, are excluded from the sensitivity analysis.
- In addition to the above, key considerations for the sensitivity analysis are set out below, by segment:
  - In Commercial, the sensitivity analysis excludes Novitas, which is subject to a separate approach, as it is deemed more sensitive to credit factors than macroeconomic factors.
  - In Retail, the sensitivity analysis does not apply further stress to the expected credit loss provision on loans and advances to customers in Stage 3, because the measurement of expected credit losses is considered more sensitive to credit factors specific to the borrower than macroeconomic scenarios.
  - In Property, the sensitivity analysis excludes individually assessed provisions, and certain sub-portfolios which are deemed more sensitive to credit factors than the macroeconomic scenarios.

Based on the above analysis, at 31 July 2024, application of 100% weighting to the upside strong scenario would decrease the expected credit loss by £21.3 million whilst application of 100% weighting to the downside protracted scenario would increase the expected credit loss by £40.1 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 expected credit loss provision for each of the scenarios should be read in the context of the sensitivity analysis as a whole and in conjunction with the disclosures provided in note 10 to the Financial Statements. The modelled impact presented is based on gross loans and advances to customers at 31 July 2024; it does not incorporate future changes relating to performance, growth or credit risk. In addition, given the change in the macroeconomic conditions, underlying modelled provisions and methodology, and refined approach to adjustments, comparison between the sensitivity results at 31 July 2024 and 31 July 2023 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 impacted by sustained cost of living pressures, policy changes resulting from the recent change in government and ongoing geopolitical tensions.

Use of Adjustments (Audited)

Limitations in the group's expected credit loss models or input data may be identified through ongoing model monitoring and validation of models. In certain circumstances, management make appropriate adjustments to model-calculated expected credit losses. These adjustments are based on management judgements or quantitative back-testing to ensure expected credit loss provisions adequately reflect all known information. These adjustments are generally determined by considering the attributes or risks of a financial asset which are not captured by existing expected credit loss model outputs. Management adjustments are actively monitored, reviewed and incorporated into future model developments where applicable.

Macroeconomic forecasts continue to react to a range of external factors including the recent change in government, the ongoing conflict in Ukraine, policies aimed at addressing cost of living and inflationary pressures, and long-term impacts of the Covid-19 pandemic. In response, our use of adjustments has evolved.

In particular, adjustments were applied in the previous financial year in response to improvements in macroeconomic forecasts that resulted in releases in modelled provisions. A number of these releases were considered premature or counterintuitive by management and adjustments were made as a result. Portfolio performance has been closely monitored during the financial year under review, over which modelled provisions have increased and external forecasts have remained broadly stable. As a result, adjustments have gradually reduced in recognition of the portfolio and models appropriately reacting to changes in the external environment.

The approach to adjustments continues to reflect the use of expert management judgement which incorporates management's experience and knowledge of customers, the areas in which they operate, and the underlying assets financed.

The need for adjustments will continue to be monitored as new information emerges which might not be recognised in existing models.

At 31 July 2024, £(1.5) million (31 July 2023: £17.0 million) of the expected credit loss provision was attributable to adjustments, which reflects a combination of positive and negative adjustments depending on the adjustment purpose or model requirement. Adjustments include £2.4 million held to reflect ongoing economic uncertainty.

Other Credit Risk Tables (Audited)

Segmental credit risk

The table on page 101 sets out loans and advances to customers, trade receivables and undrawn facilities by the group's internal credit risk grading and illustrates the allocation of these per IFRS 9 staging category for comparative purposes. The analysis of lending has been prepared based on the following risk categories:

- Low risk: The credit risk profile of the borrower is considered acceptable with the borrower considered likely to meet obligations as they fall due. Standard monitoring is in place.
- Medium risk: Evidence of deterioration in the credit risk profile of the borrower exists which requires increased monitoring. Potential concerns over their 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.

Low risk loans and advances to customers have reduced to 84% of the overall portfolio (31 July 2023: 87%), reflective of stage deterioration and the impacts of macroeconomic pressures during the financial year.

77% (31 July 2023: 80%) of total advances were classified as low risk Stage 1. Low risk Stage 2 represented 7% (31 July 2023: 7%) of loans and advances to customers, largely comprising early arrears cases, or agreements which have triggered a significant increase in credit risk indicator, or the "30 days past due" backstop. Low risk Stage 3 loans and advances to customers primarily related to agreements which have triggered the "90 days past due" backstop but where full repayment is expected.

Medium risk loans account for 8% (31 July 2023: 7%) of total loans and advances to customers, of which the majority were spread across Stages 1 and 2. Medium risk Stage 1 increased to 5% (31 July 2023: 3%). Medium risk Stage 2 represented 4% (31 July 2023: 3%) of the overall portfolio. Loans and advances to customers reflected as medium risk Stage 3 primarily related to agreements that have triggered the "90 days past due" backstop in addition to other significant increases in credit risk triggers.

High risk loans accounted for 8% (31 July 2023: 6%) of total loans and advances to customers, with the majority corresponding to Stage 3. This increase primarily reflected the impacts of stage migrations and Novitas Stage 3 interest accrual over the course of the financial year.

	Stage 1 £ million	Stage 2 £ million	Stage 3 £ million	Total £ million
At 31 July 2024				
Gross loans and advances to customers[1]				
Low risk	**7,943.3**	**679.6**	**15.4**	**8,638.3**
Medium risk	**474.6**	**360.6**	**16.2**	**851.4**
High risk	**4.4**	**88.6**	**693.9**	**786.9**
Total	**8,422.3**	**1,128.8**	**725.5**	**10,276.6**
Undrawn commitments				
Low risk	**1,025.1**	**18.3**	**–**	**1,043.4**
Medium risk	**–**	**1.2**	**–**	**1.2**
High risk	**–**	**–**	**3.1**	**3.1**
Total	**1,025.1**	**19.5**	**3.1**	**1,047.7**
Gross trade receivables[2]				
Low risk	**11.8**	**–**	**–**	**11.8**
Medium risk	**–**	**1.5**	**–**	**1.5**
High risk	**–**	**–**	**3.2**	**3.2**
Total	**11.8**	**1.5**	**3.2**	**16.5**

	Stage 1 £ million	Stage 2 £ million	Stage 3 £ million	Total £ million
At 31 July 2023				
Gross loans and advances to customers				
Low risk	7,702.4	693.9	23.2	8,419.5
Medium risk	278.7	313.1	48.8	640.6
High risk	9.1	55.0	511.4	575.5
Total	7,990.2	1,062.0	583.4	9,635.6
Undrawn commitments				
Low risk	1,202.3	21.5	0.1	1,223.9
Medium risk	–	2.7	–	2.7
High risk	–	–	1.9	1.9
Total	1,202.3	24.2	2.0	1,228.5
Gross trade receivables[2]				
Low risk	10.1	–	–	10.1
Medium risk	–	0.7	–	0.7
High risk	–	–	2.5	2.5
Total	10.1	0.7	2.5	13.3

1. Gross loans and advances to customers include £11.8 million of loans and advances held at FVTPL, presented as Stage 1 Low risk based on management judgement.
2. Lifetime expected credit losses are recognised for all trade receivables under the IFRS 9 simplified approach. The figures presented are on a gross basis before deducting for expected credit losses of £2.7 million (31 July 2023: £2.0 million) relating to predominantly Stage 3 receivables.

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 all customers and that each is managed based on their individual circumstances. The arrangements agreed with customers will aim to create a sustainable and affordable financial position, thereby reducing the likelihood of suffering a credit loss. The forbearance policy is periodically reviewed to ensure it remains effective.

The Banking division offers 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 LTV or overpayments) and refinancing, which may incorporate an extension of the loan tenor and capitalisation of arrears. Furthermore, other forms of forbearance such as moratorium, covenant waivers and rate concessions are also offered.

Loans are classified as forborne at the time a customer in financial difficulty is granted a concession and the loan will remain treated and recorded as forborne until the following exit conditions are met:

- the loan is considered as performing and there is no past-due amount according to the amended contractual terms;
- a minimum two-year probation period has passed from the date the forborne exposure was considered as performing, during which time regular and timely payments have been made; and
- none of the customer's exposures with Close Brothers are more than 30 days past due at the end of the probation period.

At 31 July 2024, the gross carrying amount of exposures with forbearance measures was £363.8 million (31 July 2023: £214.6 million). The key driver of this increase has been higher forbearance in our Asset Finance and Leasing, Motor Finance and Property Finance businesses reflecting continued macroeconomic challenges and enduring cost of living pressures on customers.

An analysis of forborne loans is shown in the table below:

	31 July 2024	31 July 2023
Gross loans and advances to customers (£ million)	**10,276.6**	9,635.6
Forborne loans (£ million)	**363.8**	214.6
Forborne loans as a percentage of gross loans and advances to customers (%)	**3.5%**	2.2%
Provision on forborne loans (£ million)	**89.4**	56.1
Number of customers supported	**13,166**	6,996

The following is a breakdown of forborne loans by segment:

	31 July 2024 £ million	31 July 2023 £ million
Commercial business	**118.5**	38.0
Retail business	**42.8**	28.8
Property business	**202.5**	147.8
Total	**363.8**	214.6

The following is a breakdown of the number of customers supported by segment:

	31 July 2024 Number of customers supported	31 July 2023 Number of customers supported
Commercial business	**839**	243
Retail business	**12,275**	6,700
Property business	**52**	53
Total	**13,166**	6,996

The following is a breakdown of forborne loans by concession type:

	31 July 2024 £ million	31 July 2023 £ million[1]
Extension outside terms	**101.7**	52.6
Refinancing	**28.0**	10.4
Moratorium	**147.0**	66.1
Deferring collections/recoveries activity	**85.1**	82.9
Other modifications	**2.0**	2.6
Total	**363.8**	214.6

1. Comparatives have been updated to present deferring collections/recoveries activity category in a separate line based on categorisation as at 31 July 2024.

Government lending schemes

Over the pandemic period, following accreditation, customers were offered facilities under the UK government-introduced CBILS, the CLBILS and the Bounce Back Loan Scheme ("BBLS"), thereby enabling the Banking division to maximise its support to small businesses. At 31 July 2024, there are 2,887 (31 July 2023: 4,364) remaining facilities, with residual balance of £202.3 million (31 July 2023: £456.3 million) following further repayments across the Commercial businesses.

The Banking division also received accreditation to offer products under the various Recovery Loan Schemes ("RLS"), the recent Growth Guarantee Scheme ("GGS") and schemes in the Republic of Ireland. At 31 July 2024, there are 1,321 (31 July 2023: 943) live facilities, with balances of £340.7 million (31 July 2023: £276.2 million), and a further 73 (31 July 2023: 58) approved facilities with limits of £17.7 million (31 July 2023: £14.3 million).

The Banking division maintains a regular reporting cycle of these facilities to monitor performance. To date, a number of claims have been made and payments received under the government guarantee.

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, LTV and age at origination, and exposure maturity and in-life inspection requirements. An asset valuation is undertaken as part of the loan origination process.

The principal types of collateral held by the group against loans and advances to customers in the Property and Commercial businesses include residential and commercial property and charges over business assets such as equipment, inventory and accounts receivable. Within Retail, the group holds collateral primarily in the form of vehicles in Motor Finance and refundable insurance premiums in Premium Finance, where an additional layer of protection may exist through broker recourse.

The Banking division's collateral policies have not materially changed during the reporting period. There has been an increase in the proportion of exposures in higher LTV bands as exposures backed by government lending schemes have run-off and been replaced by more normalised LTV profiles.

Analysis of gross loans and advances to customers by LTV ratio is provided on page 103. The value of collateral used in determining the LTV ratio is based upon data captured at loan origination or, where available, a more recent valuation.

	Commercial £ million	Retail £ million	Property £ million	Total £ million
LTV[1]				
60% or lower	**828.3**	**143.4**	**1,100.1**	**2,071.8**
>60% to 70%	**552.7**	**150.1**	**667.1**	**1,369.9**
>70% to 80%	**575.3**	**332.7**	**56.2**	**964.2**
>80% to 90%	**848.5**	**1,056.9**	**56.5**	**1,961.9**
>90% to 100%	**1,451.4**	**550.3**	**27.3**	**2,029.0**
Greater than 100%	**326.0**	**419.9**	**107.6**	**853.5**
Structurally protected[2]	**329.3**	**445.8**	**–**	**775.1**
Unsecured	**212.9**	**37.7**	**0.6**	**251.2**
Total at 31 July 2024[3]	**5,124.4**	**3,136.8**	**2,015.4**	**10,276.6**

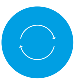
	Commercial £ million	Retail £ million	Property £ million	Total £ million
LTV[1]				
60% or lower	1,021.0	150.3	1,083.9	2,255.2
>60% to 70%	588.6	152.4	475.3	1,216.3
>70% to 80%	468.7	336.3	84.0	889.0
>80% to 90%	777.9	1,067.5	12.3	1,857.7
>90% to 100%	1,285.2	505.0	14.1	1,804.3
Greater than 100%	226.5	387.7	74.7	688.9
Structurally protected[2]	265.5	452.0	–	717.5
Unsecured	166.2	40.0	0.5	206.7
Total at 31 July 2023	4,799.6	3,091.2	1,744.8	9,635.6

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	**39.2**	**1.8**	**12.3**	**53.3**
>60% to 70%	**5.6**	**2.5**	**11.3**	**19.4**
>70% to 80%	**5.8**	**8.2**	**24.6**	**38.6**
>80% to 90%	**13.9**	**23.2**	**52.1**	**89.2**
>90% to 100%	**35.2**	**28.1**	**27.3**	**90.6**
Greater than 100%	**12.6**	**19.4**	**107.1**	**139.1**
Structurally protected[2]	**274.4**	**5.4**	**–**	**279.8**
Unsecured	**13.5**	**1.4**	**0.6**	**15.5**
Total at 31 July 2024	**400.2**	**90.0**	**235.3**	**725.5**

	Commercial £ million	Retail £ million	Property £ million	Total £ million
LTV				
60% or lower	48.7	1.7	31.7	82.1
>60% to 70%	4.6	2.3	15.9	22.8
>70% to 80%	4.2	6.9	23.9	35.0
>80% to 90%	8.9	19.3	9.1	37.3
>90% to 100%	19.2	22.2	13.6	55.0
Greater than 100%	4.7	15.7	74.7	95.1
Structurally protected[2]	229.5	5.0	–	234.5
Unsecured	19.6	1.5	0.5	21.6
Total at 31 July 2023	339.4	74.6	169.4	583.4

1. Government lending scheme facilities totalling £543.0 million (31 July 2023: £732.4 million) are allocated to a low LTV category reflecting the nature of the government guarantee and resultant level of lending risk.
2. Exposures are considered structurally protected when, in management's judgement, they have characteristics which mitigate the credit risk of the exposure to a significant extent, in spite of not representing tangible security.
3. Total gross loans and advances to customers includes £11.8 million of loans and advances held at FVTPL.



Funding and liquidity risk

Funding risk is the risk of loss caused by the inability to raise funds at an acceptable price or to access markets in a timely manner or any decrease in the stability of the current funding base.

Liquidity risk is the risk that the group or any of its entities do not have sufficient liquid assets to meet liabilities as they come due during normal and disrupted markets.

Exposure

Funding and liquidity are managed on a legal entity basis with each of the group's divisions (Banking, CBAM and Winterflood) responsible for ensuring it maintains sufficient liquidity for its own purposes. The group's divisions operate independently of each other with no liquidity reliance between them.

The company has relatively few cash requirements and all requirements are known in advance, for example external dividends. It meets its cash requirements through deposits placed with the Banking division and its committed borrowing facilities.

The Banking division's funding profile comprises a broad range of channels. Its diversified approach to funding includes secured funding, unsecured funding, retail deposits and non-retail deposits. Funding risk exposure primarily arises if the Banking division is unable to obtain the necessary funding to support its asset positions for the expected maturity. Unsustainable or undiversified funding bases, such as an over-reliance on short-term deposits, can increase the level of risk and can lead to a deviation from the funding plan. In turn, this can increase the costs of raising new funds, reducing the bank's ability to originate new assets and potentially leading to negative market or customer perception.

The Banking division's ILAAP covers potential event drivers from a range of stress testing scenarios, including idiosyncratic examples. This ensures liquidity management remains a source of strength and features a robust and prudent approach to assessing and maintaining liquidity requirements. The Banking division's ILAAP is combined with Internal Capital Adequacy and Risk Assessments ("ICARA") from Winterflood and CBAM, alongside the company considerations, to form the group ILAAP.

Funding and liquidity risk in Winterflood is driven by four primary sources: long trading book risk positions; overnight and intraday settlements; margin requirements; and multi-day client orders. Winterflood maintains risk appetites sufficient to ensure continued compliance with the rules under the Investment Firm Prudential Regulation ("IFPR").

For CBAM, funding and liquidity risks are managed through the division's cash flow forecasting, ensuring that sufficient liquidity is maintained to cover the next three months of outflows. CBAM also has specific requirements under ICARA in relation to liquidity which are monitored against.

Further detail on the group's funding and liquidity exposure is provided on pages 61 and 62 of the Financial Overview and Note 26 "Financial Risk Management".

Risk Appetite

The group adopts a conservative approach to funding and liquidity risk and seeks to maintain a funding and liquidity position characterised by preserving a simple and transparent balance sheet, sustaining a diverse range of funding sources and holding a prudent level of high-quality liquidity. As such, the weighted average maturity of its funding is longer than the weighted average maturity of its lending portfolio.

These objectives form the basis for the group's Funding and Liquidity Risk Appetite Statement, approved annually by the board, which outlines the levels of funding and liquidity risk that the group is willing to assume. Given the materiality of the Banking division, this is primarily focused on the levels of risk assumed within the bank.

Measurement

A variety of metrics are used to measure the Banking division's funding and liquidity position to ensure compliance with both external regulatory requirements and internal risk appetite. These metrics cover both the short and long-term view of liquidity and funding and have limits and early warning indicators in place that are approved via the Asset and Liability Committee ("ALCO"). These metrics include term funding as a percentage of loan book, weighted average tenor of loan book versus weighted average tenor of funding, available cash balance with the Bank of England, and liquid to total assets ratio.

Funding is measured and monitored in accordance with the Banking division's funding plan, which seeks to ensure that the bank maintains a balanced and prudent approach to its funding risk that is in line with risk appetite. The funding plan is supplemented by metrics that highlight any funding concentration risks, funding ratios and levels of encumbrance. The Net Stable Funding Ratio ("NSFR") was implemented by the PRA on 1 January 2022. The four-quarter average ratio to 31 July 2024 was 134.4% (31 July 2023: 126.0%), comfortably in excess of the binding minimum requirement of 100%.

Liquidity is managed in accordance with regulatory requirements and the ILAAP which is approved by the board. The group's liquidity coverage ratio ("LCR") is significantly above the regulatory requirement. This is because the nature of the funding model means that it holds higher inflows compared to outflows within the 30-day period and significantly more high quality liquid assets ("HQLA") than is required under regulatory metrics. The group's 12-month average LCR to 31 July 2024 was 1,034% (31 July 2023: 1,143%).

In addition to regulatory metrics, the Banking division also uses a suite of internally developed liquidity stress scenarios to monitor its potential liquidity exposure daily and determine its HQLA requirements. This ensures that the Banking division remains within risk appetite and identifies potential areas of vulnerability. The outcomes of these scenarios are formally reported to the ALCO, GRCC and board.

Mitigation (Audited)

This funding approach is based on the principles of "borrow long, lend short" and ensuring a diverse range of sources and channels of funding. Economic uncertainty has continued over the last 12 months, increasing market competitiveness. Despite the challenges this has presented, the Banking division's ability to fund the loan book has been largely unaffected. The Banking division has actively sought to grow the retail deposit base and optimise the funding mix in light of market conditions. These deposits continue to remain diverse in terms of source, type and tenor, ensuring flexibility and greater optionality. Retail and corporate customer funding is supported by wholesale funding programmes including unsecured medium-term notes and securitisation programmes. The bank has also drawn against the Bank of England's Term Funding Scheme ("TFSME"), that was introduced to support lending in the then prevailing low interest rate environment. Two repayments of the TFSME have been made this year totalling £490 million, with £110 million remaining to be repaid in the coming year. Despite movements in the Banking division's funding base, the balance sheet and subsequent funding plan continues to remain well within internal risk appetites and total available funding is kept well in excess of the loan book funding requirement to ensure funding is available when needed as shown by the NSFR metrics.

The following tables analyse 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 2024							
Deposits by banks	**0.9**	**53.2**	**86.1**	**–**	**–**	**–**	**140.2**
Deposits by customers	**708.9**	**2,309.5**	**1,502.1**	**2,008.7**	**2,474.8**	**–**	**9,004.0**
Loans and overdrafts from banks	**46.7**	**9.9**	**1.4**	**2.7**	**111.7**	**–**	**172.4**
Debt securities in issue	**–**	**40.0**	**119.3**	**195.4**	**1,541.7**	**409.8**	**2,306.2**
Subordinated loan capital	**–**	**2.0**	**–**	**2.0**	**16.0**	**209.0**	**229.0**
Total	**756.5**	**2,414.6**	**1,708.9**	**2,208.8**	**4,144.2**	**618.8**	**11,851.8**

	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 2023							
Deposits by banks	10.3	43.7	89.7	–	–	–	143.7
Deposits by customers	175.1	1,838.3	1,972.9	1,869.6	2,140.6	–	7,996.5
Loans and overdrafts from banks	31.8	25.2	7.6	243.8	383.2	–	691.6
Debt securities in issue	–	46.7	132.3	168.1	1,705.1	416.3	2,468.5
Subordinated loan capital	–	2.0	–	2.0	16.0	213.0	233.0
Total	217.2	1,955.9	2,202.5	2,283.5	4,244.9	629.3	11,533.3

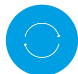
Monitoring

Funding and liquidity are measured and monitored on a daily basis with monthly reports forming standing items for discussion at both the ALCO and GRCC, with the Risk Committee maintaining overall oversight. Any liquidity and funding issues are escalated as required to the ALCO, and then onwards to the GRCC and Risk Committee.

The Banking division operates a three lines of defence model with the treasury function responsible for the measurement and management of the bank's funding and liquidity position and asset and liability management risk providing independent review and challenge. ALCO provides oversight of funding and liquidity and supports the relevant senior managers in discharging their senior management function responsibilities.

Outlook

In January 2024, the FCA announced a review of historical motor finance commission arrangements. The immediate market reaction to the announcement was limited, largely comprising of a number of enquiries from savers and a small value of deposits being withdrawn, notice given, or renewed but on a shorter duration than previously. Further to this, the Banking division expects to lose a number of rate-sensitive corporate customers over the course of the coming year. The expected attrition from this segment has been replaced with retail deposits, reflecting the strength of the retail deposit franchise. The Banking division continues to access wholesale funding, for example, in November 2023 our wholesale funding portfolio was further enhanced by the AT1 transaction. During the 2025 financial year, focus will be on renewing and increasing securitisation programmes. The funding model continues to provide robust support, and the strength of our "borrow long, lend short" business model provides significant funding resilience, resulting in a stable funding base.



Legal and regulatory risk

Legal and regulatory risk is the risk of non-compliance with laws and regulations which could give rise to fines, litigation, sanctions and the potential for material adverse impact upon the group.

Exposure

The group is subject to the laws and regulations of the various jurisdictions in which it operates. This exposure includes risks of breaching financial services regulations and laws, as well as action resulting from contractual breach and litigation (including direct customer claims based on regulatory breaches).

Failure to comply with existing legal or regulatory requirements, or to adapt to changes in a timely fashion in the course of the provision of products and services, may result in legal and regulatory risk.

Changes could also affect our financial performance, capital liquidity and access to markets in which we operate.

With an increased regulatory focus on protecting customers, any failure to implement and/or adapt to these changes quickly may expose the group to reputational harm, legal or regulatory sanctions and/or customer redress requirements.

Risk Appetite

The group has minimal appetite for legal and regulatory risk, seeking to operate to high ethical standards and expecting its staff to operate in accordance with the laws, regulations and voluntary codes which impact the group and its activities.

The group seeks to avoid knowingly operating in a manner which is contrary to the provisions of the regulatory system and has no tolerance for knowingly transacting business outside the scope of its regulatory permissions or relevant legislation.

The group will respond in an appropriate, risk-based and proportionate manner to any changes to the legal and regulatory environment, as well as changes driven by any strategic initiatives.

Measurement

The group monitors and manages its legal, regulatory and compliance risks through regular engagement and interaction across the organisation, and the implementation of appropriate policies, standards and procedures. This includes reliance on a formal horizon scanning capability to identify changes, as well as regular management information which enables oversight and challenge via RCCs.

Mitigation

The group's Enterprise Risk Management Framework, including its suite of policies and standards and the associated three lines of defence operating model, sets common control objectives across risk disciplines. This consistent approach to setting and embedding control expectations acts to mitigate the likelihood and impact of events which could give rise to legal and regulatory risk.

Clear accountability and ownership for meeting regulatory requirements is overseen by business heads, thus driving oversight and action.

Dedicated specialist legal and compliance teams with relevant knowledge and experience provide advice, support and challenge to the group's businesses, enabling alignment with legal and regulatory requirements. These teams further have the ability to consult with external experts on technical or otherwise complex matters as appropriate.

Internal change and investment processes consider regulatory and legal inputs, such that sufficient funding can be allocated to deliver system and process changes in line with evolving regulatory and legal expectations.

Monitoring

In line with the group's three lines of defence model, businesses monitor their alignment with standards on an ongoing basis. Relevant management information, including the output of quality assurance activities, is reviewed by the RCCs.

An independent compliance monitoring team undertakes assurance to assess compliance with key regulations and the effectiveness of associated controls. Reports are provided to management and any remedial actions identified are tracked to completion.

Legal and compliance teams monitor for external developments through both structured horizon scanning activity, regular external updates on relevant issues and engagement in industry forums.

Outlook

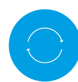
Legal and regulatory risk is inherently elevated in financial services as an industry. The UK government's current proposals to reform UK financial services regulation and potential divergence between the UK and EU regulatory regimes could affect and provide further challenges for the group.

The inherent risk exposure for the group continues to increase across the jurisdictions in which it operates. The nature and scale of any risk exposure related to Consumer Duty by the FCA remains to be seen as it continues to embed across the industry. Separately, the group's retail lending offerings in the Republic of Ireland operate in an environment with increasing regulatory activity – the Central Bank of Ireland continues to embed further regulatory expectations with respect to operational resilience and securing customer interests.

The group operates strong controls which limit residual risk exposure arising from regulatory expectations, however the external drivers increasing inherent risk may have a follow-on impact to the group's residual exposure.

The group faces legal risks that could result in substantial monetary damages or fines. Specifically, the group has received a number of complaints, some of which are with the Financial Ombudsman Service, and is subject to a number of claims through the courts regarding historical commission arrangements with intermediaries on its Motor Finance products. This inflow of complaints commenced following the FCA's 2021 changes to its Handbook rules after its consideration of historical motor finance commission arrangements and has increased following the January 2024 publication of three FOS decisions (against Barclays, Lloyds and BMW Financial Services) on this topic, and the FCA's simultaneous announcement of a review of this sector. There are currently cases considering some of the issues involved in historic motor commission claims (i.e. prior to the FCA's 2021 Handbook rule changes) before the superior courts. The group is a party to one of these court cases, but they will be of general application. Given the significance of these cases, they may ultimately be determined by an Appeal Court.

Depending on the final outcome of the courts' rulings and/or the outcome of the FCA's review work, there may be a potential future obligation to compensate customers with historic claims. It is not currently possible to estimate the financial impact (if any) or scope of these or any future related claims as it is not currently possible to assess whether the group's conduct pre 2021 may be considered by one of these decision-makers to have been in breach of the relevant FCA Handbook rules at that time and/or general legal requirements. The group considers that it has been compliant with the relevant Handbook rules and general legal requirements at all times.



Non-traded market risk

Non-traded market risk is the current or prospective risk to the group's capital or earnings arising from changes in interest rates, credit spreads and foreign exchange rates applied to the group's non-trading book.

Exposure

The group's non-traded market risk exposure consists of interest rate risk in the banking book ("IRRBB"), credit spread risk in the banking book ("CSRBB") and foreign exchange risk.

IRRBB is predominantly incurred in the Banking division as a result of its lending and funding activities and from funding activities for the group holding company. Interest rate risk in the other divisions is immaterial.

CSRBB arises from the HQLA portfolio held in the Banking division.

Foreign exchange risk is incurred across the group and arises from foreign currency loan commitments; translating foreign currency assets, liabilities and profits; and non-sterling investments.

Risk Appetite

The group has a restricted 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 this is not possible, vanilla interest rate swaps are used to hedge the risk within prescribed limits.

The group has a limited appetite for credit spread risk which occurs due to the HQLA portfolio. The portfolio primarily comprises of highly rated UK and European supranational debt, sovereign debt, agency bonds and UK covered bonds.

The group has a restricted appetite for foreign exchange risk. It avoids large open positions and sets individual currency limits to mitigate the risk.

Measurement

Interest rate risk

The group recognises three main sources of IRRBB which could adversely impact future income or the value of the balance sheet:

- repricing risk – the risk presented by assets and liabilities that reprice at different times;
- embedded optionality risk – the risk presented by contractual terms embedded into certain assets and liabilities; and
- basis risk – the risk presented by a mismatch in the reference interest rate for assets and liabilities.

IRRBB is assessed and measured on a behavioural basis by applying key behavioural and modelling assumptions including, but not limited to, those related to fixed rate loans subject to prepayment risk, the behaviour of non-maturity assets and liabilities, the treatment of own equity, and the expectation of embedded interest rate options. This assessment is performed across a range of regulatory prescribed and internal interest rate shock scenarios approved by the bank's ALCO.

Two measures are used for measuring IRRBB, namely Earnings at Risk ("EaR") and Economic Value ("EV"):

- EaR measures short-term impacts to earnings, highlighting any earnings sensitivity, should interest rates change unexpectedly.
- EV measures longer-term earnings sensitivity due to interest rate changes, highlighting the potential future sensitivity of earnings, and any risk to capital.

No material exposure exists in the other parts of the group, and accordingly the analysis below relates to the Banking division and company.

EaR impact (audited)

The table below sets out the assessed impact on group net interest income over a 12-month period from interest rate changes. The results shown are for an instantaneous and parallel change in interest rates at 31 July 2024:

	31 July 2024 £ million	31 July 2023 £ million
0.5% increase	**0.1**	4.5
2.5% increase	**0.5**	22.6
0.5% decrease	**(0.1)**	(4.5)
2.5% decrease	**(0.8)**	(22.8)

The group also monitors any potential earning exposure from basis mismatches between its lending and funding activities on a monthly cadence. To provide a clearer assessment of the group's exposure to interest rate changes, basis risk is excluded from the EaR numbers.

The group's EaR at 31 July 2024 reflects its policy to ensure exposure to interest rate shocks is managed within the group's risk appetites. The EaR measure is a combination of the group's repricing profile and the embedded optionality risk, which is negligible in the current interest rate environment.

The decrease in EaR reflects the bank's strategy to manage and minimise interest rate risk, to that required to operate efficiently.

EV impact (audited)

The table below sets out the assessed impact on group EV, which measures the potential change in the balance sheet value following an instantaneous and parallel change in interest rates at 31 July 2024:

	31 July 2024 £ million	31 July 2023 £ million
0.5% increase	**3.5**	4.4
2.5% increase	**17.2**	21.5
0.5% decrease	**(3.5)**	(4.4)
2.5% decrease	**(14.4)**	(21.9)

The group's EV at 31 July 2024 reflects its policy to ensure exposure to interest rate shocks is managed within the group's risk appetites. The EV measure is a combination of our repricing profile and the embedded optionality to cover interest rate floors within the bank's lending and borrowing activities.

Credit spread risk in the banking book

The group's HQLA portfolio is held for the purpose of liquidity management. The table below sets out the total exposure to each asset class held within the HQLA portfolio by the Banking division.

Credit spread risk arises on the bonds held in the HQLA portfolio and specifically to the change in the value of a bond relating to a change in a bond's credit spread, which is the difference between a bond's total interest rate and the corresponding risk-free interest rate, and represents the perceived creditworthiness of that bond.

In the HQLA portfolio, each bond's interest rate exposure is hedged, leaving the residual credit spread, which is monitored, assessed and measured. Measurement techniques include a historical stress methodology that is consistent with PRA requirements. The historical stress estimate is monitored against an internal risk appetite limit. Credit spread risk is only realised if the bond is sold and the swap hedging the interest rate risk is cancelled before maturity.

	31 July 2024 £ million	31 July 2023 £ million
Cash and balances at central banks	**1,584.0**	1,937.0
Sovereign and central bank debt (LCR Level 1)	**383.7**	186.1
Covered bonds (LCR Level 1)	**187.7**	106.3
Supranational bonds (LCR Level 1)	**145.5**	–
Total treasury liquid asset holdings	**2,300.9**	2,229.4

At 31 July 2024, the Banking division did not hold any encumbered assets in its HQLA portfolio or any encumbered UK government debt in its sovereign and central bank debt holdings.

Foreign exchange risk (audited)

The group recognises three categories of FX risk:

1. transaction risk: the risk relating to foreign currency loan commitments;
2. translation risk: the risk relating to converting foreign currency balances and profits into sterling;
3. structural FX risk: the risk relating to the potential impact on capital ratios relating to non-GBP exposures.

Transaction risk is measured daily within treasury based on net cash flows and contracted future exposures. Treasury's strategy is to hedge the FX risk as soon as it arrives, and to have zero FX transaction exposure each day at close of business.

Translation risk is monitored within each business monthly, translating non-UK profits regularly to mitigate fluctuations in foreign exchange rates. The group's largest FX exposure is from its euro lending and funding activities. A change in the euro exchange rate would increase the group's equity by the following amounts:

	31 July 2024 £ million	31 July 2023 £ million
15% strengthening of sterling against the euro	**0.5**	0.3

The bank seeks to match its assets and liabilities by currency; any remaining gaps are hedged using exchange rate derivative contracts. Details of these derivatives are disclosed in Note 13 "Derivative Financial Instruments".

Structural FX risk is assessed at least annually as part of the group's ICAAP and is deemed to be immaterial.

The group also has exposures which arise from share trading settled in foreign currency in Winterflood 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.

Mitigation (Audited)

The group maintains a limited appetite for interest rate risk with simple hedging strategies in place to mitigate risk. The Banking division's treasury is responsible for hedging the non-traded interest rate risk. Any residual risk which cannot be naturally matched is hedged utilising vanilla derivative transactions to remain within prescribed risk limits. The Group Asset and Liability Committee ("GALCO") and ALCO are respectively responsible for approving any changes to hedging strategies before implementation for the company and bank.

Derivative transactions can only be undertaken with approved counterparties and within the respective credit risk limits assigned to those counterparties.

All marketable securities are "hold to collect and sell" and have their interest rate exposure hedged on a back-to-back basis with vanilla interest rate swaps. The exception to this is the £250 million group bond held in company, which is hedged as part of the portfolio mix.

Foreign exchange exposures are generally hedged using foreign exchange forwards or currency swaps with exposures monitored daily against approved limits.

Monitoring

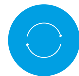
The GALCO monitors the non-traded market risk exposure across the group's balance sheet. ALCO monitors the non-traded market risk exposure for the Banking division. Treasury is responsible for day-to-day management of all non-traded market risks. Day-to-day oversight is exercised via a combination of daily reporting by the treasury finance team, and divisional RCC review and challenge. Further independent oversight is provided via the second line of defence through the asset liability management risk team ("ALM Risk"), with monthly reporting into ALCO and GALCO.

Banking businesses have operational processes and controls in place to monitor their exposure to IRRBB and ensure it remains within approved local risk appetites. Any exceptions are reported to ALM Risk on the same working day. Residual IRRBB that is not transferred into treasury for central management through the Banking division's funding transference process, is monitored by the businesses through their respective RCCs, treasury's first line of defence, and ALM Risk.

ALM Risk is responsible for maintaining processes and controls to monitor the group position and report exposures to ALCO and GALCO, and subsequently to GRCC and the Risk Committee. An ALM system is deployed as the primary source for IRRBB reporting and risk measurement.

Outlook

The group expects exposure to interest rate risk, credit spread risk and foreign exchange risk to remain broadly stable.



Operational risk

Operational risk is the risk of loss or customer harm resulting from inadequate or failed processes, people and systems or external events. This includes the risk of being unable to recover systems quickly and maintain critical services.

Exposure

Operational risks arise from day-to-day business activities, many of which have the potential to result in direct or indirect financial loss or adverse impact, including impact to the group's financial performance, levels of customer care or reputation.

The group strives to deliver operational efficiency in the implementation of its objectives and accepts that a level of loss may arise from operational failure. Implementing key controls and monitoring ensures that risks are managed, and losses remain within acceptable limits.

Impacts to the business, customers, third parties and the markets in which the group operates are considered within a maturing framework for resilient delivery of our important business services and setting of impact tolerances. Ongoing work will further enhance stress testing requirements.

Operational risk is a core component of the Enterprise Risk Management Framework and is embedded in day-to-day business activities. Requirements and responsibilities are set out in the Operational Risk Policy and supporting standards and procedures as part of the framework to identify, assess, mitigate, monitor and report the operational risks, events and issues that could impact the achievement of business objectives or impact core business processes.

Businesses are responsible for the day-to-day management of operational risk, with oversight from the risk and compliance function, and independent assurance activities undertaken by group internal audit.

The group's exposure to operational risk is impacted through the need to engage with innovative, dynamic third parties; delivery of new products and services; and effective use of reliable data in a changing external environment, to support delivery of the group's strategic objectives.

Alongside ongoing risk and control monitoring, operational risk oversight is aligned across the following risk categories:

IT resilience risk

The group's ability to adapt to disruptions, while maintaining continuous operations on critical processes and safeguarding technology in the face of severe but plausible adverse events, operational disruptions or incremental changes. The group recognises the significant regulatory focus on resilience with increased reliance on remote working, use of third parties, cloud solutions and automated digital solutions.

How this risk is managed

The group has invested to respond to new regulations and standards and develops technology and implements change with resilience inbuilt as a principle. The priority is to improve the experience of, and minimise harm to, customers in the event of operational disruption and we remain on track to meet our regulatory commitments.

A multi-year programme of work continues to maintain, enhance and embed a sustainable approach to resilience through continuous monitoring, alongside disaster recovery testing, to minimise the impacts on our customers and key stakeholders. Additionally, the group tests critical business recovery and contingency plans.

Financial crime and fraud risk

The risk that the group's products and services are used to facilitate financial crime and fraud against the group, its customers and third parties. If the group does not take measures to minimise the impact of financial crime and fraud risk, or adhere with the relevant laws and regulations, it risks financial loss, regulatory fines and reputational damage.

The group has an established control framework to both prevent and mitigate the financial crime fraud risks, including risk appetite statements, policies, standards and procedures that are consistent with the group's purpose and designed to safeguard the interest of customers.

Whilst external environmental drivers may now be easing cost of living causal factors, the opportunism and sophistication of individuals and groups, and the technology to support financial crime and fraud, is increasing.

How this risk is managed

The group has established a framework of systems and controls to prevent and detect financial crime and fraud. The framework is continuously evolving and enhancing its controls to prevent its products and services being used to facilitate financial crime and fraud and it takes advantage of new technologies to combat emerging threats.

Third-party risk

The risks associated with ensuring that the group's outsourced and offshoring arrangements are controlled effectively, including the risk of failure which may impact customer service; the potential cessation of specific activities; the risk of personally identifiable information or group sensitive data being exposed or exploited; and the risk of financial, reputational and regulatory censure should the third party enter into any illegal or unethical activities.

In line with the group's increased strategic appetite for material outsourcing to provide greater agility to meet strategic goals, most notably the outsourcing of our technology services to a third party in the last 12 months, our risk frameworks are evolving to maintain effective risk management.

How this risk is managed

The group continues to enhance its third-party risk and controls framework, and oversight approach, with ongoing performance management and due diligence undertaken, to ensure that supplier relationships are controlled effectively.

Workplace risk (property, physical and personal security risk)

The risk to the safety and protection of colleagues, customers and physical assets arising from unauthorised access to buildings, theft, robbery, intimidation, blackmail, sabotage, terrorism and other physical security risks.

How this risk is managed

Physical and personal security standards are managed by the group's Property and Workplace team. Controls are in place to protect physical assets, as well as the security of colleagues and customers.

Cyber and information security risk

The risks arising from inadequate internal and external information and cyber security, where failures impact the confidentiality, integrity and availability of electronic data.

How this risk is managed

The group uses an industry-standard framework to anchor its cyber risk management, continually assessing and developing its maturity. The group maintains robust cyber and information security standards and policies, and controls are in place and operating, with periodic assurance completed. This includes threat intelligence, education and awareness, partnerships with strategic partners and effective deployment across the three lines of defence model to manage and undertake assurance of controls within the group and our third parties.

Data management

Poor-quality data can lead to loss, customer disruption, potential misrepresentation in regulatory reporting, non-compliance with General Data Protection Regulations ("GDPR") and unnecessary rework.

Quality data underpins decision-making at all levels of the organisation.

The group views data risk holistically through the life cycle from acquisition to usage and eventual disposal.

Ongoing development and enhancement of the group's data strategy, methodology, framework and governance to identify, assess, treat and report risk and issues across our critical data elements continues.

How this risk is managed

The group has a maturing data management framework governing the creation, storage, distribution, usage and retirement of data, aligned with data management industry standards and GDPR requirements. Our current focus is on enhancing and maturing our data governance frameworks.

Change risk

The risks associated with a failure to execute and deliver business and technology change that could result in an inability to meet our strategic objectives, including failing to meet our customer, regulator, colleague or shareholder expectations, as a group and within individual businesses.

How this risk is managed

The group has processes and procedures which cover all levels of change management to ensure appropriate prioritisation, oversight and decision-making across the investment portfolio.

This approach ensures that the risks are managed effectively, and that investment and capacity are prioritised to minimise the overall risks to the group in line with risk appetite.

Model risk

The group has adopted the PRA's SS1/23 definition of a model, defined as "a quantitative method, system, or approach that applies statistical, economic, financial, or mathematical theories, techniques, and assumptions to process input data into output". Model input data could be quantitative and/or qualitative, or expert judgement-based, and model outputs are quantitative or qualitative.

The use of models invariably presents an element of model risk, and the group has adopted the European Directive 2013/36/EU (Article 3(1)(11)) definition of model risk i.e. "the potential loss an institution may incur, as a consequence of decisions that could be principally based on the output of internal models, due to errors in the development, implementation or use of such models." Model risk increases with greater model complexity, higher uncertainty around inputs and assumptions, broader use, and larger potential impact. If left unmitigated, model risk may lead to poor decision-making, misreporting or a failure to identify risks.

How this risk is managed

The group has a robust model risk framework embedded across the group and deploys a risk-based approach to classify each model according to materiality. This is underpinned by a Model Risk Policy and various supporting standards and procedures.

The group has adopted a three lines of defence approach to the management of model risk, with the first line formed by model owners and model developers focusing on the build, maintenance and monitoring of models. The second line of defence is composed of two teams: the group model risk management and the risk operations and governance teams. The former is responsible for the model risk policy and associated standards along with the independent validation exercises across the group. The latter teams are responsible for the management of the model inventory (master source of the group's model management information) and the aggregate model risk reporting (based on governance status and performance of models). Finally, the third line of defence is formed by our internal audit function performing independent audits.

The Model Governance Committee is the primary model approval authority and body responsible for overseeing the framework used to manage model risk.

People risk

People risk is defined as the risk of not having sufficiently skilled, capable and engaged colleagues, who are clear on their responsibilities and accountabilities and who behave in an ethical way. This could lead to inappropriate decision-making that is detrimental to customers, colleagues, other key stakeholders or shareholders and could ultimately lead to regulatory sanction.

How this risk is managed

The group has a range of key risk indicator ("KRI") metrics in place which help to measure and report people risk. Operational controls are designed to mitigate the risks associated throughout each element of the colleague life cycle. Group-wide systems provide tools and online guidance to all colleagues to support them in discharging their accountabilities and creating a culture in which everyone can thrive. Periodic employee engagement surveys are completed.

Risk Appetite

The group is prepared to tolerate a level of operational risk exposure within agreed thresholds and limits but has limited appetite for operational risks with significant residual exposure and as such requires a near-term mitigation strategy for any such identified risks.

A level of resilience risk from internal and external events is tolerated; however, immediate steps are taken to minimise customer disruption through recovery within pre-defined parameters and timelines. In line with the group's conservative approach to risk management, controls are implemented in a manner that reduces the likelihood of higher-impact risk events crystallising. Further, the group monitors aggregate loss trends and seeks to limit aggregate losses arising in any given year.

Measurement

Operational risk is measured through key risk indicators, observed impact of risk events, periodic risk and control self-assessments and scenario analysis.

Material operational risk events are identified, reviewed and escalated in line with criteria set out in the Enterprise Risk Management Framework and a supporting suite of standards and policies and use of common systems.

Each key risk within operational risk has a set of defined KRIs which are regularly monitored via local, divisional and group committees with exceptions reported to GRCC and the Risk Committee.

Lessons are learned and root cause analysis is undertaken, with appropriate management action plans implemented. Losses may result from both internal and external events and are categorised using risk categories defined as part of the taxonomy deployed within our risk management tool.

Mapping to the Basel II categories is disclosed to support industry data and trends analysis. Due to the nature of risk events, losses and recoveries can take time to crystallise and therefore may be restated for prior or subsequent financial years.

External fraud continues to be volumes of facility misuse, driven by economic pressures rationalising fraudulent behaviour. Cifas data indicates an increase of 55% across asset finance sectors in the last Fraudscape report.

The table below outlines the operational risk losses by Basel category.

The table below outlines the operational risk losses by Basel category:

Operational risk losses by Basel category[1,2,3]	% of total volume 2024	% of total volume 2023	% of total losses 2024	% of total losses 2023
Business disruption and system failures	**1%**	1%	**1%**	1%
Clients, products and business practices	**6%**	4%	**23%**	11%
Execution, delivery and process management	**21%**	16%	**28%**	27%
External fraud	**72%**	78%	**48%**	61%
Internal fraud	**0%**	0%	**0%**	0%
Employment practices and workplace safety	**0%**	0%	**0%**	0%
Damage to physical assets	**0%**	0%	**0%**	0%

1. Losses greater than or equal to gross £5,000, excluding unexpected losses (e.g. remediation).
2. Historical loss amounts can change due to the dynamic and ongoing reporting of recoveries.
3. Percentages have been rounded where appropriate.

Mitigation

The group seeks to deliver its strategic objectives and maintain operational resilience, and accepts a level of loss may arise from operational failure. Key to this is continued management of operational risks and key controls, monitoring and governance, with appropriate escalation and oversight to manage operational risks and losses within acceptable limits.

We operate controls over the group's most significant operational risks ensuring there are near-term mitigation strategies where risks are greatest and ensure these are sufficient to prevent material disruption of our service to customers and/or our businesses.

Monitoring

The board delegates authority to the GRCC to manage the group's operational risk framework on a day-to-day basis and provide oversight of its exposure. The committee is supported by the Operations and Technology Risk Committee which is responsible for oversight of technology, information security, third-party and certain other resilience-related risks. Regular management information is presented to and discussed by these committees and additionally local business RCCs.

The Risk function has a dedicated operational risk team which is responsible for maintaining the framework, tool sets and reporting necessary for effective operational risk management. The group has identified, assessed and monitored all key operational and resilience risks, including undertaking a biannual assessment of control effectiveness, monitoring key risk indicator trends and escalating events, in accordance with policy and standard requirements. In the second line, operational risk managers are aligned to businesses, with an additional technical second line of defence team providing specialist oversight of technology, information security, data, resilience and third-party risks. Monitoring of all operational risk domains is conducted via divisional RCCs with escalation to the GRCC and Risk Committee as appropriate.

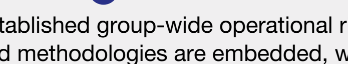
The delivery of a standardised framework and management information across all operating risks is complemented by periodic thematic reviews conducted on key focus areas and reviewed by the GRCC and Risk Committee. In the last year these have included change execution, including technology services material outsourcing, the Asset transformation programme, third party risk, operational resilience, and fraud. Further independent assurance is obtained through reviews conducted by the compliance monitoring team and specialist external partners (e.g. cyber risk management) and group internal audit.

Additionally, the group has an embedded Whistleblowing Policy which sets out the high level framework for meeting regulatory requirements in relation to the handling of reportable concerns by whistleblowers. The policy and supporting standard sets out the process to raising aspects of concerns by all employees, past and current, across the group.

Furthermore, the Risk function performs a level of oversight of the group's business planning process, including analysis of industry trends or forward-looking threats that could lead to material impact on our ability to deliver on the strategic objectives or result in a significant impact on assessment of operational risk capital.

Stress Testing

The group develops and maintains a suite of operational risk scenarios using internal and external data. These scenarios provide insights into the stresses the business could be subject to given plausible but severe circumstances. Scenarios cover material operational risks across key risk domains and are developed by businesses and senior management across the group with the process facilitated by the Risk function, GRCC and the Risk Committee, as part of the ICAAP process, and support the setting of operational risk Pillar 2a capital. Management actions are agreed and monitored and linked with business resilience and continuity testing where appropriate.



Outlook

Established group-wide operational risk frameworks and methodologies are embedded, with enhancements planned as part of a multi-year investment in process, risk and controls transformation.

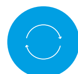
In addition to the continuing investment required to sustain the group's systems and processes, an accelerating pace of external technology and market changes are increasing the imperative for the group to evolve and adapt its processes, risks and controls and the associated necessary staff capabilities.

Possible outcomes of the FCA's review of historical motor finance commission arrangements could strain operations and technology capacity, notwithstanding advance preparatory work.

Allocation of capital investment funding and change delivery capacity continue to be areas of management focus, to enable safe delivery of change programmes.

Changing internal and external environment raises challenges and impacts managing our people.
The group continues to plan and predict resource needs to support its strategy, change execution and wider technology and information transformation, however continued management strain is anticipated.

Financial crime and fraud risks are inherent in doing business in financial services, necessitating the requirement to maintain effective systems and controls.



Reputational risk

Reputational risk is the risk of detriment to stakeholder perception of the group, leading to impairment of its reputation and its future goals, due to any action or inaction of the company, its employees or associated third parties.

Exposure

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. The group remains exposed to potential reputational risk in the course of its usual activities, such as through employee, supplier or intermediary conduct, the provision of products and services, crystallisation of another risk type, or as a result of changes outside its influence.

Risk Appetite

The group has a strong reputation which it has built over many years and considers it a valuable asset, managing it accordingly through consistent focus on a set of cultural and ethical attributes. The group has no tolerance for behaviours that contradict these attributes in a manner that could harm it, and avoids engaging with third parties, markets or products that would inhibit the group's adherence to them.

The group seeks to operate in a responsible manner that has client outcomes at the heart of everything that it does. Protection of the group's reputation is firmly embedded in its business-as-usual activities, and the group, as part of its overall strategy, adopts a prudent approach to risk taking.

The group also recognises that its reputation is linked to broader responsibilities to help address social, economic and environmental challenges, and maintains appropriate sustainable objectives that the group sets itself as a business.

Core Drivers of Reputational Risk

Measurement

Risk identification and subsequent management actions are embedded within business-as-usual activities.

Additionally, the group actively monitors for changes in the business, legal, regulatory and social environment in which it operates to ensure the timely identification, assessment and mitigation of any potential reputation concerns that may arise following changes in the expectations of key stakeholders.

Mitigation

Reputational risk management is embedded through the organisation, including via:

- focus on employee conduct, with cultural attributes embedded throughout the group;
- supplier and intermediary conduct management through the relationship life cycle;
- 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.

In addition, the group maintains policies and standards that serve to protect the group's reputation, most notably those covering anti-bribery, conflicts of interest, dignity at work and high-risk client policies. These are regularly reviewed and updated with staff receiving annual training to reinforce understanding of their obligations.

The group crisis management team supports management of cases where there is a potential risk of reputational impact on the group on an exceptional basis. A communications plan also forms part of the group's Recovery Plan, which sets out core principles to ensure fair and transparent communication, to control the risk of misinformation and minimise any negative reaction to the implementation of recovery options.

Monitoring

Reputational risk is considered across all three lines of defence as part of oversight and assurance activities.

Adherence to the group's cultural framework is monitored through the culture dashboard, which is reported to the board on a quarterly basis and includes key metrics in relation to culture across the group and each of its divisions. Customer forums are also in place across the group, reinforcing its commitment to favourable client outcomes. Regular engagement with investors also enables open communication with this stakeholder group.

A series of sustainability forums and committees operate at a divisional and group level to ensure that the group appropriately addresses its sustainable and responsible priorities and expectations of wider stakeholder groups.

Outlook

Established group-wide and employee-level focus on responsibility and sustainability enables an approach in all businesses that aligns to a range of stakeholder expectations, which is supported by group-level oversight.

Increased media attention, including in relation to the FCA's review of historical motor finance commission arrangements, may lead to an adverse perception of the group.

Traded market risk

Traded market risk is the risk that a change in the value of an underlying market variable will give rise to an adverse movement in the value of the group's trading assets and trading liabilities.

Exposure

Traded market risk in the group only arises in Winterflood, whose core business is to provide liquidity and interact with the market on a principal basis, holding positions in financial instruments as a result of its client facilitation activity.

Winterflood operates as a market maker in equities, exchange-traded products, investment trusts and sovereign and corporate bonds, operating across three primary markets: the United Kingdom, North America and Europe. For hedging purposes, derivatives are also traded, although these are limited to listed futures in UK equity and fixed income markets and FX forwards.

Risk Appetite

Winterflood's strategic objectives and business plan are centred on its ability to continue transacting in the markets in which it operates, in the manner it has historically. The group sets its risk appetite accordingly, acknowledging that an acceptable level of traded market risk must be incurred for the business to operate effectively.

Winterflood maintains sufficient levels of capital and liquidity to cover its traded market risk exposure.

Measurement

Traded market risk is measured against a set of defined risk limits set at global, desk and individual stock levels, on both an intraday and end-of-day basis. These limits are monitored via a combination of internally developed and external systems on an intraday and overnight basis against a limit framework aligned to the group's risk appetite. The framework incorporates:

- market risk appetite being managed via trading book exposure limits. The limits are set on gross cash positions, also the sterling value of a basis point ("SV01") for products with interest rate exposure;
- adoption of a real-time limit monitoring system, along with end-of-day summary reports to track equity, fixed income and FX exposures against agreed limits; and
- minimal exposure to derivatives (limited to hedging of interest rate exposures and hedging of FX positions resulting from positions in securities settling in foreign currency).

Mitigation (Audited)

The management of traded market risk is fully embedded within Winterflood's training and governance framework. Key attributes include:

- the provision of training to all new joiners and newly certified staff by the Business and Trading Controls team. This training includes certain market risk considerations as well as details on order entry controls;
- the maintenance of risk mandates for all traders, detailing the business' market-making strategy, controls frameworks and policies and procedures;
- oversight of all risk issues, including traded market risk, via Winterflood's RCC. Management information and key risk indicators are reported to the committee on a monthly basis with escalation to the GRCC and Risk Committee where needed;
- the maintenance of a group Market Risk Policy and a specific Traded Market Risk Standard at Winterflood, outlining minimum governance requirements and escalation. Implementation of these requirements is achieved through documented front office procedures and risk procedures; and
- order entry controls in place across the trading floor limiting, amongst other trading variables, the executable value per order (these are documented in a front office procedure).

Monitoring

Building on the use of real-time limit monitoring, the monitoring of traded market risk is embedded across all three lines of defence. Top-down visibility is exercised via Winterflood's RCC, which retains oversight of core traded market risk management information and key risk indicators, as well as stress testing outputs, policies and standards.

The Winterflood risk team works in conjunction with the Business and Trading Controls team to ensure the management of traded market risk is correctly aligned to applicable controls. To support this, management information dashboards are utilised alongside daily reporting to help manage market risk on a daily and intraday basis.

Outlook

Several themes have driven markets over the past 12 months: inflation, high interest rates, supply chain issues, industrial action, geopolitical uncertainty and the knock-on impacts these factors have had on the economy. These factors, coupled with a new administration in the UK and a potential new administration in the US, will continue to be themes over the next 12 months, with the potential to keep market liquidity low and suppress some market valuations.

Trading Financial Instruments: Equity Shares and Debt Securities (Audited)

The group's trading activities relate to Winterflood. The following table shows the group's trading book exposure to market risk:

	Highest exposure £ million	Lowest exposure £ million	Average exposure £ million	Exposure at 31 July 2024 £ million
For the year ended 31 July 2024				
Equity shares				
Long	**54.9**	**19.0**	**26.0**	**25.8**
Short	**35.1**	**3.8**	**7.2**	**9.3**
Net position			**18.8**	**16.5**
Debt securities				
Long	**31.9**	**4.7**	**12.9**	**16.0**
Short	**12.5**	**1.9**	**4.4**	**5.5**
Net position			**8.5**	**10.5**

	Highest exposure £ million	Lowest exposure £ million	Average exposure £ million	Exposure at 31 July 2023 £ million
For the year ended 31 July 2023				
Equity shares				
Long	68.3	21.8	28.3	27.8
Short	20.1	4.7	7.7	6.4
Net position			20.6	21.4
Debt securities				
Long	37.4	10.6	15.8	15.2
Short	11.8	3.6	6.4	3.5
Net position			9.4	11.7

With respect to the long and short positions on debt securities, £11.1 million and £0.1 million (2023: £11.0 million and £0.3 million) were due to mature within one year respectively.

The average exposure has been calculated on a daily basis. The highest and lowest exposure columns reflect the absolute maximum and minimum long and short debt and equity exposures across the relevant period (rather than the maximum and minimum net position).

Based upon the 31 July 2024 trading book exposure given above, a hypothetical fall of 10% in equity prices would result in a £1.7 million decrease (31 July 2023: £2.1 million decrease) in the group's income and net assets. A hypothetical 10% fall across the fixed income desk would result in a £1.1 million decrease (31 July 2023: £1.2 million decrease) in the group's income and net assets.

Going Concern

The directors have assessed whether it considers it appropriate that the company and the group adopt the going concern basis of accounting in preparing the financial statements. For the purposes of going concern, in line with IAS 1 requirements, the board has focused on a period of at least 12 months from the date of approval of the financial statements, being 15 months to December 2025.

As part of the directors' consideration of the appropriateness of adopting the going concern basis, a range of forward-looking scenario analyses have been considered. These include the 3 Year Strategic Plan ("3YSP"), a stressed going concern scenario, downside sensitivity to the stressed going concern scenario and the 2023 Internal Liquidity Adequacy Assessment Process ("ILAAP") and 2023 Internal Capital Adequacy Assessment Process ("ICAAP"). These were reviewed together with a number of key risks which are set out in the Risk Report under the heading Principal risks and uncertainties: funding and liquidity on pages 104 to 105 and capital position on pages 86 to 88.

The group's stressed going concern scenario builds on the 3YSP, which includes the impact to market and operational RWAs of part one of the near-final rules on the UK implementation of Basel 3.1 standards in July 2025. The stressed going concern scenario overlays the impact of a hypothetical severe but plausible motor finance commissions redress provision in May 2025 and credit risk RWA impact of Basel 3.1 (part two) standard in July 2025, partly offset by management actions. The PRA published final rules on 12th September which has delayed overall Basel 3.1 implementation to January 2026; the delay in implementation does not change any of the presented conclusions.

In determining a severe but plausible motor finance commissions redress provision, if it were to become required, consideration has been given to the key variables that would inform the magnitude along with the likelihood and scale. The assumptions considered include:

- the time period for which commissions structures are considered to need redress;
- the commission models and commission rates applied during this period;
- the extent and structure of any redress required;
- customer response rates to any redress program;
- associated execution costs; and
- the timing of recognition of any provision, assumed to be the earliest possible date of May 2025, when the FCA anticipate being able to announce next steps.

The modelling output of the stressed going concern scenario highlights the resilient capital position in relation to minimum regulatory requirements excluding any applicable Prudential Regulation Authority ("PRA") buffer ("minimum regulatory requirements"), and capacity to absorb losses and increases in RWAs beyond the severe but plausible motor finance commissions redress provision and implementation of Basel 3.1, strengthened by modelled management actions, including cancellation of the 2025 financial year dividend.

A further downside scenario for the 2025 financial year was also prepared, which applied an earnings reduction to the stressed going concern scenario. In Banking, the assumed deteriorating credit environment increased the bad debt charge and the bad debt ratio. Difficult trading conditions were assumed to persist into the 2025 financial year for market-facing businesses with a negative impact on income generated, with Winterflood adjusted operating profit also reflecting a formulaic reduction in performance-related pay. The two stress testing scenarios modelled for the group's most recent ICAAP, approved by the board in 2023, were used to provide additional context for the directors alongside the going concern assessment. The ICAAP forms part of the group's overall capital risk framework, outlined on page 74.

The group continues to have a strong and conservative business model, lending in a variety of sectors across a diverse range of assets. The group remains well positioned in each of its businesses, is soundly funded, and has strong levels of liquidity. The group maintains strong headroom to minimum regulatory requirements to withstand the downside scenario elements. In making their going concern assessment, the directors have also considered the operational agility and resilience of the company and the group. The directors continually expect to maintain a high level of operational and system performance.

Under all scenarios, the group continues to operate with sufficient levels of capital for the next 15 months from the reporting date, with the group's capital ratios comfortably in excess of minimum regulatory requirements.

Separately from managing the group capital position, the group adopts a conservative approach to funding and liquidity risk and seeks to maintain a funding and liquidity position characterised by preserving a simple and transparent balance sheet, sustaining a diverse range of funding sources and holding a prudent level of high-quality liquidity. As such, the weighted average maturity of its funding is longer than the weighted average maturity of its lending portfolio. The board reviewed these factors when concluding upon going concern.

These objectives form the basis for the group Funding and Liquidity Risk Appetite Statement, approved annually by the board, which outlines the levels of funding and liquidity risk that the group is willing to assume. Given the materiality of the Banking division, this is primarily focused on the levels of risk assumed within the bank.

As part of the liquidity management process, the Banking division also uses a suite of internally developed liquidity stress scenarios to monitor its potential liquidity exposure daily and determine its HQLA requirements. This ensures that the Banking division remains within risk appetite and identifies potential areas of vulnerability. These stresses are formally approved by the ALCO, GRCC and board and cover both idiosyncratic and market-wide stresses. The bank adopts the most severe stress to determine the amount of liquidity it needs to hold. At 31 July 2024 the bank held sufficient liquidity resources to meet the applicable stress.

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

Viability Statement

Consideration

In accordance with provision 31 of the UK Corporate Governance Code, the board has assessed the prospects of the group and confirms that it has a reasonable expectation that the company and group will continue to operate and meet their liabilities, as they fall due, for the three-year period up to 31 July 2027.

Strategic and Financial Outlook

The board has considered the longer-term viability of the group and 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. A three-year period aligns with the group regulatory and internal stress testing processes, including: (i) group-wide internal forecasting and stress testing, which have undergone significant review and challenge, to confirm the viability of the group; (ii) the ICAAP, which assesses capital requirements; and (iii) ILAAP, which identifies liquidity requirements.

Risk Management and Risk Profile

In making its assessment, the board has identified and assessed the principal and emerging risks facing the group and these are highlighted on pages 82 to 84. The group's approach to monitoring and managing the principal risks faced by the group's business, including financial, business, market and operational risks, has remained consistent given the group's activities, business model and strategy are unchanged.

The group utilises an established risk management framework to identify and monitor its portfolio of emerging risks incorporating the group's "bottom up" and "top down" approach. These approaches are monitored by the local and group risk and compliance committees. Key emerging risks can be found in the Risk Report on page 84.

Assessment

The group will continue to monitor and assess these risks, by: adhering to its established business model as outlined on pages 14 and 15; implementing an integrated risk management approach based on the concept of "three lines of defence"; and setting and operating within clearly defined and monitored risk appetites.

As outlined in the going concern statement, a key area of focus for the financial year has been the FCA review of historical motor finance commission arrangements and its impact on the group's activities and principal and emerging risks. There is significant uncertainty around the outcome of the FCA's review, and the group recognises the need to plan for a range of possible outcomes. The board has placed considerable focus on its review and challenge of the group's 3YSP and the results of key scenario modelling.

The group's business model has worked well through a range of economic, social and environmental conditions over multiple economic cycles and this is projected to continue over the medium term. Taking into account the group's lending in a variety of sectors across a diverse range of assets, the board considers medium-term economic, social, environmental and technological trends at the individual business unit level as part of the strategic planning cycle. This includes focusing on the long-term strategic approach to protect, grow and sustain the group business model, with key priorities outlined on pages 20 to 25.

The board has also assessed the group's viability by considering several forward-looking scenarios, namely the ICAAP and ILAAP, as well as the stressed going concern scenario that was used for the going concern assessment. These have been extended out over the three-year period, with no additional headwinds or management actions included.

Various macroeconomic assumptions have been assessed across the scenarios including GDP growth, inflation, interest rates, unemployment, residential house prices and equity prices (refer to the Risk Report on pages 96 to 99). 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 group's stressed going concern scenario has been extended out to the 2027 financial year in order to support the viability assessment, with overlays to the 3YSP, which includes the impact to market and operational RWAs of part one of the near-final rules on the UK implementation of Basel 3.1 standards in July 2025, noting the implementation timings are not finalised. The stressed going concern scenario overlays the impact of a hypothetical severe but plausible motor finance commissions redress provision in May 2025 and credit risk RWA impact of Basel 3.1 (part two) standard in July 2025, partly offset by management actions. Headroom to minimum regulatory requirement was maintained on all capital ratios in this scenario, demonstrating the group's capacity to absorb losses.

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

The group maintains capital ratios significantly above the applicable requirements, which are currently set at a minimum Common Equity Tier 1 ratio of 9.6% and a minimum total capital ratio of 13.7%, including CRD buffers but excluding any applicable Prudential Regulation Authority buffer. In all scenarios, the company and group continue to operate with sufficient levels of capital, with the group's capital ratios and funding and liquidity positions in excess of minimum regulatory requirements.

In making this assessment, the directors have considered a wide range of information, including:

- the board's risk appetite and robust assessment of the principal and emerging risks which could impact the performance of the group, and how these are managed – please refer to the Risk Report on pages 74 to 116;
- the group's current financial position and prospects – please refer to the Financial Overview section on pages 57 to 73; and
- the group's business model and strategy – please refer to the Business Model section on pages 14 to 15, and the Strategy and Key Performance Indicators sections on pages 20 to 27.

The directors have also considered the results of the most recent iterations of the following reviews:

- the annual review of the Recovery Plan, which included employing a number of scenarios to test the group Recovery Plan, the wide range of risk indicators and the recovery options available to the group;
- the 2023 group ICAAP, which included both stress testing and scenario analysis. At a group level, two severe stress test scenarios were assessed representing protracted downside scenarios. These took account of the scope and likely effectiveness of mitigating actions that could be taken by management to avoid or reduce the impact or occurrence of underlying risks. As part of the ICAAP, reverse stress testing was also undertaken to support the identification of potential adverse circumstances and events; and
- the 2023 ILAAP, which was reviewed to assess the group's liquidity across a range of market-wide and idiosyncratic scenarios. This confirmed the ongoing strength of the group's funding and liquidity model. Please refer to note 26 "Financial Risk Management" for further details.

This forward-looking Viability Statement made by the board is based on information and knowledge of the group at 19 September 2024. Unexpected risks and uncertainties may arise from future events or conditions, such as economic changes and business conditions, which are beyond the group's control and could cause the group's actual performance and results to differ from those anticipated.

In conclusion, the directors have determined that they have a reasonable expectation that the group and company will be able to continue their operations and meet their liabilities as they fall due over the three-year period of the assessment.

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

Mike Morgan
Finance Director

19 September 2024

Chairman's Introduction to Governance

Focused on delivering stakeholder value

Michael N. Biggs
Chairman

"We are firmly committed to high standards of corporate governance which are critical as we lead the group to enhance the strategy, performance and long-term sustainable success of the business for all of our stakeholders."

Michael N. Biggs, Chairman

Dear Shareholder

On behalf of the board, I am pleased to introduce the Corporate Governance Report for the year ended 31 July 2024.

The following pages explain the group's corporate governance arrangements and the key activities undertaken by the board during the year to ensure effective decision-making and stewardship of the group's strategy, business model and performance. The report describes how we have complied with the UK Corporate Governance Code 2018 (the "Code") during the year.

We are firmly committed to high standards of corporate governance which are critical as we lead the group to enhance the strategy, performance and long-term sustainable success of the business for all of our stakeholders. This has been even more important in the past 12 months, as we have navigated the FCA's review of historical motor finance commission arrangements, while being mindful of the impact on our stakeholders, particularly employees and shareholders. Effective corporate governance has been at the forefront of the board's mind, given the need for strong decision-making in light of the pending outcome of the FCA's review.

Strategic Priorities and Culture

This year was particularly challenging for the board and the group, against a backdrop of external uncertainty and our unwavering focus on matters of critical strategic importance to protect, grow and sustain our successful business model. The board leveraged its collective skills and expertise to navigate the industry uncertainty arising from the FCA's review of historical motor finance commission arrangements. In response, the board developed and communicated to the market clear actions to preserve and further strengthen the group's capital position. In considering the range of possible outcomes of the FCA's review and to ensure a prudent approach to safeguarding our valuable franchise and ensuring the group's resilience, the board took the difficult decision not to pay a dividend in respect of the financial year ended 31 July 2024. Following a comprehensive strategic review, we are pleased to announce the agreed sale of CBAM to Oaktree. The transaction is expected to enhance our position to navigate the current environment and marks an important step towards the delivery of the capital plan we outlined in March 2024. The board has unanimously approved the transaction and believes that the agreed sale represents competitive value for our shareholders, allowing us to simplify the group and focus on our core lending business.

Throughout the financial year, I have once again been pleased to see that our strong and distinctive culture remains firmly embedded within the organisation. Our employees have consistently demonstrated their commitment to supporting our customers, clients, partners and each other. More information on the board's oversight of culture can be found on page 138.

Stakeholder Engagement

Our understanding of the views of our stakeholders is critical to the success of the group. We have taken great care to assess the potential impact of industry-wide uncertainty resulting from the FCA's review of historical motor finance commission arrangements and our robust response to it. The board remains committed to open dialogue with all of our key stakeholders, being our shareholders, colleagues, regulators and partners, and has taken these views into consideration in decision-making throughout the year.

During the year, the board met with a number of stakeholder groups, and considered a wide range of stakeholder interests. Our formal statement in relation to Section 172 of the Companies Act 2006, together with further detail regarding how the directors have engaged with and had regard to the interests of stakeholders, can be found on pages 29 and 137.

Board Composition and Succession Planning

The board is mindful of the need to refresh its membership at the appropriate time. Each of Oliver Corbett and Peter Duffy resigned as directors of the board in November 2023 and February 2024, respectively. On behalf of my fellow directors, I sincerely thank both Oliver and Peter for their unwavering commitment to the group and their valued expertise and perspectives.

Following Oliver's resignation, Kari Hale has been appointed as chair of the Audit Committee and as whistleblowing champion. The board now stands at nine members, which includes two executive directors. See page 122 for further detail.

The board is committed to diversity at all levels of the group and comprises directors from a range of backgrounds. Our board is composed of 44% female directors and includes one director from a minority ethnic background. With this, we have met our own gender and ethnicity targets and the recommendations of each of the FTSE Women Leaders and Parker Reviews in terms of the composition of the board. Though the composition of the board does not currently meet the FCA Listing Rule requirement to have one of the senior board positions occupied by a female director, the board recognises that this Listing Rule will be a consideration for future appointments to these roles. We remain committed to ensuring that our board is able to meet the needs of all relevant stakeholders. We shall continue to consider all types of diversity when making future board appointments, while ensuring that this is consistent with the skills, experience and expertise required at a particular point in time. Further information on the composition of the board and its diversity can be found on pages 122 and 141 to 142.

During the year, the board has also successfully overseen a number of new appointments to key roles on our Executive Committee. Further detail on the board's approach to succession planning can be found on page 141.

Board Effectiveness

This year's annual board and committee effectiveness evaluation was conducted by an external facilitator. In accordance with the recommendations of the Code and best practice, the evaluation process was formal and rigorous and covered a broad range of elements relevant to the effectiveness and performance of the board and its committees. The findings are set out on page 135 and the board will shortly be developing an action plan to identify opportunities to implement these findings during the year ahead.

Sustainability, ESG and D&I

During the year, the board and its committees considered a number of sustainability and people matters relevant to the group and its operations. This included regular discussions about the group's climate strategy and landscape through frequent environmental, social and governance ("ESG") updates. An enhanced climate risk governance framework has been adopted during the financial year and is supported at management level by a climate committee underpinned by five distinct working groups, each with an Executive Committee sponsor.

The board has continued to monitor closely and support the enhancement of diversity and inclusion at all levels of the organisation. This has included oversight of the group's refreshed diversity and inclusion strategy and three-year implementation plan to promote and continue the development of a diverse and inclusive talent pipeline below board level. Further information on the board's approach to diversity and inclusion can be found on pages 141 and 142.

Engagement with Shareholders

Engagement and dialogue with shareholders remains a key priority of the board, and this year I have been pleased to meet with a number of our shareholders during the year to discuss a range of topics in order to ensure that the board is aware of, and can take into account, our shareholders' views. Importantly, this has included a heightened level of shareholder engagement following the FCA's initial announcement regarding its review of historical motor finance commission arrangements and the subsequent announcement by the company of the decisions not to pay a dividend for FY 2024 and to initiate a number of actions to preserve and grow capital. Such engagement has been highly valuable to me and to the board. Now, more than ever, the views of our shareholders form a critical part of decision-making in the boardroom at this very important time for us as an organisation.

This year's AGM will be held on 21 November 2024. Further details will be set out in the Notice of AGM sent to shareholders in due course.

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

Michael N. Biggs
Chairman

19 September 2024

Governance at a Glance

Compliance with the UK Corporate Governance Code 2018

The UK Corporate Governance Code 2018, published by the Financial Reporting Council ("FRC"), applied to the company throughout the financial year ended 31 July 2024. A copy of the Code can be found on the FRC's website at www.frc.org.uk.

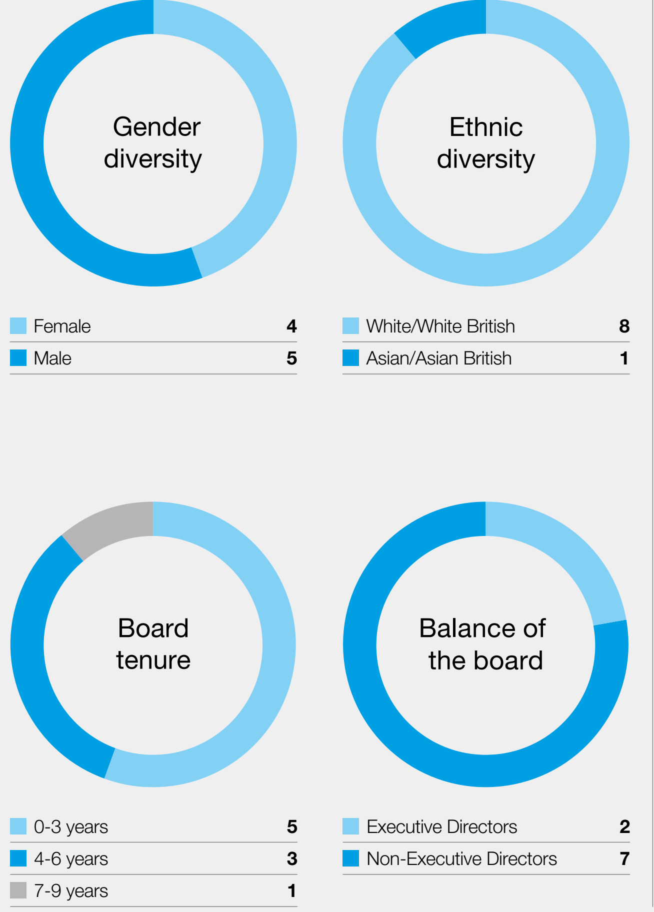
It is the board's view that, throughout the year, the company has applied the principles and complied in full with the provisions set out in the Code. The following table sets out the relevant sections of our Annual Report, where shareholders can read in more detail how we have embedded governance principles and specific provisions of the Code across our organisation.

Board leadership	Page 128
Division of responsibilities	Page 133
Composition, succession and evaluation	Page 139
Audit, risk and internal control	Page 143
Remuneration	Page 150

The FRC has recently published a revised UK Corporate Governance Code 2024, the provisions and principles of which shall apply to the group with effect from 1 August 2025. The group is in the process of evaluating its practices and internal governance arrangements to ensure continued compliance upon adoption of the new UK Corporate Governance Code 2024. More information on the work done so far in anticipation of the UK Corporate Governance Code 2024 can be found on page 146.

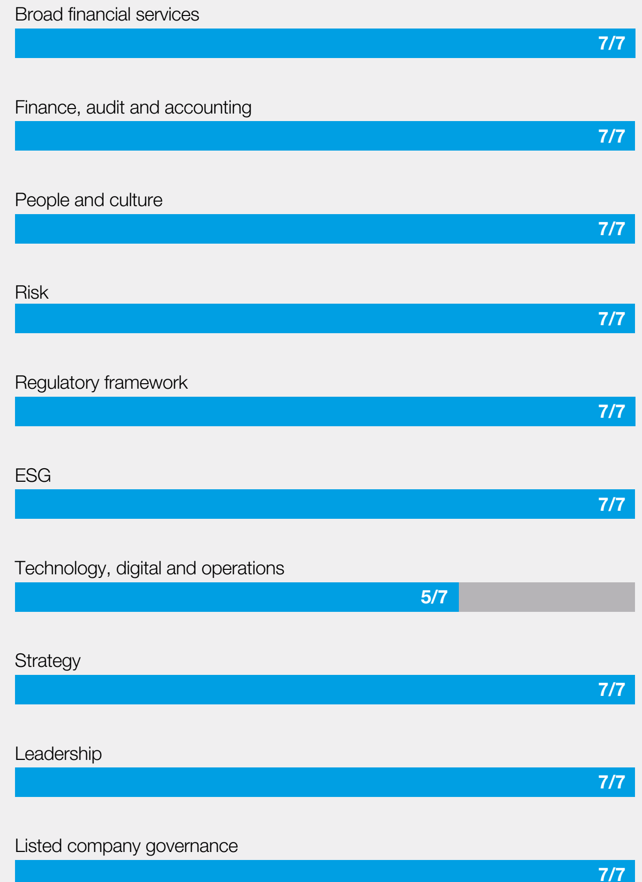
Board Statistics

A summary of the key board statistics is set out below. More information on how the composition of the board is regularly reviewed in order to ensure that the board continues to be comprised of individuals with the appropriate skill sets and experience to serve the group's current and future needs can be found on page 140, while detailed diversity reporting can be found on pages 141 and 142.



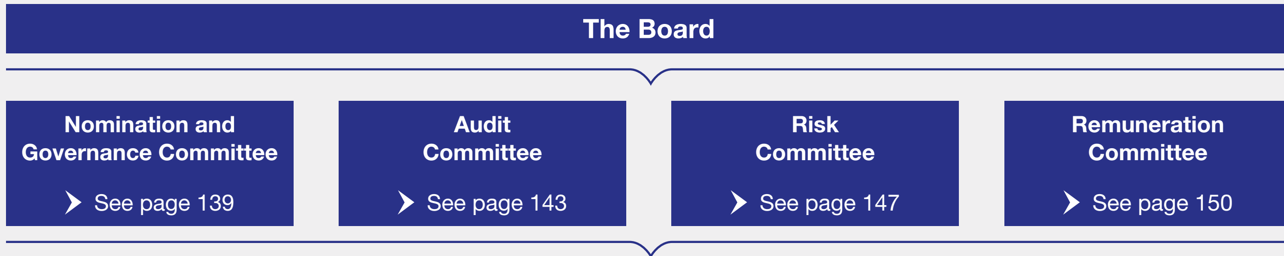
Non-executive Directors' Skills and Experience

All appointments to the board follow a robust search process. Our view is that the board possesses the right balance of skills and experience to navigate the challenges ahead and to deliver long-term, sustainable growth.
The effectiveness of the board and its committees has been assessed this financial year by an external evaluator, which confirmed that the board and its committees continue to be effective. The findings of the annual board evaluation can be found on page 135.



Our Governance Framework

The Board's principal responsibilities are to promote the long-term success of the group and to create and deliver value for shareholders, while protecting the interests of other stakeholders. The board sets the group's strategy and has responsibility for the governance, performance, culture and risk management and internal controls of the group.



Executive Committee

Management Committees

Overview of the Board's Work this Year

Protecting the group's valuable franchise while supporting sustainable growth against a backdrop of industry-wide challenges. The board took decisive action in order to build and preserve capital. As a result, the group continues to be well placed to navigate the current uncertainty arising from the FCA's review of historical motor finance commission arrangements.

Kari Hale succeeded Oliver Corbett on 16 November 2023 as chair of the Audit Committee.

Oversight of key appointments to the Executive Committee.

Delivery of multi-year cost saving programmes, including successfully partnering with an IT outsourced provider, while ensuring that any investment was responsible and proportionate, having regard to the industry-wide challenges that the group is facing into.

Oversight of an Asset Finance transformation programme and the introduction of a new cloud platform within the business.

Spending time with colleagues across the group, including a two-day visit to the group's new and sustainable Brighton office, which provided an extended opportunity for the board to meaningfully engage with colleagues.

Undertaking a rigorous and thorough external board evaluation. Details can be found on page 134.

Responsibility for inaugural Consumer Duty assessment, which was the culmination of an extensive programme of work across the group, overseen by the board providing extensive check and challenge throughout the course of the year.

Board Priorities for Next Year

Continuing to identify opportunities and implement actions to further build, manage and preserve the group's capital position.

Exploring strategic opportunities within the group to deliver increased value for shareholders.

Overseeing the further design and embedding of enhanced internal controls processes ahead of the implementation of the UK Corporate Governance Code 2024 applicable to the financial year commencing 1 August 2025.

Implementing the recommendations of the externally facilitated board evaluation.

Continuing to react and respond to the ever-changing macroeconomic and regulatory landscape within which we operate, with the core priorities being the interests of our stakeholders.

Protect | Grow | Sustain | Communities and environment | Investors
Colleagues | Customers, clients and partners | Suppliers | Regulators and government

Board of Directors

Mike Biggs
Chairman

N R

Appointed: non-executive director March 2017; chairman May 2017

Experience and competencies
Mike has more than 40 years' experience within the financial services sector, gained in both executive and non-executive roles. He has extensive experience as a listed company chairman and uses his broad skills and deep knowledge to lead the board and ensure that it operates effectively. Mike's considerable experience of engaging with key stakeholders, including major shareholders and regulators, makes him well placed to lead the board and drive the strategy and culture of the group. Mike is an Associate of the ICAEW.

External roles
Current – none

Past
- Direct Line Insurance Group plc, chairman*
- Resolution Limited, chairman
- Resolution plc, chief executive officer and group finance director*
- Aviva plc, finance director*

Adrian Sainsbury
Chief Executive

Appointed: executive director September 2020

Experience and competencies
Adrian's broad experience in the banking industry makes him qualified to lead Close Brothers. Having joined the group in 2013, Adrian was appointed to the board as chief executive in September 2020. Prior to this, Adrian was managing director of Close Brothers' Banking division from 2016 to 2020. Adrian has served as a director of Close Brothers Limited, the group's principal banking subsidiary, since August 2013. He has deep knowledge and experience of the group and the wider UK banking sector. His strong leadership and commercial expertise support his valuable contribution to the board, ensuring that the group continues delivering for its stakeholders in the years to come.

External roles
Current – none

Past
- UK Finance, board member
- Asset Based Finance Association, chairman
- Barclays, various executive roles
- RBS, various executive roles
- Bank of Ireland, head of global specialised finance
- ANZ, chief executive of Europe

Mike Morgan
Finance Director

Appointed: executive director November 2018

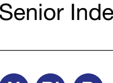
Experience and competencies
Between 2010 and 2018 Mike was chief financial officer of Close Brothers' Banking division, and since 2010 he has been a director of Close Brothers Limited, the group's principal banking subsidiary. Mike is a chartered accountant and his combined extensive experience of financial services and financial leadership, as well as his strong understanding of the group and its businesses, are an asset to the board. He is an experienced finance director and his financial expertise plays a fundamental role in driving strategy.

External roles
Current
- Member of the finance, audit and risk committee of Battersea Dogs & Cats Home

Past
- ICAEW Financial Services Faculty Board, chair
- RBS, divisional finance director
- Scottish Provident, various senior roles

Committee membership ● Chair (N) Nomination and Governance (A) Audit (Ri) Risk (R) Remuneration * Directorship of publicly listed organisation

Mark Pain
Senior Independent Director ("SID")



Appointed: non-executive director and SID January 2021

Experience and competencies
Mark brings to the board more than 30 years' finance, risk management and commercial experience. He has held executive and non-executive roles in both listed and private financial services companies, including in retail banking and insurance. Mark has experience as a SID and makes a highly valuable contribution to the board. He was previously finance director of Barratt Developments plc and Abbey National plc and this experience equips him to support the chair as SID.

External roles
Current
- AXA UK plc, chairman
- Empiric Student Property plc, non-executive chairman*

Past
- Barratt Developments plc, finance director*
- Abbey National plc, finance director*
- Yorkshire Building Society, senior independent director
- London Square Limited, non-executive chairman
- Ladbrokes Coral Group plc, non-executive director*
- Punch Taverns plc, non-executive director*
- Spirit Pub Company plc, non-executive director*
- Johnston Press plc, non-executive director*
- Aviva Insurance Limited, non-executive director

Tracey Graham
Independent Non-executive Director

Appointed: non-executive director March 2022

Experience and competencies
Tracey brings to the board significant executive leadership experience from organisations in the financial and business services sectors, both in the UK and internationally. She is an experienced non-executive director, having served on a number of listed company boards across a range of financial services sectors. She is an experienced remuneration committee chair and has extensive experience serving as a senior independent director. Tracey's significant commercial, operational and customer service insights are of great benefit to the board.

External roles
Current
- Nationwide Building Society, SID
- DiscoverIE Group plc, SID*
- LINK Scheme Limited, non-executive director

Past
- Royal London Mutual Insurance Society Limited, non-executive director
- Ibstock plc, SID*
- AXA Insurance plc, director of customer services
- Talaris Limited, chief executive officer
- De La Rue plc, various executive roles
- HSBC, various senior positions

Kari Hale
Independent Non-executive Director

Appointed: non-executive director 28 June 2023

Experience and competencies
Kari brings to the board extensive audit and commercial expertise and a deep understanding of the audit and governance environment, drawing on his many years in senior audit roles at Deloitte, including membership of its financial services industry board. His expertise includes leading sensitive and complex audits of high-profile organisations. Kari has deep experience of the financial services sector and served as a senior adviser to the Financial Reporting Council, having previously been an executive director at the Financial Services Authority. Kari also brings experience of chairing audit committees at large financial services organisations, making him qualified to chair the Audit Committee of the group.

External roles
Current
- AXA UK plc, non-executive director

Past
- Deloitte, senior audit partner
- Financial Reporting Council, senior adviser
- Financial Services Authority, executive director

Committee membership ● Chair (N) Nomination and Governance (A) Audit (Ri) Risk (R) Remuneration * Directorship of publicly listed organisation

Patricia Halliday
Independent Non-executive Director

Appointed: non-executive director August 2021

Experience and competencies
Patricia brings considerable risk and commercial expertise to the board. She has more than 30 years' experience in risk management across the investment, corporate and retail banking sectors, including serving as chief risk officer in financial services organisations. Her deep understanding of the regulatory, risk and governance environment is immeasurably valuable and supports the board's leadership of the group. Her experience qualifies her to chair the Risk Committee.

External roles
Current – none

Past
- Santander UK, chief risk officer
- GE Capital International Holdings Limited, chief risk officer
- Deutsche Bank, credit risk managing director
- Barclays Capital, various senior risk management roles

Tesula Mohindra
Independent Non-executive Director

Appointed: non-executive director July 2021

Experience and competencies
Tesula brings to the board extensive finance and commercial expertise, drawing on over 25 years' experience which includes senior executive and advisory roles in the banking, insurance and pension fund sectors. Tesula qualified as a chartered accountant with PwC and held managing director roles at JP Morgan and at UBS, specialising in corporate finance for financial institutions and pension fund risk management. She was a founding member of the management team of Paternoster, the specialist bulk annuity insurer, where she was a member of the executive committee. Since then, she has worked as an independent financial consultant advising on business plans and capital raising. Tesula's considerable financial services expertise gained in a broad range of organisations, from investment banks to start-ups, supports the board's leadership of the group and makes her well positioned to serve the board.

External roles
Current
- RAC Group, non-executive director
- NHBC (National House Building Council), non-executive director
- Variety, the Children's Charity, trustee

Past
- JP Morgan, managing director
- UBS, managing director

Sally Williams
Independent Non-executive Director

Appointed: non-executive director January 2020

Experience and competencies
Sally brings extensive risk, regulatory and governance experience to the board, having held senior executive positions at Marsh, National Australia Bank and Aviva. Prior to that, Sally held roles at PwC in both their risk management and audit teams, over a period of 15 years. She is a chartered accountant, and also has significant experience chairing audit committees. The board benefits from Sally's considerable experience of the broader UK financial services and insurance sectors, and her understanding of risk management, compliance and audit matters.

External roles
Current
- Lancashire Holdings Limited, non-executive director*
- Family Assurance Friendly Society Limited (OneFamily), non-executive director
- Ovarian Cancer Action, trustee

Past
- Marsh Ltd, director of risk and governance
- National Australia Bank, head of risk, London
- Aviva, group risk and governance director
- PwC, director, risk management

Further information on the role of each board member can be found on page 132.

Executive Committee

The biographies of the Executive Committee members can be found at www.closebrothers.com/who-we-are.
The role of the Executive Committee is described on page 128, and the process for succession planning and appointments to the Executive Committee is overseen by the Nomination and Governance Committee as described on page 141.

Adrian Sainsbury
Group Chief Executive

Mike Morgan
Group Finance Director

Ian Cowie
Chief Executive Officer Retail

Bradley Dyer
Winterflood Chief Executive

Rebekah Etherington
Group Head of Human Resources

Phil Hooper
Chief Executive Officer Property

Simon Jacobs
Group Chief Operating Officer

Naz Kazi
Group Head of Internal Audit

Eddy Reynolds
Asset Management Chief Executive

Matt Roper
Chief Executive Officer Commercial

Robert Sack
Group Chief Risk Officer

Angela Yotov
Group General Counsel

Corporate Governance Report

Board governance and activities

Governance Framework

Our governance framework, as illustrated on page 123, supports the delivery of the group's strategy through effective decision-making, long-term shareholder value and contribution to wider society.

Certain matters are reserved for the board, primarily in relation to:

- setting and monitoring strategy for the group;
- corporate structure, capital and ensuring adequate financial resources;
- financial reporting and controls;
- oversight of risk management, regulatory compliance, internal controls and whistleblowing;
- significant financial matters including acquisitions, disposals and investments;
- shareholder, market and regulatory communications;
- board and committee membership;
- delegation of authority; and
- corporate governance matters.

The matters reserved for the board, which are periodically reviewed, are available at www.closebrothers.com/investor-relations/investor-information/corporate-governance. When carrying out its duties, the board acts in accordance with relevant legislative and regulatory requirements while at all times having regard to the directors' duties set out in the Companies Act 2006, including the duty pursuant to s.172 of the Companies Act 2006, being the duty to promote the success of the company for the benefit of its members as a whole. Stakeholder considerations are a core focus of all board decisions, about which you can read more on page 137.

The board delegates responsibility for certain matters to its committees. Each committee has terms of reference, which are available at www.closebrothers.com/investor-relations/investor-information/corporate-governance. The chair of each committee reports at each subsequent board meeting on matters discussed at committee meetings. All non-executive directors have access to committee papers and have a standing invitation to attend any committee meeting. Reports from the board's committees are set out later in this Annual Report and they include further detail on each committee's role and responsibilities, along with a summary of the activities undertaken during the year.

The board delegates the execution of the group's strategy and the day-to-day management of the business to the Executive Committee, which is led by the chief executive and supported by management committees.

Robust governance is embedded throughout the organisation, and numerous committees at management level provide oversight across day-to-day operations. Management committees ensure that matters are sufficiently developed and challenged as they are escalated upwards.

Board Leadership

The board's primary role is to provide effective leadership and stewardship for the group as a whole. The board sets the group's purpose and strategic objectives and monitors management's performance against those objectives, ensuring alignment with the group's culture and core stakeholder expectations. The board oversees the group's risk management and internal controls systems which enable risk to be appropriately assessed and managed.

When considering strategic issues and the group's business model, the board regularly engages directly with executives and members of senior management on performance against strategic goals, as well as external experts on relevant trends and developments in the wider market, including from a regulatory perspective. While considered in the context of all decision-making, this year a range of specific activities enabled the board to focus on areas of strategic importance. This included a dedicated strategy session in May 2024, as well as targeted discussions at board and committee meetings, with detailed briefings from the relevant executives. The board also participated in a series of deep dive sessions on key matters of strategic, regulatory and stakeholder importance as described on page 129.

2024 Board Strategy Day

- The board held a strategy event focusing on, amongst other things, the short-term priorities for the group to strengthen its capital position, as well as the longer-term financial plan and opportunities for delivering growth and shareholder returns.
- The board carefully considered various matters to support long-term value creation, focusing on cost efficiency, disciplined growth and capital optimisation.
- As part of the strategy day, the board assessed a range of strategic opportunities relating to specific business divisions against the group's desired operating model.

Risk Management, Internal Controls and Whistleblowing

The board is responsible for, and actively monitors, the group's risk management and internal control systems. Detailed information in respect of the risk management and internal controls systems is provided within the Risk Report on pages 74 to 116.

The board considers a range of matters in relation to risk management and internal controls, and the group chief risk officer attends all scheduled board meetings to report to the board on risk management activities across the group.

During the year under review, the board considered and approved:

- the group's ICAAP and ILAAP statements;
- the annual compliance plan;
- the Enterprise Risk Management Framework;
- the group risk appetite statements, updated and expanded to reflect the current and emerging risks faced by the group; and
- enhancements to the risk management policies supporting the group's risk management framework, which this year included a new policy on operational resilience.

Particular attention was given this year to capital risk and the internal controls in place throughout the group to support capital management, which has resulted in enhanced capital reporting to the board and strengthened capital management processes being embedded through the group. Further information on the board's work throughout the year can be found on page 130.

Effectiveness of risk management and internal control systems

The board has reviewed the effectiveness of the group's risk management and internal control systems and considers that the group has in place adequate and effective risk management and internal control systems with regard to its risk profile and strategy.

The board's assessment is supported by the work of the Risk Committee and the Audit Committee which together keep under review the effectiveness of the systems of risk management and internal control via a range of mechanisms. This includes receipt of regular risk management metrics, review and challenge of audit and risk self-assessments, oversight of internal audit activity, and review and challenge of various risk-related processes and plans.

Further information on risk management and internal controls can be found in the Risk Report on pages 74 to 116 and in the Risk Committee report on pages 147 to 149.

Principal and emerging risks

The board has performed a robust assessment of the principal and emerging risks facing the group, including those that would threaten the group's business model, future performance, solvency or liquidity. These principal and emerging risks are regularly reviewed and challenged by the Risk Committee and at management-level governance forums, via risk management information and commentary provided by the group chief risk officer. The risk management information provides a view of the risk profile of the group, performance in line with risk appetite, an assessment of the group-level emerging risks and mitigating actions to ensure the group's preparedness should a risk crystallise. The process for identifying, managing and mitigating these risks forms a core part of the Enterprise Risk Management Framework and further detail is provided in the Risk Report on pages 74 to 116.

The board confirms that throughout the year ended 31 July 2024 and up to the date of approval of this Annual Report, there have been rigorous processes in place to identify, evaluate and manage the principal and emerging risks faced by the group. The board has also assessed the likelihood of a risk crystallising and the costs of control in accordance with the Guidance on Risk Management, Internal Control and Related Financial and Business Reporting published by the FRC.

Further information on the group's principal and emerging risks can be found in the Risk Report on pages 74 to 116.

Deep Dives

- A number of deep dive sessions were held during the year. These focused on key areas of business or regulatory importance or on topics of increasing significance. Where relevant, external experts supported the delivery of the sessions to bring a wider perspective which was overlaid on the specific organisational context for the group.
- Highlights this year have included sessions on:
  - cyber resilience and responding to cyber breaches;
  - developments in artificial intelligence and the relevance to financial services;
  - regulatory perspectives on industry-wide challenges, including the FCA's review of historical motor finance commission arrangements;
  - significant risk transfer transactions; and
  - customer perspectives on green financing products.
- The board attended the regular refresher training sessions on directors' duties and the Senior Managers and Certification Regime. This provided an opportunity for the directors to consider their responsibilities both in a broad sense but also by reference to the specific challenges currently facing the financial services industry.

Further information on areas of specific focus can be found on page 130.

Whistleblowing arrangements

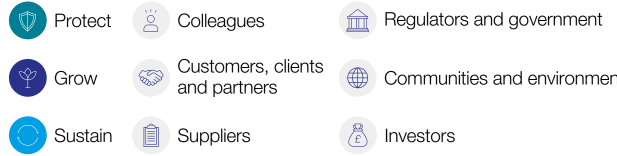
The board oversees the group's whistleblowing arrangements, which include channels through which a person may raise matters anonymously. It monitors the operation and effectiveness of these arrangements, ensuring that processes are in place for the proportionate and independent investigation of matters raised through the mechanisms available and for follow-up action. During the year, the board received half-yearly updates from the group head of operational risk and compliance. These updates covered:

- an overview of the group's whistleblowing arrangements across all jurisdictions in which the group operates and an assessment of the effectiveness of those arrangements;
- 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, outcomes and any follow-up actions.

In addition, the board appoints one of the directors to act as the group's whistleblowing champion and this is currently Kari Hale. In this role, Kari engages with the group head of operational risk and compliance regularly in relation to whistleblowing matters during the course of the year. For more details about the company's whistleblowing procedures, see page 48.

Board activities during the year

During the year, the board and its committees undertook a range of activities to drive forward the group's purpose and strategy aimed at protecting, growing and sustaining the group's valuable franchise. Key events and areas of focus this year are set out below.



Our customer focus includes oversight and challenge of affordability strategies in the various businesses across the group, implementation of the Asset Finance transformation programme to deliver significant customer benefits and review of the Customer Commitment Framework. During the year we have also continued to embed Consumer Duty across the business and undertaken our first Consumer Duty annual assessments.

Area of focus	Summary of the board's work in this area
Strategy	Considered the FY 2025 budget and the longer-term three-year strategic plan for the group. Considered various commercial opportunities and scenarios against the group's Model Fit Assessment Framework which is kept under review and challenged as appropriate.
Cost management	Considered, challenged and approved programmes to deliver significant multi-year cost savings, including the delivery of group-wide outsourcing of IT infrastructure whilst maintaining operational resilience, and the reduction of the group's physical office footprint.
Capital actions	Took decisive and prudent action to strengthen the group's capital position. This included the decision not to pay a dividend in respect of FY 2024, as part of the wider capital action plan to ensure the group is well positioned to navigate the current uncertainty arising out of the FCA's review of historical motor finance commission arrangements.
Capital management	Undertook a detailed review of the group's capital management framework, reporting and governance. Oversaw enhancements including the expansion of specialist knowledge within the group and the adoption of revised capital risk appetite statements.
Capital structure	Built on the success of the bond issuance in the prior year, with an inaugural issue of AT1 securities in a £200 million transaction to optimise the capital structure and provide further flexibility to grow the business, in line with the group's strategy and capital management framework.
External reporting	Acting upon the recommendation of the relevant committees, the board approved various external reports and announcements, including the Annual Report 2023 and trading updates during the year as well as communication of the decision not to pay a dividend for FY 2024.
Customer focus	Customer focus included oversight and challenge of affordability strategies in the various businesses across the group, implementation of the Asset Finance transformation programme to deliver significant customer benefits and review of the Customer Commitment Framework. During the year, the board has also continued to embed Consumer Duty across the business and has undertaken its first Consumer Duty annual assessment.
Succession planning	Oversaw changes to committee composition including Kari Hale's succession as chair of the Audit Committee and supported a number of appointments to the Executive Committee during the year.
Board and committee evaluation	Commissioned the externally led board and committee evaluation and is developing an action plan to implement the findings of the evaluation. The board also supported and contributed to the annual review of the chairman's performance by the senior independent director.
Corporate governance reforms	Supported the commencement of a number of workstreams on enhancements to the internal controls environment and reporting in preparation for the new UK Corporate Governance Code 2024, which will apply to the group with effect from the financial year beginning 1 August 2025.
Regulatory matters	Continued engagement with the PRA and FCA during the year as well as other relevant regulators, and received updates on management-level interaction with the PRA and FCA. Focused on further strengthening the group's relationships with regulators and embedding regulatory expectations within the business.
Strategic growth	Oversaw the acquisition of Bluestone Motor Finance in Ireland (now Close Brothers Motor Finance Ireland). The strategic acquisition aligned to the group's commitment to Ireland as an important market and represents an important milestone in our commitment to delivering disciplined growth in our Retail business.
People and culture	Received regular updates on culture and people across the group, particularly in response to challenges affecting colleagues during the year. Discussed a detailed analysis of the results of the periodic employee engagement survey. Oversaw the implementation of the three-year group diversity and inclusion strategy. Met with a range of colleagues across the group to hear from them about their experience of working at Close Brothers.

Site Visit to Close Brothers' Brighton Office

Workforce engagement provides directors with first-hand insight into the group's day-to-day operations and an opportunity to meet and engage directly with colleagues across the group.

In July 2024, the board held its meetings at the office of the Invoice Finance business in Brighton. The Brighton-based team had recently been relocated to new premises, which have significantly reduced the group's carbon footprint in the region, contributing to the group's cost-saving initiatives and better supporting collaborative working.

During the course of the two-day visit, the board met informally with business leadership and other colleagues, enjoyed an employee-led tour of the new premises to learn about the building's sustainability credentials and held an informal mingling session to which all Brighton-based employees were invited. The board was able to discuss directly with employees various topics including career development, work/life balance and culture across the group.

The board also attended a deep dive session from the Invoice Finance leadership team covering strategy, technological investment, customer experience and key performance indicators.

The Brighton visit was well received by both the board and the local workforce and was an opportunity for the board to interact with a diverse group of colleagues. As a result of the visit, the board gained a better understanding of how the group's culture is embedded within the wider organisation. The visit also enhanced the board's understanding of employee interests and colleague experiences, while providing the board with the opportunity to see the business in action.

In addition, the two-day visit served as a further opportunity for board members to engage with one another outside of the boardroom and in a less formal setting.

Financial calendar

September 2023

- Full-year results and roadshows
- Publication of Annual Report 2023
- Publication of 2023 Pillar 3 disclosures

November 2023

- Annual General Meeting 2023
- Q1 trading update
- AT1 issuance

January 2024

- Announcement by the FCA of its review of historical motor finance commission arrangements

February 2024

- Announcement of a series of capital strengthening actions, including the decision not to pay a dividend for the financial year

March 2024

- Half-year results and UK roadshow
- Further detail of capital strengthening actions announced

April 2024

- US investor roadshows

May 2024

- Q3 trading update
- First AT1 coupon payment
- Chairman's governance roadshow

June 2024

- European investor roadshow

Board governance and activities

Meetings of the Board

The annual schedule of board and committee meetings is agreed a significant length of time in advance of the meetings in order to ensure, so far as possible, the availability of all directors. In the event that directors are unable to attend a meeting, they receive papers as usual 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 with respect to the board committees. Board and committee papers include dedicated reporting on stakeholder considerations where appropriate, and senior manager insights with regard to employee and customer sentiment and culture across the group are of particular value. Each scheduled board meeting includes dedicated time for discussion between the chairman and the non-executive directors, without the executive directors present.

The board has appointed Sally Williams to act as the Banking division's Consumer Duty champion. Sally challenges senior management with regard to consumer outcomes. She has played an active role as Consumer Duty champion and contributed to the development of the Banking division's inaugural Consumer Duty annual assessment, providing appropriate and robust challenge to senior management on matters relating to Consumer Duty throughout the year.

In addition to the scheduled board and committee meetings as detailed in the table below, there were a number of ad hoc board meetings this year, to afford the board opportunities to consider a number of particularly dynamic issues arising during the year.

The board also continued to assess the basis on which the group generates and preserves value over the long term and consider how opportunities and risks to the future success of the group are addressed via a range of other engagement mechanisms:

- The board held a strategy day in May 2024, details of which can be found on page 128.
- The board met with local employees and interacted with staff informally through a range of opportunities, as detailed on page 138.
- Members of the board met with significant shareholders, as set out on page 138.

Attendance at scheduled board and committee meetings during FY 2024

	Board	Nomination and Governance Committee	Risk Committee	Audit Committee	Remuneration Committee
Mike Biggs	**8/8**	5/5	**–**	–	**5/5**
Adrian Sainsbury	**8/8**	–	**–**	–	**–**
Mike Morgan	**8/8**	–	**–**	–	**–**
Mark Pain	**8/8**	5/5	**5/6**	–	**4/5**
Tracey Graham	**8/8**	5/5	**6/6**	–	**5/5**
Kari Hale[1]	**8/8**	1/1	**5/6**	5/5	**–**
Patricia Halliday	**8/8**	–	**6/6**	5/5	**–**
Tesula Mohindra	**8/8**	–	**6/6**	5/5	**–**
Sally Williams	**8/8**	–	**6/6**	5/5	**–**
Former directors					
Peter Duffy[2]	**4/4**	3/3	**4/4**	–	**2/2**
Oliver Corbett[2]	**3/3**	2/2	**2/2**	2/2	**–**

1. Kari Hale was appointed a member of the Nomination and Governance Committee with effect from 26 June 2024.
2. Oliver Corbett and Peter Duffy resigned as non-executive directors with effect from 16 November 2023 and 15 February 2024, respectively.

Roles and Responsibilities

In line with the 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. The roles of the chairman, chief executive and senior independent director, as approved by the board in July 2024, can be found on the company's website at www.closebrothers.com/investor-relations/investor-information/corporate-governance. A summary of various board roles is set out below.

In addition, the chairman, chief executive, finance director and each of the committee chairs have various prescribed responsibilities under the Senior Managers and Certification Regime, overseen by the FCA. Other board members also take on additional responsibilities required by legislation such as whistleblowing champion or Consumer Duty champion, although responsibility for oversight of these matters remains with the whole board.

Division of Responsibilities

Role	Responsibilities
Mike Biggs Chairman	– Responsible for leading the board and ensuring that it operates effectively, observing the highest standards of corporate governance. – Promotes balanced and effective decision-making and challenge of executive management with sufficient time for constructive debate and discussion. – Ensures that the board as a whole is responsible for developing the group's strategy and assessing and monitoring culture across the group. – Promotes effective engagement between the board, its shareholders and other stakeholders. – Chairs the Nomination and Governance Committee, monitors the board's composition and succession planning, and leads the annual board evaluation process.
Adrian Sainsbury Chief Executive	– Executes the group's strategy as agreed with the board. – Leads the Executive Committee in the day-to-day management of the group. – Ensures that the group's business is conducted with the highest standards of integrity aligned with the group's culture. – Manages the group's risk exposure in line with board policies and risk appetite. – Leads the group's investor relations activities.
Mark Pain Senior Independent Director	– Provides a sounding board for the chairman. – Provides an alternative channel of communication for shareholders and other stakeholders. – Meets with non-executive directors annually without the chairman present to appraise the chairman's performance.
Non-executive Directors	– Provide constructive challenge and scrutiny of the performance of management. – Bring external perspective, knowledge and experience to the board. – Assist in the development of strategy and the decision-making process. – Promote the highest standards of integrity and governance. – Through membership of the group's committees, determine appropriate levels of remuneration, review the integrity of the financial statements, review succession plans for the board and the Executive Committee and monitor the risk profile of the group. – Gather the views of the workforce through attendance at key business events and through employee engagement.
Sarah Peazer-Davies Company Secretary	– Advises the directors on corporate governance, legal matters and the discharge of their duties. – Ensures the board receives high-quality information and in sufficient time. – Supports relationship-building and the flow of information between the board and the Executive Committee. – Facilitates board inductions, the annual board evaluation and ongoing development. – Available to provide advice and support to all directors on matters of corporate governance. – Organises all board and committee meetings as well as the Annual General Meeting ("AGM").

Directors' Independence

The board considers that each non-executive director is independent under provision 10 of the Code. The chairman, Mike Biggs, was considered to be independent on appointment in line with the provisions of the Code. The board annually reviews the directors' independence.

Conflicts of Interest

The board, with the support of the company secretary, regularly reviews actual or potential conflicts of interest of each of the directors. Directors are responsible for notifying the chairman and the company secretary of any changes to the nature of their interests and are reminded of this at the start of each board and committee meeting. The company secretary maintains a register of directors' interests, including those conflicts authorised by the board, and the board annually reviews each non-executive director's external interests.

As required by the Code, the board's practice is to assess whether directors' external appointments should be approved in advance of proposed additional appointments being taken on by any of our directors, with significant consideration given to the following factors:

- whether the external appointment is likely to give rise to any actual or potential conflicts of interest;
- how any such conflicts could be managed or mitigated; and
- whether the proposed external appointment would be likely to compromise the director's ability to dedicate appropriate time and diligence to their existing responsibilities to the group.

Time Commitment

The non-executive directors' letters of appointment set out the time commitment expected of them, and all directors must seek prior board approval before taking on significant additional commitments. The board is satisfied that each non-executive director continues to and is able to dedicate sufficient time to the company's affairs. The directors' attendance at scheduled meetings is on page 132.

Election and Re-election of Directors at the 2024 AGM

In accordance with the Code, all directors retire and submit themselves for election or re-election at each AGM. The board will only recommend to shareholders that executive and non-executive directors be proposed for election or re-election at an AGM after evaluating the performance of the individual directors and considering their suitability, time commitment and ability to continue to contribute to the board.

The board has determined that all directors continue to be effective and demonstrate sufficient commitment to their role. At the recommendation of the Nomination and Governance Committee, the board will therefore be recommending that all serving directors be elected or re-elected by shareholders at the 2024 AGM.

Board induction, training and evaluation

Induction

On appointment, all new directors receive a comprehensive and personalised induction programme. The programme is developed and overseen by the company secretary to familiarise new directors with the group.

Induction programmes are tailored to each director and typically include visits to local offices, one-to-one meetings with executive directors, the company secretary and senior management, and a meeting with the external auditor. Directors also receive guidance on their statutory and regulatory responsibilities, together with a range of relevant current and historical information about the group and its business. A key aim of the induction is to ensure that new board members are equipped to contribute to the group and the work of the board as quickly as possible.

Kari Hale was appointed to the board in June 2023 and became chair of the Audit Committee in November 2023. His induction programme during the year included sessions with the executive directors and senior management to discuss strategic, regulatory and corporate governance matters and a meeting with the lead audit partner of the group's external auditor.

Director induction programme

Strategy
- Markets
- Opportunities
- Culture

Financial
- Forecast and budget
- Investor views
- Audit

Regulatory
- Risk management
- Regulatory landscape
- Corporate governance

Ongoing Development

A tailored development programme for the directors was reviewed and approved by the Nomination and Governance Committee. The programme covers topics of strategic, regulatory and operational relevance. Where appropriate, external advisers facilitate sessions to offer an external perspective on emerging themes, or to support the directors' consideration of strategic opportunities. Further information on sessions held during the year can be found on page 129.

The directors also receive annual training on the Senior Managers and Certification Regime as well as their directors' duties and listed company obligations. The company secretary is available to advise all directors on all matters of corporate governance.

Board Evaluation

In line with recognised best practice and the recommendations of the Code, the board undertakes a formal and rigorous evaluation annually to assess the effectiveness of the board and to identify areas for improvement. The evaluation process is externally facilitated at least every three years by an independent provider.

This year the board appointed Lintstock Ltd to conduct an external review of the effectiveness of the board and its committees. Lintstock is an advisory firm that specialises in board effectiveness reviews and has no other connection with the company or its individual directors. Lintstock is accredited by the UK Chartered Governance Institute and the board evaluation was undertaken in line with the 2023 Code of Practice for Board Reviewers. Lintstock have not provided any other services to the company and have had advanced sight of the disclosures set out below.

The Nomination and Governance Committee oversaw the board evaluation process, having considered proposals from external firms on the basis of cost, experience, and the proposed scope of the evaluation and subsequent reporting. In addition, Mark Pain, the senior independent director, met with two of the external providers under consideration to discuss their proposed approach. The Committee selected Lintstock to undertake the external evaluation on the basis that Lintstock were thought to be the best provider given their holistic approach, and would consider the effectiveness of the board within the current external corporate governance framework, while also being mindful of the specific challenges the board is facing.

Board evaluation methodology

Stage	Description
Scoping and tailoring February – March 2024	The scope and objectives of the evaluation were agreed following a briefing meeting with Lintstock. Lintstock collaborated with the chairman and the company secretary to design a review process tailored to the business needs of the group. As well as covering core aspects of governance such as provision of information, composition and dynamics of the board and its committees, the evaluation considered people, strategy and risk areas relevant to performance. It had a particular focus on: • the board dynamics and communication; • the board's response to the FCA's review of historical motor finance commission arrangements; and • the board's oversight of risk, including horizon scanning.
Completion of surveys April 2024	Board members and selected members of the Executive Committee and senior management completed bespoke surveys assessing the performance of the board and each of its committees. Each director also completed a self-assessment questionnaire assessing their own performance.
Interviews May 2024	In-depth interviews with board members were conducted by two Lintstock partners. The findings from the survey enabled Lintstock to focus discussions on the key priorities and comments of each director.
Analysis and delivery of reports June 2024	Lintstock analysed the surveys and interviews and delivered focused reports documenting the findings, including a number of recommendations to ensure continued effectiveness.
Board discussion	Lintstock's findings were shared with the chairman and were discussed initially with each of the chairman and the senior independent director. The board is in the process of considering the recommendations of the report, which will be considered further at a targeted session in the coming weeks.

Findings of the evaluation

The evaluation found that the board and its committees continue to operate effectively. In particular, the board provides effective oversight of the overall business, is well led and provides valuable counsel to management. The dynamics inside and outside the boardroom, including the relationship with key leaders, received particularly positive feedback, and there was good consensus regarding the strategic priorities facing the group.

A number of priorities for the board in the upcoming year were identified, including:

- continued refinements to the board's oversight of risk, strategy and people, ensuring that appropriate mechanisms are in place to deal with any emerging challenges;
- maintaining alignment with management in key areas and ensuring continued focus on the overarching priorities for the group and its capacity to deliver on plans; and
- reviewing the decision-making process and the way in which lessons are drawn from past decisions, ensuring these are captured to support future success.

As part of the review, Lintstock provided an analysis of the board's effectiveness relative to other organisations, specifically within financial services, putting the findings into context. The effectiveness of the board ranked favourably as compared with other companies included in Lintstock's comparator index.

A detailed review of the findings will be undertaken and the board, together with the company secretary, will develop an action plan to build on and address the recommendations of the evaluation.

Directors' Performance

In addition to the formal evaluation, 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 election and re-election 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, Mark Pain, in his role as the senior independent director, led the annual assessment of the chairman's performance. This involved discussions with the other non-executive directors individually, without the chairman being present, and consultation with the chief executive and group finance director. The senior independent director subsequently provided 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 management functions. Consideration of matters relating to fitness and propriety also form an important part of the board's recruitment process for non-executive directors.

Implementation of the Findings of the FY 2023 Evaluation

The board has also considered its progress against the findings of the FY 2023 evaluation.

Key recommendations	Progress made
Greater consideration of board composition and succession planning at executive director and Executive Committee level.	Board size reduced to nine directors and committee composition adjusted throughout the year to ensure appropriate diversity of skills and experience. The Nomination and Governance Committee significantly increased its focus on succession planning at Executive Committee level.
Meeting agendas to allow for longer discussion on key topics, and reporting to the board and committees to be more targeted.	Deep dives held on relevant matters to allow greater discussion, and additional board meetings convened during the year. Board agendas reviewed throughout the year to optimise available time. The company secretary ran sessions with senior management to focus board reporting with updated board paper templates.
Greater focus on stakeholder engagement and the extent to which the group contributes to wider society.	Greater time has been allocated to dedicated ESG sessions, and the board continues to increase its engagement with a variety of stakeholder groups. Work in this area will continue in FY 2025.

Stakeholder engagement

The board recognises that the group's stakeholders have different values and priorities. It is important for the board to understand and consider the interests of stakeholders. Further information about the company's key stakeholder groups, as well as the company's Section 172 Statement, can be found in the Strategic Report on pages 29 to 31.

Board Decision-Making

The board assesses stakeholder views and takes them into account when making decisions. For example, management regularly updates the group's primary regulators on board decisions to engage proactively and maintain a positive relationship. The two case studies shown on this page provide practical examples of how the board takes into account the company's different stakeholders as an integral part of its decision-making process.

Capital Action Plan

Suspension of FY 2024 dividend

The FCA announced a review of historical motor finance commission arrangements in January 2024. This review gave rise to a range of possible outcomes and resulted in industry-wide uncertainty. Following the FCA's announcement and the subsequent volatility in the group's share price, the board took prudent and decisive action to strengthen the group's capital position and reassure the market.

The board considered an extensive list of potential actions to strengthen capital, assessing the merits of each action in terms of ease of execution, impact on the core business franchise and the potential impact on a range of stakeholders, including shareholders. After extensive debate and due consideration, the board made the decision not to pay a dividend for the 2024 financial year, as announced in February 2024.

In making this decision, the board carefully considered the impact that this would have on shareholders and their investment strategies, as well as the need to balance near-term shareholder returns with protecting the business and franchise and, hence, profitability in the longer term. Consequently, the board concluded not to pay a dividend for the financial year under review and that this would promote the long-term success of the company in light of the uncertainty surrounding the outcome of the FCA's review, which persists today.

Capital action plan

Following the announcement of the decision not to pay a dividend, the board announced a range of additional actions to further strengthen the group's available capital. These actions, some of which have already been implemented, included selective loan book growth to optimise risk weighted assets, supported by additional cost management initiatives, and the potential for significant risk transfer of assets.

In deciding to optimise risk weighted assets, the board was mindful of the impact on customers and those employees whose core objective is to deliver growth and consequently sought to distribute the impact of such optimisation across the lending businesses in an appropriate way.

Management have provided regular updates to the board on the impact and delivery of the capital action plan, which has provided important feedback to the board as the plan has continued to evolve.

Capital Management

The board has always been mindful of the need to ensure that the group's capital management oversight remains appropriate and complies with both regulatory expectations and good practice, given the activities of the group and the ever-evolving regulatory landscape.

In the summer of 2023, the board commissioned a review of the group's capital management framework, reporting and governance. This was designed to benchmark capital management practices against evolving good practice and to determine what, if any, improvements could be made. As part of this exercise, management re-assessed the group's capital risk appetite limits, capital triggers and related reporting.

The review led to the board adopting revised capital risk appetite triggers and limits and revisions to the format and frequency of capital-related management information. This refreshed capital management framework has provided considerable support to the board during 2024 when considering the range of potential impacts of, and responding to the uncertainty posed by, the FCA's review of historical motor finance commission arrangements.

A key stakeholder relevant to the board in its decision-making with respect to the adoption of a revised capital management framework is the group's primary regulators, with whom the board, via management, has always maintained a regular dialogue.

Culture and Workforce Engagement

Culture and values

The board recognises the importance of our unique and distinctive culture for the long-term success of the group. The board plays a key role in establishing, monitoring and assessing culture and leading by example to promote the desired culture. The board 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 in the following ways:

- The board received updates from the group head of HR on the results of the anonymous employee opinion survey which tracks against our own and sector-wide cultural markers, in addition to a quarterly culture dashboard which includes external stakeholder considerations. This reporting is used by the board to assess the extent to which desired behaviours are embedded across the employee population.
- The chief executive's updates to the board included dedicated reporting on people and culture within each division to allow the board to consider cultural issues with suitable granularity.
- Site visits and attendance by the non-executive directors at various employee events and management committees, as well as structured site visits with dedicated employee engagement sessions, such as the visit to the Brighton offices, more information about which can be found on page 131.
- The Remuneration Committee considered culture, behaviour and conduct issues and the inclusion of culture-related objectives as part of the executive directors' performance assessment (further detail on which can be found in the Directors' Remuneration Report on page 168).
- The board reviewed the group's whistleblowing arrangements. See page 129 for further detail.
- This year's board evaluation provided the board with an external and independent perspective of its own culture, which supports the board as it endeavours to set the right "tone from the top".

Engagement with employees

The board's engagement with employees is mutually beneficial. It allows the board to monitor the group's culture and maintain an engaged and motivated workforce to support the group in delivering a high level of service to our customers. Our values of service, expertise, relationships, teamwork, integrity and prudence form an important part of who we are.

As permitted by the Code, the board has put in place its own arrangements to engage with employees across the group. With oversight from the Nomination and Governance Committee, a programme to facilitate board engagement is managed by the company secretary. The board, through the work of the Nomination and Governance Committee, keeps its workforce engagement arrangements under review to ensure they remain appropriate to the group.

The board values opportunities for directors to engage with employees, across regional locations and at events of different levels of formality. This allows the board to engage with the group's workforce authentically and for the workforce to raise topics which they might not otherwise have the opportunity to discuss with the board. The board acknowledges the benefits of meaningful engagement with senior management, who play an important role in embedding the group's culture through the business and in reporting to the board on employee sentiment within the businesses.

Examples of engagement and consultation in the year with employees included:

- In July 2024, the board visited the new Brighton office, as described on page 131.
- Non-executive directors' participation at local governance fora and events which are attended by significant numbers of employees and can include Q&A sessions.
- Participation by directors in focused initiatives operated by the group's diversity and inclusion networks through the year.
- Informal networking events hosted by the directors and which are open to smaller groups of employees to attend.

The board considers that its employee engagement activities during the year have been effective, have allowed the directors to engage widely with employees across a broad manner of settings and engagement styles, and afford the board meaningful insight as to employee sentiment to ensure employee interests are embedded in board decision-making.

Engagement with Shareholders

The board believes it is important to maintain an open and constructive relationship with shareholders in order to provide shareholders with reliable and timely information.

In addition to the investor engagement undertaken by the chief executive and group finance director during the year, examples of engagement and consultation with our shareholders included:

- The AGM, which is an opportunity for shareholders to engage with and question the directors and senior management.
- Debt investor views in relation to the group's inaugural Additional Tier 1 capital ("AT1") issuance in November 2023, were also communicated to the board.
- The chairman met with a number of institutional shareholders, covering c.50% of the share register by holding, to discuss matters such as strategy, corporate governance, succession planning and the board's actions to strengthen the group's capital position.
- Frequent updates on shareholder engagement and investor feedback following results announcements and investor roadshows.

Additionally, the Remuneration Committee chair is available to discuss remuneration matters and the senior independent director is available to meet with shareholders.

Nomination and Governance Committee Report

Dear Shareholder

On behalf of the board, I am pleased to present the report of the Nomination and Governance Committee (the "Committee") for 2024. The report sets out an overview of the Committee's role and responsibilities and its key activities during the year.

Board effectiveness and composition remained an important focus for the Committee during the year, with a view to ensuring an appropriate balance of skills, knowledge, independence, experience, time commitment and diversity in order for the board to operate effectively. The need for the right skills around the board table has been ever-more acute, given the external challenges facing the group.

In addition to leading the annual board evaluation process, which this year was conducted by an external evaluator and is described on pages 134 and 135, the Committee reviewed the board's collective skill set and the time commitment required of the non-executive directors. The Committee also oversaw Kari Hale's succession as chair of the Audit Committee in November 2023 and reviewed and refreshed the composition of the board's committees.

Succession planning and talent management at Executive Committee level and below has been a key focus during the financial year. This has included identifying, retaining and motivating potential successors to develop the group's talent pipeline.

Building on the Committee's work in prior years, the Committee continued to monitor sustainability and environmental, social and governance ("ESG") developments relevant to the group, with a particular focus on diversity and inclusion at all levels of the organisation. The Committee also oversaw the proposals for workforce engagement during the financial year, including the successful board visit to the group's office in Brighton. ESG will remain a key focus of the Committee in coming years as the group seeks to build on its now well-established sustainability framework and strategy.

Michael N. Biggs
Chair of the Nomination and Governance Committee

19 September 2024

Membership

Mike Biggs (Chair), Tracey Graham, Kari Hale and Mark Pain.

Other regular attendees by invitation

- Chief executive
- Group head of human resources

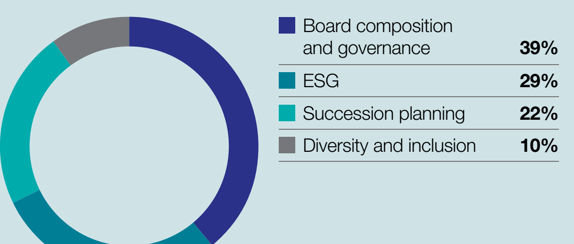
Meetings

- Number of scheduled meetings: five
- For details of attendance, see page 132

Interaction with other committees

The Nomination and Governance Committee makes recommendations to the board and all other committees regarding the appointment and removal of their members and chair.

How time was spent



2024 highlights

- Led the external board evaluation process, described on pages 134 and 135.
- Considered board and committee composition and implemented changes, including appointing Kari Hale as chair of the Audit Committee and a member of the Nomination and Governance Committee. Patricia Halliday was also appointed as a member of the Remuneration Committee.
- Reviewed the group's approach to succession planning with particular focus on executive and senior management roles.
- Oversight of activities to support and encourage the development of a diverse and inclusive talent pipeline.
- Monitored sustainability and ESG developments and considered their implications for the group.

Key Responsibilities of the Committee

- 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 now and in the future and succession planning of directors and senior management.
- Overseeing the group's approach to the development of a diverse talent pipeline.
- Reviewing the continued independence of the non-executive directors and assessing the board's balance of skills, knowledge and experience.
- Evaluating the skills, knowledge and experience required for a particular appointment, where appropriate with the assistance of external advisers, to facilitate the search for suitable candidates.
- Leading the board's annual evaluation process, including the appointment of an external board evaluator, when appropriate.
- Monitoring ESG and sustainability developments relevant to the group (including diversity and inclusion and developments relating to climate change and associated reporting requirements).

Appointments to the Committee

Following a review of the Committee's composition, Kari Hale was appointed as a member of the Committee in the year. Given his extensive financial services and governance experience, Kari will bring valuable perspectives to the Committee.

Board Effectiveness and Non-executive Directors' Skills

During the year, the Committee led the annual board evaluation process. The Committee supported the chairman and the company secretary in agreeing the scope of the evaluation and oversaw the process to select Lintstock as independent board evaluator. Further information can be found on page 134.

The Committee also conducted its annual review of the individual and collective skills possessed by members of the board, and reaffirmed that the non-executive directors continue to possess the relevant skills and expertise, including extensive experience within financial services and in regulated or listed companies, to be effective in their roles. Where areas for further enhancement were identified, either from the findings of the prior year's board evaluation or as a result of horizon scanning, these were incorporated into the deep dive sessions and annual training programme overseen by the company secretary with input from the chairman and the chief executive and approved by the Committee.

The chart on page 122 indicates the key skills expected of the board and possessed by the non-executive directors. Further information on the background and experience of each of the non-executive directors can be found in their biographies on pages 124 to 126. Given the regulated environment within which the group operates, directors are also required to undergo an annual fitness and propriety assessment, pursuant to the Senior Managers and Certification Regime.

During the year, the Committee carried out a review of the expected time commitment of each director based on their committee membership, other board roles and industry benchmarking. This resulted in non-executive directors' letters of appointment being updated to reflect an increased time commitment, given the increased regulatory oversight and industry challenges which the board spent a great deal of time navigating collectively. In addition, the Committee approved the issue of new letters of appointment for further terms for both the chairman and senior independent director, following consideration of their respective competencies and contribution to the board, and approval of their re-election at the 2023 AGM.

Board Roles and Responsibilities

The Committee undertook a review of the responsibilities of the chairman, senior independent director and the chief executive to ensure these remain fit for purpose and reflective of the expectations of these roles. The Committee recommended a number of incremental enhancements to the stated responsibilities which were subsequently approved by the board. In accordance with the Code, a statement of responsibilities can be found at www.closebrothers.com/investor-relations/investor-information/corporate-governance and further detail is available on page 132.

Changes to Board and Committee Composition

As part of the Committee's considered and orderly approach to succession planning, it oversaw the succession of Kari Hale as chair of the Audit Committee in November 2023. Kari has deep and extensive audit experience within financial services and is very well qualified to perform the role of Audit Committee chair.

In June 2024, the Committee also considered and recommended the appointment of Kari Hale as a member of the Nomination and Governance Committee, given his broad financial services expertise and understanding of the governance environment, and Patricia Halliday as a member of the Remuneration Committee, in order to further strengthen the Remuneration Committee's oversight of risk-related remuneration matters.

The Committee adopts a proactive and structured approach to succession planning and remains mindful of board changes that will occur in the future as directors reach the end of their term of office and of the need to ensure continuity of knowledge and experience within the board as a whole. The Committee notes the chairman's tenure, which is now at seven years, and is aware of the need to ensure the orderly succession of his role in the near future.

The composition of each committee is as follows:

	Nomination and Governance Committee	Audit Committee	Risk Committee	Remuneration Committee
Mike Biggs	Chair			•
Mark Pain	•		•	•
Tracey Graham	•		•	Chair
Kari Hale	•	Chair	•	
Patricia Halliday		•	Chair	•
Tesula Mohindra		•	•	
Sally Williams		•	•	

Election and Re-election of Directors at the 2024 AGM

The Committee is responsible for considering and making recommendations to the board concerning the election and re-election of directors, having regard to their performance, suitability, time commitment and ability to continue to contribute to the board. Following this year's review, the Committee has recommended to the board that all serving directors be re-elected at the AGM.

You can read more about the board's recommendation that all directors be elected or re-elected at the 2024 AGM on page 133.

Senior Management Talent Development and Succession Planning

The Committee spent considerable time during the year considering the group's succession planning at Executive Committee level and below. During the year, the Committee oversaw a number of key appointments to the Executive Committee, including the appointment of a new chief operating officer, and new chief executives in the Retail and Property businesses. To support Executive Committee succession planning, the Committee oversaw a rigorous recruitment process and considered a range of candidates with extensive sector experience.

Recognising that investing in our workforce and nurturing talent is critical to the future success of the group, the Committee also paid particular attention to succession planning below the level of Executive Committee. It monitored initiatives to ensure that there is a suitably experienced pipeline in place for internal promotion to senior management roles in future years. Activities undertaken by the Committee included a formal review of senior management succession planning, assessing the capability and potential of incumbents in key roles and the succession pipeline across the group as well as monitoring attrition rates across the group.

Ensuring that the group continues to attract, retain and develop skilled, high-potential individuals will remain an important focus in future years. All non-executive directors are invited to attend Committee meetings which consider talent and development, in order to provide them with full visibility of the succession pipeline.

Further information on talent and succession planning can be found in the Sustainability Report on pages 49 to 52.

Diversity and Inclusion

Diversity and inclusion remains a priority of the Committee, whether at board level, senior management or within our wider workforce. The Committee recognises the importance of ensuring that the board and its committees collectively possess the appropriate range and balance of skills, knowledge and expertise, and embrace the advantages to be derived from having diversity of gender, social and ethnic backgrounds represented on the board, bringing different perspectives and the challenge needed to ensure effective decision-making.

It is recognised that the group's stakeholders are diverse and they have a variety of needs. These needs are met by the diversity of thought, culture, background and perspectives that are reflected within our board through an inclusive environment which allows different perspectives to be given due consideration in strategic matters, and enables the board to consider the needs and expectations of all stakeholders.

The Committee considers that the board remains diverse, with directors from a range of backgrounds, but will seek to take opportunities to further improve the diversity of the board, where this is consistent with the skills, experience and expertise required at a particular point in time.

During the year, the Committee undertook its annual review of the board diversity policy, which applies to both the board and its committees. The policy sets out specific objectives with regard to diversity and inclusion in the boardroom, the recruitment of new directors, and longer-term targets, as well as corresponding governance responsibilities. The Committee noted that a number of enhancements in line with the FTSE Women Leaders Review (previously the Hampton-Alexander Review) and the Parker Review had been made to the policy in the prior year, and the Committee considered that the policy remains appropriate and that no further updates were required at this stage. The board diversity policy is available at www.closebrothers.com/investor-relations/investor-information/corporate-governance.

The Committee also considered the group's diversity in the context of the Listing Rule requirements on diversity metrics and reporting. At 31 July 2024, being the reference date for the purposes of Listing Rule 9.8.6R(9)(a), which requires the disclosure of certain diversity statistics, and as shown in the tables below:

- the board met its target of having 40% female directors;
- the board met its target of having one director from a minority ethnic background; and
- the board does not currently meet the requirement to have one of the senior board positions (chair, senior independent director, chief executive or chief financial officer) occupied by a female director. The directors who hold these roles were appointed following formal, rigorous and transparent procedures and are the most suitable and experienced individuals for their roles and the group's needs. The board recognises that this will be a consideration for future appointments to these roles.

In accordance with Listing Rule 9.8.6R(11), the data for the above disclosure is as disclosed by the relevant individuals at 31 July 2024.

The tables below illustrate the gender and ethnic diversity of the executive management population, which comprises the Executive Committee and company secretary, but excludes administrative or support staff, pursuant to Listing Rule 9.8.6R(10).

The Committee takes seriously its role in overseeing the development of a diverse pipeline for senior management positions and the link between diversity and inclusion and delivery of the company's purpose and strategic aims. To that end, the Committee considered updates during the year in relation to diversity and inclusion initiatives across the group and oversaw the group's refreshed three-year diversity and inclusion plans, focusing on attraction and retention of diverse talent, enhancing the culture of the group, and shaping the group's inclusive brand and embedding inclusion in all interactions with stakeholders.

Gender identity reporting[1] under LR9.8.6R(10)

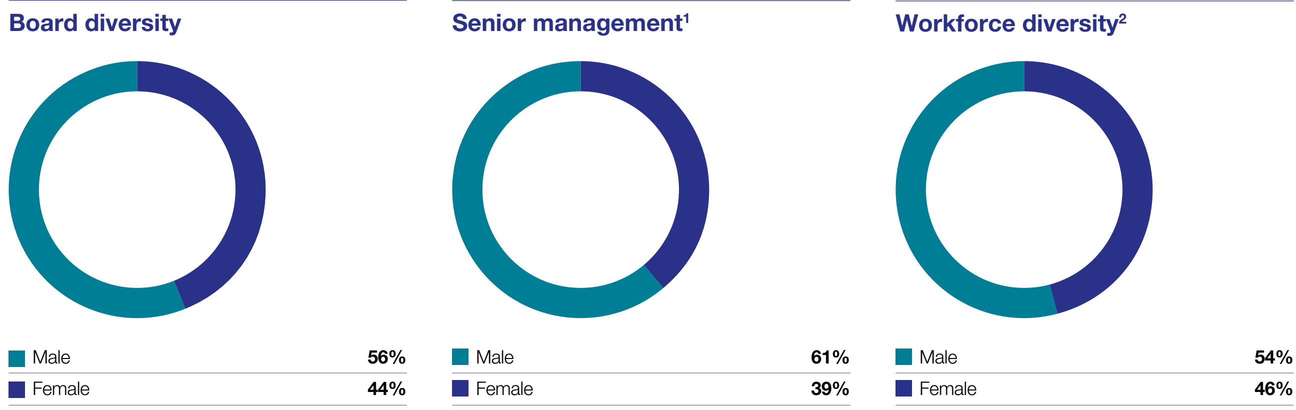
	Number of board members	Percentage of the board	Number of senior positions on the board (CEO, CFO, SID and Chair)	Number in executive management	Percentage of executive management
Men	5	56%	4	10	77%
Women	4	44%	–	3	23%
Not specified/prefer not to say	–	–	–	–	–

Ethnic background reporting[1] under LR9.8.6R(10)

	Number of board members	Percentage of the board	Number of senior positions on the board (CEO, CFO, SID and Chair)	Number in executive management	Percentage of executive management
White British or other White (including minority-white groups)	8	89%	4	10	77%
Mixed/Multiple Ethnic Groups	–	–	–	1	8%
Asian/Asian British	1	11%	–	2	15%
Black/African/Caribbean/Black British	–	–	–	–	–
Other ethnic group, including Arab	–	–	–	–	–
Not specified/prefer not to say	–	–	–	–	–

1. The numerical data detailing gender identity and ethnic background is as disclosed by the relevant individuals at 31 July 2024, being the chosen reference date for the purposes of LR9.8.6R(9)(a), and reflects the composition of the board and executive management at that date.

The Committee continues to monitor the approach to diversity and inclusion across the group. Please see the charts below for a breakdown of the group's gender diversity. More detail on the group's approach to diversity and inclusion can be found in the Sustainability Report on pages 49 to 52.



Board diversity	
Male	**56%**
Female	**44%**

Senior management[1]	
Male	**61%**
Female	**39%**

Workforce diversity[2]	
Male	**54%**
Female	**46%**

1. Comprises all members of the Executive Committee as shown on page 127 and the company secretary, as well as their direct reports.
2. Comprises all employees of the group including senior management.

Workforce Engagement

The Committee keeps the board's workforce engagement arrangements, which are described on page 138, under review. During the year, the Committee considered the range of proposed workforce engagement opportunities for FY 2024 and discussed their suitability and effectiveness. Following a successful couple of days engaging with employees in the Brighton office, the board looks forward to arranging similar engagement programmes in the coming financial year.

Environmental, Social and Governance Matters and Sustainability

Throughout the year, the Committee received and considered dedicated updates on ESG matters relevant to the group. The group's head of sustainability attended the Committee's meetings on a regular basis to provide updates on the group's activities in this area. The Committee's consideration of ESG matters throughout the year covered a wide range of topics and was informed by, among other things, engagement with shareholders and other stakeholders, legislative and regulatory initiatives and wider market developments.

Areas of focus this year included:

- consideration of the group's climate disclosures including the group's Net Zero Banking Alliance ("NZBA") reporting and assessing the group's portfolio against its NZBA targets specifically in relation to vehicle emissions, climate disclosure peer benchmarking, and oversight of the Asset Management division's inaugural TCFD reporting;
- oversight of the group's sustainability strategy including green lending growth aligned to existing businesses and customers;
- reviewing the group's sustainability credentials and climate ranking and stakeholders' perception of the group's climate strategy;
- consideration of the legislative and government-backed climate changes following changes to the UK political landscape; and
- receiving updates on the group's charitable and community involvement including colleague-led donations and group-initiative donations to corporate charity partners.

The Committee recognises and welcomes the continuing and increasing focus on sustainability and the contribution that the group makes to the wider community. 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 on pages 33 to 54 of this Annual Report.

Committee Effectiveness

An external evaluation of the effectiveness of the board and its committees was undertaken during the year in line with the requirements of the UK Corporate Governance Code, as described on page 134. The evaluation found that the Committee continues to operate effectively.

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

Audit Committee Report

Kari Hale
Chair of the Audit Committee

Dear Shareholder

On behalf of the board, I am pleased to present the report of the Audit Committee ("the Committee") for 2024, outlining how the Committee discharged its responsibilities and met its objectives.

The Committee oversees and challenges the group's financial reporting and maintenance of an effective internal control environment. This year the Committee's schedule has been full, with focus on the key accounting judgements and estimates set out on the following pages, assessing the integrity and fair presentation of the group's financial reporting and reviewing the group's internal controls.

Looking ahead to 2025, along with the core responsibilities, the Committee will continue to remain focused on the implications of the FCA review into motor commission arrangements and the resultant accounting and reporting impacts across the group, and readiness for the corporate governance and audit reform changes.

Kari Hale
Chair of the Audit Committee

19 September 2024

Membership

Kari Hale (Chair), Patricia Halliday, Tesula Mohindra and Sally Williams.

Other regular attendees by invitation

- Chairman of the board
- Executive directors
- Group head of internal audit
- Group chief risk officer
- Group financial controller
- Group financial planning and analysis director
- Group head of operational risk and compliance
- External auditor

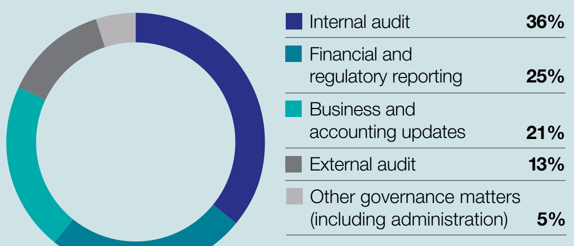
Meetings

- Number of scheduled meetings: five
- For details of attendance, see page 132

Interaction with other committees

The chair of the Audit Committee must be a member of the Risk Committee. The Audit Committee jointly oversees, along with the Risk Committee, the recommendations of the Group's internal and external auditors and the effectiveness of the Group's internal control and risk management systems.

How time was spent



2024 highlights

- Challenging key accounting judgements with focus on expected credit loss provisions, impairment assessments of goodwill, revenue recognition, and the implications of the FCA review in to motor commission arrangements.
- Assisting in the 2024 dividend recommendation which took into account the group's capital position and going concern assessment.
- Reviewing the integrity of the group's financial reporting and considering key disclosure matters.
- Assisting with the determination of the appropriateness of adopting the going concern basis of accounting and in performing the assessment of the viability of the group.
- Monitoring the group's readiness for the revised UK Corporate Governance Code.
- Reviewing, challenging and approving the annual internal audit plan and internal audit reports.
- Overseeing the effectiveness and continuous improvement of internal control.
- Overseeing and challenging the external audit plan and reports, including materiality, risk assessments and scope.

Key Responsibilities

The Committee's key responsibilities, on behalf of the board, are to:

- monitor significant accounting judgements and estimates;
- monitor the integrity of financial reporting including recommending to the board whether it is fair, balanced and understandable;
- oversee the effectiveness of the group's internal controls;
- review the activities and effectiveness of the group internal audit function;
- review the effectiveness and quality of the external audit process and the independence of the external auditor;
- recommend the external auditor of the group and their fees; and
- review the plan and findings of the audit with the external auditor.

The Committee reports to the board on how it discharges its responsibilities and makes recommendations to the board, all of which have been accepted during the year.

Committee Composition, Operation and Effectiveness

The Committee acts independently of management to ensure the interests of shareholders are properly protected in relation to financial reporting and internal control.

On 16 November 2023, Oliver Corbett resigned as a director of the board . Following Oliver's resignation, Kari Hale was appointed Chair of the Committee.

The Committee members continue to bring a diverse range of experience in finance, risk, control and business, with particular experience in the financial services sector. The board has confirmed that the members of the Committee have the necessary expertise to provide effective challenge to management; this includes the chair. The qualification for each of the members is outlined on pages 124 to 126.

During the course of the year, the Committee held separate sessions with the internal and external audit teams, without management present.

An external evaluation of the board and its committees was undertaken during the year in line with the requirements of the UK Corporate Governance Code, as described on page 134. The evaluation found that the Committee continues to operate effectively. The Committee considers that it has access to sufficient resources to enable it to carry out its duties and it has continued to perform effectively.

External Audit

The Committee oversees the relationship with PricewaterhouseCoopers LLP ("PwC"), its external auditor, covering engagement terms, fees and independence.
The Committee and the external auditor have policies and procedures designed to protect independence and objectivity. PwC has been auditor to the group since August 2017, following the group's last competitive tender during the financial year ended 31 July 2017. Heather Varley has been the group's lead audit partner since March 2022. Heather attended all meetings of the Committee. Matters discussed with PwC are set out in its report on pages 180 to 191.

External Auditor Effectiveness and Appointment

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. The evaluation includes consideration of quality, independence and objectivity, technical competence and auditor challenge.

The process was facilitated by a group-wide survey, a survey of the PwC senior audit team and a review of audit and non-audit fees. Overall, the Committee has concluded that PwC remains independent, and it was satisfied with the auditor's performance and recommended to the board a proposal for reappointment at the AGM. Looking ahead, subject to shareholder approval, PwC will undertake the audit of the company and the group for the year ending 31 July 2025.

In conformance with the required provisions and UK Corporate Governance Code in respect of audit tendering and rotation, the group will be required to tender for the external audit in the 2027 financial year end. Rotation of senior members of the audit team from 2022 onwards has reduced the potential familiarisation threat and therefore a tender has not been completed. Instead during the 2025 financial year, the Committee will commence planning for the next tender, taking into account shareholder interests as well as the FRC's Audit Committees and the External Audit: Minimum Standard.

Financial Reporting and Critical Accounting Judgements and Estimates

The Committee spent considerable time reviewing the Interim Report and Annual Report. The Committee discussed and challenged the key accounting judgements made by management in preparing the financial statements. This also included consideration of the internal controls over financial reporting. The Committee noted that there were no new material standards, or amendments to standards, relevant to the group that became effective for the reporting period. The Audit Committee reviewed and challenged the accounting and disclosure considerations surrounding the non-adjusting post balance sheet event for the agreed sale of CBAM.

Summary of Financial Reporting and Critical Accounting Judgements and Estimates

Key issue	Committee review and conclusion
Expected credit loss ("ECL") provision **31 July 2024: £445.8 million** 31 July 2023: £380.6 million The group's ECL provision is dependent on management's judgements and estimates. Given the materiality of the group's loan book, ensuring that the group's ECL models and related IFRS 9 judgements and disclosures are appropriate remains a key priority for the Committee.	Regular IFRS 9 updates were provided to the Committee throughout the year. 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 latest macroeconomic backdrop and the extent to which models are able to capture these risks; • the ongoing use, approval and exiting of model adjustments; • whether coverage levels continue to reflect the economic risks for customers and the credit risk in the loan book; and • single name loss risks and appropriateness of specifically assessed provisions. Credit risk and provision disclosures were discussed to ensure they gave a balanced articulation of the group's credit risk profile, and key drivers of the ECL charge. **Conclusion: the Committee was satisfied that the impairment provision and the disclosures provided in the financial statements were appropriate.**

Key issue	Committee review and conclusion
Goodwill **31 July 2024: £102.9 million** 31 July 2023: £94.6 million Goodwill is allocated to nine (31 July 2023: eight) cash generating units ("CGUs"), all of which must be tested annually for impairment. This assessment is based on management judgement.	The Committee was presented with goodwill impairment assessments throughout the course of the year. The Committee challenged the appropriateness of the assessment, conclusions and resulting disclosures. Particular focus was given to the cash flow assumptions for Winterflood Securities, which continued to record lower profits driven by difficult market conditions, and Motor Finance where the market and regulatory backdrop is expected to present challenges to the future cash flows. Committee updates included comprehensive information on the impairment assessment methodology, results and sensitivity analysis. Enhancements to the methodology were discussed and challenged including the cash flow approach which takes into account capital requirements as well as the timing and extent of cash flow recovery for certain CGUs, the discount rate used, and the assessment of allocation of central assets to CGU carrying values. **Conclusion: the Committee was satisfied that there was no impairment and the disclosures provided in the financial statements were appropriate.**
Revenue recognition The group offers a range of products and services for which revenue is recognised under IFRS 9, IFRS 15 and IFRS 16. Appropriate recognition is a key focus of the Committee.	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 the detailed assessment that is performed by management and challenged by PwC. **Conclusion: the Committee was satisfied that revenue recognition for each of the group's key businesses is appropriate.**
Motor finance commission arrangements During the 2024 financial year the accounting judgements surrounding the FCA's review of historical motor finance commission arrangements was identified as a critical accounting judgement.	The FCA review of historical motor finance commission arrangements is progressing to determine whether there has been industry-wide failure to comply with regulatory requirements which has caused customers harm and, if so, whether it needs to take any actions. Taking into account all available information, significant judgement is required in determining whether the criteria for recognition of a provision or a contingent liability under IAS 37 "Provisions, Contingent Liabilities and Contingent Assets" have been met. The Committee was presented with detailed analysis comparing the current facts and circumstances with the decision tree contained within IAS 37. In addition, the Committee discussed and challenged the qualitative disclosure approach for the contingent liability and the conclusion it was also not practicable at this early stage to estimate or disclose any financial impact range arising from this issue. **Conclusion: the Committee was satisfied with the matter being disclosed as a contingent liability and the qualitative disclosures provided in the financial statements were concluded to be appropriate.**
Going concern and Viability Statement The directors are required to confirm whether they have a reasonable expectation that the company and the group will be able to continue to operate and meet their liabilities as they fall due for a specified period. The Viability Statement must also disclose the basis for the directors' conclusions and explain why the period chosen is appropriate.	The Committee assisted the board in determining the appropriateness of adopting the going concern basis of accounting and in performing the assessment of the viability of the group. The Committee reviewed and challenged papers which were in support of the going concern basis and the longer-term viability of the group. The analysis took in to account a severe but plausible scenario for the outcome of the FCA's review into motor finance commission arrangements and downside risks, including consideration of wider impacts such as economic deterioration, Basel 3.1, cost of funding, and liquidity. In addition to these factors, the capital action plan disclosed in the interim results announcement and the underlying performance of the group were taken into account. The Committee focused on the strong capital loss absorption capacity of the group and the sound liquidity position in a range of scenarios. The Committee reviewed the disclosures, including the information provided on a severe but plausible scenario. **Conclusion: the Committee concluded that it remained appropriate to prepare the accounts on a going concern basis, advised the board that three years was a suitable period of review for the Viability Statement, and recommended the Viability Statement to the board for approval, as set out on pages 117 to 119.**

Key issue	Committee review and conclusion
Fair, balanced and understandable Under the UK Corporate Governance Code, the board is required to perform an assessment of fair, balanced and understandable reporting.	On behalf of the board, the Committee reviewed the Annual Report as a whole to assess whether they were fair, balanced and understandable. Ahead of presentation to the Committee, a robust review process was conducted to ensure disclosures were balanced and accurate. The Committee reviewed the group's performance in light of the principal and emerging risks, along with the uncertainties surrounding the FCA's review in to motor finance commission arrangements and the capital plan. Challenge was given the use of adjusted measures. The Committee discussed and challenged the balance and fairness of the overall report with management and considered the views of the external auditor. **Conclusion: the Committee was satisfied that the Annual Report, taken as a whole, could be regarded as fair, balanced and understandable and proposed that the board approved the Annual Report in that respect.**

Financial reporting controls

Risk management and internal controls

In conjunction with the Risk Committee, we have satisfied ourselves that the group's internal financial control framework is effective and adequately aligned with the group's risk profile. We are also satisfied that internal financial controls are appropriately designed and effective in identifying risks faced by the group. Full details of the internal control framework are given within the Risk management section on pages 74 to 79.

At each meeting the Committee is presented with a report from the head of internal audit, and reviews major findings relating to control weaknesses and management's response. In addition, metrics and updates are provided to the Committee throughout the year covering the Group Financial Control Framework.

Revised UK Corporate Governance Code 2024

The Committee received a number of updates through the course of the year covering the group's preparations for the revised UK Corporate Governance Code 2024. Committee discussions particularly focused on controls transformation requirements.

Group Internal Audit

The Committee continued to have oversight of Group Internal Audit through quarterly reports provided to the Committee and through one-to-one meetings with the group head of internal audit. The Chair also met members of the function through a roundtable discussion.

The Committee reviewed, challenged and approved the six-monthly internal audit plans and amendments made during the year. It also approved an updated internal audit charter, which sets out the mandate and remit of the function.

It received regular reports on internal audit activities across the group, including thematic root cause analysis, detailing areas identified during audits for strengthening across the group's risk management and internal control framework and management's progress on remediation of issues. On occasion, the Committee invited relevant members of management to attend the Committee and provide progress updates on remediation of issues.

The annual internal audit assessment, which found the governance and risk and control framework of the group to be generally effective, was received by the Committee in accordance with the Chartered Institute of Internal Auditors' guidance.

The Committee completed its annual review of the effectiveness of the internal audit function and its level of independence. The evaluation for the year under review was completed internally and supported by feedback from the Committee and Executive Management. The internal audit function was found to be working well with a good culture of engagement between management and internal audit.

In addition to reviewing the internal audit function's effectiveness, the Committee assessed the level of internal audit resource and the appropriateness of the skills and experience of the internal audit function. It concluded the function was adequately resourced with additional co-source available for specialist skills.

Non-audit Services

The Committee oversees the group's policy on the provision of non-audit services by the external auditor, which incorporates the Financial Reporting Council's Revised Ethical Standard from March 2020.

The group's policy is that permission to engage the external auditor will always be refused where there is an actual or potential threat to independence. However, the Committee will give permission where the service complies with the group policy and where work is closely related to the audit, a detailed understanding of the group is required and the external auditor can provide a higher quality and/or better value service. The group follows the mandatory regulatory cap requirement of 70% which compares the annual value of non-audit services to the average of three years' audit fees.

During the year, total audit fees amounted to £5.0 million (2023: £3.9 million) while total non-audit fees including those relating to services required by legislation amounted to £1.4 million (2023: £0.8 million), representing 28% (2023: 21%) of the current year audit fee. This includes non-audit services not required by legislation of £0.7 million (2023: £0.2 million), 14% (2023: 5%) of the audit fee, predominantly relating to the review of the group's interim financial statements and funding assurance work.

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

Statutory Audit Services Order Compliance

The company confirms compliance with the provisions of the Statutory Audit Services for Large Companies Market Investigation (Mandatory Use of Competitive Tender Processes and Audit Committee Responsibilities) Order 2014 for the year to 31 July 2024.

Risk Committee Report

Dear Shareholder

On behalf of the board, I am pleased to introduce the Risk Committee report for the year ended 31 July 2024. I would also like to thank the Committee members for their contributions and commitment during the last year. The report sets out an overview of the Risk Committee's key responsibilities and the principal areas of risk we have focused on during the year.

Over the last 12 months, the external economic environment remained challenging for our customers and together with an expansive regulatory agenda this presented an evolving risk profile for the Committee's consideration and focus. Key topics for the Committee included reviews of the ongoing impact of cost of living pressures, inflation and interest rate trends. Time was also focused on reviewing progress on capital planning in line with the measures announced at our interim results, as we considered regular updates in relation to the FCA's review of historical motor finance commission arrangements. Noting the continued uncertainty and wide range of potential outcomes of this review, this will remain a key agenda item for the Committee to review and evaluate in the coming year. The Committee also continued its ongoing oversight of progress in the management of risks that are key to supporting our customers, maintaining our operational resilience and meeting our regulatory commitments where we continued to receive progress updates on key remediation programmes. Further details on our risk management approach and the internal controls are provided in the Risk Report on pages 74 to 116.

These dynamic regulatory and macroeconomic environments are likely to remain in focus in the year ahead as we continue to engage proactively with our regulators and review updates from management on capital planning scenarios as we receive more information on the FCA's review of historical motor finance commission arrangements in particular. We will continue to monitor for signs of stress amongst our borrower population and other key factors influencing our principal areas of risk.

Patricia Halliday
Chair of the Risk Committee

19 September 2024

Membership

Patricia Halliday (Chair), Kari Hale, Tracey Graham, Tesula Mohindra, Mark Pain and Sally Williams.

Other regular attendees by invitation

- Chairman of the board
- Executive directors
- Group head of internal audit
- Group chief risk officer
- General counsel
- Group head of operational risk and compliance
- External auditor

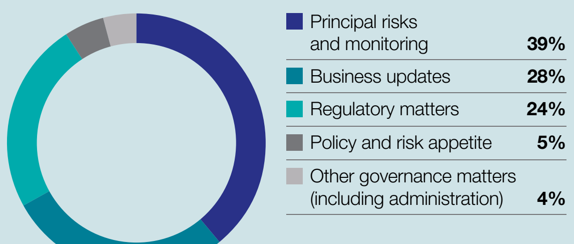
Meetings

- Number of scheduled meetings: six
- For details of attendance, see page 132

Interaction with other committees

The Risk Committee must include, as one of its members, the chair of the Audit Committee. It jointly oversees, along with the Audit Committee, the recommendations of the group's internal and external auditors and the effectiveness of the group's internal control and risk management systems. It also provides advice and input to the Remuneration Committee on remuneration policies and performance objectives.

How time was spent



Principal risks and monitoring	39%
Business updates	28%
Regulatory matters	24%
Policy and risk appetite	5%
Other governance matters (including administration)	4%

2024 highlights

- Review of the status of the first annual assessment of Consumer Duty as well as the embedding of reporting enhancements providing enhanced visibility for senior management.
- Reviewed, challenged and approved the first annual self-assessment on operational resilience detailing the current position towards the regulatory requirement of March 2025. Close monitoring and focus on the achievement of our cyber maturity objectives.
- Credit management across all portfolios through the prevailing macroeconomic environment.
- Enhanced planning on incorporating climate risk into our wider stress testing programme.
- Ongoing oversight of the implication of the FCA's review on historical motor finance commission arrangements. Focus and coverage on the implementation and monitoring of the various capital planning measures as outlined in our half-year results announcement.

Key Responsibilities

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 Risk Committee also plays an important role in setting the tone and culture that promotes effective risk management across the group. The Risk Committee's key responsibilities are to:

- oversee the maintenance and development of a supportive culture and "tone from the top" in relation to the management of risk;
- review and recommend to the board for approval the group's 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 risk appetite;
- review the effectiveness of the risk management framework in ensuring that key risks are identified and appropriately managed;
- provide input from a risk perspective into the alignment of remuneration with performance against risk appetite (through the Remuneration Committee); and
- undertake a robust assessment of both the principal and emerging risks facing the group over the course of the year, and review reports from the risk and compliance functions on the effectiveness of the processes that support the management and mitigation of those risks.

Overview of Main Activities During the Year

The regulatory agenda has naturally determined a large portion of material considered and monitored by the Committee. In addition to ensuring that we keep aligned to the supervisory priorities of our regulatory bodies, risk responses to singular regulatory initiatives and any resulting actions feature accordingly. The FCA's market-wide review of Borrowers in Financial Difficulty, which assessed forbearance and related practices, has been the focus of regular updates to the Committee as it has considered the output of the Past Business Review undertaken and this will continue to feature regularly on our agenda as we head into the next financial year.

Last year the Committee was regularly apprised of enhancements made to meet Consumer Duty requirements for open book products. This year the Committee has been kept regularly updated on further embedding of these processes, together with updates on additional enhancements made this year, including those relating to closed book products. The Committee has also received and reviewed regular monitoring reports of customer outcomes and reviewed and approved on behalf of the board an annual assessment of outcomes received by retail customers.

The embedding of operational resilience throughout the organisation into business practices, including considering the potential impact on clients and markets, has been of keen interest to the Committee; the self-assessment on operational resilience undertaken being brought to the Risk Committee for consideration and sign off.

The Committee has similarly maintained an appropriate focus on the risks associated with cybercrime and has been briefed on progress towards achieving the group's Capability Maturity Model Index target, which was achieved delivering heightened levels of resilience. The established rolling testing schedule will see us well-equipped to monitor the effectiveness of the resilience in an ever-evolving external environment.

In the context of ongoing macroeconomic uncertainty, overall, our loan book has continued to display resilience, demonstrating the positive beneficial impact of our prudent lending criteria, secured nature of lending and application of a consistent risk appetite.

Some lagging impact of the cost of living pressures and run-off of various government schemes has been seen with early signs of credit stress in some pockets of our lending book. Our vigilance and early engagement approach facilitates an ability to react as required and as such the impact thus far is immaterial with overall provision coverage ratios remaining stable.

In addition to our usual schedule of client monitoring, we maintain a rolling programme of credit portfolio reviews which are presented to the Committee. Oversight of key lending portfolios including motor, property, energy, and invoice finance have been regular features on the Risk Committee agenda this year.

During this financial year we have continued to revisit our stress event planning activities; our annual stress testing exercises continue to demonstrate our resilience and sufficient resources of both capital and liquidity. This year has also seen advancements in consideration of how to further incorporate climate risk enhancements into our stress testing programme. Overall, throughout the year we have continued to maintain robust and healthy liquidity levels consistent with our conservative approach to funding based on the principle of "borrow long, lend short." The Committee maintains regular oversight and visibility of funding and liquidity risk.

Since the FCA's announcement of its review of historical motor finance commission arrangements the Committee has closely monitored the capital and liquidity position with focus and challenge on the progress and the impact of management's implementation of the various capital optimisation actions outlined in our half-year results. This has accompanied regular review throughout the year of enhancements in the group's capital management framework, including processes, reporting, governance and capital risk appetite statements. The firm continues to prudently plan for a range of possible outcomes, but noting the uncertainty that remains until further information is available to refine the assumptions made.

As previously, the linkage between culture, risk and compensation remains 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 2025

We expect the regulatory agenda and current areas of activity to feature heavily on the Committee's agenda into 2025. We expect to receive and review updates on the completion of the Past Business Review of customer forbearance processes related to motor finance lending during the year.

In line with recent communication provided by the FCA, we expect an update on the FCA's review of historical motor finance commission arrangements in the final quarter of the next financial year. It remains difficult to anticipate what future updates will include, however it is expected that the content and any associated workstreams will form a focal point for the Risk Committee and executive more widely. We will continue to focus on our forecasting of capital and liquidity throughout the period to ensure we are monitoring appropriately in line with our capital planning measures.

Our focus on Consumer Duty will continue, with regular customer outcomes reporting and updates on areas where we are continuing to make further enhancements. Progress in 2024 on operational resilience and cyber maturity will continue to be built upon and will be monitored keenly by the Committee. Market trends observed on cybercrime indicate a wider adverse trend and therefore focus into 2025 will remain critical.

Notwithstanding recent improving indicators in some of the core macroeconomic indicators that we track, instability in the overall economic environment remains from a period of substantial volatility. Vigilance, monitoring and controlled risk appetite will continue to be key as we move forward. Identification of emerging risks and possible emergence periods form part of the regular monthly reporting suite to our risk committees. This, along with our business-as-usual horizon scanning activities, should ensure that we are able to anticipate and take appropriate management actions. Central to our ability to do this is our established risk measurement, monitoring and reporting framework. Our focus on products and markets we know and understand aligns with a consistent risk appetite against which we measure ourselves.

As we look ahead to the next financial year I look forward to seeing the climate risk agenda featuring at the Risk Committee in line with our revised governance arrangements. Combined with our culture dashboard and monitoring of people risk, this ensures that we maintain sustainability considerations at the forefront of all we do whilst we support our businesses in serving our customers.

Committee Effectiveness

An external evaluation of the effectiveness of the board and its committees was undertaken during the year in line with the requirements of the UK Corporate Governance Code, as described on pages 134 and 135. The evaluation found that the Committee continues to operate effectively.

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

Directors' Remuneration Report

Tracey Graham
Chair of the Remuneration Committee

Dear Shareholder

I am pleased to present the Directors' Remuneration Report for the 2024 financial year. I would like to thank my fellow Remuneration Committee members, including Peter Duffy who stepped down from the board and the Remuneration Committee on 15 February 2024, for their support and contribution to the work of the Remuneration Committee during the year.

This report sets out our pay decisions for the year, including how we implemented the Remuneration Policy approved by shareholders at the 2021 AGM. It also provides detail on our proposed approach to the triennial renewal of the existing Remuneration Policy (the "Policy"), which is due at the November 2024 AGM, and our proposed approach to executive remuneration for the 2025 financial year.

The Remuneration Committee believes that in the ordinary course of events the current Policy is fit for purpose and provides fair balance between the interests of all our stakeholders, while rewarding the management team for delivery against the group's key strategic priorities. We are therefore not proposing to make any substantive changes to our "ordinary course" go-forward Policy that will apply until 2027.

However, we are proposing to add flexibility to operate an interim Restricted Stock incentive model, which replaces both the annual bonus for 2025 and the performance share award grant under the Long-Term Incentive Plan in 2025. This intended Restricted Stock award will be granted at a discount of c.65% to the face value of the normal annual bonus and performance share award LTIP opportunities. This level of discount is higher than the market standard discount of 50%, and materially higher than the level of discount accepted in the wider market. Further details are set out on page 152. This reflects the unprecedented circumstances faced by the business given the range of potential outcomes from the FCA's review of historical motor finance commission arrangements and continued uncertainty about the timing, scope and quantum of any potential financial impact on the group. On 20 July 2024, the FCA announced that it now aims to set out steps by the end of May 2025, rather than by September 2024 as previously expected.

In advance of finalising our proposed approach, we consulted with all of our major shareholders, covering c.80% of our shareholder register. We had written responses or held

Membership

Tracey Graham (Chair), Mike Biggs, Mark Pain and Patricia Halliday (appointed 1 August 2024).

Other regular attendees by invitation

- Chief executive
- Head of human resources
- Head of reward and HR operations

Meetings

- Number of scheduled meetings: five
- For details of attendance, see page 132

Interaction with other committees

The Remuneration Committee works with the Audit Committee and Risk Committee chairs on the design and implementation of remuneration policies and the determination of remuneration outcomes.

This report sets out our approach to remuneration for the group's employees and directors for the 2024 financial year.

The Directors' Remuneration Report is divided into three sections:

- Annual Statement from the Remuneration Committee Chair – pages 150 to 153
- Directors' Remuneration Policy – pages 154 to 164
- Annual Report on Remuneration – pages 164 to 175

How time was spent

2024 highlights

- Considered the Remuneration Committee's approach to the triennial renewal of the existing Remuneration Policy, which is due at the 2024 AGM.
- Consultation with over 40 of our major shareholders to discuss the proposed 2024 Directors' Remuneration Policy.
- Conducted the 2024 annual compensation review for executive directors and the wider workforce.
- Undertook regulatory matters including Material Risk Takers framework, annual internal audit of remuneration and group risk adjustment.
- Reviewed statutory and regulatory remuneration disclosures including gender pay gap report.

meetings with 24 shareholders who wished to discuss the proposals in more detail. The majority of our larger shareholders who provided feedback have advised that they are minded to support the proposal. This is in recognition of the unprecedented uncertainty impacting the business requiring a simple and effective model to retain and motivate executive talent. As part of the consultation exercise a number of shareholders expressed a strong preference for all of the award to be subject to a two-year holding period, extending the award over a total of five years. A number of shareholders noted the substantial discount of 65% on face value of the normal annual bonus and performance share award LTIP but also requested reassurance that the Remuneration Committee retain discretion on vesting outcomes to ensure alignment with the shareholder experience. We have refined our approach to address this feedback. As set out below, both executive directors will revert back to participating in the normal course annual bonus and LTIP as soon as practicable. The Committee agreed to go forward with this Policy in the context of this shareholder support during consultation.

How the Group Performed During the 2024 Financial Year

2024 has presented material challenges for the group, with significant uncertainty introduced by the FCA's review of historical motor finance commission arrangements announced in January. Against this backdrop, our top priority has been to further strengthen our capital position and protect our valuable franchise. We have made significant progress against the capital actions previously outlined.

As described in the Chairman's and Chief Executive's Statements, this year's performance demonstrates the group's resilience. In Banking, we grew our loan book with strong margins and stable underlying credit quality, while progressing our cost actions to improve efficiency. CBAM delivered strong net inflows, though Winterflood's performance remained impacted by the unfavourable market conditions.

As a result, on an adjusted basis, excluding the impact from certain items which do not reflect the underlying performance of our business, the group's operating profit increased 50% to £170.6 million (2023: £113.5 million) as the significant decrease in impairment charges and 1% growth in income more than offset a 10% growth in adjusted operating expenses. The group's return on opening equity increased to 6.9% (2023: 5.0%).

We have maintained our strong balance sheet position, with our Common Equity Tier 1 ("CET1") ratio of 12.8% at 31 July 2024 (31 July 2023: 13.3%), significantly above our applicable requirement of 9.7%. Total funding increased 5% to £13.0 billion (31 July 2023: £12.4 billion), with 36% growth in our retail deposit base, demonstrating the strength of our Savings proposition. We maintained our prudent liquidity position, with our Liquidity Coverage Ratio over 1,000%, substantially exceeding regulatory requirements.

In March 2024, we announced a range of management actions which have the potential to strengthen the group's available CET1 capital by approximately £400 million by the end of the 2025 financial year. We have retained c.£100 million of CET1 capital in the 2024 financial year as a result of the group's previously announced decision not to pay a dividend for the 2024 financial year. To optimise risk weighted assets, we have been growing our loan book selectively and have concluded the work in preparation for a significant risk transfer of assets in Motor Finance. We have continued to deliver against the cost management initiatives previously announced and have also progressed a range of other capital actions. Following a comprehensive strategic review, the group announced that it entered into an agreement to sell CBAM to Oaktree on 19 September 2024. The transaction is expected to increase the group's CET1 capital ratio by approximately 100 basis points. The board remains confident that these actions leave the group well positioned to navigate the current uncertainty.

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	2024	2023
Return on average tangible equity	**8.3%**	5.9%
Average return on opening equity over three years[1]	**7.5%**	10.0%
CET1 capital ratio	**12.8%**	13.3%
Adjusted operating profit (£ million)	**170.6**	113.5
Adjusted earnings per share growth over three years[1]	**(45.8)%**	(26.0)%
Distributions to shareholders (£ million)[2]	**–**	100.5

1. For the three-year periods ended 31 July 2024 and 31 July 2023.
2. For the 2024 financial year, no dividend was paid.

We have a track record of applying restraint on executive pay. The table below summarises the level of annual bonus and LTIP vesting since 2021.

Financial year	Annual bonus	LITP
2021	78% of maximum.	40% of maximum.
2022	46.7% of maximum.	27.5% of maximum – ***downwards discretion*** applied, in agreement with the executives, to reduce vesting to 20.6% of maximum.
2023	31.8% and 35.8% of maximum opportunity for Adrian Sainsbury and Mike Morgan, respectively. In light of the shareholder experience, the executive directors advised the Remuneration Committee that they wished to forgo their bonus for the 2023 financial year. ***Downwards discretion*** applied to reduce vesting to 0% of maximum.	35.3% of maximum opportunity – ***downwards discretion*** applied, in agreement with the executives, to reduce vesting to 0% of maximum.
2024	As described below, 28% of maximum opportunity for Adrian Sainsbury and Mike Morgan – ***downwards discretion*** applied, in agreement with the executive directors, to reduce vesting to 0% of maximum.	The LTIP granted in 2021 which vested in respect of performance over the three years to the end of the 2024 financial year vested at 22.0%.

As we navigate this period of unprecedented uncertainty, the Remuneration Committee is seeking to balance rewarding and retaining our people, including our executive directors, in order to safeguard the future of our strong franchise, with the experience of all of our stakeholders. Further details regarding the actions we have taken for the wider workforce are set out on page 153.

Executive Director Remuneration Outcomes for the 2024 Financial Year

As disclosed at the start of the year, the Committee made a number of changes to the performance assessment approach for the annual bonus for 2024. We added a costs

metric (cost:income ratio ("C:I")) and a profit metric (adjusted operating profit ("AOP")) to the annual bonus for the 2024 financial year with the aim of ensuring executive focus on resuming the group's track record of earnings growth and returns, while focusing on cost efficiency. These measures each had a weighting of 15%. We also updated our return measure to be based on return on average tangible equity ("RoTE"), meaning the return measure is based on the equity profile of the group across the performance period, with a weighting of 30%. The balance of the annual bonus was based on the strategic scorecard, worth 40% of the overall bonus.

As well as introducing changes to our measures, we disclosed an adapted approach to target setting for 2024, with bonus targets set to be dynamic year-to-year and set taking into account market conditions, as well as budgetary outlook and market forecasts. This is to better align with typical market practice, and ensures the bonus is appropriately calibrated to motivate management outperformance.

The financial performance targets on the annual bonus were not met. The out-turn under the strategic scorecard element of the bonus, which represents 40% of the maximum opportunity, was 70% for both the chief executive and finance director. This reflects the continued progress against key strategic, people, customer and risk priorities, including the actions being taken to build our capital strength, leaving the group in a strong position to continue to support our customers and protect our valuable franchise. This would have resulted in an annual bonus of 28% of the maximum opportunity for Adrian Sainsbury and Mike Morgan. However, in recognition of the shareholder experience, the executive directors and the Remuneration Committee have agreed that no bonus will be paid.

The 2021 LTIP was based on adjusted EPS growth (35%), return on opening equity ("RoE") (35%) and a scorecard of risk management objectives (30%). The financial metrics were not met, reflecting the impact of the legacy issues that crystallised in the performance period. The risk management objectives over the three years to 2024 were partially met. The Committee approved a vesting out-turn of 22%. Further detail on the LTIP outcome is set out on page 169.

The Remuneration Committee is mindful that we currently have limited lock-in for the executive team. The decision to apply downward discretion in both the annual bonuses for 2023 and 2024 means there are limited deferred share awards outstanding. Furthermore, the downward discretion exercised in respect of the LTIPs vesting in respect of the three-year performance periods ending in the 2022 and 2023 financial years means there are limited LTIP shares in a holding period. This also means that the shareholdings of the executive team are currently 77% and 104% for our chief executive and finance director respectively.

Policy Review

Our last Policy was approved by shareholders in November 2021 and was widely supported by our shareholders. At the November 2024 AGM, we are due to renew our Directors' Remuneration Policy in line with the usual three-year cycle. No changes are proposed to the current Policy, which would be operated in the ordinary course of events.

- The maximum 2:1 variable:fixed pay cap will continue to apply, with the maximum opportunities for both directors under the annual bonus and Long Term Incentive Plan ("LTIP") remaining 95% and 125% of salary respectively.
- Clawback periods on variable pay will continue to be seven years, extendable to 10 years.
- Pension contributions for executive directors will continue to be in line with the rate paid to all employees (this currently equates to a 10% contribution).
- There will be no changes to deferral or retention periods for the annual bonus or LTIP.
- In-employment and post-employment shareholding requirements will remain at 200% of salary.

The FCA's review of historical motor finance commission arrangements in the motor finance market, and range of potential outcomes and timeframes, presents an unprecedented challenge setting robust performance metrics. The Remuneration Committee has therefore reviewed a range of approaches to ensure that the incentive framework continues to align the reward outcomes for our executives with the long-term interests of our shareholders. The conclusion of this review was that:

- There is significant uncertainty around target ranges given the extended timeframe of the FCA's review.
- Adjusting performance targets for in-flight awards would not be aligned with good practice.
- Using our "business as usual" annual bonus and LTIP structure with re-balanced performance metrics and/or increasing the weighting on non-financial metrics would add complexity to the challenge of setting transparent performance targets that are aligned with the creation of shareholder value.

We are therefore proposing to add flexibility to operate an interim Restricted Stock incentive model. Instead of using a framework and performance measures designed for typical market conditions, the long-term nature of this interim approach with no short-term cash element is aligned with:

- Retaining and motivating an executive team focused on executing our strategy and protecting our valuable franchise.
- Operating a simple interim incentive framework that will allow our executive team to concentrate on navigating through this period of unprecedented circumstances.
- Increasing the executive directors' equity stake in the business in the long-term interests of all of our stakeholders.

The proposed Restricted Stock award in 2025 will:

- replace both the annual bonus for 2025 and performance share award grant under the LTIP in 2025;
- be granted at a discount of c.65% of the face value of the normal annual bonus and performance share award LTIP opportunities. This level of discount is higher than the market standard discount of 50%. This higher discount has been proposed taking into account a number of factors including: i) the need to mitigate the risk of windfall gains at vesting taking into account the current share price; ii) the fact that the Restricted Stock award is replacing both an annual bonus and LTIP; and iii) the need to ensure that we can reward and retain the executive directors and to protect our strong franchise;
- be subject to performance underpins;
- the Restricted Stock awards would vest 100% after year three subject to assessment against the performance underpins. We had originally proposed that 50% of the award would also be subject to a two-year holding period. Taking into account the feedback from shareholders, our revised approach is that 100% of the award will be subject to a two-year holding period. This reflects that the current LTIP has a five-year time horizon and shareholder preference for the entirety of the award to be aligned with the long-term sustainable success of the business; and
- consistent with the normal course Policy, clawback periods will continue to be seven years, extendable to 10 years.

Consistent with the current Policy and risk adjustment framework, the Remuneration Committee will continue to have overriding discretion to adjust vesting outcomes where it considers appropriate, taking into account the wider

stakeholder experience. While the significant discount is intended to proactively address the risk of potential windfall gains, the Remuneration Committee will nonetheless retain discretion on vesting outcomes in the event of a significant increase in our share price to ensure the value delivered to executives is appropriate in the context of the overall business performance and the wider stakeholder experience.

This interim Restricted Stock incentive model is expected to apply for the 2025 financial year. Given the revised timetable for the FCA's work in the motor finance market, in the event that the extraordinary circumstances continue beyond the 2025 financial year, this interim Restricted Stock model may be operated in future years. The maximum Restricted Stock awards that may be granted will be capped at 80% of fixed pay, excluding pension and benefits in lieu of any annual bonus and performance share LTIP grant. We would keep shareholders updated in the event we extend the use of the interim pay model beyond 2025. Both executive directors will revert back to participating in the normal course annual bonus and LTIP as soon as practicable. We would not envisage a return to the interim pay model once we have reverted to our normal Policy.

The full Policy is set out on pages 154 to 164 and will be subject to a binding shareholder vote at the 2024 AGM.

Proposed Implementation of the Policy for the 2025 Financial Year

For the 2025 financial year, the Remuneration Committee has decided to apply 2% and 2.1% salary increases to the chief executive and finance director, respectively. These increases are below the average increase of 3.4% awarded to the wider workforce.

There will be no change to the level of pension provision, which will remain aligned with the wider workforce at 10% of salary.

As set out on the opposite page, the executive directors will not be entitled to receive an annual bonus for the 2025 financial year, and they will not be granted a performance share award in the 2025 financial year (i.e. no 2024 LTIP grant). In lieu of the normal course annual bonus and performance share LTIP, it is our intention to grant a Restricted Stock award over shares with a value of £750k for the chief executive and £450k for the finance director. This equates to less than 80% of their respective base salaries. This is a c.65% discount to the aggregate normal annual bonus and performance share LTIP opportunities of 220% of base salary (which would equate to a normal aggregate maximum face value at award of c.£2,130k for the chief executive and c.£1,283k for the finance director).

The Restricted Stock award will be subject to the following performance underpins for the 2025 financial year, which would be assessed after the three-year vesting period:

- Individual: At least strong personal performance rating, as rated by the Chairman of the Board in consultation with the Board;
- Financial: The group achieving a CET1 of at least 1% above regulatory requirement at vesting, calculated on a standardised basis;
- Non-financial: Satisfactory progress against strategic objectives designed to promote the long-term success of the business, as judged by the Chairman of the Board in consultation with the Board; and
- Risk: No material regulatory censure relating to the executive director's time in office.

Consistent with the current Policy and risk adjustment framework, the Remuneration Committee will continue to have overriding discretion to adjust vesting outcomes where it considers appropriate taking into account the wider stakeholder experience.

Supporting the Wider Workforce

The Remuneration Committee's aim is to always consider the wider workforce, our shareholders and other stakeholders by taking a fair, prudent and balanced approach to remuneration.

The Remuneration Committee is particularly focused on ensuring that Close Brothers supports its broader workforce and demonstrates its ethos as a responsible business. We are committed to paying all staff at or above the national living wage, which is in excess of the national minimum wage. The average salary increase for the wider workforce for the 2025 financial year is 3.4%.

During this period of uncertainty, Close Brothers have been mindful of the need to retain and motivate our talented workforce to continue to protect the franchise, support our customers and to operate the business within our risk appetite. Recognising this context, we have continued to fund the bonus pool for colleagues guided by affordability, and will pay bonuses to eligible employees, excluding the executive directors.

We remained dedicated to closing the gender pay gap through increasing female representation at all levels.

Our focus on closing the gender pay gap is through increasing female representation at all levels by setting representation targets and supporting development programmes. Whilst gender pay provides the most direct link to remuneration, our broader focus on inclusion ensures we prioritise fairness and equality for all colleagues. We are signatories to a wide range of charters and commitments across a broad spectrum of inclusion themes. We partner with leading organisations and participate in wider membership bodies, to help inform our thinking and subsequent actions. We have eight executive sponsored inclusion networks which actively lead internal events and initiatives to raise awareness across the group. 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 to this question in the employee opinion survey of 90% (2023: 96%) 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.

Looking Ahead – Key Focus Areas for the Remuneration Committee for 2025

The Committee intends to continue its openness to dialogue with shareholders in the coming year, recognising that pay remains in focus for our investors. We will continue to consider the experiences of colleagues, our shareholders and other stakeholders and to remunerate executives fairly and appropriately. We remain committed to a responsible approach to executive pay, as I hope this Directors' Remuneration Report demonstrates.

I hope that you will find this report on the directors' remuneration accessible and clear, and that you agree with the decisions we have taken, which balance the interests of all stakeholders. I look forward to receiving your support on the Directors' Remuneration Report and Directors' Remuneration Policy resolutions at the forthcoming AGM.

Tracey Graham
Chair of the Remuneration Committee

19 September 2024

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 2024 and, if approved, will apply from the date of the AGM.

As set out in the Remuneration Committee Chair's letter, the Remuneration Committee believes that in the ordinary course of events the current Policy is fit for purpose and provides a fair balance between the interests of all our stakeholders, while rewarding the management team for delivery against the group's key strategic priorities. We are therefore not proposing to make any substantive changes to our "ordinary course" go-forward Policy that will apply until 2027. Minor changes to the detailed text have been made to improve the operation and function of the Policy.

However, we are proposing to add flexibility to operate an interim Restricted Stock incentive model. In any financial year where this award is made, the Restricted Stock grant would replace both the annual bonus and the performance award LTIP grant in that year. Further detail is set out below and in the Remuneration Committee Chair's letter. The interim Restricted Stock incentive model is intended to provide a simple and transparent incentive framework that motivates and retains our executive team through this period of uncertainty, and that increases the executive directors' equity stake in the business, thereby enhancing shareholder alignment.

In developing the Policy, 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.

The reward structure aims to:

- attract, motivate and retain high calibre executive directors;
- reward good performance;
- promote the achievement of the group's annual plans and its long-term strategic objectives;
- align the interests of executive directors with those of all key stakeholders, in particular our shareholders, clients and regulators; and
- support effective risk management and promote a positive corporate culture and appropriate conduct to both employees and clients.

Remuneration Policy for Executive Directors

The below table sets out the "ordinary course" go-forward Directors' Remuneration Policy

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, skills and experience and external factors, as applicable. Typically paid monthly in cash. Salaries will be reviewed annually or when there is a change in role or responsibility. Any changes normally take effect from 1 August and will generally not exceed those for the broader employee population. Increases may be made above this level in certain circumstances, such as: • a change in the regulatory environment; • progression within the role; • increase in scope and responsibility of the role; • increase in experience where an individual has been recruited on a lower salary initially; and • increase in size and complexity of the company.	Not applicable.
Changes from previous Policy: No change from the previous approach.		
Benefits Enables the executive directors to perform their roles effectively by contributing to their wellbeing and security. Provides competitive benefits consistent with the role.	Any benefit allowances will typically 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. Currently the maximum allowance is £18,000 for the chief executive and £12,000 for other executive directors; and • 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: Limited change. Flexibility to calibrate allowance to market levels.		

Element and how it supports the group's short-term and long-term strategic objectives	Operation and maximum payable	Performance framework, recovery and withholding
Pension Provides an appropriate and competitive level of personal and dependent retirement benefits.	Executive directors 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. The Remuneration Committee retains the discretion to determine the methodology and basis used in calculating the pension rate available to the wider workforce, including the jurisdictions deemed as relevant for comparison. The definition of the wider workforce will be as determined by the Remuneration Committee.	Not applicable.
Changes from previous Policy: Limited change to detailed provision.		
Annual bonus Rewards good performance. Motivates employees to support the group's goals, strategies and values over both the medium and long-term. Aligns the interests of senior employees and executives with those of key stakeholders, including shareholders, and increases retention for senior employees, through the use of deferrals.	60% of the annual bonus will usually be deferred into shares (in the form of nil cost options or conditional awards) and will usually vest in equal tranches over three years, subject to remaining in service. The remaining annual bonus will be delivered immediately in cash. The annual bonus is capped at 95% of base salary. At the Remuneration Committee's discretion, dividend equivalents will usually be paid in cash or additional shares when the deferred awards vest.	Individual bonuses are determined based on both financial and non-financial performance measures in the financial year, including adherence to relevant risk and control frameworks. **Recovery and withholding** The cash element is subject to clawback and the deferred element is subject to malus and clawback conditions, as outlined on page 159. **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 objectives; and/or • customer metrics; and/or • risk, conduct and compliance measures; and/or • personal/individual objectives. The Remuneration Committee maintains discretion to vary the measures and their respective weightings within each category. Performance targets and objectives will typically 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 executive directors with the key stakeholders over the medium term, be challenging and also provide an effective incentive for the executive directors. The Committee has overriding discretion to adjust the bonus outcome where it considers the application of formulaic performance conditions to be inappropriate, guided by factors such as overall business or individual performance and risk.

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 continued		Performance assessment will usually be in respect of the full financial year although the Remuneration Committee retains discretion, in exceptional circumstances, to assess performance over an alternative period. Performance against the objectives that comprise the balanced scorecard and their weightings will typically be disclosed retrospectively on an annual basis as part of the Annual Report on Remuneration. Normally, the amount payable for threshold performance will be no more than one third of maximum, and the amount payable for target performance will be no more than 50% of maximum.
Changes from previous Policy: No change from the previous approach.		
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, executive directors. At the Remuneration Committee's discretion, dividend equivalents will usually be paid in cash or additional shares when LTIP awards are released. Executive directors are eligible to receive an annual award of shares with a face value of up to 125% of base salary, excluding dividend equivalents.	**Measures and weightings** Individual awards vest based on performance against both financial and non-financial performance measures. At least 70% of the award will be based on performance against financial measures. The remainder will be based on non-financial performance. The Remuneration Committee maintains discretion to vary the measures and their respective weightings within each category. The choice of measures, relevant target ranges and their respective weightings will be typically disclosed as part of the Annual Report on Remuneration. Performance against target ranges will typically be reported annually at vesting. The Remuneration Committee has an overriding discretion 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. **Recovery and withholding** LTIP awards are subject to malus and clawback provisions, as outlined on page 159.
Changes from previous Policy: No material changes.		

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.	Executive directors 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. Executive directors can make total maximum contributions of up to £6,000 per annum, or up to the maximum permitted by HMRC rules at any given time. The Remuneration Committee reserves the discretion to increase the maximum contributions in line with any HMRC rule changes during the period of the Policy.	Not applicable, as this is a voluntary scheme where executive directors have invested their own earnings.
Changes from previous Policy: No material changes.		
Share Incentive Plan ("SIP") Aligns the interests of executives with those of shareholders through building a shareholding.	Executive directors are able to contribute up to a maximum of £1,800 per annum from pre-tax income and national insurance earnings to buy Partnership Shares. At present the Remuneration Committee has determined that EDs have the ability to buy Partnership Shares. Currently there is no match, but the Remuneration Committee retains the discretion to offer Matching Shares of up to twice the number of Partnership Shares and/or award free shares. This will be on the same basis for all employees should the Remuneration Committee exercise this discretion. Dividends paid on shares held in the SIP are reinvested to acquire further Dividend Shares. The Remuneration Committee reserves the discretion to increase the maximum contributions in line with any HMRC rule changes during the period of the Policy.	Not applicable, as this is a voluntary scheme where executive directors have invested their own earnings.
Changes from previous Policy: None.		
Shareholding requirement Aligns the interests of executives with those of shareholders through building a shareholding.	Executive directors are expected to build and maintain a holding of company shares equal to at least 200% of base salary. Executive directors will normally be expected to maintain a minimum shareholding of 200% of base salary for the first two years after stepping down as an executive director. The Remuneration Committee retains discretion to waive this guideline if it is not considered appropriate in the specific circumstances.	Not applicable.
Changes from previous Policy: None.		
Other	The group will pay legal, training and other reasonable and appropriate fees, including any relevant tax liabilities, incurred by the executive directors as a result of doing their job.	
Changes from previous Policy: None.		

Interim Remuneration Policy Features – Extraordinary Circumstances

Element and how it supports the group's short-term and long-term strategic objectives	Operation and maximum payable	Performance framework, recovery and withholding
Restricted Stock Interim arrangement to retain and motivate the executive directors during this period of uncertainty. Restricted Stock will increase the executive directors' equity stake and promote stewardship to protect our valuable franchise. This would be in lieu of the normal course annual bonus and performance award LTIP grant in the financial year.	Awards are made in the form of nil cost options or conditional awards and usually vest after three years subject to achieving performance underpins and remaining in service. On vesting, 100% of 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, executive directors. At the Remuneration Committee's discretion, dividend equivalents will usually be paid in cash or additional shares when awards are released. The maximum award level is 80% of fixed pay, excluding pension and benefits. For the 2025 financial year, the intention is that awards with a face value of £750,000 for the chief executive and £450,000 for the finance director will be granted. Restricted Stock may only be awarded in a financial year in which the executive directors are not eligible for an annual bonus, and do not receive a performance award LTIP grant.	Awards would be subject to a performance underpin, which would be assessed at vesting. For the awards to be granted in 2025, the following performance underpins will apply: • Individual: At least strong personal performance rating, as rated by the Chairman of the Board in consultation with the Board. • Financial: Company achieving a CET1 of at least 1% above regulatory requirement, calculated on a standardised basis. • Non-financial: Satisfactory progress against strategic objectives designed to promote the long-term success of the business, as judged by the Chairman of the Board in consultation with the Board. • Risk: No material regulatory censure relating to the executive director's time in office. The Remuneration Committee has an overriding discretion to adjust vesting outcomes where it considers it appropriate taking into account the wider stakeholder experience.

Changes from the previous Policy: The ability to make Restricted Stock awards is a new addition to the Policy. This is intended as a structure to incentivise and retain the executive directors through the period of significant uncertainty currently impacting the group. This would be in lieu of the normal course annual bonus and performance award LTIP grant in the financial year. Both executive directors will revert back to participating in the normal course annual bonus and LTIP as soon as practicable.

Additional Details on the Directors' Remuneration Policy

The Remuneration Committee may amend the performance conditions or underpins applying to a performance award LTIP or Restricted Stock award if an event or a series of events happens as a result of which the Remuneration Committee considers it fair and reasonable to make the change, provided that the performance conditions are 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 conditions, underpins or to impose a new performance condition or objective condition. The Remuneration Committee will make full and clear disclosure of any such adjustments within the Annual Report on Remuneration for the relevant financial year.

The Remuneration Committee has an overriding discretion, notwithstanding any performance conditions, to adjust vesting outcomes where it considers the application of formulaic performance conditions to be inappropriate. The Remuneration Committee will make full and clear disclosure of any such adjustments within the Annual Report on Remuneration for the relevant financial year.

The Remuneration Committee may make minor amendments to this Policy (for regulatory, exchange control, tax or administrative purposes, to correct clerical errors or to take account of a change in legislation) without obtaining shareholder approval for that amendment.

In the event of a variation of share capital, demerger, special dividend, distribution or any other corporate event which may affect the current or future value of a share award, the Remuneration Committee may adjust an award as appropriate.

Rationale for Choice of Performance Conditions

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

Under the ordinary course Policy, at maximum performance, the ratio of financial to non-financial measures for the chief executive and finance director across the annual bonus and performance award LTIP is approximately two-thirds. The Remuneration Committee believes this combination provides a good balance of financial and non-financial measures, supports the medium and long-term strategic objectives of the group, is consistent with regulatory requirements and provides alignment with shareholders' interests.

The actual performance targets will typically be set at the beginning of each financial year based on prior year performance, expected performance, strategic priorities for the year and other internal and external factors as appropriate. All targets will be set at levels that are stretching but remain achievable within the context of our model and the broader external environment.

Performance underpins that apply to the Restricted Stock award are set to appropriately mitigate risk and ensure satisfactory financial, non-financial and individual performance.

Malus and Clawback

The LTIP rules, which also cover the grant of the Restricted Stock awards, 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 performance award LTIP awards, Restricted Stock 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 performance award LTIP award and Restricted Stock 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.

In 2020/21 the company extended the circumstances in which malus and clawback can be applied, to align the terms between the performance award LTIP, Restricted Stock and annual bonus (cash and deferred elements). The company has applied the extended malus and clawback conditions for LTIP awards granted in 2020 onwards and applied the extended malus and clawback conditions for the annual bonus awards from 2021 onwards.

In determining whether to exercise its discretion to apply malus and clawback, the Remuneration Committee will have regard to all relevant circumstances, which will typically include (where relevant) an assessment of the extent to which the executive director was responsible for the events in question.

The cash element of the annual bonus is subject to clawback for a period of seven years from the award date, extendable to 10 years by the Remuneration Committee where there is an ongoing investigation. The deferred element vests in equal tranches over three years, and is subject to malus prior to vesting and clawback for seven years from the date of grant, extendable to 10 years by the Remuneration Committee where there is an ongoing investigation. Performance award LTIP and Restricted Stock awards are subject to malus for the three-year period to the point of vesting, and are subject to clawback for seven years from the date of grant (four years after vesting), extendable to 10 years by the Remuneration Committee where there is an ongoing investigation.

Malus triggers

The Remuneration Committee may apply malus to unvested LTIP awards (including Restricted Stock awards) granted on or after 21 September 2020 and to annual bonus awards granted on or after 23 September 2021 in the following circumstances:

- the assessment of any performance target or condition, the related bonus and/or the number of shares subject to an award was based on material error, or materially inaccurate or misleading information;
- the executive director's employment is terminated for misconduct, or if the executive has been issued with a formal disciplinary warning for misconduct under the company's disciplinary policy (or, if the executive director 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 executive director 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 executive director 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 executive director was wholly or partly responsible;
- the company suffers a material loss, financial or otherwise, where the executive director has operated outside the risk parameters or risk profile applicable to their position and for which the Remuneration Committee determines the executive director 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 (including Restricted Stock awards) granted on or after 21 September 2020 and to annual bonus awards granted on or after 23 September 2021 in the following circumstances:

- discovery of a material misstatement resulting in an adjustment in the audited consolidated accounts of the group, or the audited accounts of any material subsidiary;
- the assessment of any performance target or condition, the related bonus and/or the number of shares subject to an award was based on material error, or materially inaccurate or misleading information;
- action or conduct which, in the reasonable opinion of the board, amounts to fraud or gross misconduct (or, if the executive director has left employment, the Remuneration Committee becomes aware of circumstances that would have amounted to fraud or gross misconduct had the executive director 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 executive director 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 executive director was wholly or partly responsible; and
- the company suffers a material loss, financial or otherwise, where the executive director has operated outside the risk parameters or risk profile applicable to their position and for which the Remuneration Committee determines the executive director was wholly or partly responsible.

Consistency of Executive Directors' 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 executive directors.

The Remuneration Committee does not formally consult with employees when setting the Policy, although the employee opinion survey conducted every year includes remuneration as one of the topics surveyed. The Remuneration Committee also receives feedback from engagement with, and communication to, employees on matters relating to remuneration issues, which it uses to inform its broader approach to remuneration, including with respect to the alignment between executive remuneration and the approach to compensation for employees across the group. The Remuneration Committee frequently reviews a "Remuneration Dashboard" containing metrics, analysis and other information, which the Committee uses as part of its decision-making, including as part of the annual compensation process. It covers a wide range of areas throughout the year, such as workforce demographics, pay and reward at different levels across the group, gender pay and SAYE participation.

The principles of remuneration are applied throughout the group and are designed to support the group's key attributes across our businesses, which are expertise, service and relationships. Remuneration structures and arrangements for all employees are based on the individual's role, experience, performance and relevant market practice.

Annual bonuses are based on role, business performance, market conditions and individual performance. These bonuses are not capped; except for executive directors and group and bank Material Risk Takers. All highly remunerated employees have a portion of their bonuses deferred.

A limited group of senior employees typically receive performance award LTIP awards, generally on the same basis as the executive directors, but the maximum face value of these awards is generally materially lower. Restricted Stock awards will be granted in the coming financial year to senior employees to reflect the current uncertainty impacting the group.

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

Employees receive the same level of pension contributions (in the form of a cash allowance or contribution to a pension arrangement) as executive directors.

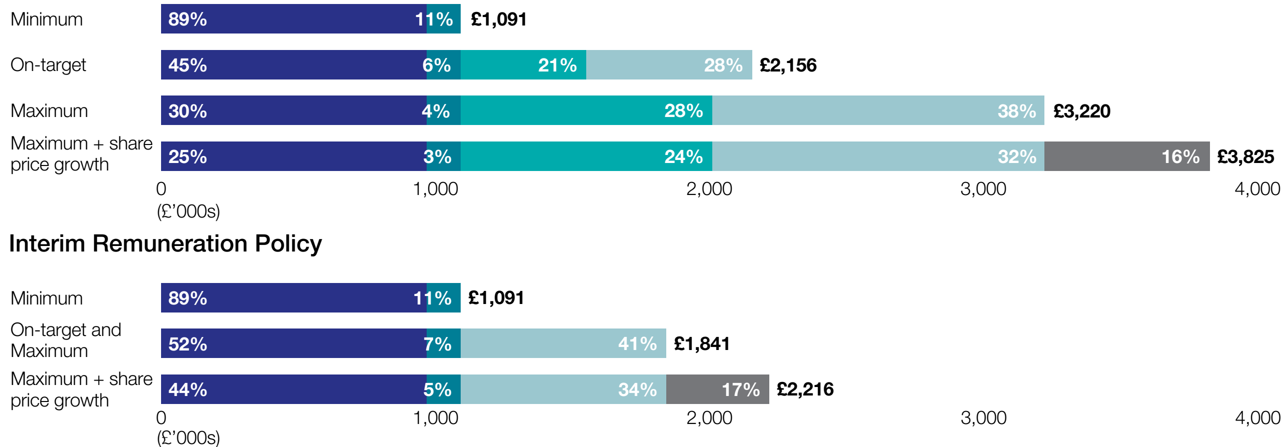
All UK employees are eligible to participate in the SAYE and SIP plans.

Illustrations of Application of Remuneration Policy for the Executive Directors

The scenario charts below provide illustrations of potential remuneration outcomes for our executive directors in 2025, based on the proposed 2024 Remuneration Policy set out on pages 154 to 158, and on the assumptions provided in the tables on the opposite page.

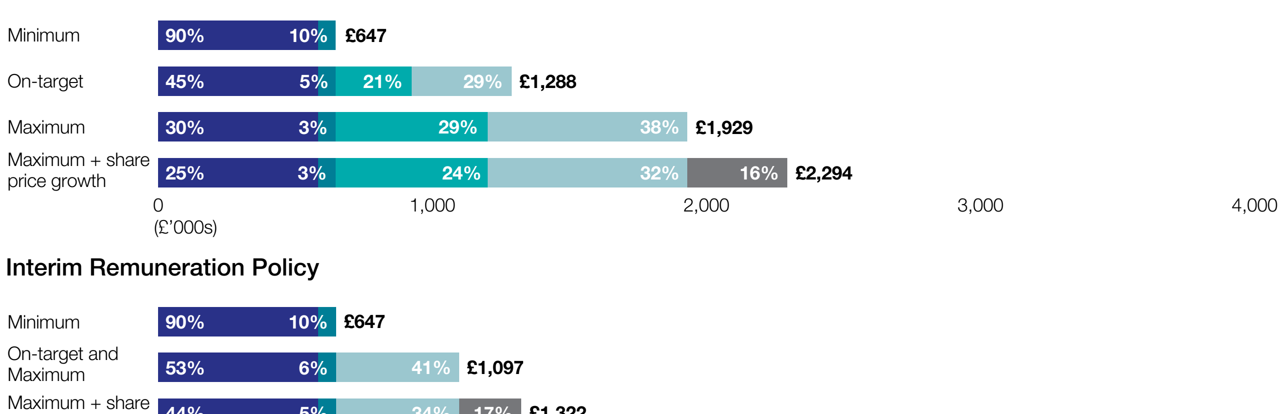
Chief Executive: Adrian Sainsbury

Normal "go-forward" Remuneration Policy



Finance Director: Mike Morgan

Normal "go-forward" Remuneration Policy



Salary | Allowances, Benefits and Pensions | Annual Bonus | LTIP/Restricted Stock | Maximum

Normal “Go-Forward” Remuneration Policy

Element	Assumptions used
Fixed remuneration	Consists of 2025 base salary (chief executive £968,000; finance director £583,000), 2025 benefits and 2025 pension allowance (10% of salary).
Minimum	No variable elements are awarded.
On target	**Annual bonus**: Awarded at 47.5% of base salary for the chief executive and the finance director (50% of maximum potential). **LTIP**: Awards with face value of 125% of salary for the chief executive and the finance director and assumed 50% vesting.
Maximum	**Annual bonus**: Awarded at 95% of base salary for the chief executive and the finance director (100% of maximum potential). **LTIP**: Awards with face value of 125% of salary for the chief executive and the finance director and assumed 100% vesting.
Maximum (with share price growth)	Maximum scenario with assumed 50% share price growth on the LTIP element.
Other	No adjustment to dividend equivalents.

Interim Remuneration Policy

Element	Assumptions used
Fixed remuneration	Consists of 2025 base salary (chief executive £968,000; finance director £583,000), 2025 benefits and 2025 pension allowance (10% of salary).
Minimum	No variable elements are awarded.
On target and Maximum	**Restricted Stock**: Awards with face value of £750,000 for the chief executive and £450,000 for the finance director and assumed 100% vesting, based on the proposed grant levels for 2025.
Maximum (with share price growth)	Maximum scenario with assumed 50% share price growth on the LTIP element.
Other	No adjustment to dividend equivalents.

Approach to Recruitment Remuneration

The remuneration package for new executive directors will comply with the Policy for executive directors outlined on pages 154 to 158 and as varied by the following paragraphs. The Remuneration Committee will seek to pay no more than is necessary to secure the right candidate.

The Remuneration Committee may, to the extent permitted by the Listing Rules and any other regulatory requirements to which the group is subject, seek to “buy out” remuneration or any other compensation arrangements with another employer that the director forfeits as a result of joining the group. In such cases, the Remuneration Committee will seek to replace this with awards that match the quantum and terms of the forfeited awards as closely as possible. There may be situations where a new director has to relocate in order to take up the post with the group. In such situations, reasonable financial and/or practical support will be provided to enable the relocation. This may include the cost of any tax that is incurred as a result of the move. Flexibility is also retained for the Remuneration Committee to pay for legal fees and other role-appropriate costs incurred by the individual in relation to their appointment.

In the event that an internal appointment is made, or where an executive director is appointed as a result of transfer into the group on an acquisition of another company, the Remuneration Committee may continue with existing remuneration provisions for any such individual where appropriate.

If considered appropriate, the Remuneration Committee may apply different performance measures, underpins and/or targets to an executive director’s first incentive awards in their year of appointment.

In the event of an interim appointment being made to fill an executive director role on a short-term basis or if exceptional circumstances require that the Chairman or a non-executive director takes on an executive function on a short-term basis, the Remuneration Committee retains discretion to make appropriate remuneration decisions outside the normal “go-forward” Remuneration Policy or interim Remuneration Policy to meet the individual circumstances of recruitment or appointment.

Legacy Awards

The Remuneration Committee reserves the right to make any remuneration payments and/or payments for loss of office (including exercising any discretion available to it in connection with such payments) notwithstanding that they are not in line with the Policy set out above where the terms of the payment were agreed (i) before this Policy came into effect, provided that the terms of the payment were consistent with the shareholder-approved policy in force at the time they were agreed; or (ii) at a time when the relevant individual was not a director of the company and, in the opinion of the Remuneration Committee, the payment was not in consideration for the individual becoming a director of the company. For these purposes “payments” includes the Remuneration Committee satisfying awards of variable remuneration and, in relation to an award over shares, the terms of the payment are “agreed” at the time the award is granted.

Policy for Payment on Loss of Office

Standard provision	Policy	Details
Notice period	12 months' notice from the company. 12 months' notice from the executive director.	• Executive directors may be required to work during the notice period, may be placed on garden leave or may be provided with pay in lieu of notice if not required to work the full period. • All executive directors are subject to annual re-election by shareholders.
Compensation for loss of office in service contracts	No more than 12 months' salary, pension allowance and benefits.	• Payment will be commensurate with the company's legal obligations and we will seek appropriate mitigation of loss by the executive director.
Treatment of annual bonus on termination	No bonus is paid unless the executive director is employed on date of payment (unless the Remuneration Committee determines otherwise).	• The Remuneration Committee may award a pro-rated bonus to executive directors who work for part of the year or are "good leavers" (as determined by the Remuneration Committee) in certain circumstances, although there is no automatic entitlement. "Good leaver" status may be granted in cases such as death, disability or retirement. • The Remuneration Committee has discretion to reduce the entitlement of a "good leaver" in line with performance, the circumstances of the termination, and the malus conditions applicable to the annual bonus. In determining the level of bonus to be paid, the Remuneration Committee may, at its discretion, take into account performance up to the date of cessation or over the financial year as a whole based on appropriate performance measures as determined by the Remuneration Committee. • The bonus may, at the Remuneration Committee's discretion, be paid entirely in cash.
Treatment of unvested deferred awards under the annual bonus plan	Deferred awards will usually be released on the normal release date, unless the Remuneration Committee elects to release the shares on an earlier date.	• An executive director's deferred shares will lapse (unless the Remuneration Committee determines otherwise) if their employment ends for cause or by reason of their bankruptcy or because they join another financial services company within 12 months of termination. In all other circumstances, deferred shares will be released to a departing executive director on the normal release dates (unless the Remuneration Committee elects to release the shares on an earlier date). • The deferred shares are released in full in the event of a change in control unless the Committee determines otherwise in circumstances specified in the incentive plan rules.
Treatment of the performance award LTIP and Restricted Stock awards	Vested awards will usually be released on the normal release date, unless the Remuneration Committee elects to release the shares on an earlier date. Unvested awards lapse unless the individual is a "good leaver" (leaves employment because of death, retirement, ill-health, injury or disability, redundancy, their employing company transfers out of the group or the business for which the individual works transfers out of the group, or otherwise at the discretion of the Remuneration Committee).	• For "good leavers", unvested awards are, unless the Remuneration Committee determines otherwise, usually pro-rated for the period of employment during the performance period. Unless the Remuneration Committee determines otherwise, the extent of vesting will be based on the original performance condition assessed over the full performance period. • Unless the Remuneration Committee determines otherwise in circumstances specified in the incentive plan rules, in the event of a change in control, unvested awards will vest normally subject to time pro-rating and the achievement against the performance targets at that point (or such other date that the Remuneration Committee determines). However, the Remuneration Committee retains the discretion to adjust the extent to which any such unvested awards vest taking into consideration other relevant factors, including the circumstances of the change in control.
Outside appointments	Executive directors may accept external appointments.	• Board approval must be sought before accepting the appointment. • The fees may be retained by the director.
Chairman and non-executive directors	Engaged under letters of appointment for terms not exceeding three years. Renewable by mutual agreement and can be terminated on one month's notice.	• All non-executive directors are subject to annual re-election. • No compensation is payable if required to stand down.

Standard provision	Policy	Details
Other	The Remuneration Committee reserves the right to make any other payments in connection with a director's cessation of office or employment where the payments are made in good faith in discharge of an existing legal obligation (or by way of damages for breach of such an obligation) or by way of a compromise or settlement of any claim arising in connection with the cessation of a director's office or employment. Any such payments may include, but are not limited to, paying any fees for outplacement assistance and/or the director's legal and/or professional advice fees and/or reasonable relocation costs in connection with cessation of office or employment.	
Other notable provisions in service contracts	There are no other notable provisions in the service contracts.	

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

Dates of Executive Directors' Service Contracts

Name	Date of service contract
Adrian Sainsbury	1 May 2020
Mike Morgan	15 November 2018

Remuneration Policy for the Chairman and Non-executive Directors

Element and how it supports the group's short-term and long-term strategic objectives	Operation and maximum payable
Fees Attract and retain a chairman and independent non-executive directors who have the requisite skills and experience to determine the strategy of the group and oversee its implementation.	• Fees are paid in cash and are reviewed periodically. • Fees for the chairman and non-executive directors are set by the board. The non-executive directors do not participate in decisions to set their own remuneration. • The chairman of the board receives a fee as chairman but receives no other fees for chairmanship or membership of any committees. • Non-executive directors receive a base fee. • The senior independent director receives an additional fee for this role. • Additional fees are paid for chairmanship of each of the Audit, Remuneration and Risk Committees. • Additional fees are paid for membership of committees, with the exception of the Nomination and Governance Committee, for which no additional fees are payable. • Additional fees may be payable for other additional board responsibilities and/or time commitments. • The chairman and non-executive directors are entitled to claim reimbursement for reasonable expenses and associated tax liabilities incurred in connection with the performance of their duties for the company, including travel expenses. • Overall aggregate fees will remain within the limit as authorised within the articles of association, which may change from time-to-time. • 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 November 2023
Mark Pain	1 January 2021	1 January 2024
Kari Hale	28 June 2023	26 June 2024
Tracey Graham	22 March 2022	1 January 2024
Patricia Halliday	1 August 2021	1 August 2024
Tesula Mohindra	15 July 2021	1 January 2024
Sally Williams	1 January 2020	1 January 2024

Statement of Consideration of Shareholder Views

The Chairman of the Board and the Chair of the Remuneration Committee consult our major shareholders on a regular basis on key issues, including remuneration, and welcome feedback from shareholders at any point throughout year. Where the Committee proposes to make any significant changes to the Remuneration Policy, or the manner in which the Policy is operated, we would seek major shareholders' views and take these into account. A formal consultation exercise was undertaken during 2021 during the development of the previous Policy with our major shareholders and shareholder advisory bodies. Engagement with investors on matters relating to executive pay has continued in subsequent years, including in 2023 when a number of changes were made to the implementation of the existing Policy.

Upon agreement of the proposed approach to executive remuneration for 2025, as detailed in the Remuneration Committee Chair's letter, a letter was sent to major shareholders in August 2024 setting out the intended approach and inviting feedback.

We consulted with over 40 of our major shareholders, covering c.80% of our shareholder register. We had responses from 24 shareholders and held meetings with those shareholders who wished to discuss the proposals in more detail. The majority of our larger shareholders, who provided feedback, have advised that they are minded to support the proposal. As part of the consultation exercise, a number of shareholders expressed a strong preference for all of the Restricted Stock award to be subject to a two-year holding period, extending the award over a total of five years. A number of shareholders noted the substantial discount of c.65% on face value of the normal annual bonus and performance share award LTIP but also requested reassurance that the Remuneration Committee will retain discretion on vesting outcomes to ensure alignment with the shareholder experience. We therefore refined our approach to address this feedback. The Committee intends to continue to consult with shareholders going forward, particularly when the Committee anticipates any substantial change to the remuneration framework.

Annual Report on Remuneration

Remuneration Committee

The Remuneration Committee's main responsibilities are to:

- 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.

Remuneration Committee effectiveness

An external evaluation of the effectiveness of the board and its committees was undertaken during the year in line with the requirements of the UK Corporate Governance Code, as described on page 134. The evaluation found that the Remuneration Committee continues to operate effectively.

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

Membership activity in the 2024 financial year

There were five meetings of the Remuneration 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 2023	January 2024	April 2024	June 2024	July 2024
Remuneration Policy and disclosures					
Annual remuneration governance review		•			
Annual review of Total Reward Principles		•			
Review and approve Remuneration Policy Statement for 2023		•			
Review and approve Directors' Remuneration Report and the remuneration section of the Pillar 3 disclosure for 2023	•				
Review of Directors' Remuneration Policy for 2024		•	•	•	•
Gender pay gap review		•			
Risk and reward					
Review and approve risk-adjustment process/outcomes	•		•	•	•
Annual review whether to apply malus and clawback to remuneration					•
Material Risk Takers identification for 2024	•	•	•	•	
Annual remuneration discussions					
Approve group LTIP financial and non-financial targets for 2024	•				
Review and determine 2024 EDs' annual bonus outcome		•	•	•	•
Review and approve 2021 group LTIP vesting				•	•
Review and approve approach to year-end compensation		•	•		
Year-end all-employee group-wide salary and bonus analysis/ proposals for 2024				•	•
Review proposed 2024 compensation for Material Risk Takers				•	•
Initial review of EDs' annual bonus targets and objectives for 2025					•
Review of formulaic incentive schemes and approval of schemes for 2025			•		•

UK Corporate Governance Code

We continue to be compliant with the executive pay provisions of the 2018 UK Corporate Governance Code. Our pay arrangements are also consistent with the following principles set out in the Code:

Clarity	This Directors' Remuneration Report provides open and transparent disclosure of our executive remuneration arrangements for our internal and external stakeholders.
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 160 of the report provide estimates of the potential total reward opportunity for the executive directors under the Policy.
Simplicity and alignment to culture	Under our ordinary course Policy, incentive arrangements for our executives are straightforward, with individuals eligible for an annual bonus and, at more senior levels, a single performance-based long-term incentive plan. As part of the new Policy, an interim pay model based on restricted stock may be operated in lieu of an annual bonus and grant of performance-based LTIP. Performance measures or underpins 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.
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/Restricted Stock outcomes so as to guard against disproportionate out-turns. Malus and clawback provisions also apply to both the annual bonus and LTIP/Restricted Stock and can be triggered in circumstances outlined in the Policy.

Advice

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

The Remuneration Committee's remuneration advisers are Deloitte LLP (a member of the Remuneration Consultants Group) who were appointed by the Remuneration Committee following a competitive tendering process. During the year, separate teams within Deloitte provided advice and support in a range of areas, including operations, corporate development and regulatory compliance. The Remuneration Committee is satisfied that the provision of these other services does not affect the objectivity and independence of the remuneration advice provided by Deloitte as the other services are unrelated to reward matters. Total fees paid to Deloitte were £79,350 during the 2024 financial year, calculated on a time and material basis.

Slaughter and May provided legal advice on the company's equity scheme rules and the fees paid were £18,000, calculated on a time and material basis. The Remuneration Committee is satisfied with of the independence of the advice.

Statement of Voting on the Directors' Remuneration Policy at the 2021 AGM

	For	Against	Number of abstentions
Directors' Remuneration Policy	84.2%	15.8%	3,218,903

Statement of Voting on the Directors' Remuneration Report at the 2023 AGM

	For	Against	Number of abstentions
Directors' Remuneration Report	95.4%	4.6%	10,040

Implementation of the Policy in 2024

The single total figure of remuneration for executive directors for the years ended 31 July 2024 and 31 July 2023 is set out in the tables below. (Audited[1])

	2024							
	Salary £'000	**Benefits £'000**	**Pension £'000**	**Total fixed remuneration £'000**	**Annual bonus[2] £'000**	**Performance awards[3] £'000**	**Total variable remuneration £'000**	**Total remuneration £'000**
Adrian Sainsbury	**949**	**31**	**95**	**1,075**	**–**	**108**	**108**	**1,182**
Mike Morgan	**571**	**12**	**57**	**640**	**–**	**65**	**65**	**705**

	2023							
	Salary £'000	Benefits £'000	Pension £'000	Total fixed remuneration £'000	Annual bonus[2] £'000	Performance awards[3] £'000	Total variable remuneration £'000	Total remuneration £'000
Adrian Sainsbury	930	30	93	1,053	–	–	–	1,053
Mike Morgan	560	8	56	624	–	–	–	624

1. All disclosures in the Directors' Remuneration Report are unaudited unless otherwise stated.
2. 60% of Adrian Sainsbury's and Mike Morgan's annual bonus is deferred into shares.
3. The figures for the performance awards for 2024, granted in 2021, have been calculated using the three-month average to 31 July 2024. As this share price is lower than the grant date share price, none of this value relates to share price appreciation.

Link Between Reward and Performance

In the financial year 2024, the group delivered a resilient performance in an uncertain environment. In Banking, the adjusted operating profit performance increased 71% to £205.4 million. This reflected higher income, driven by loan book growth of 6%, a strong net interest margin of 7.4% (2023: 7.7%), and a stable underlying credit performance, with a bad debt ratio of 0.9% excluding Novitas (2023: 0.9%). Banking costs increased by 8%, driven mainly by inflationary-related increases in staff costs, higher regulatory compliance and assurance expenses and continued investment spend, partly offset by the progress we have made on our tactical and strategic cost management initiatives. CBAM delivered strong net inflows of 8%, although profit reduced, as income growth was more than offset by costs primarily related to wage inflation and new hires to support future growth. Winterflood's performance remained impacted by lower trading income resulting from continued weakness in investor appetite and market uncertainty, with an operating loss of £1.7 million.

As a result, the group's adjusted operating profit increased 50% to £170.6 million (2023: £113.5 million). The group's return on opening equity increased to 6.9% (2023: 5.0%).

In line with our previous announcement, no dividend will be paid in respect of the 2024 financial year.

There remains significant uncertainty for the industry and the group regarding any potential remedial action as a result of the FCA's work in the motor finance market. We are making significant progress against the initiatives previously outlined to further strengthen our capital position.

Whilst there has been strong progress against non-financial objectives in the annual bonus, due to shareholder experience, the Remuneration Committee applied downward discretion, in agreement with the executive directors, to reduce vesting from 28% of maximum to zero for the 2024 financial year. The 2021 Long-Term Incentive Plan vesting this year achieved good performance against risk management objectives (see page 169 for further details), resulting in 22% overall vesting of maximum of potential.

Additional Disclosures on the Single Total Remuneration Figure for Executive Directors Table (Audited)

Salary

The per annum salaries paid during the year are as shown in the single total remuneration figure table above. When reviewing salary levels, the Remuneration Committee takes into account the individual's role and experience, pay for the broader employee population, market and external factors, where applicable. For the 2024 financial year the Remuneration Committee applied 2% salary increases to both the chief executive and finance director, whilst the average increase for the general employee population was 3.8%.

Benefits

Adrian Sainsbury 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. In line with disclosure requirements, taxable expenses are included.

Pension

Adrian Sainsbury and Mike Morgan received a pension allowance equivalent to 10% of base salary, in line with the upper limit contribution the general employee population can elect to receive.

Annual bonus

As set out in the Remuneration Committee Chair's letter, notwithstanding the good performance delivered against the group-wide strategic scorecard, in light of shareholder experience, the executive directors and Remuneration Committee determined that, as with the 2023 financial year annual bonus, the executive directors would forgo their bonus for the 2024 financial year. However, details of the targets that applied and performance against these are set out below.

Annual bonus in respect of 2024

Financial metric	Weighting	Threshold (33.3% of maximum)	Target (50% of maximum)	Maximum (100% of maximum)	**2024 outcome**	**% achieved**	**Bonus outcome after weighting (% of max)**
RoTE	30%	10.0%	12.0%	14.0%	**8.3%**	**0.0%**	**0.0%**
AOP	15%	£183m	£229m	£275m	**£170.6m**	**0.0%**	**0.0%**
C:I	15%	69.4%	68.0%	66.6%	**71.0%**	**0.0%**	**0.0%**
Total financial metrics	60%						0.0%
						Adrian Sainsbury	Mike Morgan
Group-wide strategic scorecard[1]	40%					28.0%	28.0%
Percentage of maximum annual bonus awarded	100%					28.0%	28.0%
Assessed outcome						**£252,328**	**£151,939**
Discretionary adjustment (-100%)						**(£252,328)**	**(£151,939)**
Bonus out-turn (including application of discretion)						**£0**	**£0**

1. The group-wide strategic scorecard objectives relating to the 2024 bonus can be found on pages 168 and 169.

Group-wide performance and executive directors' objectives for the 2024 financial year

Annual performance objectives are determined by the Remuneration Committee at the start of each financial year, and are designed to support the group's wider strategic priorities to "Protect", "Grow" and "Sustain" our business model.

The table on pages 168 and 169 sets out examples of the strategic scorecard objectives which were in place in 2024, performance metrics against these objectives where appropriate, and an overview of the factors that the Remuneration Committee has taken into account when assessing the performance of the executives.

The Remuneration Committee determines the overall outcome of the balanced scorecard and, if appropriate, adjusts the final individual rating to take into account the individual contributions to successful outcomes of the scorecard objectives. This year, overall performance against the strategic scorecard was rated at target or above target for all goals. The outcome, before the discretionary downward adjustment, was assessed as 70% of the maximum award for both Adrian Sainsbury and Mike Morgan.

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

Performance assessment against strategic scorecard objectives

Objective	Measured through reference to	Progress	Objective achieved?
Strategic: 28% of 40%			
Strategic initiatives	• CET1 capital ratio.	• In March 2024, we announced a range of management actions which have the potential to strengthen the group's available CET1 capital by approximately £400 million by the end of the 2025 financial year. • Significant progress has been made against these management actions. See page 9 for an update on the progress since March 2024.	• On track
	• Funding and capital.	• Successful AT1 issuance in November 2023.	• On track
	• Cost imperative.	• As announced in March 2024, additional cost management initiatives have been mobilised, which are expected to generate annualised savings of c.£20 million, reaching the full run rate by the end of the 2025 financial year, with the total benefit in the 2026 financial year. • Good progress on strategic cost management initiatives. As part of the group's Technology transformation programme initiated in 2023, we have partnered with Wipro, a leading technology services and consulting company. To date, we have reduced our headcount by c.100 and removed over 115 IT applications.	• Ahead of track
	• Major investment.	• The Asset Finance transformation programme was completed in the 2024 financial year, introducing a single technology platform across the business that has standardised processes, increased efficiencies and improved customer and colleague experience.	• On track
	• Medium-term growth.	• Acquisition of Bluestone Motor Finance (Ireland) (DAC) completed in October 2023 and have since rebranded the business to Close Brothers Motor Finance. Integration and alignment of our pricing and underwriting standards and credit risk appetite is progressing well. • Growth initiatives in our Commercial business continue to prove successful, with healthy new business volumes written by both our Materials Handling and Agricultural Equipment teams and our second syndication deal completed in Invoice Finance. • The group has been approved to lend under the UK government's Growth Guarantee Scheme, launched in July 2024, and the Irish Growth and Sustainability Loan Scheme, which launched in August 2024.	• On track
People: 4% of 40%			
	• Maintain strong engagement scores.	• Latest employee opinion survey ("EOS") was conducted in February 2024 to monitor overall engagement alongside colleague sentiment around inclusion, speaking up and treating customers and clients fairly. We have retained high levels of employee engagement at 83% (2023: 86%).	• On track
Customer: 4% of 40%			
	• Complaint levels.	• Complaint levels in line or below relevant sector benchmarks. • Since the announcement by the FCA of its review of historical motor finance commission arrangements in January 2024, we have seen a further increase in enquiries and complaints. We have deployed automated solutions to assist in new complaints, improving our processing speed, as well as outsourcing.	• On track
	• Maintain high level of customer satisfaction.	• Asset Finance CSAT at 92%. • Motor Finance NPS at +67. • Property Finance NPS at +98. • Premium Finance (personal lines) customer Net Ease at +80. • Savings online CSAT at 75%. • CBAM Net Ease at +72.	• Ahead of track

Objective	Measured through reference to	Progress	Objective achieved?
Risk, conduct and compliance: 4% of 40%			
	• Effectively embed regulatory requirement in respect of Consumer Duty.	• Implementation activities for Consumer Duty were successfully delivered ahead of the relevant FCA deadlines, including the completion of the group's first Annual Assessment of Customer Outcomes. • Full review of requirements to implement Consumer Duty for books of business not open to new customers completed.	• On track

Long-term performance awards (Audited)

The overall vesting of the 2021 LTIP grant 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%	(46.0)%	0.0%
RoE[3] (35% weighting)	10%	18%	7.5%	0.0%
Risk management objectives ("RMO") (30% weighting)	n/a	n/a	73.3%	22.0%
Overall vesting (including application of discretion)				22.0%

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

In addition to the overall vesting of the performance measures, both share price and dividend equivalents affect the payout from the LTIP.

The share price during the relevant performance period for the LTIP decreased by 69% 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 2024 was 475.2p from 1 May 2024 to 31 July 2024, which was the measurement period. The 2021 LTIP award was originally granted at 1,545.8p.

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 Remuneration 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 Remuneration 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 Remuneration 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 2022 and 2023 Directors' Remuneration Reports respectively. The year three performance assessment is detailed below.

Year three performance assessment against risk management objectives

Objective	Measured through reference to	Progress	Objective achieved?
Risk and operational resilience: 10% of 30%			
Corporate governance reform	• Compliance with corporate audit and governance reforms.	• The group has initiated several workstreams aimed at enhancing the internal controls environment and reporting, in preparation for the new UK Corporate Governance Code 2024. This includes commissioning of an externally led board and committee evaluation.	• On track
Cyber security	• Continued assessment of our cyber security controls and score against internal targets.	• The maturity and effectiveness of our cyber security controls were assessed, with the relevant scores in line with the agreed targets. • A cyber incident exercise to enhance our readiness for any potential incidents has been conducted.	• On track
Operational resilience	• Compliance with operational resilience regulatory requirements.	• The annual self-assessment of operational resilience capabilities has been completed, and remediation actions have been agreed with the board and are progressing as planned.	• On track

Objective	Measured through reference to	Progress	Objective achieved?
ESG: 10% of 30%			
Sustainability	• Operation emissions targets. – Progress against green growth ambition to provide funding for at least £1 billion of battery electric vehicles by 2027.	• The group's first sector-based intermediate 2030 reduction ambition for transport assets, the largest carbon-intensive sectors in our loan book, was published in March 2024. • Funded £316 million of BEVs since September 2022.	• On track
People	• Progress against the group's diversity targets by 31 July 2025: – 36% female senior managers. – 14% managers from an ethic minority.	• 31% female senior managers at 31 July 2024. • 10% of managers from an ethnic minority at 31 July 2024. • The group's Diversity and Inclusion Strategy outlining our priorities and focus areas for the next three years has been introduced.	• Behind track
Financials: 10% of 30%			
Capital	• Maintain a strong capital position, ahead of regulatory requirements and in line with the group's medium-term CET1 capital target range of 12% to 13%.	• The group's CET1 capital ratio was 12.8% at 31 July 2024 (31 July 2023: 13.3%), significantly above our applicable requirement of 9.7%.	• On track
Dividend	• Maintain a progressive dividend that is sustainable over the medium term.	• In light of the uncertainty regarding any potential financial impact as a result of the FCA's review of historical motor finance commission arrangements, the group decided not to pay a dividend on its ordinary shares for the 2024 financial year. The decision is one of the management actions identified to further build the group's CET1 capital position.	• Behind track
Funding	• Maintain a prudent amount of term funding that supports our "borrow long, lend short" strategy. • Maintain appropriate net stable funding.	• Surplus tenor of allocated funding of 4.1 months at 31 July 2024, and behaviouralisation work completed, which if adopted would add c.3 additional months. • The four-quarter average NSFR to 31 July 2024 was 134.4% (31 July 2023: 126.0%).	• Ahead of track
Liquidity	• Maintain liquid assets at or above 10% of total assets in line with our risk appetite. • Maintain a prudent level of headroom to LCR.	• Treasury assets, predominantly held on deposit with the Bank of England, increased 3% to £2.3 billion (31 July 2023: £2.2 billion) and represented 16.3% of total assets at 31 July 2024. • We regularly assess and stress test the group's liquidity requirements and continue to exceed the LCR regulatory requirements, with a 12-month average to 31 July 2024 LCR of 1,034% (31 July 2023: 1,143%).	• Ahead of track

The table below summarises the Remuneration Committee's assessment of performance against the risk management objectives after each of the three years of the LTIP performance period. For the 2024 financial year, we added ESG metrics as a distinct category to the risk management objectives.

Element	Year one assessment	Year two assessment	Year three assessment	Overall vesting
Capital and balance sheet management	95.0%	95.0%	37.5%	75.8%
Risk and operational resilience	75.0%	75.0%	75.0%	75.0%
ESG[1]	n/a	n/a	37.5%	37.3%
Overall vesting[2]	**85.0%**	**85.0%**	**50.0%**	**73.3%**

1. The ESG element in years one and two was incorporated within the risk and operational resilience element, whilst in year three it was agreed ESG would be a separate element.
2. The overall vesting percentage is calculated on the average of the overall vesting per element per year.

Implementation of the Policy in 2025

Base salary

	Salary effective from 1 August 2024	Increase
Chief executive – Adrian Sainsbury	£968,000	2.0%
Finance director – Mike Morgan	£583,000	2.1%

Base salaries were determined with reference to the executive director's role, increases for the broader population and external factors. For the 2025 financial year the Remuneration Committee has decided to apply 2% and 2.1% salary increases to the chief executive and the finance director, respectively. These base salary increases are lower than the average salary increase approved for the wider employee population at 3.4%.

Adrian Sainsbury and Mike Morgan's allowance in lieu of pension will be 10% of base salary, in line with the upper limit contribution the general employee population can elect to receive. The executive directors will receive benefits in line with those outlined in the Remuneration Policy table on page 154. There will be no other increases to allowances or benefits other than any potential increase in the cost of providing them.

2024 Restricted Stock award (for the 2025 to 2027 cycle)

The proposed 2024 Restricted Stock awards due to be granted in November 2024 are shown in the table below.

	Chief executive Adrian Sainsbury	Finance director Mike Morgan
2024 Restricted Stock award	£750,000	£450,000
2024 Restricted Stock award as a percentage of proposed 2025 salary	77%	77%

As advised in the Remuneration Committee Chair's letter, and subject to approval of the proposed Remuneration Policy, in lieu of the normal course annual bonus and performance share LTIP, it is proposed that for 2025 a Restricted Stock award is granted over shares with a value at grant of £750,000 for the chief executive and £450,000 for the finance director. This equates to less than 80% of their respective base salaries. This is a c.65% discount to the aggregate normal annual bonus and performance share LTIP opportunities of 220% of salary (which would equate to a normal aggregate maximum face value at award of c.£2,130k for the chief executive and c.£1,283k for the finance director).

This level of discount is higher than the market standard discount of 50%. This higher discount has been proposed taking into account a number of factors including i) the need to mitigate the risk of windfall gains at vesting taking into account the current share price; ii) the fact that the Restricted Stock award is replacing both an annual bonus and LTIP; and iii) the need to ensure that we can reward and retain the executive directors and to protect our strong franchise.

The award would be subject to the following performance underpins:

- Individual: At least strong personal performance rating as rated by the Chairman of the Board in consultation with the Board;
- Financial: Company achieving a CET1 of at least 1% above regulatory requirement, calculated on a standardised basis;
- Non-financial: Satisfactory progress against strategic objectives designed to promote the long-term success of the business, as judged by the Chairman of the Board in consultation with the Board; and
- Risk: No material regulatory censure relating to the ED's time in office.

Consistent with the current Policy and risk adjustment framework, the Remuneration Committee will continue to have overriding discretion to adjust vesting outcomes where it considers this appropriate taking into account the wider stakeholder experience. While the significant discount is intended to proactively address the risk of potential windfall gains, the Remuneration Committee will nonetheless retain discretion on vesting outcomes in the event of a significant increase in our share price to ensure the value delivered to the executive directors is appropriate in the context of the overall business performance and the wider stakeholder experience.

The Restricted Stock awards would vest 100% after year three subject to assessment against the performance underpins. 100% of the award would also be subject to a two-year holding period. This is to reflect shareholder preference for the holding period to apply for the entirety of the award and that the current LTIP has a five-year time horizon.

Consistent with the normal course Policy, clawback periods will continue to be seven years, extendable to 10 years.

Both executive directors will revert back to participating in the normal course annual bonus and LTIP as soon as practicable. In the event that the extraordinary circumstances continue beyond the 2025 financial year, the maximum Restricted Stock awards that may be granted will be capped at 80% of fixed pay, excluding pension and benefits in lieu of any annual bonus or performance share LTIP grant.

Relative Spend on Pay

The following table shows the total remuneration paid compared to the total distributions to shareholders. No dividend will be paid in 2024, and the increase in remuneration paid to employees reflects inflation-related wage increases, a normalisation of performance-driven bonuses and new hires.

	2024 £ million	2023 £ million	Percentage change
Remuneration paid	**382.0**	347.0	10.2%
Distributions to shareholders[1]	**–**	100.5	(100)%

1. For the 2024 financial year, no dividend was paid.

Changes in Remuneration of the Directors and all Employees

The table on the following page shows how the remuneration for the directors changed compared to employees of the parent company of the group and the average group-wide employee population for each year between the 2020 and 2024 financial years.

The year-on-year movement in fees and salary for the directors, average group employee and average group-wide employee reflects the annual review implemented in August 2023 and ad hoc salary changes throughout the financial year ended 31 July 2024.

Kari Hale’s year-on-year fee increase also relates to his change of responsibilities (appointment as chair of the Audit Committee) during the 2024 financial year. The change to benefits relates to costs of providing private medical cover and the inclusion of the discount of share price for a SAYE option granted. Due to the attractive discounted share price, a larger number of employees elected to participate in the 2024 SAYE option scheme.

	2024			2023			2022			2021			2020		
	Salary/ Fee	**Benefits[1]**	**Bonus**	Salary/ Fee	Benefits[1]	Bonus	Salary/ Fee	Benefits[1]	Bonus	Salary/ Fee	Benefits[1]	Bonus	Salary/ Fee	Benefits[1]	Bonus
Average group employee[2]	**6.9%**	**10.7%**	**1.8%**	7.0%	16.2%	(11.7)%	5.8%	21.3%	29.5%	2.4%	6.6%	34.3%	11.7%	2.3%	(32.9)%
Average employee[3]	**3.8%**	**19.2%**	**7.9%**	4.7%	4.7%	(27.6)%	5.7%	5.7%	(32.8)%	0.0%	0.0%	21.2%	1.8%	1.8%	13.1%
Executive directors[4]															
Adrian Sainsbury[5]	**2.0%**	**2.9%**	**0.0%**	0.0%	2.7%	(100.0)%	95.7%	62.2%	(51.1)%	–	–	–	–	–	–
Mike Morgan[6]	**2.0%**	**7.9%**	**0.0%**	0.0%	(0.1)%	(100.0)%	40.0%	30.8%	(54.9)%	0.0%	20.2%	152.2%	0.0%	0.0%	(54.7)%
Chairman and non-executive directors[7]															
Mike Biggs	**0.0%**	**–**	**–**	0.0%	–	–	0.0%	–	–	0.0%	–	–	0.0%	–	–
Oliver Corbett	**0.9%**	**–**	**–**	0.0%	–	–	(1.7)%	–	–	(0.1)%	–	–	5.6%	–	–
Peter Duffy	**2.4%**	**–**	**–**	0.0%	–	–	7.7%	–	–	2.8%	–	–	0.0%	–	–
Sally Williams	**2.4%**	**–**	**–**	0.0%	–	–	3.8%	–	–	0.0%	–	–	–	–	–
Mark Pain	**1.7%**	**–**	**–**	0.0%	–	–	27.5%	–	–	–	–	–	–	–	–
Patricia Halliday[8]	**0.9%**	**–**	**–**	23.9%	–	–	–	–	–	–	–	–	–	–	–
Tracey Graham[8]	**0.9%**	**–**	**–**	23.9%	–	–	–	–	–	–	–	–	–	–	–
Tesula Mohindra	**2.4%**	**–**	**–**	0.0%	–	–	–	–	–	–	–	–	–	–	–
Kari Hale[9]	**25.5%**	**–**	**–**	–	–	–	–	–	–	–	–	–	–	–	–

1. Non-executive directors have received other benefits that relate to reimbursement for expenses incurred in the course of duties. Reimbursement of these expenses does not provide an accurate comparison to benefits received by employees and they are therefore not included.
2. Changes for employees of the parent company excluding executive directors.
3. Changes for group-wide employees, as this is more representative of changes across the wider workforce, excluding executive directors.
4. Calculated using the data from the single figure table in the Annual Report on Remuneration excluding reimbursement for expenses incurred in the course of duties. For Adrian Sainsbury and Mike Morgan, their expenses were £5,330 and £6,437 for the 2024 financial year, £6,020 and £6,328 for the 2023 financial year and £16,441 and £5,939 for the 2022 financial year respectively.
5. Adrian Sainsbury was appointed as group executive director in September 2020 and his 2021 figures are pro-rated based on part-year. Adrian’s 2022 salary and benefits increase is driven by the part-year in 2021 and the compensation mix adjustment awarded during the 2022 financial year.
6. Mike Morgan’s 2022 benefits increased 30.8%; this is driven by an increase in pension allowance based on the compensation mix adjustment awarded during the 2022 financial year.
7. Calculated using the fees from the single figure table for non-executive directors on page 175. Where non-executives have pro-rated fees, the prior year has either been pro-rated up or down accordingly.
8. Patricia Halliday and Tracey Graham’s fees increased year-on-year between 2022 and 2023; this is driven by their appointment to the chair of the Risk Committee and the chair of the Remuneration Committee respectively during the 2023 financial year.
9. Kari Hale’s fees have increased year-on-year and this is driven by his appointment to the chair of the Audit Committee during the 2024 financial year.

Pay Ratios

The table below compares the chief executive’s single total remuneration figure to the remuneration of the group’s UK employees at 31 July, over the last five financial years. The Remuneration Committee is satisfied that the median ratio is consistent with the pay, reward and progression policies for our employee population.

The ratio for 2024 has marginally increased on the previous year. This is largely as a result of the 2021 LTIP award vesting this year.

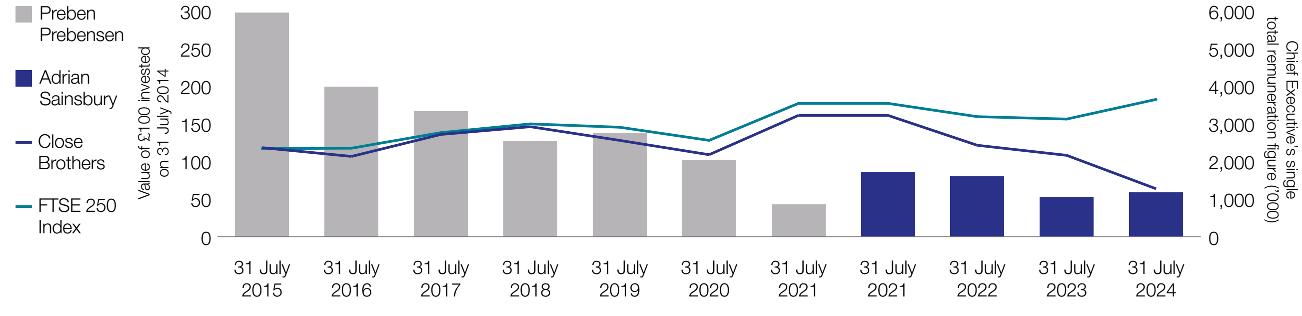
					Lower quartile employee		Median employee		Upper quartile employee	
Year	Method	25th percentile	Median	75th percentile	Total remuneration	Salary	Total remuneration	Salary	Total remuneration	Salary
2024	**A**	**31: 1**	**19: 1**	**12: 1**	**£38,440**	**£31,500**	**£61,270**	**£55,700**	**£96,856**	**£61,730**
2023	A	29: 1	18: 1	11: 1	£36,093	£30,000	£59,000	£50,000	£92,969	£72,600
2022	A	48: 1	28: 1	17: 1	£33,571	£26,314	£56,952	£40,983	£93,459	£85,000
2021	A	79: 1	37: 1	29: 1	£32,437	£28,820	£54,729	£38,500	£89,927	£70,000
2020	A	64: 1	38: 1	23: 1	£32,194	£27,167	£54,245	£36,950	£90,029	£75,000

Our ratios have been calculated using the most robust methodology option “A” prescribed under the UK Companies (Miscellaneous Reporting) Regulations 2018. Under this option, the ratios are calculated using the following:

- the full-time equivalent salaries and allowances for employees in the UK;
- pensions and benefits paid during the financial years;
- annual bonus awarded for the financial years;
- actual and projected gains realised from exercising awards from taxable employee share plans;
- sales incentives paid during the financial years; and
- projection of vested performance awards.

The Chief Executive’s Total Remuneration Over the Past 10 Years

The chart below illustrates the chief executive’s single total remuneration figure over the past 10 years and compares it to the total shareholder return of the company’s shares and the FTSE 250 over this period. Further detail on the single total remuneration figure outcomes and how variable pay plans have paid out each year is shown in the table below.



	Preben Prebensen								Adrian Sainsbury		
	2015	2016	2017	2018	2019	2020	2021[1]	2021[2]	2022[3]	2023	**2024**
Single figure of total remuneration (’000)	£5,962	£3,995	£3,337	£2,541	£2,770	£2,043	£860	£1,720	£1,602	£1,053	**£1,182**
Annual bonus against maximum opportunity	98%	95%	91%	86%	82%	40%	78%	78%	47%	0%	**0%**
LTIP, SMP and Matching Share Award vesting[4]	97%	68%	51%	19%	30%	42%	40%	40%	21%	0%	**22%**

1. Preben Prebensen’s remuneration for the 2021 financial year was time pro-rated to 21 September 2020, the day he stepped down as chief executive.
2. Adrian Sainsbury was appointed chief executive on 21 September 2020 and his remuneration included in the single figure for the 2021 financial year was time pro-rated accordingly.
3. The 2019 LTIP award vested in the 2022 financial year at 20.6%, the assessed outcome before the 25% discretionary reduction was 27.5%.
4. SMP and Matching Share Awards were last granted in the 2016 financial year.

Scheme Interests Granted During the Year (Audited)

The face value and key details of the share awards granted in the 2024 financial year are shown in the table below. These were all delivered as nil cost options. The share price used to calculate the number was £8.719, the average mid-market closing price for the five days prior to grant (3 October 2023).

Name	Award type[1]	Vesting period	Performance conditions	Face value ‘000	Percentage vesting at threshold	Number of shares	Vesting end date
Adrian Sainsbury	LTIP[2,3]	3 years	Yes	£1,186	25%	135,997	4 October 2026
Mike Morgan	LTIP[2,3]	3 years	Yes	£714	25%	81,891	4 October 2026

1. The awards are all delivered as nil cost options.
2. Performance targets are detailed in the 2023 Annual Report on page 180.
3. LTIPs vested from 2020 have an additional two-year holding period.

External Appointments

No executive directors held external directorships during the financial year other than vesting of outstanding share awards as disclosed in previous remuneration reports.

Payments for Loss of Office and Past Directors (Audited)

There were no payments for loss of office or payments 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 2024 are set out below:

Name	Shareholding requirement	Number of shares owned outright[2]	Outstanding options not subject to performance conditions[3]		Outstanding options subject to performance conditions[4]	
	2024[1]	2024	2024	2023	2024	2023
Adrian Sainsbury	371,273	142,424	33,212	73,476	315,931	383,452
Mike Morgan	223,562	115,865	21,874	38,592	190,239	204,929

1. Based on the closing mid-market share price of 511p on 31 July 2024.
2. This includes shares owned outright by closely associated persons and SIP.
3. This includes DSA and SAYE options.
4. This includes LTIP awards.

No executive directors held shares that were vested but unexercised as at 31 July 2024. There were no changes in notifiable interests between 1 August 2024 and 6 September 2024, other than the purchase of shares by Adrian Sainsbury within the SIP which increased his shareholding to 142,484 shares.

Executive Directors' Shareholding

The chart below compares the current executive directors' shareholding versus shareholding policy, as a percentage of salary. At the end of the 2021 financial year, both executive directors exceeded the minimum requirement under the Directors' Remuneration Policy. Following the implementation of the compensation mix adjustments in response to CRD V in the 2022 financial year, Adrian Sainsbury and Mike Morgan are building up their shareholding over a reasonable time frame to meet the revised minimum requirement. Neither have sold shares since taking office, except to cover tax liabilities, and have no ability to do so, until the threshold is met.

Details of Executive Directors' Share Exercises During the Year (Audited)

Name	Award type	Held at 1 August 2023	Called[1]	Lapsed	Market price on award p	Market price on calling p	Total value on calling[1] £	Dividends paid on vested shares £
Adrian Sainsbury	2019 DSA	5,489	5,489	–	1,366.4	832.0	45,668	12,762
	2020 DSA	2,362	2,362	–	987.9	832.0	19,652	4,452
	2020 DSA	2,362	2,362	–	987.9	785.0	18,542	5,515
	2021 DSA	11,359	11,359	–	1,545.8	832.0	94,507	14,824
	2021 DSA	11,359	11,359	–	1,545.8	785.0	89,168	19,935
	2022 DSA	8,933	8,933	–	923.1	785.0	70,124	9,960
	2017 LTIP	21,663	21,663	–	1,459.0	832.0	180,236	77,445
	2018 LTIP	18,693	18,693	–	1,588.8	785.0	146,740	63,837
Mike Morgan	2020 DSA	4,421	4,421	–	987.9	429.0	18,966	10,323
	2021 DSA	7,128	7,128	–	1,545.8	429.0	30,579	12,510
	2022 DSA	5,379	5,379	–	923.1	429.0	23,076	5,998
	2018 LTIP	15,154	15,154	–	1,588.8	790.0	119,717	51,751

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

Notes to the details of executive directors' share exercises during the year

The DSA is a mandatory deferral of a portion of the annual bonus.

The DSA and LTIP give executive directors the right to call for shares in the company from the employee benefit trust or Treasury Shares, at nil cost, together with a cash amount representing accrued notional dividends thereon. They may be called for at any time up to 12 months from the date of vesting. The DSA and LTIP awards may be forfeited in certain circumstances if the executive director leaves employment before the vesting date. The value of the awards is charged to the group's income statement in the year to which the award relates for the DSA and spread over the vesting period for the LTIP award.

Details of Executive Directors' Option Exercises During the Year (Audited)

No executive director exercised options during the 2024 financial year.

Single Total Figure of Remuneration for Non-executive Directors (Audited)

	2024						2023					
Name	Basic fee[1] £'000	Committee chair £'000	Committee member £'000	Senior independent director £'000	Benefits[2] £'000	Total £'000	Basic fee[1] £'000	Committee chair £'000	Committee member £'000	Senior independent director £'000	Benefits[2] £'000	Total £'000
Mike Biggs	**300**	**–**	**–**	**–**	**30**	**330**	300	–	–	–	22	322
Oliver Corbett[3]	**21**	**10**	**2**	**–**	**1**	**34**	71	34	6	–	1	112
Peter Duffy[4]	**39**	**–**	**7**	**–**	**–**	**46**	71	–	12	–	1	84
Sally Williams	**71**	**–**	**14**	**–**	**–**	**85**	71	–	12	–	2	85
Mark Pain	**71**	**–**	**14**	**34**	**1**	**120**	71	–	12	34	1	118
Tesula Mohindra	**71**	**–**	**14**	**–**	**1**	**86**	71	–	12	–	1	84
Patricia Halliday	**71**	**34**	**7**	**–**	**–**	**112**	71	24	8	–	1	104
Tracey Graham	**71**	**34**	**7**	**–**	**1**	**113**	71	24	8	–	2	105
Kari Hale[5]	**71**	**24**	**9**	**–**	**1**	**105**	7	–	1	–	–	8

1. Non-executive director fees were last increased with effect from 1 August 2021.
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. Oliver Corbett resigned as a non-executive director on 16 November 2023.
4. Peter Duffy resigned as a non-executive director on 15 February 2024.
5. Kari Hale was appointed chair of the Audit Committee on 16 November 2023.

Notes to the single total figure of remuneration for non-executive directors

The fees payable to non-executive directors for the 2024 and 2025 financial years are as follows:

Role	2025	2024
Chairman[1]	**£300,000**	£300,000
Non-executive director[2]	**£71,000**	£71,000
Supplements		
Senior independent director	**£34,000**	£34,000
Chair of Audit Committee	**£34,000**	£34,000
Chair of Remuneration Committee	**£34,000**	£34,000
Chair of Risk Committee	**£34,000**	£34,000
Committee membership[3,4]	**£7,000**	£7,000

1. The chairman receives no other fees for chairmanship or membership of board committees and the chairman's fee has remained the same since 2018.
2. The non-executive director, senior independent director and committee chair fees have remained the same since 2022.
3. The committee membership fee was last increased in 2024.
4. 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 2024	Shares held beneficially at 31 July 2023
Mike Biggs	**6,500**	3,500
Oliver Corbett[1]	**–**	–
Peter Duffy[2]	**848**	848
Sally Williams	**1,062**	–
Mark Pain	**4,000**	–
Tesula Mohindra	**500**	–
Patricia Halliday	**500**	–
Tracey Graham	**1,000**	1,000
Kari Hale	**–**	–

1. Oliver Corbett's shareholding is at 16 November 2023, the date he resigned as a non-executive director.
2. Peter Duffy's shareholding is at 15 February 2024, the date he resigned as a non-executive director.

There were no changes in notifiable interests between 1 August 2024 and 6 September 2024.

This report was approved by the board of directors on 19 September 2024 and signed on its behalf by:

Tracey Graham
Chair of the Remuneration Committee

Directors' Report

The directors of the company present their report for the year ended 31 July 2024.

The Strategic Report, together with the Corporate Governance Report which includes the reports of the committees and the Directors' Remuneration Report, include information that would otherwise need to be included in this Directors' Report. Readers are also referred to the cautionary statement on page 253 of this Annual Report.

Disclosures by Reference

Additional information, which is incorporated into this Directors' Report by reference, including information required by the Companies Act 2006, the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008, Disclosure and Transparency Rule 7.2, and Listing Rule 9.8.4R, can be located by page reference elsewhere in this Annual Report as follows:

Content	Page reference
Strategic Report	
Business activities	4
Likely future developments	20 to 25
Business relationships	30 and 31
Employment, human rights and environmental matters	
Assessing and monitoring culture	51 and 138
Employment practices and approach to disabled employees	48 to 52
Employee engagement	30 and 51
Approach to diversity and inclusion	49 to 52
Investing in and rewarding the workforce	51
Charitable donations	52
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Directors	
Biographical details	124 to 126
Induction and continuing professional development	134
Agreements for loss of office	162 and 173
Remuneration, including waiver of emoluments	150 to 175
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Risk management objectives and policies	74 to 116
Credit, market and liquidity risks	90 to 105 and 115 to 116
Financial instruments	Note 13 "Derivative Financial Instruments"
Shareholder dividend waivers	178

Results and Dividends

The consolidated results for the year are shown on page 192 of the Financial Statements. The directors do not recommend a final dividend for the year and did not declare an interim dividend during the year.

Further information on the directors' decision not to pay a dividend in respect of the financial year can be found on page 59.

Directors

The names of the directors of the company at the date of this report, together with biographical details, are given on pages 124 to 126. All the directors listed on those pages were directors of the company throughout the year. Oliver Corbett and Peter Duffy resigned as directors on 16 November 2023 and 15 February 2024 respectively.

In accordance with the UK Corporate Governance Code, all serving directors will retire at the 2024 AGM and offer themselves for re-election at that meeting.

Powers of Directors

The directors 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 2023 AGM.

Appointment and Removal of Directors

The appointment and removal 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 a general meeting or appointed by the board of directors in accordance with the provisions of the articles of association. The company's articles of association may only be amended by a special resolution of the shareholders in a general meeting.

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 directors 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 at the date of approval of the Directors' Report. The company also maintains directors' and officers' liability insurance.

Share Capital

The company's share capital comprises one class of ordinary share with a nominal value of 25p per share.

At 31 July 2024, 152,060,290 ordinary shares were in issue, of which 1,572,747 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 2006, 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.

Details of directors' authorities approved by shareholders at the 2023 AGM can be found in the 2023 Notice of AGM and subsequent results announcement.

Since the date of the company's 2023 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 in the purchase of own shares section below.

The existing authorities to allot and purchase shares given to the company at the last AGM will expire at the conclusion of the forthcoming AGM. At this AGM, shareholders will be asked to renew these authorities. Details of the relevant resolutions to be proposed will be included in the 2024 Notice of AGM.

New Issues of Share Capital

No ordinary shares were allotted or issued during the year. Specifically, no ordinary shares were allotted or 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 24 "Share-based Awards" 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.

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 2024 Notice of AGM.

Awards under the company's employee share plans have historically been met from shares purchased in the market (and held either in treasury or in the employee share trust), however the company's share hedging procedures are kept under review.

During the year, the company did not make any market purchases of Treasury Shares. It transferred 28,728 shares out of treasury to satisfy share option awards, with an aggregate nominal value of £7,102 and representing 0.02% of the company's issued share capital, for a total consideration of £0.23 million.

At 31 July 2024, the company held 1,572,747 Treasury Shares with a nominal value of £0.39 million and representing 1.03% of its issued share capital. The maximum number of Treasury Shares held at any time during the year was 1,601,475, with a nominal value of £0.4 million and representing 1.05% of its issued share capital.

Significant Shareholdings

The table below sets out details of the interests in voting rights notified to the company under the provisions of the Financial Conduct Authority'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.

	9 September 2024 Voting rights	31 July 2024 Voting rights
abrdn plc	10.20%	10.20%
Royal London Asset Management	5.31%	5.31%
M&G plc	4.85%	4.85%
FIL Limited	4.66%	4.66%

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

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 24 "Share-based Awards" of the Financial Statements. The trustee has waived its right to dividends on all shares held within the trust. During the year, the Close Brothers Group Employee Share Trust made market purchases of 456,174 ordinary shares.

Auditor

PricewaterhouseCoopers LLP ("PwC") has expressed its willingness to continue in office as the company's external auditor. Resolutions to reappoint PwC and to determine its remuneration will be proposed at the forthcoming AGM. The full text of the relevant resolutions will be set out in the 2024 Notice of AGM.

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 plan rules.

The group had committed facilities totalling £1.03 billion at 31 July 2024 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 plan rules 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.

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.

Post-Balance Sheet Events

Following a comprehensive strategic review, on 19 September 2024, the group announced that it entered into an agreement to sell CBAM to Oaktree for an equity value of up to £200 million.

The transaction is expected to complete in early 2025 calendar year and is conditional upon receipt of certain customary regulatory approvals.

Further details of the financial impacts of the sale agreement on the group can be found in Note 29: "Post Balance Sheet Event".

Political Donations

No political donations were made during the year (2023: £nil).

Branches

The company has no branches outside the UK.

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 reasonable 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.

The Directors' Report has been approved by the board and signed by order of the board by:

Sarah Peazer-Davies
Company Secretary

19 September 2024

Statement of Directors' Responsibilities in Respect of the Financial Statements

The directors, whose names and functions are listed on pages 124 to 126, 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 UK-adopted international accounting standards and the company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law).

Under company law, directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the group and company and of the profit or loss of the group and the company for that period. In preparing the financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable UK-adopted international accounting standards have been followed for the group financial statements, and United Kingdom Accounting Standards comprising FRS 102 have been followed for the company financial statements, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the group and company financial statements on the going concern basis unless it is inappropriate to presume that the group and company will continue in business.

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

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

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

Directors' Confirmations

Each of the current directors, whose names and functions are listed on pages 124 to 126, confirms that, to the best of his or her knowledge:

- the group financial statements, which have been prepared in accordance with UK-adopted international accounting standards, give a true and fair view of the assets, liabilities, financial position and profit of the group;
- the company financial statements, which have been prepared in accordance with United Kingdom Accounting Standards comprising FRS 102, give a true and fair view of the assets, liabilities, financial position and profit of the company;
- the Strategic Report, together with the Directors' Report and the Corporate Governance Report, includes a fair review of the development and performance of the business and the position of the group and company, together with a description of the principal risks and uncertainties that they face; and
- the Annual Report and financial statements, taken as a whole, are fair, balanced and understandable and provide the information necessary for shareholders to assess the group's and company's position and performance, business model and strategy.

Signed on behalf of the board by:

Michael N. Biggs
Chairman

Mike Morgan
Finance Director

19 September 2024

Report on the audit of the financial statements

Opinion

In our opinion:

- Close Brothers Group plc’s group financial statements and company financial statements (the “financial statements”) give a true and fair view of the state of the group’s and of the company’s affairs as at 31 July 2024 and of the group’s profit and the group’s cash flows for the year then ended;
- the group financial statements have been properly prepared in accordance with UK-adopted international accounting standards as applied in accordance with the provisions of the Companies Act 2006;
- the company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, including FRS 102 “The Financial Reporting Standard applicable in the UK and Republic of Ireland”, and applicable law); and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report, which comprise: the consolidated and company balance sheets as at 31 July 2024; 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, comprising material accounting policy information and other explanatory information.

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.

Other than those disclosed in note 5, we have provided no non-audit services to the company or its controlled undertakings in the period under audit.

Our audit approach

Overview

Audit scope

- The scope of our audit and the nature, timing and extent of audit procedures performed were determined by our risk assessment, the financial significance of components and other qualitative factors (including history of misstatement through fraud or error).
- We performed audit procedures over components considered financially significant in the context of the group (full scope audit) or in the context of individual primary statement account balances (audit of specific account balances).
- We performed other procedures including 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)
- Assessment of impairment in relation to valuation of goodwill held in relation to Winterflood Securities and Close Brothers Limited (group)
- Consideration of the contingent liability for motor dealer commissions (group)
- Assessment of the going concern basis of preparation, specifically in relation to capital (group and company)

Materiality

- Overall group materiality: £10.6m (2023: £11.6m) based on 5% of 4 year average adjusted profit before tax (PBT) (2023: 5% of 3 year average adjusted PBT).
- Overall company materiality: £13.8m (2023: £12.8m) based on 1% of Total Assets.
- Performance materiality: £8.0m (2023: £8.7m) (group) and £10.35m (2023: £9.6m) (company).

The scope of our audit

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements.

Key audit matters

Key audit matters are those matters that, in the auditors' professional judgement, were of most significance in the audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by the auditors, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters, and any comments we make on the results of our procedures thereon, were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

This is not a complete list of all risks identified by our audit.

Consideration of the contingent liability for motor dealer commission and Assessment of the going concern basis of preparation, specifically in relation to capital are new key audit matters this year. Otherwise, the key audit matters below are consistent with last year.

Key audit matter	How our audit addressed the key audit matter
Determination of expected credit losses ("ECL") on loans and advances to customers (group) As at 31 July 2024, the Group has gross loans and advances to customers of £10,276.6m, with ECL provisions of £445.8m held against them. The determination of ECL provisions is inherently judgemental and involves setting assumptions using forward looking information reflecting the Group's view of potential future economic events. This can give rise to increased estimation uncertainty. There has been improvement in some economic indicators, however ECL provisions by their nature are uncertain, and the interest rate environment remains heightened. This, and other economic developments, may impact the credit performance of the lending book. The model methodology in relation to the Novitas Loans business remains the same. However, this remains subjective in the current year and the ECL is sensitive to potential outcomes and estimated time to recovery. Models are used to collectively assess and determine ECL allowances on loans and advances. We consider the following elements of the determination of modelled ECL to be significant: • The application of forward-looking economic scenarios used in the models and the weightings assigned to those scenarios; • The sufficiency and completeness of post-model adjustments which may be considered in order to take into account economic risks not captured by the models; • In respect of the Novitas portfolio, the appropriateness of assumptions used in the determination of the recoveries from insurers and the estimated time to recover; and • The Loss Given Default ("LGD") component for the Asset Finance and Leasing business, given that the LGD model was developed over a period with more benign macroeconomic conditions than the expected conditions over the forecast period. ECL provisions on individually large exposures to counterparties who are in default at the reporting date, are estimated on an individual basis. We consider that only the individually assessed loans of the Property business constitute a significant risk in the current year. The risk relates to the assumptions made on the amount and timing of the expected future cash flows under multiple probability weighted scenarios. Relevant disclosure references: • Note 2 - Critical accounting estimates and judgements; and • Note 10 - Loans and advances to customers.	With the support of our credit risk modelling specialists and economics experts, we performed the following procedures: For collectively assessed ECL provisions: • We understood and critically assessed the appropriateness of the ECL accounting policy and model methodologies used by management; • We independently replicated ECL models for the Asset, Leasing, Motor Finance and Invoice businesses, using management's model methodology and assumptions; • We tested model performance through review and replication of key model monitoring tests. We assessed the performance of key model elements, including LGD, and considered if they indicated that the models continued to perform appropriately or if any post-model adjustments were required; • We critically assessed the reasonableness of management's selected economic scenarios and associated scenario weightings, giving specific consideration to current and future economic uncertainty. We assessed their reasonableness against known or likely economic events; • We compared the severity and magnitude of the assumptions used in the base scenario to external forecasts and historic trends; • Based on our knowledge and understanding of the limitations in management's models and emerging industry risks, we evaluated the completeness and sufficiency of the post model adjustments proposed by management; • We evaluated the LGD model performance for the Asset Finance & Leasing business and the sufficiency of the extent to which LGD is impacted by macroeconomic factors; and • We evaluated management's model used to derive the Novitas Loans ECL and critically assessed the assumptions for recovery rate and time to recover. We met with management's external legal counsel to corroborate assumptions. Individually assessed provisions: For a sample of individually assessed loans in default and related ECL allowances in the Property business, 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, timing of the expected future cash flows, 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 economic conditions including raised interest rate levels and whether these factors had been appropriately reflected in the ECL provision. We tested and evaluated the reasonableness of relevant disclosures made in the financial statements. Based on the evidence obtained, we concluded that the methodologies, modelled assumptions and management judgements used in the determination of collective and individually assessed expected credit losses to be appropriate.

Key audit matter	How our audit addressed the key audit matter
Assessment of impairment in relation to valuation of goodwill held by Group in relation to Winterflood Securities and Close Brothers Limited (group) The Group has a total goodwill balance of £102.9m, of which £23.3m relates to the Winterflood Securities ("Winterflood") and £36.1m to Close Brothers Limited (the "Bank"). Winterflood is considered a Cash Generating Unit ("CGU") while the Bank has a number of CGUs under IAS 36 Impairment of Assets ("IAS 36") which require annual impairment assessments of the goodwill associated for each CGU. Management performs the assessment by comparing the recoverable amount of each CGU with the current carrying value of the CGU (including the goodwill associated with the CGU). Management estimated the recoverable amount using the higher of value in use ('ViU') and fair value less cost to sell. i) Winterflood Winterfloods' financial performance is largely driven by the performance of the equity markets in which it operates and levels of trading activity. Poor and unpredictable market conditions have negatively impacted Winterflood's financial performance in the period, and there continues to be heightened uncertainty as to the timing and extent of the recovery of the performance of relevant equity markets and trading activity in light of ongoing political and economic volatility. This leads to increased levels of judgement in management's determination of the cash flows projected for the next five years used in the annual impairment assessment of the goodwill held in relation to Winterflood, in particular, those cash flows related to trading activity ii) Bank For the Bank, the fall in market value of the group and the risk associated with the ongoing FCA review of the motor commission arrangements, provide potential indicators of impairment within the Bank, including in the Motor Finance CGU. The methodology used to estimate the recoverable amount is dependent on various assumptions, both short term and long term in nature. These assumptions, which are subject to estimation uncertainty, are derived from a combination of management's judgement and third party data. The significant assumptions where we focused our audit were those with greater levels of management judgement and for which variations had the most significant impact on the recoverable amount. These included the compliance of the chosen methodology with IAS 36, and the Bank's 5 year cash flow forecasts, in particular the impact of the ongoing FCA review of motor commissions arrangements of the Bank on the future forecasts of certain CGU's. Relevant disclosure references: • Note 2 - Critical accounting estimates and judgements; and • Note 14 - Intangible assets.	We performed the following audit procedures for the Winterflood and Bank models: • With the support of our valuation and accounting specialists, we evaluated management's impairment methodology with reference to IFRS requirements for a value in use model. This included adjustments made to the cash flow forecasts to comply with IAS 36; • We critically assessed the reasonableness of the assumptions underlying management's five year cash flow forecasts, in particular relating to trading activity in Winterflood and lending activities in the Bank (in particular the Motor Finance business). For the Bank this included assessing the approach for allocating a capital charge to each CGU; • We performed a look-back analysis comparing the cash flow projections made in prior years to the actual results achieved to assess the accuracy of the budgeting and forecasting process; and • We assessed the reasonableness of management's allocation of central costs. For Winterflood, in assessing the reasonableness of management assumptions on the timing and the extent of market recovery, we independently researched the expectation of future market conditions and developed alternative scenarios to assess the impact of a range of outcomes on the forecast trading revenues. We also assessed the reasonableness of the non-trading revenue forecasts. For the Bank: • We obtained an understanding of management's capital and board approved forecasts, including the impact of uncertainties and judgements associated with the FCA review of motor commission as relevant to a VIU assessment; we then evaluated the reasonableness of management's forecast cash flows from lending activity in light of this. • We engaged our regulatory experts in assessing the reasonableness of the risk weighted asset and capital requirements included in management's forecasts. **In addition, we performed the following tests of details, amongst others for the Winterflood and Bank models:** • We obtained evidence of Board approval of the three year plan and agreed these plans were appropriately reflected in the cash flow forecasts in management's models; • With support of our internal experts, we evaluated the appropriateness of the discount rate range determined by management's expert; • We verified the mathematical accuracy of the goodwill impairment assessments, including the discounted cash flow projections; • We compared the long term growth rate used to the UK long term inflation rate; and • We verified the appropriate application of management's accounting policy and the adequacy of the information disclosed in the consolidated annual accounts. Based on the procedures performed we were satisfied with management's conclusion that the goodwill is not impaired and that disclosures included in the consolidated annual accounts are reflective of critical judgements made by management.

Key audit matter	How our audit addressed the key audit matter
Consideration of the contingent liability for motor dealer commissions (group) Refer to note 21, where the group has disclosed a contingent liability in accordance with IAS 37 'Provisions, Contingent Liabilities and Contingent Assets' in relation to the ongoing FCA review of the motor commission arrangements. There is significant uncertainty surrounding the outcome of the FCA's review and at the same time the group has a number of cases with the FOS and cases going through the courts. Management has applied significant judgement including involving management experts to ascertain: • whether any present obligation (legal or constructive) exists; and if so • the probability of outflow of resources. There can be a wide range of possible outcomes, particularly in relation to legal and regulatory investigations, and as a result management have considered whether it is practicable to form and disclose an estimate of the potential financial effect of the contingent liability. Given the uncertainty around motor commission and the extent of management judgement required we considered this area to be a significant area for our audit. Disclosures of critical judgments and estimates can be found in note 2.	We evaluated and challenged management's assessment in the context of the requirements of IAS 37 Provisions, Contingent liabilities and Contingent Assets. Our work included the following: • We made inquiries of management's Compliance and Legal functions. • We understood the status of the FCA review of the industry and the status of judicial reviews brought in the industry. We understood the status of specific matters related to the Group in relation to the FCA, FOS rulings and the litigation status in the courts. • We evaluated management's assessment of the potential outcomes and associated likelihood with regard to requirement for a provision. Specifically we evaluated the advice received from managements' external legal experts. We held discussions with these experts to confirm our understanding of their views on certain judgements applied by management and obtained a written confirmation of the key facts. Based on the procedures performed and evidence obtained, we found management's conclusions to be reasonable. Given the uncertainty associated with the recognition of a contingent liability, we evaluated the disclosures made in the financial statements. In particular, we focused on challenging management as to whether the disclosures were sufficiently clear in highlighting the uncertainties. We considered the completeness of the information in the disclosures (in particular given that management concluded it was not practicable to form an estimate or disclose any potential financial impact). We found the disclosures to be appropriate in relation to IAS 37 requirements.
Assessment of the going concern basis of preparation, specifically in relation to capital (group and company) Refer to the directors' assessment of going concern. On 11th January 2024, the Financial Conduct Authority ("FCA") announced a review of historical motor finance commission arrangements. As described in the Key Audit Matter on Motor Finance commission, there is significant uncertainty about the outcome of the FCA's review, and the timing, scope and quantum of any potential financial impact. The board of directors' is planning for a range of possible outcomes and is seeking to accrete capital, including through the cancellation of dividends for FY24 and optimising risk weighted assets through management of the loan book. In performing their assessment of going concern the directors have utilised significant judgement in determining the extent of risk relating to a severe but plausible outcome in relation to the FCA review of motor commissions for the Bank, along with sensitivities to that scenario, and considering the impact on capital headroom. Within these scenarios the directors' also evaluated related risks, including their ability to manage liquidity events, should these occur, and other downsides associated with credit risk. The directors' have set out their critical judgments in their going concern disclosures.	See section on Going concern below in the audit opinion

How we tailored the audit scope

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the structure of the group and the company, the accounting processes and controls, and the industry in which they operate.

We performed a risk assessment, giving consideration to relevant external and internal factors, including climate change, economic risks, relevant accounting and regulatory developments, as well as the group's strategy. We also considered our knowledge and experience obtained in prior year audits. We continually assessed the risks and updated the scope of our audit where necessary.

The group is structured into three primary components being the Close Brothers Limited Group (also referred to as the Bank), Winterflood Securities and Asset Management. The consolidated financial statements are a consolidation of these components. The Bank is a subgroup of Retail, Commercial and Property business segments.

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 and a review of the results of their work on the key audit matters. 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 15% of the total profit before tax of the consolidated group) were considered full scope components. We considered the individual financial significance of other components in relation to primary statement account balances. Our scoping also considered the presence of any significant audit risks and other qualitative factors (including history of misstatements through fraud or error). For our group audit, the Bank is the only financially significant component. Specific account balances and disclosures were scoped in for Winterflood Securities and Asset Management based on their financial significance and risk. Certain account balances were audited centrally by the group engagement team mainly where the processes are centralised. The remaining balances and components, in our judgement, did not present a reasonable possibility of a risk of material misstatement either individually or in aggregate. We performed other procedures such as tests of information technology controls and group level analytical review procedures.

The impact of climate risk on our audit

As part of our audit we made enquiries of management to understand the extent of the potential impact of climate risk on the Group's financial statements, and we remained alert when performing our audit procedures for any indicators of the impact of climate risk. As part of considering the impact of climate change in our risk assessment, we evaluated management's assessment of the impact of climate risk, which is set out in the Sustainability Report, including their conclusion that there is no material impact on the financial statements. In particular, we considered management's assessment of the impact on ECL on loans and advances to customers, being the financial statement line item we determined to be most likely to be impacted by climate risk. Management's assessment gave consideration to a number of matters, including the exposure of underlying portfolios to transition risk. Management's conclusion that there is no material impact is consistent with our audit findings.

Materiality

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

	Financial statements - group	Financial statements - company
Overall materiality	£10.6m (2023: £11.6m).	£13.8m (2023: £12.8m).
How we determined it	5% of 4 year average adjusted PBT (2023: 5% of 3 year average adjusted PBT)	1% of Total Assets.
Rationale for benchmark applied	PBT is a primary measure used by the shareholders in assessing the performance of the group and is a generally accepted benchmark for determining audit materiality. We have determined it appropriate to select the 4 year average adjusted PBT (2023: 3 year average adjusted PBT) as the most appropriate benchmark considering that it normalises the trading performance volatility experienced in recent years across the Group. We have extended this to a 4 year average to incorporate recent years that include this volatility. We have adjusted the PBT used in this assessment to remove the impact of significant one-off items in relation to Novitas in 2023.	We have selected total assets as an appropriate benchmark for company materiality, as it is an investment holding company.

For each component in the scope of our group audit, we allocated a materiality that is less than our overall group materiality. The range of materiality allocated across components was between £2.3m and £10.1m. Certain components were audited to a local statutory audit materiality that was also less than our overall group materiality.

We use performance materiality to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds overall materiality. Specifically, we use performance materiality in determining the scope of our audit and the nature and extent of our testing of account balances, classes of transactions and disclosures, for example in determining sample sizes. Our performance materiality was 75% (2023: 75%) of overall materiality, amounting to £8.0m (2023: £8.7m) for the group financial statements and £10.35m (2023: £9.6m) for the company financial statements.

In determining the performance materiality, we considered a number of factors - the history of misstatements, risk assessment and aggregation risk and the effectiveness of controls - and concluded that an amount at the upper end of our normal range was appropriate.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £0.5m (group audit) (2023: £0.5m) and £0.5m (company audit) (2023: £0.5m) as well as misstatements below those amounts that, in our view, warranted reporting for qualitative reasons.

Conclusions relating to going concern

Our evaluation of the directors' assessment of the group's and the company's ability to continue to adopt the going concern basis of accounting included:

- Understanding the Directors' going concern assessment process, including the preparation and approval of the Board approved forecast covering the period of the going concern assessment to December 2025. We evaluated the forecasting method adopted by the Directors in assessing going concern, including considering a severe but plausible downside scenario and sensitivities to that scenario;
- Evaluation of management's financial and regulatory capital forecasts. We checked the mathematical accuracy of the model and evaluated the key assumptions using our understanding of the group and external evidence where appropriate. We used our Prudential Regulatory experts to consider the Bank's risk weighted assets and forecast capital requirement assumptions. We also considered historic budgeting accuracy;
- Evaluating management's assumptions by performing independent stress testing to determine whether a reasonable alternative stressed scenario would result in a breach of the Bank's minimum regulatory requirements;
- Our evaluation included considering the capital capacity projected for the Bank and Group and the ability to absorb a severe but plausible outcome in relation to the FCA review of motor commissions;
- Reviewing management's stress testing of liquidity and evaluation of the impact on liquidity of past stress events. We substantiated the liquid resources held, and liquidity facilities available to the group, for example, with the Bank of England;
- Reviewing correspondence between the group and its regulators to evidence the current regulatory capital position. We met with the PRA during the audit and understood the PRA's perspectives on the group's risks and its capital position; and
- Assessing the adequacy of disclosures in the Going Concern statement in the Consolidated and Company Financial Statements and within the Going Concern section of the Strategic Report and found these to be appropriate.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the group's and the company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

However, because not all future events or conditions can be predicted, this conclusion is not a guarantee as to the group's and the company's ability to continue as a going concern.

In relation to the directors' reporting on how they have applied the UK Corporate Governance Code, we have nothing material to add or draw attention to in relation to the directors' statement in the financial statements about whether the directors considered it appropriate to adopt the going concern basis of accounting.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Strategic Report and Directors' Report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on our work undertaken in the course of the audit, the Companies Act 2006 requires us also to report certain opinions and matters as described below.

Strategic Report and Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors' Report for the year ended 31 July 2024 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the group and company and their environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic Report and Directors' Report.

Directors' Remuneration

In our opinion, the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006.

Corporate governance statement

The Listing Rules require us to review the directors' statements in relation to going concern, longer-term viability and that part of the corporate governance statement relating to the company's compliance with the provisions of the UK Corporate Governance Code specified for our review. Our additional responsibilities with respect to the corporate governance statement as other information are described in the Reporting on other information section of this report.

Based on the work undertaken as part of our audit, we have concluded that each of the following elements of the corporate governance statement, included within the Corporate Governance Report is materially consistent with the financial statements and our knowledge obtained during the audit, and we have nothing material to add or draw attention to in relation to:

- The directors' confirmation that they have carried out a robust assessment of the emerging and principal risks;
- The disclosures in the Annual Report that describe those principal risks, what procedures are in place to identify emerging risks and an explanation of how these are being managed or mitigated;
- The directors' statement in the financial statements about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them, and their identification of any material uncertainties to the group's and company's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements;
- The directors' explanation as to their assessment of the group's and company's prospects, the period this assessment covers and why the period is appropriate; and
- The directors' statement as to whether they have a reasonable expectation that the company will be able to continue in operation and meet its liabilities as they fall due over the period of its assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

Our review of the directors' statement regarding the longer-term viability of the group and company was substantially less in scope than an audit and only consisted of making inquiries and considering the directors' process supporting their statement; checking that the statement is in alignment with the relevant provisions of the UK Corporate Governance Code; and considering whether the statement is consistent with the financial statements and our knowledge and understanding of the group and company and their environment obtained in the course of the audit.

In addition, based on the work undertaken as part of our audit, we have concluded that each of the following elements of the corporate governance statement is materially consistent with the financial statements and our knowledge obtained during the audit:

- The directors' statement that they consider the Annual Report, taken as a whole, is fair, balanced and understandable, and provides the information necessary for the members to assess the group's and company's position, performance, business model and strategy;
- The section of the Annual Report that describes the review of effectiveness of risk management and internal control systems; and
- The section of the Annual Report describing the work of the Audit Committee.

We have nothing to report in respect of our responsibility to report when the directors' statement relating to the company's compliance with the Code does not properly disclose a departure from a relevant provision of the Code specified under the Listing Rules for review by the auditors.

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements and the audit

As explained more fully in the Statement of directors' responsibilities in respect of the financial statements, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the group's and the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group or the company or to cease operations, or have no realistic alternative but to do so.

Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below.

Based on our understanding of the group and industry, we identified that the principal risks of non-compliance with laws and regulations related to breaches of laws and regulations principally those determined by the Prudential Regulatory Authority ("PRA") and the Financial Conduct Authority ("FCA"), and we considered the extent to which non-compliance might have a material effect on the financial statements. We also considered those laws and regulations that have a direct impact on the financial statements such as the Companies Act 2006, UK tax legislation and the Listing Rules of the FCA. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to posting inappropriate manual journal entries to manipulate financial performance, management bias in the application of judgements and assumptions in significant accounting estimates and significant one-off or unusual transactions. The group engagement team shared this risk assessment with the component auditors so that they could include appropriate audit procedures in response to such risks in their work. Audit procedures performed by the group engagement team and/or component auditors included:

- Enquiries with management, compliance, internal audit and those charged with governance including consideration of known or suspected instances of non-compliance with laws and regulation and fraud;
- Assessment of matters reported on the Group's whistleblowing helpline and the results of management's investigation of such matters;
- Evaluating assumptions and judgements made by management in their significant accounting estimates, in particular in relation to the allowance for ECL, certain impairment assessments for non-financial assets and considering the contingent liability for motor commissions;
- Identifying and testing any higher risk journal entries;
- Incorporating unpredictability into the nature, timing and/or extent of our testing; and
- Reviewing key correspondence with the FCA and PRA in relation to compliance with regulatory requirements.

There are inherent limitations in the audit procedures described above. We are less likely to become aware of instances of non-compliance with laws and regulations that are not closely related to events and transactions reflected in the financial statements. Also, the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

Our audit testing might include testing complete populations of certain transactions and balances, possibly using data auditing techniques. However, it typically involves selecting a limited number of items for testing, rather than testing complete populations. We will often seek to target particular items for testing based on their size or risk characteristics. In other cases, we will use audit sampling to enable us to draw a conclusion about the population from which the sample is selected.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

Use of this report

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Other required reporting

Companies Act 2006 exception reporting

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not obtained all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the company, or returns adequate for our audit have not been received from branches not visited by us; or
- certain disclosures of directors' remuneration specified by law are not made; or
- the company financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Appointment

Following the recommendation of the Audit Committee, we were appointed by the directors on 17 May 2017 to audit the financial statements for the year ended 31 July 2018 and subsequent financial periods. The period of total uninterrupted engagement is 7 years, covering the years ended 31 July 2018 to 31 July 2024.

Other matter

The company is required by the Financial Conduct Authority Disclosure Guidance and Transparency Rules to include these financial statements in an annual financial report prepared under the structured digital format required by DTR 4.1.15R - 4.1.18R and filed on the National Storage Mechanism of the Financial Conduct Authority. This auditors' report provides no assurance over whether the structured digital format annual financial report has been prepared in accordance with those requirements.

Heather Varley (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
19 September 2024

Consolidated Income Statement
For the year ended 31 July 2024

	Note	2024 £ million	2023 £ million
Interest income	4	**1,156.8**	897.5
Interest expense	4	**(565.5)**	(304.9)
Net interest income		**591.3**	592.6
Fee and commission income	4	**271.2**	262.9
Fee and commission expense	4	**(22.8)**	(17.9)
Gains less losses arising from dealing in securities		**53.2**	58.6
Other income	4	**132.7**	114.2
Depreciation of operating lease assets and other direct costs	15	**(81.4)**	(77.8)
Non-interest income		**352.9**	340.0
Operating income		**944.2**	932.6
Administrative expenses before amortisation of intangible assets on acquisition, provision in relation to the Borrowers in Financial Difficulty ("BiFD") review, restructuring costs and complaints handling and other operational costs associated with the FCA's review of historical motor finance commission arrangements		**(674.8)**	(615.0)
Amortisation of intangible assets on acquisition	14	**(1.4)**	(1.5)
Provision in relation to the BiFD review	16	**(17.2)**	—
Restructuring costs	16	**(3.1)**	—
Complaints handling and other operational costs associated with the FCA's review of historical motor finance commission arrangements	21	**(6.9)**	—
Total administrative expenses	4	**(703.4)**	(616.5)
Impairment losses on financial assets	10	**(98.8)**	(204.1)
Total operating expenses		**(802.2)**	(820.6)
Operating profit before tax		**142.0**	112.0
Tax	6	**(41.6)**	(30.9)
Profit after tax		**100.4**	81.1
Attributable to			
Shareholders		**89.3**	81.1
Other equity owners	20	**11.1**	—
		100.4	81.1
Basic earnings per share	7	**59.7p**	54.3p
Diluted earnings per share	7	**59.5p**	54.2p
Interim dividend per share paid	8	**—**	22.5p
Final dividend per share	8	**—**	45.0p

Consolidated Statement of Comprehensive Income
For the year ended 31 July 2024

		2024 £ million	2023 £ million
Profit after tax		**100.4**	81.1
Items that may be reclassified to income statement			
Currency translation (losses)/gains		**(0.5)**	0.7
(Losses)/gains on cash flow hedging		**(29.8)**	17.6
Losses on financial instruments classified at fair value through other comprehensive income		**(3.6)**	(3.9)
Tax relating to items that may be reclassified		**9.8**	(4.3)
		(24.1)	10.1
Items that will not be reclassified to income statement			
Defined benefit pension scheme losses		**—**	(5.7)
Tax relating to items that will not be reclassified		**—**	1.6
		—	(4.1)
Other comprehensive (expense)/income, net of tax		**(24.1)**	6.0
Total comprehensive income		**76.3**	87.1
Attributable to			
Shareholders		**65.2**	87.1
Other equity owners	20	**11.1**	—
		76.3	87.1

Consolidated Balance Sheet
At 31 July 2024

	Note	31 July 2024 £ million	31 July 2023 £ million
Assets			
Cash and balances at central banks		**1,584.0**	1,937.0
Settlement balances		**627.5**	707.0
Loans and advances to banks	9	**293.7**	330.3
Loans and advances to customers	10	**9,830.8**	9,255.0
Debt securities	11	**740.5**	307.6
Equity shares	12	**27.4**	29.3
Loans to money brokers against stock advanced		**22.5**	37.6
Derivative financial instruments	13	**101.4**	88.5
Intangible assets	14	**266.0**	263.7
Property, plant and equipment	15	**349.6**	357.1
Current tax assets		**36.4**	42.3
Deferred tax assets	6	**14.3**	10.8
Prepayments, accrued income and other assets	16	**186.7**	184.1
Total assets		**14,080.8**	13,550.3
Liabilities			
Settlement balances and short positions	17	**614.9**	695.9
Deposits by banks	18	**138.4**	141.9
Deposits by customers	18	**8,693.6**	7,724.5
Loans and overdrafts from banks	18	**165.6**	651.9
Debt securities in issue	18	**1,986.4**	2,012.6
Loans from money brokers against stock advanced		**16.7**	4.8
Derivative financial instruments	13	**129.0**	195.9
Accruals, deferred income and other liabilities	16	**306.5**	303.0
Subordinated loan capital	19	**187.2**	174.9
Total liabilities		**12,238.3**	11,905.4
Equity			
Called up share capital	20	**38.0**	38.0
Retained earnings		**1,634.4**	1,608.5
Other equity instrument	20	**197.6**	—
Other reserves		**(27.5)**	(1.6)
Total shareholders' and other equity owners' equity		**1,842.5**	1,644.9
Total equity		**1,842.5**	1,644.9
Total equity and liabilities		**14,080.8**	13,550.3

The consolidated financial statements were approved and authorised for issue by the board of directors on 19 September 2024 and signed on its behalf by:

Michael N. Biggs
Chairman

Mike Morgan
Finance Director

Registered number: 520241

Consolidated Statement of Changes in Equity
For the year ended 31 July 2024

				Other reserves					
	Called up share capital £ million	Retained earnings £ million	Other equity instrument £ million	FVOCI reserve £ million	Share-based payments reserve £ million	Exchange movements reserve £ million	Cash flow hedging reserve £ million	Total attributable to shareholders and other equity owners £ million	Total equity £ million
At 1 August 2022	38.0	1,628.4	—	0.1	(29.2)	(1.5)	21.7	1,657.5	1,657.5
Profit for the year	—	81.1	—	—	—	—	—	81.1	81.1
Other comprehensive (expense)/income	—	(4.1)	—	(2.8)	—	0.2	12.7	6.0	6.0
Total comprehensive income for the year	—	77.0	—	(2.8)	—	0.2	12.7	87.1	87.1
Dividends paid (Note 8)	—	(99.1)	—	—	—	—	—	(99.1)	(99.1)
Shares purchased	—	—	—	—	(5.0)	—	—	(5.0)	(5.0)
Shares released	—	—	—	—	5.6	—	—	5.6	5.6
Other movements	—	2.3	—	—	(3.4)	—	—	(1.1)	(1.1)
Income tax	—	(0.1)	—	—	—	—	—	(0.1)	(0.1)
At 31 July 2023	38.0	1,608.5	—	(2.7)	(32.0)	(1.3)	34.4	1,644.9	1,644.9
Profit for the year	—	100.4	—	—	—	—	—	100.4	100.4
Other comprehensive expense	—	—	—	(2.6)	—	(0.1)	(21.4)	(24.1)	(24.1)
Total comprehensive income for the year	—	100.4	—	(2.6)	—	(0.1)	(21.4)	76.3	76.3
Dividends paid (Note 8)	—	(67.1)	—	—	—	—	—	(67.1)	(67.1)
Shares purchased	—	—	—	—	(3.5)	—	—	(3.5)	(3.5)
Shares released	—	—	—	—	4.6	—	—	4.6	4.6
Other equity instrument issued (Note 20)	—	—	197.6	—	—	—	—	197.6	197.6
Coupon paid on other equity instrument (Note 20)	—	(11.1)	—	—	—	—	—	(11.1)	(11.1)
Other movements	—	3.7	—	—	(2.9)	—	—	0.8	0.8
Income tax	—	—	—	—	—	—	—	—	—
At 31 July 2024	**38.0**	**1,634.4**	**197.6**	**(5.3)**	**(33.8)**	**(1.4)**	**13.0**	**1,842.5**	**1,842.5**

Consolidated Cash Flow Statement
For the year ended 31 July 2024

	Note	2024 £ million	2023 £ million
Net cash (outflow)/inflow from operating activities	25(a)	**(382.0)**	1,021.4
Net cash (outflow)/inflow from investing activities			
Purchase of:			
Property, plant and equipment		**(14.2)**	(8.7)
Intangible assets – software		**(30.3)**	(53.2)
Subsidiaries, net of cash acquired	25(b)	**(15.4)**	(0.5)
Sale of:			
Equity shares held for investment		**0.2**	—
Subsidiaries	25(c)	**0.9**	—
		(58.8)	(62.4)
Net cash (outflow)/inflow before financing activities		**(440.8)**	959.0
Financing activities			
Purchase of own shares for employee share award schemes		**(3.5)**	(5.0)
Equity dividends paid		**(67.1)**	(99.1)
Interest paid on subordinated loan capital and debt financing		**(23.4)**	(10.9)
Payment of lease liabilities		**(16.5)**	(16.2)
Issuance of senior bond		**—**	248.5
Redemption of senior bond		**—**	(250.0)
Issuance of Additional Tier 1 ("AT1") capital securities		**200.0**	—
Costs arising on issue of AT1		**(2.4)**	—
AT1 coupon payment		**(11.1)**	—
Net (decrease)/increase in cash		**(364.8)**	826.3
Cash and cash equivalents at beginning of year		**2,209.3**	1,383.0
Cash and cash equivalents at end of year	25(d)	**1,844.5**	2,209.3

Company Balance Sheet
At 31 July 2024

	Note	31 July 2024 £ million	31 July 2023 £ million
Fixed assets			
Intangible assets	14	**—**	—
Property, plant and equipment	15	**7.7**	8.9
Investment in subsidiary	28	**487.0**	287.0
		494.7	295.9
Current assets			
Amounts owed by subsidiaries due within one year		**465.3**	567.8
Amounts owed by subsidiaries due after more than one year		**199.3**	201.9
Corporation tax receivable		**1.6**	1.5
Deferred tax asset due after more than one year	6	**0.2**	0.4
Other debtors		**3.8**	2.1
Cash at bank		**3.8**	3.5
		674.0	777.2
Creditors: Amounts falling due within one year			
Debt securities in issue	18	**2.5**	2.5
Subordinated loan capital	19	**1.5**	1.5
Provisions	16	**0.8**	0.7
Other creditors		**1.5**	1.8
Accruals		**7.8**	9.6
		14.1	16.1
Net current assets		**659.9**	761.1
Total assets less current liabilities		**1,154.6**	1,057.0
Creditors: Amounts falling due after more than one year			
Debt securities in issue	18	**248.3**	248.0
Subordinated loan capital	19	**199.3**	198.9
Provisions	16	**0.8**	1.7
Net assets		**706.2**	608.4
Capital and reserves			
Called up share capital	20	**38.0**	38.0
Other equity instrument	20	**200.0**	—
Other reserves		**(33.8)**	(32.0)
Profit and loss account		**502.0**	602.4
Shareholders' and other equity owners' funds		**706.2**	608.4

The company reported a loss for the financial year ended 31 July 2024 of £24.1 million (2023: £70.6 million profit).

The company financial statements were approved and authorised for issue by the board of directors on 19 September 2024 and signed on its behalf by:

Michael N. Biggs
Chairman

Mike Morgan
Finance Director

Company Statement of Changes in Equity
For the year ended 31 July 2024

	Share capital £ million	Other equity instrument £ million	Profit and loss account £ million	Other reserves: Share-based payment reserve £ million	Total shareholders' and other equity owners' funds £ million
At 1 August 2022	38.0	—	633.9	(29.2)	642.7
Profit for the year	—	—	70.6	—	70.6
Other comprehensive expense	—	—	(4.1)	—	(4.1)
Total comprehensive income for the year	—	—	66.5	—	66.5
Dividends paid (Note 8)	—	—	(99.1)	—	(99.1)
Shares purchased	—	—	—	(5.0)	(5.0)
Shares released	—	—	—	5.6	5.6
Other movements	—	—	1.1	(3.4)	(2.3)
At 31 July 2023	**38.0**	**—**	**602.4**	**(32.0)**	**608.4**
Loss for the year	—	—	(24.1)	—	(24.1)
Other comprehensive expense	—	—	(0.1)	—	(0.1)
Total comprehensive loss for the year	—	—	(24.2)	—	(24.2)
Dividends paid (Note 8)	—	—	(67.1)	—	(67.1)
Shares purchased	—	—	—	(3.5)	(3.5)
Shares released	—	—	—	4.6	4.6
Other equity instrument issued (Note 20)	—	200.0	—	—	200.0
Coupon paid on other equity instrument (Note 20)	—	—	(11.1)	—	(11.1)
Other movements	—	—	2.0	(2.9)	(0.9)
At 31 July 2024	**38.0**	**200.0**	**502.0**	**(33.8)**	**706.2**

1. Material Accounting Policies

(a) Reporting entity

Close Brothers Group plc ("the company"), a public limited company by shares incorporated and domiciled in the UK (England), together with its subsidiaries (collectively, "the group"), operates through five (2023: five) operating segments: Commercial, Retail, Property, Asset Management and Securities, and is primarily located within the UK.

(b) Basis of preparation

The consolidated financial statements have been prepared in accordance with UK-adopted International Accounting Standards ("IAS").

The company financial statements 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.

Where relevant, the accounting policies of the company are the same as those of the group set out in this note except for (l) Leases. For the company, rental costs under operating leases are charged to the income statement in equal instalments over the period of the lease.

The consolidated and company financial statements have been prepared on a going concern basis and under the historical cost convention, except for financial assets and liabilities held at fair value through profit or loss and financial assets held at fair value through other comprehensive income. Further information on going concern can be found within the Strategic Report.

(c) Accounting developments

Standards adopted during the year
The accounting standards applied this financial year are consistent with those of the previous financial year, except IFRS 17 Insurance Contracts and minor amendments to IFRSs issued by the IASB, which were effective for the group from 1 August 2023. These changes have no or an immaterial impact on the group.

Future accounting developments
Minor amendments to IFRSs issued by the IASB are effective for the group from 1 August 2024. These changes are expected to have no or an immaterial impact on the group. IFRS 18 'Presentation and Disclosure in Financial Statements' is effective for the group from 1 August 2027 and its impact is currently under assessment.

(d) Consolidation and investment in subsidiary

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.

The company's investment in its subsidiary is valued at cost less any accumulated impairment losses.

(e) Foreign currency translation

For the company and those subsidiaries whose balance sheets are denominated in sterling, which is the company's functional and presentation currency, monetary assets and liabilities denominated in foreign currencies are translated into sterling at the closing rates of exchange at the balance sheet date. Foreign currency transactions are translated into sterling at the average rates of exchange at the date of the transaction 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.

1. Material Accounting Policies (continued)

(f) Revenue recognition

Interest income
Interest on loans and advances made by the group, and fee income and expense and other direct costs relating to loan origination, restructuring or commitments are recognised in the consolidated income statement using the effective interest rate method.

The effective interest rate method applies a rate that discounts estimated future cash payments or receipts over the expected life of a financial instrument to the gross carrying amount of a financial asset or to the amortised cost of a financial liability. 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. Interest income is recognised on a contractual basis where it is not possible to reliably estimate the cash flows or expected life of a financial instrument.

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 at a point in time, 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 and the performance obligation has been met. Fees and corresponding expenses in respect of other services are recognised in the consolidated income statement as the right to consideration or payment accrues over time when services are performed and obligations are met. 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.

(g) Adjusted measures

Adjusted measures are management measures presented on a basis consistent with prior periods and exclude adjusting items which do not reflect underlying trading performance and which may be recurring. Adjusted measures also exclude exceptional items.

Adjusting items this year comprise amortisation of intangible assets on acquisition, provision for Borrowers in Financial Difficulty review, restructuring costs, and complaints handling and other operational costs associated with the FCA's review of historical motor finance commission arrangements.

Amortisation of intangible assets on acquisition, which was also an adjusting item in the prior year, is excluded to present the performance of the group's acquired businesses consistent with its other businesses. The other adjusting items are new this year and do not reflect underlying trading performance.

Exceptional items are income and expense items that are material by size and/or nature and are non-recurring.

(h) Financial assets and liabilities (excluding derivatives)

Classification and measurement
Financial assets are classified at initial recognition on the basis of the business model within which they are managed and their contractual cash flow characteristics. The classification categories are amortised cost, fair value through other comprehensive income ("FVOCI") and fair value through profit or loss ("FVTPL").

Financial assets that are held to collect contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Initial recognition is at fair value plus directly attributable transaction costs. Interest income is accounted for using the effective interest rate method.

Financial assets that are held to collect contractual cash flows and for subsequent sale, where the assets' cash flows represent solely payments of principal and interest, are classified at FVOCI. 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 FVTPL where they do not meet the criteria to be measured at amortised cost or FVOCI or where they are designated at FVTPL to reduce an accounting mismatch. Financial assets at FVTPL 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 instruments which are classified at FVTPL: derivatives; financial liabilities held for trading; and financial liabilities designated at FVTPL 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 FVTPL 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 FVTPL; changes in fair value attributable to changes in credit risk are recognised in other comprehensive income.

The fair values of quoted financial assets or financial liabilities in active markets are based on bid or offer prices. If the market for a financial asset or financial liability is not active, or they relate to unlisted securities, the group establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, discounted cash flow analysis and other valuation techniques commonly used by market participants.

Derecognition
Financial assets are derecognised when the contractual rights to receive cash flows from the financial assets have expired or where the group has transferred the contractual rights to receive cash flows and transferred substantially all risks and rewards of ownership. If substantially all the risks and rewards have been neither retained nor transferred the assets continue to be recognised to the extent of the group's continuing involvement. Financial liabilities are derecognised when they are extinguished.

Modifications
The terms or cash flows of a financial asset or liability may be modified due to renegotiation or otherwise. If the terms or cash flows are substantially different to the original, then the financial asset or liability is derecognised and a new financial asset or liability is recognised at fair value. If the terms or cash flows are not substantially different to the original, then the financial asset or liability carrying value is adjusted to reflect the present value of modified cash flows discounted at the original EIR. The adjustment is recognised within income on the income statement.

(i) Impairment of financial assets

Expected credit losses
In accordance with IFRS 9, expected credit losses ("ECL") are recognised for loans and advances to customers and banks, other financial assets held at amortised cost, financial assets measured at FVOCI, loan commitments and financial guarantee contracts. The impairment charge in the income statement includes the change in expected credit losses.

At initial recognition, financial assets are considered to be in Stage 1 and a provision is recognised for 12 months of expected credit losses. If a significant increase in credit risk since initial recognition occurs, these financial assets are considered to be in Stage 2 and a provision is made for the lifetime expected credit losses. As a backstop, all financial assets 30 days past due are considered to have experienced a significant increase in credit risk and are transferred to Stage 2.

A financial asset will remain classified as Stage 2 until the credit risk has improved and it can be returned to Stage 1 or until it deteriorates such that it meets the criteria to move to Stage 3.

Where a financial asset no longer represents a significant increase in credit risk since origination it can move from Stage 2 back to Stage 1. As a minimum this means that all payments must be up-to-date, the quantitative probability of default assessment trigger is no longer met, and the account is not evidencing qualitative assessment triggers.

When objective evidence exists that a financial asset is credit impaired, such as the occurrence of a credit default event or identification of an unlikeliness to pay indicator, the financial asset is considered to be in Stage 3. As a backstop, all financial assets 90 days or more past due are considered to be credit impaired and transferred to Stage 3.

Cure definitions are 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.

In all circumstances, loans and advances to customers are written off against the related provisions when there are no reasonable expectations of further recovery. This is typically following realisation of all associated collateral and available recovery actions against the customer. Subsequent recoveries of amounts previously written off decrease the amount of impairment losses recorded in the income statement.

The calculation of expected credit losses for loans and advances to customers, either on a 12-month or lifetime basis, is based on the probability of default ("PD"), the exposure at default ("EAD") and the loss given default ("LGD"), and includes forward-looking macroeconomic information where appropriate. Further information on this calculation methodology can be found in the 'Use of estimates' section on pages 95 to 99 of the Risk Report.

The calculation of expected credit losses for some loan portfolios and receivables relating to operating lease assets is based on a simplified lifetime only expected credit loss approach. Under the simplified approach, stage classification represents management's internal assessment of credit risk.

Expected credit losses are assessed against actual loss experience via a series of provision adequacy reviews. These reviews also incorporate management judgement to ensure that our ECL coverage ratios remain appropriate.

(j) Settlement accounts

Settlement balance debtors and creditors are the amounts due to and from counterparties in respect of the group's market-making activities and are measured at fair value on initial recognition and carried at amortised cost. The balances are short term in nature, do not earn interest and are recorded at the amount receivable or payable.

(k) Loans to and from money brokers against stock advanced

Loans to money brokers against stock advanced is the cash collateral provided to these institutions for stock borrowing by the group's market-making activities and is measured at fair value on initial recognition and carried at amortised cost. Interest is paid on the stock borrowed and earned on the cash deposits advanced. The stock borrowing to which the cash deposits relate is short term in nature and is recorded at the amount receivable. Loans from money brokers against stock collateral provided are recorded at the amount payable. Interest is paid on the loans.

(l) Leases

Lessor
A finance lease is a lease or hire purchase contract that transfers substantially all the risks and rewards incidental to ownership of an asset to the lessee. Finance leases are recognised as loans at an amount equal to the gross investment in the lease, which comprises the lease payments receivable and any unguaranteed residual value, discounted at its implicit interest rate. Finance charges on finance leases are taken to income in proportion to the net funds invested.

1. Material Accounting Policies (continued)

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.

As set out in Note 1(b), the company has a different accounting policy for leases under FRS 102. Rental costs under operating leases are charged to the income statement in equal instalments over the period of the lease.

(m) Sale and repurchase agreements and other secured lending and borrowings

Securities may be sold subject to a commitment to repurchase them. Such securities are retained on the consolidated balance sheet when substantially all the risks and rewards of ownership remain with the group. The transactions are treated as collateralised borrowing and the counterparty liability is included within loans and overdrafts from banks. Similar secured borrowing transactions, including securities lending transactions and collateralised short-term notes, are treated and presented in the same way. These secured financing transactions are initially recognised at fair value, and subsequently valued at amortised cost, using the effective interest rate method.

(n) Securitisation transactions

The group securitises its own financial assets via the sale of these assets to special purpose entities, which in turn issue securities to investors. All financial assets continue to be held on the group's consolidated balance sheet together with debt securities in issue recognised for the funding.

The group has a forward flow arrangement with a third party. In this arrangement, financial assets are originated and recognised on the balance sheet and simultaneously derecognised on sale of the assets.

See Note 1(h) for the derecognition accounting policy.

(o) Offsetting financial instruments

Financial assets and financial liabilities are offset and the net amount presented on the consolidated balance sheet if, and only if, there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or to realise an asset and settle the liability simultaneously.

(p) Derivatives and hedge accounting

On adoption of IFRS 9 Financial Instruments in 2018, the group elected to continue applying hedge accounting under IAS 39 Financial Instruments: Recognition and Measurement.

In general, derivatives are used to minimise the impact of interest, currency rate and equity price changes to the group's financial instruments. They are carried on the consolidated balance sheet at fair value which is obtained from quoted market prices in active markets, including recent market transactions and discounted cash flow models.

On acquisition, certain derivatives are designated as a hedge and the group formally documents the relationship between these derivatives and the hedged item. The group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivative is highly effective in offsetting changes in fair values or cash flows of hedged items. If a hedge was deemed partially ineffective but continues to qualify for hedge accounting, the amount of the ineffectiveness, taking into account the timing of the expected cash flows where relevant, would be recorded in the consolidated income statement. If the hedge is not, or has ceased to be highly effective, the group discontinues hedge accounting.

For fair value hedges, changes in the fair value are recognised in the consolidated income statement, together with changes in the fair value of the hedged item. For cash flow hedges, the fair value gain or loss associated with the effective proportion of the cash flow hedge is recognised initially directly in equity and recycled to the consolidated income statement in the period when the hedged item affects income.

(q) Intangible assets

Computer software (acquired and costs associated with development) and intangible assets on acquisition (excluding goodwill) are stated at cost less accumulated amortisation and provisions for impairment which are reviewed at least annually. Amortisation is calculated to write off their cost on a straight-line basis over the estimated useful lives as follows:

Computer software	3 to 10 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.

The estimated useful lives of computer software have been updated from a range of 3 to 5 years to a range of 3 to 10 years reflecting the longer useful lives of new core software platforms.

(r) Property, plant and equipment

Property, plant and equipment is stated at cost less accumulated depreciation and provisions for impairment which are reviewed at least annually. Depreciation is calculated to write off their cost on a straight-line basis over their estimated useful lives as follows:

Long leasehold property	40 years
Short leasehold property	Over the length of the lease
Fixtures, fittings and equipment	3 to 5 years
Assets held under operating leases	1 to 20 years
Motor vehicles	1 to 5 years

(s) Share capital and other equity

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.

Other equity
Financial instruments are classified as equity when there is no contractual obligation to deliver cash, another financial asset, or a variable number of the group's own equity instruments to another entity. The instrument is measured at cost less transaction costs and distributions are recognised as a deduction from retained earnings when they become irrevocable.

(t) Employee benefits

The group operates defined contribution pension schemes for eligible employees as well as a defined benefit pension scheme which is closed to new members and further accrual.

Under the defined contribution scheme the group pays fixed contributions into a fund separate from the group's assets. Contributions are charged in the consolidated income statement when they become payable.

The expected cost of providing pensions within the funded defined benefit scheme, determined on the basis of annual valuations using the projected unit method, is charged to the consolidated income statement. Actuarial gains and losses are recognised in full in the period in which they occur and recognised in other comprehensive income.

The retirement benefit obligation recognised in the balance sheet represents the present value of the defined benefit obligation, as adjusted for unrecognised past service cost, and as reduced by the fair value of scheme assets at the balance sheet date. Both the return on investment expected in the period and the expected financing cost of the liability, as estimated at the beginning of the period, are recognised in the results for the period. Any variances against these estimates in the year form part of the actuarial gain or loss. The assets of the scheme are held separately from those of the group in an independently managed fund.

The scheme entered into a buy-in transaction with an insurance company covering all members of the scheme. A buy-in is a bulk annuity policy that matches the scheme's assets and liabilities. The pension surplus on the group's balance sheet relates to the cash held by the scheme with the fair value of the insurance policy matched to the fair value of the scheme's liabilities, which remains subject to changes in actuarial valuations.

(u) Share-based payments to employees

The group operates three (2023: three) share-based award schemes: the Deferred Share Awards ("DSA") scheme, the Long Term Incentive Plan ("LTIP"), 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 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 24 and in the Directors' Remuneration Report.

(v) Provisions and contingent liabilities

Provisions are recognised in respect of present obligations arising from past events where it is probable that outflows of resources will be required to settle the obligations and they can be reliably estimated.

Contingent liabilities are possible obligations whose existence depends on the outcome of uncertain future events or those present obligations where the outflows of resources are uncertain or cannot be measured reliably. Contingent liabilities are not recognised in the financial statements but are disclosed unless they are deemed remote.

(w) Taxes, including deferred taxes

Current tax is the expected tax payable on the taxable profit for the year. Taxable profit differs from net profit as reported in the consolidated income statement because it excludes items of income and expense that are taxable or deductible in other years and items that are never taxable or deductible. The group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

1. Material Accounting Policies (continued)

To enable the tax charge to be based on the profit for the year, deferred tax is provided in full on temporary timing differences, at the rates of tax expected to apply when these differences crystallise. Deferred tax assets are recognised only to the extent that it is probable that sufficient taxable profits will be available against which temporary differences can be set. Deferred tax liabilities are offset against deferred tax assets when there is both a legal right to set off and an intention to settle on a net basis.

(x) Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprises cash and demand deposits with banks, together with short-term highly liquid investments that are readily convertible to known amounts of cash.

(y) Segmental reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the Executive Committee, which is considered the group's chief operating decision maker. All transactions between business segments are conducted on an arm's length basis, with intra-segment revenue and costs being eliminated on consolidation. Income and expenses directly associated with each segment are included in determining business segment performance.

2. Critical Accounting Judgements and Estimates

The reported results of the group are sensitive to the judgements, estimates and assumptions that underlie the application of its accounting policies and preparation of its financial statements. UK company law and IFRS require the directors, in preparing the group's financial statements, to select suitable accounting policies, apply them consistently and make judgements, estimates and assumptions that are reasonable.

The group's estimates and assumptions are based on historical experience and reasonable expectations of future events and are reviewed on an ongoing basis. Actual results in the future may differ from the amounts estimated due to the inherent uncertainty.

The group's critical accounting judgements, made in applying its accounting policies as described in Note 1, and the key sources of estimation uncertainty that may have a significant risk of causing a material adjustment within the next financial year are set out below. There are no critical accounting judgements or key sources of estimation uncertainty relating to the company.

The impact of climate change on the group's judgements, estimates and assumptions has been considered in preparing these financial statements. While no material impact has been identified, climate risk continues to be monitored on an ongoing basis as set out in more detail on page 80 in the Risk Report.

Critical accounting judgements

The critical accounting judgements of the group, which relate to expected credit loss provisions calculated under IFRS 9 and Motor Finance commission arrangements, are as follows:

- Establishing the criteria for a significant increase in credit risk;
- Determining the appropriate definition of default; and
- Determining whether the criteria for the recognition of a provision under IAS 37 'Provisions, Contingent Liabilities and Contingent Assets' have been met in relation to Motor Finance commission arrangements.
- Determining the impact of the FCA's motor commissions review and the group's strategic and capital actions response on the group's goodwill impairment assessment.

Further information on the first two accounting judgements can be found in the 'Use of judgements' section on pages 94 to 95 in the Risk Report, while further information on the third and fourth judgements can be found in Note 21 and Note 14 respectively.

Key sources of estimation uncertainty

The key sources of estimation uncertainty of the group relate to expected credit loss provisions and goodwill and are as follows:

- Two key model estimates, being time to recover periods and recovery rates, underpinning the expected credit loss provision of Novitas. These were also key estimates in the prior year;
- Forward-looking macroeconomic information incorporated into expected credit loss models. This was also a key estimate in the prior year;
- Adjustments by management to model calculated expected credit losses due to limitations in the group's expected credit loss models or input data, which may be identified through ongoing model monitoring and validation of models. This was also a key estimate in the prior year; and
- Estimate of future cash flow forecasts in the calculation of value in use for the testing of goodwill for impairment in relation to the Winterflood Securities and Banking division, in particular Motor Finance, cash generating units due to more challenging trading conditions expected for both. This was a key estimate for Winterflood Securities in the prior year and new for Motor Finance this year.

Additional disclosures on the estimation uncertainty relating to forward-looking macroeconomic information, model adjustments and goodwill can be found in the 'Use of estimates' section on pages 95 to 99, 'Use of Adjustments' section on page 100, both in the Risk Report, and Note 14 'Intangibles Assets' on pages 221 to 223 respectively.

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 (2023: 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 set out 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 year ended 31 July 2024							
Net interest income/(expense)	**228.8**	**234.4**	**129.0**	**11.0**	**(0.4)**	**(11.5)**	**591.3**
Non-interest income	**100.8**	**28.0**	**3.9**	**146.8**	**73.4**	**—**	**352.9**
Operating income/(expense)	**329.6**	**262.4**	**132.9**	**157.8**	**73.0**	**(11.5)**	**944.2**
Administrative expenses	**(182.3)**	**(156.6)**	**(30.0)**	**(139.5)**	**(68.9)**	**(31.6)**	**(608.9)**
Depreciation and amortisation	**(26.1)**	**(20.7)**	**(4.9)**	**(6.1)**	**(5.9)**	**(2.2)**	**(65.9)**
Impairment losses on financial assets	**(31.7)**	**(47.2)**	**(20.0)**	**—**	**0.1**	**—**	**(98.8)**
Total operating expenses before adjusting items	**(240.1)**	**(224.5)**	**(54.9)**	**(145.6)**	**(74.7)**	**(33.8)**	**(773.6)**
Adjusted operating profit/(loss)[1]	**89.5**	**37.9**	**78.0**	**12.2**	**(1.7)**	**(45.3)**	**170.6**
Amortisation of intangible assets on acquisition	**—**	**(0.2)**	**—**	**(1.2)**	**—**	**—**	**(1.4)**
Provision in relation to the BiFD review	**(0.6)**	**(16.6)**	**—**	**—**	**—**	**—**	**(17.2)**
Restructuring costs	**(2.2)**	**(0.6)**	**(0.3)**	**—**	**—**	**—**	**(3.1)**
Complaints handling and other operational costs associated with the FCA's review of historical motor finance commission arrangements	**—**	**(6.9)**	**—**	**—**	**—**	**—**	**(6.9)**
Operating profit/(loss) before tax	**86.7**	**13.6**	**77.7**	**11.0**	**(1.7)**	**(45.3)**	**142.0**
External operating income/(expense)	**517.0**	**376.7**	**224.7**	**156.9**	**73.0**	**(404.1)**	**944.2**
Inter segment operating (expense)/ income	**(187.4)**	**(114.3)**	**(91.8)**	**0.9**	**—**	**392.6**	**—**
Segment operating income/(expense)	**329.6**	**262.4**	**132.9**	**157.8**	**73.0**	**(11.5)**	**944.2**

1. Adjusted operating profit/(loss) is stated before the following adjusting items and the associated tax effect: amortisation of intangible assets on acquisition, provision in relation to the BiFD review, restructuring costs and complaints handling and other operational costs associated with the FCA's review of historical motor finance commission arrangements. The adjusting items are presented within administrative expenses on a statutory basis. The accounting policy for adjusted measures is set out in Note 1(g) while more information on the adjusting items can be found in Notes 14, 16 and 21.

The Commercial operating segment above includes Novitas, which ceased lending to new customers in July 2021 following a strategic review. Novitas recorded an operating loss of £0.1 million (2023: loss of £84.2 million), driven by impairment losses of £6.4 million (2023: £116.8 million).

Novitas' income was £11.0 million (2023: £18.9 million) and expenses were £4.8 million (2023: £8.7 million). In line with IFRS 9's requirement to recognise interest income on Stage 3 loans on a net basis, income includes the partial unwinding over time of the expected credit loss recognised in the year following the transfer of the majority of loans to Stage 3. Further information on Novitas can be found in the Credit Risk section of the Risk Report.

As set out in Note 29 "Post Balance Sheet Event", the group announced it entered into an agreement to sell CBAM, one of the group's operating segments and whose financial results are presented within this note, to Oaktree on 19 September 2024 following a comprehensive strategic review.

3. Segmental Analysis (continued)

	Banking						
	Commercial	Retail	Property	Asset Management	Securities	Group[2]	Total
	£ million	£ million	£ million	£ million	£ million	£ million	£ million
Summary balance sheet information at 31 July 2024							
Total assets[1]	**5,101.6**	**3,041.9**	**1,955.2**	**192.0**	**825.0**	**2,965.1**	**14,080.8**
Total liabilities	**—**	**—**	**—**	**70.2**	**734.6**	**11,433.5**	**12,238.3**

1. Total assets for the Banking operating segments comprise the loan book and operating lease assets only. The Commercial operating segment includes the net loan book of Novitas of £62.4 million.
2. Balance sheet includes £2,970.1 million assets and £11,358.1 million liabilities attributable to the Banking division primarily comprising the treasury balances described in the second paragraph of this note.

Equity is allocated across the group as set out below. Banking division equity, which is managed as a whole rather than on a segmental basis, reflects loan book and operating lease assets of £10,098.7 million, in addition to assets and liabilities of £2,970.1 million and £11,358.1 million respectively primarily comprising treasury balances which are included within the Group column above.

	Banking	Asset Management	Securities	Group	Total
	£ million	£ million	£ million	£ million	£ million
Equity	**1,710.7**	**121.8**	**90.4**	**(80.4)**	**1,842.5**

	Banking						
	Commercial	Retail	Property	Asset Management	Securities	Group	Total
Other segment information for the year ended 31 July 2024							
Employees (average number)[1]	**1,461**	**1,195**	**199**	**872**	**311**	**87**	**4,125**

1. Banking segments include a central function headcount allocation. The company's average number of employees is equivalent to the Group number.

	Banking						
	Commercial	Retail	Property	Asset Management	Securities	Group	Total
	£ million	£ million	£ million	£ million	£ million	£ million	£ million
Summary income statement for year ended 31 July 2023							
Net interest income/(expense)	251.2	218.4	117.1	6.7	0.5	(1.3)	592.6
Non-interest income	96.6	29.7	0.8	138.1	74.8	—	340.0
Operating income/(expense)	347.8	248.1	117.9	144.8	75.3	(1.3)	932.6
Administrative expenses	(171.5)	(142.8)	(26.5)	(123.3)	(67.5)	(22.2)	(553.8)
Depreciation and amortisation	(22.9)	(21.6)	(4.4)	(5.5)	(4.3)	(2.5)	(61.2)
Impairment losses on financial assets	(137.5)	(49.0)	(17.5)	(0.1)	—	—	(204.1)
Total operating expenses before amortisation of intangible assets on acquisition	(331.9)	(213.4)	(48.4)	(128.9)	(71.8)	(24.7)	(819.1)
Adjusted operating profit/(loss)[1]	15.9	34.7	69.5	15.9	3.5	(26.0)	113.5
Amortisation of intangible assets on acquisition	—	—	—	(1.5)	—	—	(1.5)
Operating profit/(loss) before tax	15.9	34.7	69.5	14.4	3.5	(26.0)	112.0
External operating income/(expense)	451.1	308.6	170.3	144.2	75.3	(216.9)	932.6
Inter segment operating (expense)/income	(103.3)	(60.5)	(52.4)	0.6	—	215.6	—
Segment operating income/(expense)	347.8	248.1	117.9	144.8	75.3	(1.3)	932.6

1. Adjusted operating profit/(loss) is stated before amortisation of intangible assets on acquisition and tax.

	Banking						
	Commercial £ million	Retail £ million	Property £ million	Asset Management £ million	Securities £ million	Group[2] £ million	Total £ million
Summary balance sheet information at 31 July 2023							
Total assets[1]	4,821.3	3,001.8	1,703.1	177.9	870.5	2,975.7	13,550.3
Total liabilities	—	—	—	64.1	778.1	11,063.2	11,905.4

1. Total assets for the Banking operating segments comprise the loan book and operating lease assets only. The Commercial operating segment includes the net loan book of Novitas of £59.9 million.
2. Balance sheet includes £2,977.4 million assets and £11,151.9 million liabilities attributable to the Banking division primarily comprising the treasury balances described in the second paragraph of this note.

Equity is allocated across the group as set out below. Banking division equity, which is managed as a whole rather than on a segmental basis, reflects loan book and operating lease assets of £9,526.2 million, in addition to assets and liabilities of £2,977.4 million and £11,151.9 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	1,351.7	113.8	92.4	87.0	1,644.9

	Banking						
	Commercial	Retail	Property	Asset Management	Securities	Group	Total
Other segmental information for the year ended 31 July 2023							
Employees (average number)[1]	1,450	1,194	201	814	320	81	4,060

1. Banking segments include a central function headcount allocation. The company's average number of employees is equivalent to the Group number.

4. Operating Profit before Tax

	2024 £ million	2023 £ million
Interest income[1]		
Cash and balances at central banks	**98.5**	64.5
Loans and advances to banks	**8.6**	4.2
Loans and advances to customers	**1,006.8**	807.4
Other interest income	**42.9**	21.4
	1,156.8	897.5
Interest expense		
Deposits from banks	**(5.8)**	(3.2)
Deposits by customers	**(387.2)**	(203.6)
Borrowings	**(116.9)**	(90.2)
Other interest expense[2]	**(55.6)**	(7.9)
	(565.5)	(304.9)
Net interest income	**591.3**	592.6

1. Interest income calculated using the effective interest method.
2. Other interest expense includes interest expense of £26.7 million relating to derivative assets and liabilities (2023: £8.3 million interest income).

4. Operating Profit before Tax (continued)

	2024 £ million	2023 £ million
Fee and commission income		
Banking	**104.2**	110.6
Asset Management	**148.1**	138.7
Securities	**18.9**	13.6
	271.2	262.9
Fee and commission expense	**(22.8)**	(17.9)
Net fee and commission income	**248.4**	245.0

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 £104.2 million (2023: £110.6 million) and £19.8 million (2023: £15.1 million) respectively. Fee income and expense arising from trust and other fiduciary activities amounted to £148.0 million (2023: £138.7 million) and £1.8 million (2023: £1.6 million) respectively.

	2024 £ million	2023 £ million
Other income		
Operating lease assets rental income	**92.3**	91.1
Other[1]	**40.4**	23.1
	132.7	114.2

1. Includes income from the amortisation of de-designated cash flow and fair value hedges totalling £27.9 million and services provided in relation to operating lease assets. In the prior year, the income from de-designated hedges was £34.0 million, partly offset by an associated realised loss of £31.9 million on the sale of sovereign debt.

	2024 £ million	2023 £ million
Administrative expenses		
Staff costs:		
Wages and salaries	**315.8**	288.0
Social security costs	**40.5**	38.1
Share-based awards	**4.7**	2.0
Pension costs	**21.4**	18.9
	382.4	347.0
Depreciation and amortisation	**67.3**	62.7
Other administrative expenses	**253.7**	206.8
	703.4	616.5

Staff costs of the company total £16.9 million (2023: £12.5 million) comprising largely of wages and salaries of £12.9 million (2023: £11.4 million).

5. Information Regarding the Auditors

	2024[1] £ million	2023[1] £ million
Fees payable		
Audit of the company's annual accounts	**1.0**	0.9
Audit of the company's subsidiaries pursuant to legislation	**4.0**	3.0
Audit related services	**0.7**	0.6
Other services	**0.7**	0.2
	6.4	4.7

1. During the year, an additional audit fee of £0.3 million (2023: £0.2 million) was paid to the auditors in relation to scope changes in the prior year audit, which is not included above.

The auditors of the group were PricewaterhouseCoopers LLP (2023: PricewaterhouseCoopers LLP).

6. Taxation

	2024 £ million	2023 £ million
Tax charged/(credited) to the income statement		
Current tax:		
UK corporation tax	**40.3**	18.1
Foreign tax	**0.9**	2.3
Adjustments in respect of previous years	**(5.3)**	(8.2)
	35.9	12.2
Deferred tax:		
Deferred tax (credit)/charge for the current year	**(0.6)**	11.4
Adjustments in respect of previous years	**6.3**	7.3
	41.6	30.9
Tax on items not (credited)/charged to the income statement		
Current tax relating to:		
Share-based payments	**—**	(0.2)
Acquisitions	**(0.4)**	—
Deferred tax relating to:		
Cash flow hedging	**(8.4)**	4.9
Defined benefit pension scheme	**—**	(1.6)
Financial instruments classified as fair value through other comprehensive income	**(1.0)**	(1.1)
Share-based payments	**—**	0.3
Currency translation (losses)/gains	**(0.4)**	0.5
Acquisitions	**0.6**	—
	(9.6)	2.8
Reconciliation to tax expense		
UK corporation tax for the year at 25.0% (2023: 21.0%) on operating profit before tax	**35.5**	23.5
Effect of different tax rates in other jurisdictions	**—**	(0.3)
Disallowable items and other permanent differences	**5.1**	1.6
Banking surcharge	**—**	6.2
Deferred tax impact of decreased tax rates	**—**	0.8
Prior year tax provision	**1.0**	(0.9)
	41.6	30.9

The standard UK corporation tax rate for the financial year is 25.0% (2023: 21.0%). An additional 3.0% (2023: 6.3%) surcharge applies to banking company profits as defined in legislation, but only above a threshold amount which is not materially exceeded by the current year banking company profits. The effective tax rate of 29.3% (2023: 27.6%) is above the UK corporation tax rate primarily due to disallowable expenditure.

The UK government has implemented the Pillar Two global minimum tax rate of 15% and a UK domestic minimum top-up tax with effect from the group's financial year commencing 1 August 2024. The jurisdictions in relation to which Pillar Two tax liabilities are expected to potentially arise for the group are the Republic of Ireland, Jersey and Guernsey, however the impact is expected to be immaterial. The group has adopted the IAS 12 exemption from recognition and disclosure regarding the impact on deferred tax assets and liabilities arising from this legislation. The company has adopted the same exemption under FRS 102.

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 2022	25.5	(1.9)	12.9	5.8	(8.5)	(1.3)	—	32.5
(Charge)/credit to the income statement	(12.1)	—	(3.9)	0.1	—	0.4	(3.2)	(18.7)
(Charge)/credit to other comprehensive income	(0.5)	1.6	—	—	(4.9)	—	1.1	(2.7)
Charge to equity	—	—	(0.3)	—	—	—	—	(0.3)
Acquisitions	—	—	—	—	—	—	—	—
At 31 July 2023	12.9	(0.3)	8.7	5.9	(13.4)	(0.9)	(2.1)	10.8
(Charge)/credit to the income statement	(8.2)	0.1	(1.5)	0.1	—	0.3	3.5	(5.7)
Credit to other comprehensive income	0.4	—	—	—	8.4	—	1.0	9.8
Charge to equity	—	—	—	—	—	—	—	—
Acquisitions	—	—	—	—	—	(1.5)	0.9	(0.6)
At 31 July 2024	**5.1**	**(0.2)**	**7.2**	**6.0**	**(5.0)**	**(2.1)**	**3.3**	**14.3**

The group's deferred tax asset comprises £4.8 million (31 July 2023: £0.7 million) due within one year and £9.5 million (31 July 2023: £10.1 million) due after more than one year.

	Capital allowances £ million	Pension scheme £ million	Share-based payments and deferred compensation £ million	Total £ million
Company				
At 1 August 2022	(0.3)	(1.9)	2.0	(0.2)
Credit to the income statement	(0.1)	—	(0.9)	(1.0)
Credit to other comprehensive income	—	1.6	—	1.6
At 31 July 2023	(0.4)	(0.3)	1.1	0.4
Charge to the income statement	0.2	0.1	(0.5)	(0.2)
Credit to other comprehensive income	—	—	—	—
At 31 July 2024	**(0.2)**	**(0.2)**	**0.6**	**0.2**

The company's deferred tax asset comprises £0.2 million (31 July 2023: £0.2 million) due within one year and £nil (31 July 2023: £0.2 million liabilities) due after more than one year.

As the group has been and is expected to continue to be consistently profitable, the full deferred tax assets have been recognised.

7. 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.

	2024	2023
Basic	**59.7p**	54.3p
Diluted	**59.5p**	54.2p
Adjusted basic[1]	**76.1p**	55.1p
Adjusted diluted[1]	**75.9p**	55.0p

1. Excludes the following adjusting items and the associated tax effect where appropriate: amortisation of intangible assets on acquisition, provision in relation to the BiFD review, restructuring costs and complaints handling and other operational costs associated with the FCA's review of historical motor finance commission arrangements.

	2024 £ million	2023 £ million
Profit attributable to shareholders' equity	**89.3**	81.1
Adjustments:		
Amortisation of intangible assets on acquisition	**1.4**	1.5
Provision in relation to the BiFD review	**17.2**	—
Restructuring costs	**3.1**	—
Complaints handling and other operational costs associated with the FCA's review of historical motor finance commission arrangements	**6.9**	—
Tax effect of adjustments	**(4.0)**	(0.3)
Adjusted profit attributable to shareholders' equity	**113.9**	82.3

	2024 million	2023 million
Average number of shares		
Basic weighted	**149.7**	149.4
Effect of dilutive share options and awards	**0.3**	0.2
Diluted weighted	**150.0**	149.6

8. Dividends

	2024 £ million	2023 £ million
For each ordinary share		
Final dividend for previous financial year paid in November 2023: 45.0p (November 2022: 44.0p)	**67.1**	65.6
Interim dividend for current financial year paid in April 2024: nil (April 2023: 22.5p)	**—**	33.5
	67.1	99.1

As disclosed on 15 February 2024 in a trading update and dividend announcement, the group will not pay any dividends on its ordinary shares for the financial year ended 31 July 2024.

9. 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 2024	**269.2**	**0.1**	**4.3**	**16.4**	**3.7**	**293.7**
At 31 July 2023	290.9	21.6	2.0	3.0	12.8	330.3

10. Loans and Advances to Customers

(a) Maturity and classification analysis of loans and advances to customers

The following tables set out the maturity and IFRS 9 classification analysis of loans and advances to customers. At 31 July 2024 loans and advances to customers with a maturity of two years or less was £7,733.6 million (31 July 2023: £7,158.8 million) representing 75.3% (31 July 2023: 74.3%) of total gross 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 2024	**88.5**	**2,888.2**	**2,654.9**	**2,102.0**	**2,399.1**	**143.9**	**10,276.6**	**(445.8)**	**9,830.8**
At 31 July 2023	76.5	2,597.8	2,636.5	1,848.0	2,337.2	139.6	9,635.6	(380.6)	9,255.0

	31 July 2024 £ million	31 July 2023 £ million
Gross loans and advances to customers		
Held at amortised cost	**10,264.8**	9,635.6
Held at fair value through profit or loss	**11.8**	—
	10,276.6	9,635.6

(b) Loans and advances to customers held at amortised cost and impairment provisions by stage

Gross loans and advances to customers held at amortised cost 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 2024						
Gross loans and advances to customers held at amortised cost						
Commercial	**3,877.8**	**801.5**	**33.1**	**834.6**	**400.2**	**5,112.6**
Of which: Commercial excluding Novitas	3,877.8	800.5	33.1	833.6	118.1	4,829.5
Of which: Novitas	—	1.0	—	1.0	282.1	283.1
Retail	**2,815.7**	**221.2**	**9.9**	**231.1**	**90.0**	**3,136.8**
Property	**1,717.0**	**9.8**	**53.3**	**63.1**	**235.3**	**2,015.4**
	8,410.5	**1,032.5**	**96.3**	**1,128.8**	**725.5**	**10,264.8**
Impairment provisions						
Commercial	**20.9**	**9.6**	**4.2**	**13.8**	**256.0**	**290.7**
Of which: Commercial excluding Novitas	20.9	8.6	4.2	12.8	36.3	70.0
Of which: Novitas	—	1.0	—	1.0	219.7	220.7
Retail	**27.7**	**14.8**	**2.2**	**17.0**	**50.2**	**94.9**
Property	**3.6**	**0.2**	**0.3**	**0.5**	**56.1**	**60.2**
	52.2	**24.6**	**6.7**	**31.3**	**362.3**	**445.8**
Provision coverage ratio						
Commercial	**0.5%**	**1.2%**	**12.7%**	**1.7%**	**64.0%**	**5.7%**
Within which: Commercial excluding Novitas	0.5%	1.1%	12.7%	1.5%	30.7%	1.4%
Within which: Novitas	—	100.0%	—	100.0%	77.9%	78.0%
Retail	**1.0%**	**6.7%**	**22.2%**	**7.4%**	**55.8%**	**3.0%**
Property	**0.2%**	**2.0%**	**0.6%**	**0.8%**	**23.8%**	**3.0%**
	0.6%	**2.4%**	**7.0%**	**2.8%**	**49.9%**	**4.3%**

	Stage 1	Stage 2			Stage 3	Total
		Less than 30 days past due	Greater than or equal to 30 days past due	Total		
	£ million	£ million	£ million	£ million	£ million	£ million
At 31 July 2023						
Gross loans and advances to customers held at amortised cost						
Commercial	3,686.1	750.9	23.2	774.1	339.4	4,799.6
Of which: Commercial excluding Novitas	3,685.1	749.6	23.2	772.8	97.7	4,555.6
Of which: Novitas	1.0	1.3	—	1.3	241.7	244.0
Retail	2,839.1	159.1	18.4	177.5	74.6	3,091.2
Property	1,465.0	85.7	24.7	110.4	169.4	1,744.8
	7,990.2	995.7	66.3	1,062.0	583.4	9,635.6
Impairment provisions						
Commercial	25.1	13.9	2.4	16.3	208.1	249.5
Of which: Commercial excluding Novitas	24.9	13.6	2.4	16.0	24.5	65.4
Of which: Novitas	0.2	0.3	—	0.3	183.6	184.1
Retail	27.9	11.6	2.6	14.2	47.3	89.4
Property	5.1	1.4	0.3	1.7	34.9	41.7
	58.1	26.9	5.3	32.2	290.3	380.6
Provision coverage ratio						
Commercial	0.7%	1.9%	10.3%	2.1%	61.3%	5.2%
Within which: Commercial excluding Novitas	0.7%	1.8%	10.3%	2.1%	25.1%	1.4%
Within which: Novitas	20.0%	23.1%	—	23.1%	76.0%	75.5%
Retail	1.0%	7.3%	14.1%	8.0%	63.4%	2.9%
Property	0.3%	1.6%	1.2%	1.5%	20.6%	2.4%
	0.7%	2.7%	8.0%	3.0%	49.8%	3.9%

Stage allocation of loans and advances to customers has been applied in line with the definitions set out on page 201 in Note 1 ‘Material Accounting Policies’.

Additional disclosures on the stage allocation and movements of loans and advances to customers can be found on page 94 in the Risk Report.

(c) Adjustments

By their nature, limitations in the group’s expected credit loss models or input data may be identified through ongoing model monitoring and validation of models. In certain circumstances, management make appropriate adjustments to model-calculated expected credit losses. Adjustments have been identified as a key source of estimation uncertainty as set out in Note 2 ‘Critical Accounting Judgements and Estimates’.

10. Loans and Advances to Customers (continued)

(d) Reconciliation of loans and advances to customers held at amortised cost and impairment provisions

Reconciliation of gross loans and advances to customers and associated impairment provisions are set out below.

New financial assets originate in Stage 1 only, and the amount presented represents the value at origination.

Subsequently, a loan may transfer between stages, and the presentation of such transfers is based on a comparison of the loan at the beginning of the year (or at origination if this occurred during the year) and the end of the year (or just prior to final repayment or write off).

Repayments relating to loans which transferred between stages during the year are presented within the transfers between stages lines. Such transfers do not represent overnight reclassification from one stage to another. All other repayments are presented in a separate line.

ECL model methodologies may be updated or enhanced from time to time and the impacts of such changes are presented on a separate line. During the year, a number of enhancements were made to the models in the Premium business. The enhancements were made to address known model limitations and to ensure modelled provisions better reflect future loss emergence.

Enhancements to our model suite 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 held at amortised cost				
At 1 August 2023	**7,990.2**	**1,062.0**	**583.4**	**9,635.6**
New financial assets originated	**6,695.5**	**—**	**—**	**6,695.5**
Transfers to Stage 1	**138.2**	**(205.2)**	**(7.6)**	**(74.6)**
Transfers to Stage 2	**(1,165.5)**	**904.8**	**(8.4)**	**(269.1)**
Transfers to Stage 3	**(310.2)**	**(130.8)**	**329.1**	**(111.9)**
Net transfer between stages and repayments[1]	**(1,337.5)**	**568.8**	**313.1**	**(455.6)**
Repayments while stage remained unchanged and final repayments	**(4,936.3)**	**(501.2)**	**(114.4)**	**(5,551.9)**
Changes to model methodologies	**—**	**—**	**—**	**—**
Write offs	**(1.4)**	**(0.8)**	**(56.6)**	**(58.8)**
At 31 July 2024	**8,410.5**	**1,128.8**	**725.5**	**10,264.8**

1. Repayments relate only to financial assets which transferred between stages during the year. Other repayments are shown in the line below.

	Stage 1 £ million	Stage 2 £ million	Stage 3[1] £ million	Total £ million
Gross loans and advances to customers held at amortised cost				
At 1 August 2022	7,627.0	1,158.9	358.6	9,144.5
New financial assets originated	6,604.0	—	—	6,604.0
Transfers to Stage 1	276.2	(373.2)	(6.8)	(103.8)
Transfers to Stage 2	(1,068.6)	878.6	(16.1)	(206.1)
Transfers to Stage 3	(303.6)	(194.4)	421.5	(76.5)
Net transfer between stages and repayments[2]	(1,096.0)	311.0	398.6	(386.4)
Repayments while stage remained unchanged and final repayments	(5,118.8)	(403.5)	(100.4)	(5,622.7)
Changes to model methodologies	(25.6)	(4.0)	29.6	—
Write offs	(0.4)	(0.4)	(103.0)	(103.8)
At 31 July 2023	7,990.2	1,062.0	583.4	9,635.6

1. A significant proportion of the Stage 3 movements is driven by Novitas with £174.4 million of transfers to Stage 3 and £37.4 million of write-offs. In addition, £49.2 million of Novitas movements are included within ‘Repayments while stage remained unchanged and final repayments’, comprising largely of accrued interest. The accrued interest is partly offset by ECL increases included within the adjacent ECL reconciliation, in line with IFRS 9’s requirement to recognise interest income on Stage 3 loans on a net basis. Further information on Novitas can be found in the Credit Risk section of the Risk Report.
2. 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 £283.1 million (2023: £152.3 million). No gain or loss (2023: £nil) was recognised as a result of these modifications. The gross carrying amount at 31 July 2024 of modified loans and advances to customers which transferred from Stage 2 or 3 to Stage 1 during the year was £38.7 million (31 July 2023: £14.8 million). The definition and accounting policy for modifications are set out in Note 1(i).

	Stage 1 £ million	Stage 2 £ million	Stage 3 £ million	Total £ million
Impairment provisions on loans and advances to customers held at amortised cost				
At 1 August 2023	**58.1**	**32.2**	**290.3**	**380.6**
New financial assets originated	**51.7**	**—**	**—**	**51.7**
Transfers to Stage 1	**0.6**	**(3.9)**	**(0.7)**	**(4.0)**
Transfers to Stage 2	**(13.4)**	**31.4**	**(1.1)**	**16.9**
Transfers to Stage 3	**(5.9)**	**(12.0)**	**98.7**	**80.8**
Net remeasurement of expected credit losses arising from transfer of stages and repayments[1]	**(18.7)**	**15.5**	**96.9**	**93.7**
Repayments and ECL movements while stage remained unchanged and final repayments	**(37.7)**	**(15.6)**	**26.6**	**(26.7)**
Changes to model methodologies	**—**	**—**	**—**	**—**
Charge to the income statement	**(4.7)**	**(0.1)**	**123.5**	**118.7**
Write offs	**(1.2)**	**(0.8)**	**(51.5)**	**(53.5)**
At 31 July 2024	**52.2**	**31.3**	**362.3**	**445.8**

1. Repayments relate only to financial assets which transferred between stages during the year. Other repayments are shown in the line below.

	Stage 1 £ million	Stage 2 £ million	Stage 3[1] £ million	Total £ million
Impairment provisions on loans and advances to customers held at amortised cost				
At 1 August 2022	50.3	78.3	157.0	285.6
New financial assets originated	46.7	—	—	46.7
Transfers to Stage 1	1.2	(7.7)	(1.0)	(7.5)
Transfers to Stage 2	(8.7)	27.7	(5.7)	13.3
Transfers to Stage 3	(11.2)	(53.3)	227.2	162.7
Net remeasurement of expected credit losses arising from transfer of stages and repayments[2]	(18.7)	(33.3)	220.5	168.5
Repayments and ECL movements while stage remained unchanged and final repayments	(17.8)	(10.7)	(20.0)	(48.5)
Changes to model methodologies	(2.2)	(1.9)	2.3	(1.8)
Charge to the income statement	8.0	(45.9)	202.8	164.9
Write offs	(0.2)	(0.2)	(69.5)	(69.9)
At 31 July 2023	58.1	32.2	290.3	380.6

1. A significant proportion of the Stage 3 movements is driven by Novitas with £147.6 million of transfers to Stage 3 and £11.9 million of write-offs. Further information on Novitas can be found in the Credit Risk section of the Risk Report.
2. Repayments relate only to financial assets which transferred between stages during the year. Other repayments are shown in the line below.

10. Loans and Advances to Customers (continued)

	2024 £ million	2023 £ million
Impairment losses relating to loans and advances to customers held at amortised cost:		
Charge to income statement arising from movement in impairment provisions	118.7	164.9
Amounts written off directly to income statement and other costs, net of discount unwind on Stage 3 loans to interest income, and recoveries	(21.7)	39.4
	97.0	204.3
Impairment losses/(gains) relating to other financial assets	1.8	(0.2)
Impairment losses on financial assets recognised in income statement	98.8	204.1

Impairment losses on financial assets of £98.8 million (2023: £204.1 million) include £6.4 million in relation to Novitas (2023: £116.8 million). The Novitas impairment relates to an extension of the time to recovery assumptions from insurers and reflects management's latest assessment including the current timeline of litigation proceedings.

The contractual amount outstanding at 31 July 2024 on financial assets that were written off during the period and are still subject to recovery activity is £22.1 million (31 July 2023: £32.3 million).

(e) Finance lease and hire purchase agreement receivables

	31 July 2024 £ million	31 July 2023 £ million
Net loans and advances to customers comprise		
Hire purchase agreement receivables	3,749.8	3,671.3
Finance lease receivables	896.7	803.9
Other loans and advances	5,184.3	4,779.8
At 31 July	9,830.8	9,255.0

The following table shows a reconciliation between gross investment in finance lease and hire purchase agreement receivables included in the net loans and advances to customers table above to present value of minimum lease and hire purchase payments.

	31 July 2024 £ million	31 July 2023[1] £ million
Gross investment in finance leases and hire purchase agreement receivables due:		
One year or within one year	1,987.6	1,849.3
>One to two years	1,573.2	1,493.7
>Two to three years	1,168.2	1,175.8
>Three to four years	692.0	652.5
>Four to five years	222.6	205.3
More than five years	46.4	43.1
	5,690.0	5,419.7
Unearned finance income	(904.5)	(820.7)
Present value of minimum lease and hire purchase agreement payments	4,785.5	4,599.0
Of which due:		
One year or within one year	1,671.1	1,567.2
>One to two years	1,326.6	1,268.8
>Two to three years	982.6	999.1
>Three to four years	579.4	553.1
>Four to five years	185.9	173.8
More than five years	39.9	37.0
	4,785.5	4,599.0

1. Restated following a classification misstatement in the prior year maturity profiles with no change in the total amounts. Please see below for further information.

The aggregate cost of assets acquired for the purpose of letting under finance leases and hire purchase agreements was £7,898.6 million (2023: £7,167.5 million). The average effective interest rate on finance leases approximates to 12.2% (2023: 11.0%). 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 prior year figures in the table above for finance lease and hire purchase agreement receivables have been restated following a classification misstatement. The gross investment in finance leases and hire purchase agreement receivables due in '>one to two years' have decreased by £509.1 million, while '>two to three years', '>three to four years', '>four to five years' and 'more than five years' have increased by £203.3 million, £214.0 million, £89.8 million and £2.0 million respectively with no change in the total amounts. The present value of minimum lease and hire purchase agreement payments due in '>one to two years' have decreased by £422.9 million, while '>two to three years', '>three to four years', '>four to five years' and 'more than five years' have increased by £168.9 million, £177.8 million, £74.6 million and £1.6 million respectively with no change in the total amounts.

11. Debt Securities

	Fair value through profit or loss	**Fair value through other comprehensive income**	**Amortised cost**	**Total**
	£ million	**£ million**	**£ million**	**£ million**
Sovereign and central bank debt	**—**	**383.7**	**—**	**383.7**
Supranational, sub-sovereigns and agency ("SSA") bonds	**—**	**145.5**	**—**	**145.5**
Covered bonds	**—**	**187.7**	**—**	**187.7**
Long trading positions in debt securities	**16.0**	**—**	**—**	**16.0**
Other debt securities	**0.8**	**—**	**6.8**	**7.6**
At 31 July 2024	**16.8**	**716.9**	**6.8**	**740.5**

	Fair value through profit or loss	Fair value through other comprehensive income	Amortised cost	Total
	£ million	£ million	£ million	£ million
Sovereign and central bank debt	—	186.1	—	186.1
SSA bonds	—	—	—	—
Covered bonds	—	106.3	—	106.3
Long trading positions in debt securities	15.2	—	—	15.2
Other debt securities	—	—	—	—
At 31 July 2023	15.2	292.4	—	307.6

Movements on the book value of sovereign and central bank debt comprise:

	2024	2023
	£ million	£ million
Sovereign and central bank debt at 1 August	**186.1**	415.4
Additions	**194.2**	269.7
Redemptions	**—**	(459.2)
Currency translation differences	**(1.5)**	(0.3)
Movement in value	**4.9**	(39.5)
Sovereign and central bank debt at 31 July	**383.7**	186.1

Movements on the book value of SSA bonds comprise:

	2024	2023
	£ million	£ million
SSA bonds at 1 August	**—**	—
Additions	**155.4**	—
Redemptions	**(15.2)**	—
Currency translation differences	**(0.3)**	—
Movement in value	**5.6**	—
SSA bonds at 31 July	**145.5**	—

11. Debt Securities (continued)

Movements on the book value of covered bonds comprise:

	2024 £ million	2023 £ million
Covered bonds 1 August	**106.3**	–
Additions	**139.7**	105.4
Redemptions/disposals	**(59.0)**	–
Currency translation differences	**(0.3)**	–
Movement in value	**1.0**	0.9
Covered bonds at 31 July	**187.7**	106.3

12. Equity Shares

	31 July 2024 £ million	31 July 2023 £ million
Long trading positions	**25.8**	27.8
Other equity shares	**1.6**	1.5
	27.4	29.3

13. Derivative Financial Instruments

The group enters into derivative contracts with a number of financial institutions for risk management purposes to hedge exposures to interest rate and exchange rate movements. Derivatives are classified as held for trading unless they are designated as being in a hedge accounting relationship. The group's total derivative asset and liability position as reported on the consolidated balance sheet is as follows.

	31 July 2024			31 July 2023		
	Notional value £ million	Assets £ million	Liabilities £ million	Notional value £ million	Assets £ million	Liabilities £ million
Exchange rate contracts	**275.3**	**2.3**	**0.4**	198.1	0.8	0.4
Interest rate contracts	**7,202.6**	**99.1**	**128.6**	3,493.3	87.7	195.5
	7,477.9	**101.4**	**129.0**	3,691.4	88.5	195.9

Interest rate contracts are held for interest rate risk management and interest margin stabilisation purposes. Notional amounts of interest rate contracts totalling £4,752.3 million (31 July 2023: £2,402.7 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 2024			31 July 2023		
	Notional value £ million	Assets £ million	Liabilities £ million	Notional value £ million	Assets £ million	Liabilities £ million
Cash flow hedges						
Interest rate contracts	**514.4**	**4.8**	**0.6**	297.7	8.5	2.9
Fair value hedges						
Interest rate contracts	**4,431.7**	**78.8**	**116.3**	1,614.7	42.2	173.3

Where derivatives are designated as being in a hedge accounting relationship, the group applies fair value and cash flow hedging if the relevant transaction meets the required documentation and hedge effectiveness criteria.

Fair value hedge accounting

Fair value hedges seek to hedge the exposure to changes in the fair value of recognised assets and liabilities or firm commitments. For fair value hedges of interest rate risk, changes in the benchmark interest rate 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. Changes in the fair value of derivatives in a fair value hedge are recorded in the income statement, along with changes in the fair value of the hedged item (asset or liability) attributable to the hedged risk. If the hedged item is measured at amortised cost, the fair value changes due to the hedged risk adjust the carrying amount of the hedged asset or liability. If the hedge no longer qualifies for hedge accounting, changes in the fair value of the hedged item attributable to the hedged risk are no longer recognised in the income statement and the cumulative adjustment to the carrying amount of the hedged item is amortised to the income statement over the period to maturity. For micro fair value hedges, this is applied using a straight-line method over the period to maturity.

Cash flow hedge accounting

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 six (2023: seven) years. The effective portion of changes in the fair value of qualifying cash flow hedges is recognised in other comprehensive income within the cash flow hedging reserve. The gain or loss relating to the ineffective portion is recognised immediately in the income statement. Amounts accumulated in equity are reclassified to the income statement in the periods when the hedged item affects profit or loss. When a hedging instrument expires, is sold, or no longer meets the criteria for hedge accounting, any cumulative gain or loss in equity remains there until the forecast transaction is recognised in the income statement. If the forecast transaction is no longer expected to occur, the cumulative gain or loss in equity is immediately transferred to the income statement. 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. Cash flow hedge accounting is applied when hedging interest rate risk exposures on floating rate assets.

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, basis mismatch, maturity mismatch, credit valuation adjustments and cash flow timing mismatch between the hedged item and the hedging instrument.

The maturity profiles for the notional amounts of the group's cash flow and fair value hedges are set out as follows.

	On demand	Within three month	Between three and six months	Between six months and one year	Between one and five years	After more than five years	Total
	£ million	£ million	£ million	£ million	£ million	£ million	£ million
Cash flow hedges							
Interest rate risk							
31 July 2024	**—**	**6.1**	**1.4**	**3.2**	**482.0**	**21.7**	**514.4**
31 July 2023	—	90.8	0.3	27.7	137.7	41.2	297.7
Fair value hedges							
Interest rate risk							
31 July 2024	**—**	**516.1**	**672.3**	**1,080.7**	**1,446.5**	**716.1**	**4,431.7**
31 July 2023	—	51.0	0.6	190.6	690.0	682.5	1,614.7

Cash flow hedges have an average fixed rate of 4.0% (31 July 2023: 2.0%). Fair value hedges have an average fixed rate of 3.7% (31 July 2023: 1.6%).

Details of the hedging instruments for the group's hedge ineffectiveness assessment are set out as follows.

	Changes in fair value of hedging instrument used for calculating hedge ineffectiveness	**Hedge ineffectiveness recognised in income statement**	Changes in fair value of hedging instrument used for calculating hedge ineffectiveness	Hedge ineffectiveness recognised in income statement
	2024	**2024**	2023	2023
	£ million	**£ million**	£ million	£ million
Cash flow hedges				
Interest rate risk	**(0.9)**	**—**	(26.2)	(0.1)
Fair value hedges				
Interest rate risk	**50.9**	**—**	(74.6)	—

The carrying amount of hedging interest rate swaps is held within derivative financial instruments and the hedge ineffectiveness is held within other income. Details of the hedged exposures covered by the group's hedging strategies are set out as follows.

13. Derivative Financial Instruments (continued)

	Carrying amount of hedged item £ million	Accumulated amount of fair value adjustments on the hedged item £ million	Changes in fair value of hedged item used for calculating hedge ineffectiveness £ million
At 31 July 2024			
Fair value hedges			
Assets			
Debt securities	**355.7**	**(15.2)**	**11.8**
Loans and advances to customers and undrawn commitments	**146.8**	**(9.3)**	**4.1**
	502.5	**(24.5)**	**15.9**
Liabilities			
Deposits by customers	**3,092.2**	**4.2**	**8.1**
Debt securities in issue	**596.3**	**(95.7)**	**46.8**
Subordinated loan capital	**187.2**	**(13.3)**	**11.8**
	3,875.7	**(104.8)**	**66.7**

	Carrying amount of hedged item £ million	Accumulated amount of fair value adjustments on the hedged item £ million	Changes in fair value of hedged item used for calculating hedge ineffectiveness £ million
At 31 July 2023			
Fair value hedges			
Assets			
Debt securities	186.1	(27.0)	(3.0)
Loans and advances to customers and undrawn commitments	124.3	(13.4)	(8.6)
	310.4	(40.4)	(11.6)
Liabilities			
Deposits by customers	280.3	(3.9)	(3.9)
Debt securities in issue	613.6	(142.5)	(70.2)
Subordinated loan capital	174.9	(25.1)	(12.1)
	1,068.8	(171.5)	(86.2)

Details of the impact of hedging relationships on the income statement and other comprehensive income are set out as follows.

	Changes in fair value of hedged item used for calculating hedge ineffectiveness £ million	Gains/(losses) on discontinued hedges recognised in other comprehensive income £ million	(Losses)/gains 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 2024	**1.0**	**14.4**	**(0.9)**	**28.9**
31 July 2023	26.1	43.3	(26.1)	1.5

1. Amounts have been reclassified to other income since hedged cash flows will no longer occur following de-designation.

14. Intangible Assets

	Goodwill £ million	Software £ million	Intangible assets on acquisition £ million	Group total £ million	Company software £ million
Cost					
At 1 August 2022	142.6	299.5	51.0	493.1	0.4
Additions	—	50.5	—	50.5	—
Disposals	(0.1)	(16.8)	(0.6)	(17.5)	(0.2)
At 31 July 2023	142.5	333.2	50.4	526.1	0.2
Additions	8.3	28.1	7.3	43.7	0.1
Disposals	—	(12.6)	(0.3)	(12.9)	—
At 31 July 2024	**150.8**	**348.7**	**57.4**	**556.9**	**0.3**
Amortisation					
At 1 August 2022	47.9	147.4	45.8	241.1	0.4
Amortisation charge for the year	—	36.1	1.5	37.6	—
Disposals	—	(15.7)	(0.6)	(16.3)	(0.2)
At 31 July 2023	47.9	167.8	46.7	262.4	0.2
Amortisation charge for the year	—	38.9	1.4	40.3	0.1
Disposals	—	(11.4)	(0.4)	(11.8)	—
At 31 July 2024	**47.9**	**195.3**	**47.7**	**290.9**	**0.3**
Net book value at 31 July 2024	**102.9**	**153.4**	**9.7**	**266.0**	**—**
Net book value at 31 July 2023	94.6	165.4	3.7	263.7	—
Net book value at 1 August 2022	94.7	152.1	5.2	252.0	—

Goodwill additions of £8.3 million (2023: £nil) and intangible assets on acquisition additions of £7.3 million (2023: £nil) relate to the group's acquisition of the 100% shareholdings of Bluestone Motor Finance (Ireland) DAC ("Bluestone") (goodwill of £4.7 million and intangible assets on acquisition of £3.6 million) and Bottriell Adams LLP ("Bottriell Adams") (goodwill of £3.7 million and intangible assets on acquisition of £3.7 million).

Bluestone, a provider of motor finance in Ireland, was acquired for cash consideration of €17.2 million on 31 October 2023. Net assets of €7.8 million were acquired, largely comprising loans and advances to customers, cash, debt securities and borrowings. Bluestone is a well-established brand in Ireland with industry-leading technology and an established network of over 650 dealer partners and an experienced sales and underwriting team. This acquisition will allow the Motor Finance business to rebuild its presence in Ireland. These factors and the expected synergies are reflected in the goodwill and intangible assets on acquisition recognised by the group. Following the acquisition, Bluestone has been rebranded to Close Brothers Motor Finance ("CBMF").

Bottriell Adams, an IFA business based in Dorset, was acquired for total consideration of £6.6 million comprising an initial cash payment on acquisition and contingent consideration. The acquisition was completed in March 2024. Bottriell Adams, with approximately £240 million of client assets on acquisition, allows the Asset Management division to extend its regional presence in the South West. The customer relationships are reflected in the £3.7 million of intangible assets on acquisition.

Software includes assets under development of £35.4 million (31 July 2023: £88.8 million).

Intangible assets on acquisition relate to broker and customer relationships and are amortised over a period of eight to 20 years.

In the 2024 financial year, £1.4 million (2023: £1.5 million) of the amortisation charge is included in amortisation of intangible assets on acquisition and £38.9 million (2023: £36.1 million) of the amortisation charge is included in administrative expenses shown in the consolidated income statement.

14. Intangible Assets (continued)

Impairment tests for goodwill

Overview
At 31 July 2024, goodwill has been allocated to nine (31 July 2023: eight) individual CGUs. Seven (31 July 2023: six) are within the Banking division with an additional CGU this year following the acquisition of Close Brothers Finance DAC, one is the Asset Management division and the remaining one is Winterflood in the Securities division.

Goodwill is allocated to the CGU in which the historical acquisition occurred and hence the goodwill originated. Further information on the performance of each division can be found in Note 3 'Segmental Analysis'. 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.

Methodology
A value in use calculation uses discounted cash flow forecasts based on the most recent three-year plans to determine the recoverable amount of each CGU. The most relevant assumptions underlying management's three-year plans, which are based on past experience and forecast market conditions, are expected loan book growth rates, net return on loan book and future capital requirements in the Banking CGUs, expected total client asset growth rate and revenue margin in the Asset Management CGU and expected trading levels in the Winterflood CGU. While these assumptions are relevant to management's plans, they may not all be key assumptions in the goodwill impairment test.

In addition, while CGUs are not individually regulated, for the purposes of an impairment assessment, theoretical capital requirements have been taken into consideration in calculating a CGU's value in use and carrying value to ensure that capital constraints on free cash flows are appropriately reflected and the carrying value is on a comparable basis.

Beyond the group's three-year planning horizon, estimates of future cash flows in the fourth and fifth years are made by management with due consideration given to the relevant assumptions set out above. After the fifth year, a terminal value is calculated using an annual growth rate of 2%, which is consistent with the UK government's long-term inflation target.

The cash flows are discounted using a pre-tax estimated weighted average cost of capital as set out in the following table. The methodology used to derive the discount rates was further updated during the year with valuation experts engaged where appropriate and refinements to the beta and size premium assumptions in the cost of capital calculation.

Beta is a measure of systematic risk and a lower beta has been applied to the Banking CGUs this year following a review by valuation experts. In addition, an appropriate size premium has been consistently applied to all CGUs based on the size of the group and not the size of the individual CGUs for the first time this year. The size premium represents an estimate of the additional risk premium required by investors where typically a smaller size would require a larger premium.

The discount rates used differ across the CGUs, reflecting the nature of the CGUs' business and the current market returns appropriate to the CGU that investors would require for a similar asset. The discount rates for the Banking and Winterflood CGUs have decreased while CBAM has increased this year following the aforementioned methodology refinements.

Assessment
At 31 July 2024, the results of the review indicate there is no goodwill impairment. The inputs used in the value in use calculations are sensitive primarily to changes in the assumptions for future cash flows, which include consideration for future capital requirements and discount 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 except Winterflood and Motor Finance.

Winterflood continued to experience difficult market conditions and recorded a small loss in the year. The business has a long track record of trading profitably in a range of conditions and is well placed to take advantage when investor confidence recovers. Nevertheless, consistent with the prior year, future market conditions remain uncertain and as such the value in use calculation for this CGU has been identified as a key source of estimation uncertainty as set out in Note 2 'Critical Accounting Judgements and Estimates'.

The Motor Finance CGU, which includes goodwill of £3.0 million and other intangible assets of £15.3 million, relates to the UK business and excludes the recent Close Brothers Finance DAC acquisition. The CGU has seen strong business volumes over the year but the market and regulatory backdrop is expected to present some challenges to the future cash flows, therefore this CGU has been identified as a key source of estimation uncertainty for the first time this year. The value in use of Motor Finance excludes any potential redress provision impact of the FCA's discretionary commission arrangements review since it is considered to be a legacy matter that relates to the excess capital of the parent and has no impact on the trading forecasts of the CGU itself.

The most significant uncertainty within the Winterflood value in use calculation relates to the expected future cash flows and when they return to normalised levels. The VIU of Winterflood is calculated to be 136% above carrying value at 31 July 2024 and for the purposes of goodwill modelling, management have projected that trading will gradually return to normalised levels over the medium term.

A 33% reduction in the year five cash flows and all subsequent years would result in a recoverable amount that is equal to the carrying value of the CGU, that is, the headroom between the two is reduced to nil. In the discounted cash flows model, delaying all cash flows by one year, which would reduce the terminal value, would reduce the VIU headroom by 58%. The discount rate is also an important driver of the value in use calculation and an absolute increase of 3.1% in the rate would also result in nil headroom.

The most significant uncertainty within the Motor Finance value in use calculation relates to the expected future cash flows, which include consideration for the CGU's forecast capital charge, and when they return to more normalised growth levels. While as noted previously the cash flows exclude any potential redress provision impact of the FCA's commissions review, the cash flows are nevertheless impacted by the overall uncertainty introduced by the FCA's review and the group's strategic and capital actions response. As described in Note 2, determining the impact on goodwill of the FCA's review and management's response is a critical accounting judgement. It also represents a key assumption for the Motor goodwill impairment assessment. Management's expectations on a return of the cash flows to more normalised growth levels are based on the review timeline set out by the FCA.

A 21% reduction in the annual cash flows included within the terminal value of the Motor CGU would result in a recoverable amount that is equal to the carrying value of the CGU. In the discounted cash flows model, delaying all cash flows by one year, which would reduce the terminal value, would result in the full impairment of the goodwill and other intangible assets totalling £18.3 million in the Motor CGU. However, this outcome reflects the CGU sensitivity and does not include all possible management actions which may affect capital and cash flow forecasts for each CGU of the Banking division if any further response were required due to delays linked to the FCA review. Separately, an absolute increase of 1.6% in the discount rate would result in nil headroom.

These scenarios for Winterflood and Motor Finance are a demonstration of sensitivity only and are not management's base case scenarios.

As set out in Note 29 “Post Balance Sheet Event”, following a comprehensive strategic review, the group announced it entered into an agreement to sell CBAM to Oaktree on 19 September 2024. The goodwill associated with the CBAM CGU is £43.5 million. This post balance sheet transaction has no impact on the conclusion of the goodwill impairment assessment and the recoverable amount of the CGU remained above its carrying value at 31 July 2024.

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 2024		31 July 2023	
	Goodwill	**Pre-tax discount rate**	Goodwill	Pre-tax discount rate
Cash generating unit	**£ million**	**%**	£ million	%
Asset Management	**43.5**	**14.8**	39.8	11.6
Winterflood Securities	**23.3**	**14.8**	23.3	16.9
Banking division CGUs	**36.1**	**14.5-15.4**	31.5	17.0-17.3
	102.9		94.6	

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15. 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 2022	20.9	62.6	398.2	0.2	78.5	560.4
Additions	1.0	7.5	93.1	0.2	24.7	126.5
Disposals	(0.4)	(4.6)	(42.2)	—	(9.2)	(56.4)
At 31 July 2023	21.5	65.5	449.1	0.4	94.0	630.5
Additions	1.3	12.9	64.7	—	10.0	88.9
Disposals	(0.4)	(13.3)	(71.9)	—	(11.1)	(96.7)
At 31 July 2024	**22.4**	**65.1**	**441.9**	**0.4**	**92.9**	**622.7**
Depreciation						
At 1 August 2022	13.0	36.9	158.2	0.2	29.6	237.9
Depreciation and impairment charges for the year	2.4	8.3	45.5	—	14.4	70.6
Disposals	(0.4)	(4.3)	(25.8)	—	(4.6)	(35.1)
At 31 July 2023	15.0	40.9	177.9	0.2	39.4	273.4
Depreciation and impairment charges for the year	2.3	9.1	44.4	0.1	15.5	71.4
Disposals	(0.3)	(13.4)	(48.3)	—	(9.7)	(71.7)
At 31 July 2024	**17.0**	**36.6**	**174.0**	**0.3**	**45.2**	**273.1**
Net book value at 31 July 2024	**5.4**	**28.5**	**267.9**	**0.1**	**47.7**	**349.6**
Net book value at 31 July 2023	6.5	24.6	271.2	0.2	54.6	357.1
Net book value at 1 August 2022	7.9	25.7	240.0	—	48.9	322.5

1. Right of use assets primarily relate to the group's leasehold properties.

The net book value of assets held under operating leases includes £0.6 million (31 July 2023: £5.9 million) relating to vehicles held in inventories. There was a gain of £0.4 million from the sale of assets held under operating leases for the year ended 31 July 2024 (2023: £3.3 million).

	31 July 2024 £ million	31 July 2023 £ million
Future minimum lease rentals receivable under non-cancellable operating leases		
One year or within one year	**51.0**	50.8
>One to two years	**36.1**	34.1
>Two to three years	**28.2**	22.5
>Three to four years	**19.1**	14.9
>Four to five years	**6.7**	8.1
More than five years	**2.1**	2.3
	143.2	132.7

	Leasehold property £ million	Fixtures, fittings and equipment £ million	Total £ million
Company			
Cost			
At 1 August 2022	0.3	11.8	12.1
Additions	—	—	—
At 31 July 2023	0.3	11.8	12.1
Additions	—	—	—
At 31 July 2024	**0.3**	**11.8**	**12.1**
Depreciation			
At 1 August 2022	0.1	1.8	1.9
Charge for the year	—	1.3	1.3
At 31 July 2023	0.1	3.1	3.2
Charge for the year	—	1.2	1.2
At 31 July 2024	**0.1**	**4.3**	**4.4**
Net book value at 31 July 2024	**0.2**	**7.5**	**7.7**
Net book value at 31 July 2023	0.2	8.7	8.9
Net book value at 1 August 2022	0.2	10.0	10.2

The net book value of leasehold property comprises:

	Group		Company	
	31 July 2024 £ million	31 July 2023 £ million	31 July 2024 £ million	31 July 2023 £ million
Long leasehold property	**1.1**	1.2	**0.2**	0.2
Short leasehold property	**4.3**	5.3	**—**	—
	5.4	6.5	**0.2**	0.2

16. Other Assets and Liabilities

	31 July 2024 £ million	31 July 2023 £ million
Prepayments, accrued income and other assets		
Prepayments	**110.7**	117.3
Accrued income	**21.1**	20.0
Trade and other receivables	**54.9**	46.8
	186.7	184.1
Accruals, deferred income and other liabilities		
Accruals	**118.0**	130.3
Deferred income	**7.5**	7.9
Trade and other payables	**148.7**	145.6
Provisions	**32.3**	19.2
	306.5	303.0

Restructuring costs

The group incurred £3.1 million of restructuring costs in the 2024 financial year which includes the recognition of an accrual primarily relating to redundancy and associated costs of £0.9 million. These costs do not reflect underlying trading performance and therefore have been presented as a separate adjusting item and excluded from adjusted operating profit by management.

Provisions movement in the year:

	Legal and regulatory £ million	Property £ million	Other £ million	Total £ million
Group				
At 1 August 2022	8.9	6.7	8.3	23.9
Additions	1.6	1.5	4.1	7.2
Utilisation	(6.2)	—	(2.0)	(8.2)
Released	(2.0)	(0.1)	(1.6)	(3.7)
At 31 July 2023	2.3	8.1	8.8	19.2
Additions	19.1	1.4	3.5	24.0
Utilisation	(1.8)	(1.0)	(6.5)	(9.3)
Released	—	(0.6)	(1.0)	(1.6)
At 31 July 2024	**19.6**	**7.9**	**4.8**	**32.3**

	Property £ million	Other £ million	Total £ million
Company			
At 1 August 2022	0.4	3.0	3.4
Additions	—	0.4	0.4
Utilisation	—	(0.7)	(0.7)
Released	—	(0.7)	(0.7)
At 31 July 2023	0.4	2.0	2.4
Additions	—	0.3	0.3
Utilisation	—	(0.7)	(0.7)
Released	—	(0.4)	(0.4)
At 31 July 2024	**0.4**	**1.2**	**1.6**

Provisions are made for claims and other items which arise in the normal course of business. Claims relate to legal and regulatory cases, while other items largely relate to property dilapidations and employee benefits. For such matters, a provision is recognised where it is determined that there is a present obligation arising from a past event, payment is probable, and the amount can be estimated reliably. The timing and/or outcome of these claims and other items are uncertain.

Review of Borrowers in Financial Difficulty
Following discussions with the FCA in relation to its market wide review of Borrowers in Financial Difficulty ("BiFD"), which assessed forbearance and related practices, the group conducted a Past Business Review of customer forbearance related to its motor finance lending. This has now concluded and a provision of £17.2 million has been recognised at 31 July 2024 in relation to this matter under the category of legal and regulatory in the table above.

As a result of this review, certain customers will be due compensation and the group is undertaking an exercise to identify and remediate these customers as appropriate. We have commenced making compensation payments to customers, with the resulting remediation programme expected to be materially complete this calendar year.

The provision comprises estimates of the expected customer compensation and the associated operational costs. The final remediation cost remains uncertain with data to identify customers who are due remediation being collated.

The £17.2 million provision is based on a probability weighting methodology taking into account assumptions such as the number of customers in scope of the exercise, the average payments due to customers, and the expected cost of remediation for the group.

The provision does not reflect underlying trading performance and therefore has been presented as a separate adjusting item and excluded from adjusted operating profit by management.

17. Settlement Balances and Short Positions

	31 July 2024 £ million	31 July 2023 £ million
Settlement balances	**600.1**	686.0
Short positions in:		
Debt securities	**5.5**	3.5
Equity shares	**9.3**	6.4
	14.8	9.9
	614.9	695.9

18. 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	**0.9**	**53.0**	**84.5**	**—**	**—**	**—**	**138.4**
Deposits by customers	**706.6**	**2,320.7**	**3,397.9**	**1,685.2**	**583.2**	**—**	**8,693.6**
Loans and overdrafts from banks	**46.6**	**9.0**	**—**	**110.0**	**—**	**—**	**165.6**
Debt securities in issue	**—**	**21.9**	**246.6**	**799.0**	**595.3**	**323.6**	**1,986.4**
At 31 July 2024	**754.1**	**2,404.6**	**3,729.0**	**2,594.2**	**1,178.5**	**323.6**	**10,984.0**

	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	10.3	43.6	88.0	—	—	—	141.9
Deposits by customers	175.1	1,836.4	3,745.9	1,305.0	662.1	—	7,724.5
Loans and overdrafts from banks	31.8	20.1	228.0	262.0	110.0	—	651.9
Debt securities in issue	—	30.4	228.7	197.8	1,261.8	293.9	2,012.6
At 31 July 2023	217.2	1,930.5	4,290.6	1,764.8	2,033.9	293.9	10,530.9

At 31 July 2024, the parent company had £250.8 million (31 July 2023: £250.5 million) of non-instalment debt securities in issue with an interest rate of 7.75% and a final maturity date of 2028.

18. Financial Liabilities (continued)

As outlined in Note 26(c), at 31 July 2024 the group accessed £110.0 million (31 July 2023: £600.0 million) and £nil (31 July 2023: £5.0 million) cash under the Bank of England's Term Funding Scheme with Additional Incentives for SMEs and Indexed Long-Term Repo respectively. Cash from these schemes is included within loans and overdrafts from banks. Residual maturities of the schemes 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 2024	**—**	**0.5**	**—**	**110.0**	**—**	**—**	**110.5**
At 31 July 2023	—	7.6	228.0	262.0	110.0	—	607.6

19. Subordinated Loan Capital

	Prepayment date	Initial interest rate	**31 July 2024 £ million**	31 July 2023 £ million
Final maturity date				
2031	2026	2.00%	**187.2**	174.9
			187.2	174.9

At 31 July 2024, the parent company had £200.8 million (31 July 2023: £200.4 million) of subordinated loan capital with an interest rate of 2.00% and a final maturity date of 2031.

20. Called Up Share Capital, Distributable Reserves and Other Equity Instrument

	31 July 2024		31 July 2023	
	million	**£ million**	million	£ million
Group and company				
Ordinary shares of 25p each (allotted, issued and fully paid)	**152.1**	**38.0**	152.1	38.0

At 31 July 2024, the company's reserves available for distribution under section 830(2) and 831(2) of the Companies Act 2006 were £299.6 million (2023: £401.9 million). The directors have applied the guidance provided by ICAEW TECH 02/17 in determining this.

Other equity instrument comprises the group's £200.0 million Fixed Rate Reset Perpetual Subordinated Contingent Convertible Securities, or Additional Tier 1 capital ("AT1"), issued on 29 November 2023. These AT1 securities are classified as an equity instrument under IAS 32 'Financial Instruments: Presentation' with the proceeds recognised in equity net of transaction costs of £2.4 million.

These securities carry a coupon of 11.125%, payable semi-annually on 29 May and 29 November of each year and have a first reset date on 29 May 2029. The first coupon payment of £11.1 million was made on 29 May 2024. The securities include, among other things, a conversion trigger of 7.0% Common Equity Tier 1 capital ratio and are callable any time in the six-month period prior to and including the first reset date or on each reset date occurring every five years thereafter.

Additional disclosures on the group's capital position and capital risk can be found on pages 86 to 88 in the Capital risk section of the Risk Report.

21. Guarantees, Commitments and Contingent Liabilities

Guarantees

	Group		Company	
	31 July 2024 £ million	31 July 2023 £ million	**31 July 2024 £ million**	31 July 2023 £ million
Earliest period in which guarantee could be called				
Within one year	**137.7**	114.0	**130.0**	105.0
More than one year	**3.7**	3.2	**—**	—
	141.4	117.2	**130.0**	105.0

Guarantees arise in the normal course of business and include performance guarantees issued by certain businesses. 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.

Commitments

Undrawn facilities, credit lines and other commitments to lend - revocable and irrevocable

	31 July 2024 £ million	31 July 2023 £ million
Within one year[1]	**1,038.2**	1,228.5
After more than one year	**9.5**	—
	1,047.7	1,228.5

Other commitments
Subsidiaries had contracted capital and other financial commitments of £46.5 million (2023: £80.6 million).

Operating lease commitments
During the year, the company recognised lease payments as an expense of £2.1 million (2023: £2.1 million). At 31 July 2024, the company had future minimum lease payments under non-cancellable operating leases relating to property of £2.1 million within one year, £8.3 million between one and five years, and £2.2 million after more than five years, totalling £12.6 million (31 July 2023: £2.1 million, £8.3 million, and £4.3 million respectively, totalling £14.7 million).

Contingent liabilities

Motor Finance commission arrangements
FCA review
As disclosed in previous periods, the group continues to receive a high number of complaints, many of which are now with the Financial Ombudsman Service ("FOS"), and is subject to a number of claims through the courts regarding historic Discretionary Commission Arrangements ("DCAs") with intermediaries on its Motor Finance products. This follows the FCA's Motor Market Review in 2019.

On 11 January 2024, the FOS published its first two decisions upholding customer complaints relating to DCAs against two other lenders in the market and instructed them to pay compensation to the complainants if they accepted the outcome. On the same day, recognising that these decisions were likely to significantly increase the number of complaints to motor finance providers and the FOS, risking disorderly and inconsistent outcomes as well as market instability, the FCA released policy statement PS 24/1 which introduced temporary changes to handling rules for motor finance complaints until at least September 2024.

This means that firms will not have to resolve these complaints within the normal time limits. This was to allow the FCA time to carry out diagnostic work to determine whether or not there has been widespread failure to comply with regulatory requirements which has caused customers harm and, if so, whether it needs to take any action. The FCA has indicated that such steps could include establishing an industry-wide consumer redress scheme and/or applying to the Financial Markets Test Case Scheme, to help resolve any contested legal issues of general importance.

In the FCA's 11 January 2024 announcement, it aimed to communicate a decision on next steps by 24 September 2024. Since then, the FCA further announced on 30 July 2024 that because it has taken longer to collect and review the historical data, and also due to relevant ongoing litigation, it would not be able to set out the next steps of its review by 24 September 2024 as it originally planned and it now aims to set out next steps by the end of May 2025. In addition, the FCA extended the current pause to the 8-week deadline for firms to respond to complaints involving a DCA to 4 December 2025.

Impact on Close Brothers
The group is subject to a number of claims through the courts regarding historical Motor Finance commission arrangements. One of these, initially determined in the group's favour, was appealed by the claimant and the case was heard in early July 2024 by the Court of Appeal 2024 together with two separate claims made against another lender. The Court's decision is now awaited.

As of 31 August 2024, where individual cases were adjudicated in County Court, the courts found that there was no demonstrable customer harm and hence no compensation to pay in the majority of the outcomes for Close Brothers. Nevertheless, there have been only a limited number of adjudicated cases at this stage.

There are also a number of complaints that have been referred to the FOS for a determination. To date, no final FOS decisions have been made upholding complaints against Close Brothers. On 9 May 2024, the FOS announced that it would be unlikely to be able to issue final decisions on motor commission cases for some time due to the potential impact of a judicial review proceeding started by another lender in relation to one of its January 2024 decisions and also the outstanding Court of Appeal decisions.

Consistent with our Half Year 2024 results, there remains significant uncertainty about the outcome of this matter at this early stage. The FCA has indicated there could be a range of outcomes, with one potential outcome being an industry-wide consumer redress scheme. The estimated impact of any redress scheme, if required, is highly dependent on a number of factors such as: the time period covered; the DCA models impacted (the group operated a number of different models during the period under review); appropriate reference commission rates set for any redress; and response rates to any redress scheme. As such, at this early stage, the timing, scope and quantum of any potential financial impact on the group cannot be reliably estimated at present.

21. Guarantees, Commitments and Contingent Liabilities (continued)

Based on the status at the end of the financial year and in accordance with the relevant accounting standards, the board has concluded that no legal or constructive obligation exists and it is currently not required or appropriate to recognise a provision at 31 July 2024. It is also not practicable at this early stage to estimate or disclose any potential financial impact arising from this issue.

During the 2024 financial year, the group incurred costs of £6.9 million in relation to historic motor commission arrangements. This £6.9 million covered the costs of the group dealing with complaints (including FOS fees), legal spend, and investment spend as we prepare for the outcome of the FCA review. These costs do not reflect underlying trading performance and therefore have been presented as a separate adjusting item and excluded from adjusted operating profit by management.

In the normal course of the group's business, there may be other contingent liabilities relating to complaints, legal proceedings or regulatory reviews. These cases are not currently expected to have a material impact on the group.

22. Related Party Transactions

Transactions with key management

Details of directors' remuneration and interests in shares are disclosed in the Directors' Remuneration Report.

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:

	2024 **£ million**	2023 £ million
Emoluments		
Salaries and fees	**6.0**	5.7
Benefits and allowances	**0.8**	0.6
Performance related awards in respect of the current year:		
Cash	**1.7**	1.7
	8.5	8.0
Share-based awards	**0.7**	(0.9)
	9.2	7.1

Gains upon exercise of options by key management personnel, expensed to the income statement in previous years, totalled £1.8 million (2023: £1.4 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 2024 attributable, in aggregate, to key management were £0.3 million (31 July 2023: £0.5 million).

23. 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 £18.3 million (2023: £16.5 million), representing contributions payable by the group and is included in administrative expenses.

Defined benefit pension scheme

The group's only defined benefit pension scheme ("the scheme") is a final salary scheme which operates under trust law. The scheme is managed and administered in accordance with the scheme's Trust Deed and Rules and all relevant legislation by a trustee board made up of trustees nominated by both the company and the members.

During the last financial year, the scheme entered into a buy-in transaction with an insurance company covering all members of the scheme. A buy-in is a bulk annuity policy that matches the scheme's assets and liabilities. It represents a significant de-risking of the investment portfolio and hence a significant reduction in the group's long-term exposure to pension funding risk. The pension surplus on the group's balance sheet is £0.8 million (31 July 2023: £1.3 million) relating to the cash held by the scheme, with the fair value of the insurance policy matched to the fair value of the scheme's liabilities, which remains subject to changes in actuarial valuations as presented in this note.

The scheme was closed to new entrants in August 1996 and closed to further accrual during 2012. At 31 July 2024 this scheme had 21 (31 July 2023: 24) deferred members, 58 (31 July 2023: 56) pensioners and dependants and 8 (31 July 2023: 8) insured annuitants.

Funding position

The scheme's most recent triennial actuarial valuation at 31 July 2021 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:

	2024 %	2023 %
Inflation rate (Retail Price Index)	**3.4**	3.5
Inflation rate (CPI)	**3.0**	3.1
Discount rate for scheme liabilities[1]	**4.9**	5.2
Expected interest/expected long-term return on plan assets	**4.9**	5.2
Mortality assumptions[2]:		
Existing pensioners from age 65, life expectancy (years):		
Men	**22.9**	23.0
Women	**24.8**	24.8
Non-retired members currently aged 50, life expectancy from age 65 (years):		
Men	**23.6**	23.7
Women	**26.1**	26.1

1. Based on market yields at 31 July 2024 and 2023 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 (2023: 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 2023 (2023: CMI 2022) core projection model with a long-term trend of 1.5% per annum.

The scheme has been accounted for in the company and the surplus has been recognised as an asset on the company and group's balance sheet within "Trade and other receivables".

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.

	2024 £ million	2023 £ million	2022 £ million	2021 £ million	2020 £ million
Fair value of scheme assets[1]					
Equities	**—**	—	—	9.4	14.0
Bonds	**—**	—	30.3	33.6	32.3
Cash	**0.9**	1.4	3.5	0.2	0.3
Insured annuities	**23.2**	22.4	1.0	—	—
Total assets	**24.1**	23.8	34.8	43.2	46.6
Fair value of liabilities	**(23.3)**	(22.5)	(27.6)	(35.6)	(39.2)
Surplus	**0.8**	1.3	7.2	7.6	7.4

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:

	2024 £ million	2023 £ million
Carrying amount at 1 August	**(22.5)**	(27.6)
Interest expense	**(1.1)**	(0.9)
Benefits paid	**1.3**	1.1
Actuarial (loss)/gain	**(1.0)**	4.9
Other	**—**	—
Carrying amount at 31 July	**(23.3)**	(22.5)

23. Pensions (continued)

Movement in the fair value of scheme assets during the year:

	2024 £ million	2023 £ million
Carrying amount at 1 August	**23.8**	34.8
Interest income	**1.2**	1.1
Benefits paid	**(1.2)**	(1.1)
Administrative costs paid	**(0.6)**	(0.4)
Returns/(losses) on scheme assets, excluding interest income	**0.9**	(10.6)
Carrying amount at 31 July	**24.1**	23.8

Historical experience of actuarial gains/(losses) are shown below:

	2024 £ million	2023 £ million	2022 £ million	2021 £ million	2020 £ million
Returns/(losses) on scheme assets	**0.9**	(10.6)	(8.7)	1.9	4.1
Experience (losses)/gains on scheme liabilities	**(0.4)**	(0.9)	0.4	–	–
Impact of changes in assumptions	**(0.5)**	5.8	8.2	(1.4)	(3.2)
Total actuarial changes in liabilities	**(0.9)**	4.9	8.6	(1.4)	(3.2)
Total actuarial gains/(losses)	**–**	(5.7)	(0.1)	0.5	0.9

Any actuarial movements would be recognised in other comprehensive income. Income of £0.1 million (2023: £0.2 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 2024 and 2023 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)			
		2024		2023	
Key assumption	Sensitivity	%	£ million	%	£ million
Discount rate	0.25% decrease	**2.8**	**0.6**	2.9	0.7
Price inflation (RPI)	0.25% increase	**1.3**	**0.3**	1.1	0.3
Mortality	Increase in life expectancy at age 65 by one year	**2.7**	**0.6**	2.6	0.6

The company is exposed to a number of risks relating to the scheme, including assumptions not being borne out in practice. Some of the most significant risks are as follows, although the list is not exhaustive.

- Change in bond yields: A decrease in corporate bond yields will increase the value placed on the scheme's defined benefit obligation ("DBO"), although following the buy-in transaction this will be largely offset by an increase in the value of the scheme's assets.
- Asset volatility: There is a risk that a fall in asset values is not matched by a corresponding reduction in the value placed on the scheme's DBO. This risk has been significantly reduced by the purchase of an insurance policy to cover the scheme's liabilities.
- Inflation risk: The majority of the scheme's DBO is linked to inflation, where higher inflation will lead to a higher value being placed on the DBO. Some of the scheme's non-buy-in assets are either unaffected by inflation or loosely correlated with inflation (e.g. growth assets), meaning that an increase in inflation will generally decrease the surplus. The value of the buy-in asset will vary with inflation broadly in line with the changes to the scheme's DBO.
- Life expectancy: An increase in life expectancy will lead to an increased value being placed on the scheme's DBO and on the insurance policy assets. Future mortality rates cannot be predicted with certainty. The impact on the DBO would be very closely matched by the impact on the buy-in asset value.

The weighted average duration of the benefit payments reflected in the scheme liabilities is 11 years (2023: 12 years).

The Virgin Media Ltd v NTL Pension Trustees II decision, handed down by the High Court on 16 June 2023, considered the implications of section 37 of the Pension Schemes Act 1993. In a judgment delivered on 25 July 2024, the Court of Appeal unanimously upheld the decision of the High Court and the case has the potential to cause significant issues in the pensions industry. The trustees will investigate the possible implications with its advisers in due course, but it is not possible at present to estimate the potential impact, if any, on the scheme.

24. Share-based Awards

The Save As You Earn ("SAYE"), Long Term Incentive Plan ("LTIP") and Deferred Share Awards ("DSA") share-based awards have been granted under the group's share schemes. The general terms and conditions for these share-based awards are described on pages 156 to 158 in the Directors' Remuneration Report.

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 2024, 1.6 million (31 July 2023: 1.6 million) and 1.7 million (31 July 2023: 1.5 million) of these shares were held respectively and in total £38.9 million (2023: £40.0 million) was recognised within the share-based payments reserve. During the year £4.6 million (2023: £5.6 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 £5.1 million (2023: £8.0 million). The share-based awards charge of £4.6 million (2023: £2.0 million) is included in administrative expenses shown in the consolidated income statement.

Movements in the number of share-based awards outstanding and their weighted average share prices are as follows:

	SAYE		LTIP		DSA	
	Number	Weighted average exercise price	Number	Weighted average exercise price	Number	Weighted average exercise price
At 1 August 2022	2,270,371	—	1,357,858	—	475,003	—
Granted	1,736,479	725.6p	397,568	—	262,402	—
Exercised	(103,625)	875.0p	(87,172)	—	(243,451)	—
Forfeited	(967,425)	863.9p	(137,965)	—	—	—
Lapsed	(131,073)	1,118.9p	(177,449)	—	(2,006)	—
At 31 July 2023	2,804,727	—	1,352,840	—	491,948	—
Granted	3,597,558	371.0p	655,791	—	282,309	—
Exercised	(28,728)	813.9p	(122,788)	—	(239,280)	—
Forfeited	(1,658,190)	754.9p	(97,255)	—	(1,836)	—
Lapsed	(803,600)	828.7p	(466,854)	—	(939)	—
At 31 July 2024	**3,911,767**	—	**1,321,734**	**—**	**532,202**	**—**
Exercisable at:						
31 July 2024	**17,017**	**1,213.3p**	**61,733**	**—**	**205,654**	**—**
31 July 2023	280,152	893.8p	184,521	—	40,656	—

The table below shows the weighted average market price at the date of exercise:

	2024	2023
SAYE	**798.3p**	950.9p
LTIP	**807.3p**	1,022.5p
DSA	**660.8p**	994.5p

24. Share-based Awards (continued)

The range of exercise prices and weighted average remaining contractual life of awards and options outstanding are as follows:

	2024 Options outstanding		2023 Options outstanding	
	Number outstanding	**Weighted average remaining contractual life Years**	Number outstanding	Weighted average remaining contractual life Years
SAYE				
Between £3 and £4	**3,557,353**	**3.4**	–	–
Between £7 and £8	**265,843**	**2.4**	2,269,108	2.8
Between £8 and £9	**10,130**	**1.3**	328,704	0.7
Between £9 and £10	**34,705**	**1.6**	101,476	2.7
Between £10 and £11	**3,651**	**0.8**	15,928	1.5
Between £11 and £12	**2,091**	**0.3**	8,284	0.8
Between £12 and £13	**24,785**	**1.3**	51,346	2.2
Between £13 and £14	**13,209**	**0.5**	29,881	1.8
LTIP				
Nil	**1,305,484**	**3.6**	1,352,840	3.3
DSA				
Nil	**548,452**	**1.7**	491,948	1.7
Total	**5,765,703**	**3.2**	4,649,515	2.7

For the share-based awards granted during the year, the weighted average fair value of those options at 31 July 2024 was 251.0p (31 July 2023: 395.7p). The main assumptions for the valuation of these share-based awards comprised:

At 31 July 2024 Exercise period	Share price at issue	Exercise price	Expected volatility	Expected option life in years	Dividend yield	Risk free interest rate
SAYE						
1 December 2025 to 31 May 2026	918.8p	735.0p	36.0%	3	7.2%	3.6%
1 December 2027 to 31 May 2028	918.8p	735.0p	31.0%	5	7.2%	4.0%
1 June 2026 to 30 November 2026	896.3p	717.0p	33.0%	3	7.4%	3.7%
1 June 2028 to 30 November 2028	896.3p	717.0p	32.0%	5	7.4%	3.6%
1 June 2027 to 30 December 2027	463.8p	371.0p	41.0%	3	7.3%	4.3%
LTIP						
11 October 2025 to 10 October 2026	1110.0p	–	36.0%	3	7.2%	3.6%
11 October 2026 to 10 October 2027	923.0p	–	33.0%	4	7.2%	3.6%
4 October 2026 to 3 October 2027	871.9p	–	31.0%	3	7.9%	4.7%
4 October 2026 to 3 October 2027	871.9p	–	31.0%	3	7.9%	4.7%
1 May 2027 to 30 April 2028	380.2p	–	41.0%	3	7.5%	4.1%
DSA						
10 October 2024 to 9 October 2025	923.1p	–	–	–	–	–
28 September 2023 to 26 September 2024	965.0p	–	–	–	–	–
21 September 2023 to 19 September 2024	965.0p	–	–	–	–	–
28 September 2024 to 27 September 2025	965.0p	–	–	–	–	–
29 September 2025 to 27 September 2026	965.0p	–	–	–	–	–
4 October 2025 to 3 October 2026	871.9p	–	–	–	–	–
8 March 2024 to 7 March 2025	808.0p	–	–	–	–	–
4 June 2024 to 3 June 2025	808.0p	–	–	–	–	–
7 March 2025 to 6 March 2026	808.0p	–	–	–	–	–
1 June 2025 to 31 May 2026	808.0p	–	–	–	–	–
10 March 2026 to 09 Mar 2027	808.0p	–	–	–	–	–

At 31 July 2023 Exercise period	Share price at issue	Exercise price	Expected volatility	Expected option life in years	Dividend yield	Risk free interest rate
SAYE						
1 December 2025 to 31 May 2026	918.8p	735.0p	36.0%	3	7.2%	3.6%
1 December 2027 to 31 May 2028	918.8p	735.0p	31.0%	5	7.2%	4.0%
1 June 2026 to 30 November 2026	896.3p	717.0p	33.0%	3	7.0%	3.7%
1 June 2028 to 30 November 2028	896.3p	717.0p	32.0%	5	7.0%	3.6%
LTIP						
11 October 2025 to 10 October 2026	1,110.0p	—	36.0%	3	7.2%	3.6%
11 October 2026 to 10 October 2027	923.0p	—	33.0%	4	7.2%	3.6%
DSA						
10 October 2024 to 9 October 2025	923.1p	—	—	—	—	—
28 September 2023 to 26 September 2024	965.0p	—	—	—	—	—
21 September 2023 to 19 September 2024	965.0p	—	—	—	—	—
28 September 2024 to 27 September 2025	965.0p	—	—	—	—	—
29 September 2025 to 27 September 2026	965.0p	—	—	—	—	—

Expected volatility was determined mainly by reviewing share price volatility for the expected life of each option up to the date of grant.

25. Consolidated Cash Flow Statement Reconciliation

	2024 £ million	2023 £ million
(a) Reconciliation of operating profit before tax to net cash inflow from operating activities		
Operating profit before tax	**142.0**	112.0
Tax paid	**(29.6)**	(7.4)
Depreciation, amortisation and impairment	**111.7**	108.2
Impairment losses on financial assets	**98.8**	204.1
Amortisation of de-designated cash flow hedges	**(27.9)**	—
Decrease/(increase) in:		
Interest receivable and prepaid expenses	**5.5**	(6.8)
Net settlement balances and trading positions	**(0.3)**	(11.4)
Net money broker loans against stock advanced	**27.0**	15.6
(Decrease)/increase in interest payable and accrued expenses	**(12.7)**	(16.5)
Net cash inflow from trading activities	**314.5**	397.8
Cash (outflow)/inflow arising from changes in:		
Loans and advances to banks not repayable on demand	**24.0**	(21.1)
Loans and advances to customers	**(699.4)**	(584.3)
Assets let under operating leases	**(41.1)**	(73.2)
Certificates of deposit	**—**	185.0
Sovereign and central bank debt	**(194.2)**	191.2
SSA bonds	**(140.2)**	—
Covered bonds	**(80.7)**	(105.4)
Deposits by banks	**(1.3)**	(22.1)
Deposits by customers	**975.1**	942.5
Loans and overdrafts from banks	**(492.2)**	29.2
Debt securities in issue (net)	**(67.6)**	14.4
Derivative financial instruments (net)	**—**	70.4
Other assets less other liabilities[1]	**21.1**	(3.0)
Net cash (outflow)/inflow from operating activities	**(382.0)**	1,021.4
(b) Analysis of net cash outflow in respect of the purchase of subsidiaries		
Purchase of subsidiaries, net of cash acquired	**(15.4)**	(0.5)
(c) Analysis of net cash inflow in respect of the sale of subsidiaries		
Cash consideration received	**0.9**	—
(d) Analysis of cash and cash equivalents[2]		
Cash and balances at central banks	**1,584.2**	1,918.4
Loans and advances to banks	**260.3**	290.9
At 31 July	**1,844.5**	2,209.3

1. Includes a £17.2 million (2023: £nil) provision in relation to the BiFD review, a non-cash item recognised within administrative expenses.

2. Excludes £33.2 million (2023: £58.0 million) of cash reserve accounts and cash held in trust.

During the year ended 31 July 2024, the non-cash changes on debt financing amounted to £35.9 million (31 July 2023: £0.9 million) arising largely from interest accretion and fair value hedging movements.

26. Financial Risk Management

The group faces a number of risks in the normal course of its business. 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;
- 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.

The group's Enterprise Risk Management Framework details the core risk management components and structures, and defines a consistent and measurable approach to identifying, assessing, controlling and mitigating, reviewing and monitoring, and reporting risk.

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 operate across the group, while risk management across the group is overseen by the Risk Committee.

The Risk Report provides more information on the group's approach to 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.

Details of the material 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 are classified as fair value through profit or loss.

	Derivatives designated as hedging instruments £ million	Fair value through profit or loss £ million	Fair value through other comprehensive income £ million	Amortised cost £ million	Total £ million
At 31 July 2024					
Assets					
Cash and balances at central banks	—	—	—	1,584.0	1,584.0
Settlement balances	—	—	—	627.5	627.5
Loans and advances to banks	—	—	—	293.7	293.7
Loans and advances to customers	—	11.8	—	9,819.0	9,830.8
Debt securities	—	16.8	716.9	6.8	740.5
Equity shares	—	27.4	—	—	27.4
Loans to money brokers against stock advanced	—	—	—	22.5	22.5
Derivative financial instruments	83.6	17.8	—	—	101.4
Other financial assets	—	1.2	—	102.4	103.6
	83.6	75.0	716.9	12,455.9	13,331.4
Liabilities					
Settlement balances and short positions	—	14.8	—	600.1	614.9
Deposits by banks	—	—	—	138.4	138.4
Deposits by customers	—	—	—	8,693.6	8,693.6
Loans and overdrafts from banks	—	—	—	165.6	165.6
Debt securities in issue	—	—	—	1,986.4	1,986.4
Loans from money brokers against stock advanced	—	—	—	16.7	16.7
Subordinated loan capital	—	—	—	187.2	187.2
Derivative financial instruments	116.9	12.1	—	—	129.0
Other financial liabilities	—	—	—	189.9	189.9
	116.9	26.9	—	11,977.9	12,121.7

26. Financial Risk Management (continued)

	Derivatives designated as hedging instruments £ million	Fair value through profit or loss £ million	Fair value through other comprehensive income £ million	Amortised cost £ million	Total £ million
At 31 July 2023					
Assets					
Cash and balances at central banks	—	—	—	1,937.0	1,937.0
Settlement balances	—	—	—	707.0	707.0
Loans and advances to banks	—	—	—	330.3	330.3
Loans and advances to customers	—	—	—	9,255.0	9,255.0
Debt securities	—	15.2	292.4	—	307.6
Equity shares	—	29.3	—	—	29.3
Loans to money brokers against stock advanced	—	—	—	37.6	37.6
Derivative financial instruments	50.7	37.8	—	—	88.5
Other financial assets	—	2.0	—	93.5	95.5
	50.7	84.3	292.4	12,360.4	12,787.8
Liabilities					
Settlement balances and short positions	—	9.9	—	686.0	695.9
Deposits by banks	—		—	141.9	141.9
Deposits by customers	—	—	—	7,724.5	7,724.5
Loans and overdrafts from banks	—	—	—	651.9	651.9
Debt securities in issue	—	—	—	2,012.6	2,012.6
Loans from money brokers against stock advanced	—	—	—	4.8	4.8
Subordinated loan capital	—	—	—	174.9	174.9
Derivative financial instruments	176.2	19.7	—	—	195.9
Other financial liabilities	—	—	—	199.2	199.2
	176.2	29.6	—	11,595.8	11,801.6

(b) Valuation

The fair values of the group's subordinated loan capital and debt securities in issue are set out below.

	31 July 2024		31 July 2023	
	Fair value £ million	**Carrying value £ million**	Fair value £ million	Carrying value £ million
Subordinated loan capital	**179.4**	**187.2**	165.8	174.9
Debt securities in issue	**1,998.5**	**1,986.4**	2,008.0	2,012.6

The fair value of gross loans and advances to customers at 31 July 2024 is estimated to be £9,806.4 million (31 July 2023: £9,046.2 million), with a carrying value of £9,830.8 million (31 July 2023: £9,255.0 million). The fair value of deposits by customers is estimated to be £8,691.8 million (31 July 2023: £7,668.7 million), with a carrying value of £8,693.6 million (31 July 2023: £7,724.5 million). These estimates are based on highly simplified assumptions and inputs and may differ to actual amounts received or paid. The differences between fair value and carrying value are not considered to be significant, and are consistent with management's expectations given the nature of the Banking business and the short average tenor of the instruments. However, the differences have decreased in comparison to the prior year in line with market interest rates.

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, SSA bonds, covered bonds and liquid listed debt securities. 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 13 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 loans and advances to customers, which is new this year, over-the-counter derivatives and contingent consideration payable and receivable in relation to the acquisition and disposal of subsidiaries.

The valuation of Level 3 derivatives is similar to Level 2 derivatives and 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.

The valuation of Level 3 loans and advances to customers is determined on a discounted expected cash flow basis net of expected credit losses. The discount rate used in the valuation is the interest rate charged on the loan, which reflects an arm's length rate chargeable on similar transactions.

The valuation of Level 3 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.

During the year, there were no transfers from Level 1, 2 to 3. In 2023, £1.6 million of derivative financial assets and £1.8 million of derivative financial liabilities were transferred from Level 2 to 3.

The tables below show the classification of financial instruments held at fair value into the valuation hierarchy.

26. Financial Risk Management (continued)

	Level 1 £ million	Level 2 £ million	Level 3 £ million	Total £ million
At 31 July 2024				
Assets				
Loans and advances to customers held at FVTPL	—	—	11.8	11.8
Debt securities:				
Sovereign and central bank debt	383.7	—	—	383.7
SSA bonds	145.5	—	—	145.5
Covered bonds	187.7	—	—	187.7
Long trading positions in debt securities	13.8	2.2	—	16.0
Equity shares	5.9	21.4	0.1	27.4
Derivative financial instruments	—	95.3	6.1	101.4
Contingent consideration	—	—	1.2	1.2
Other assets	—	—	0.8	0.8
	736.6	118.9	20.0	875.5
Liabilities				
Short positions:				
Debt securities	3.3	2.2	—	5.5
Equity shares	2.2	7.1	—	9.3
Derivative financial instruments	—	122.6	6.4	129.0
Contingent consideration	—	—	3.0	3.0
	5.5	131.9	9.4	146.8

	Level 1 £ million	Level 2 £ million	Level 3 £ million	Total £ million
At 31 July 2023				
Assets				
Loans and advances to customers held at FVTPL	—	—	—	—
Debt securities:				
Sovereign and central bank debt	186.1	—	—	186.1
SSA bonds	—	—	—	—
Covered bonds	106.3	—	—	106.3
Long trading positions in debt securities	13.6	1.6	—	15.2
Equity shares	3.9	25.1	0.3	29.3
Derivative financial instruments	—	77.4	11.1	88.5
Contingent consideration	—	—	2.0	2.0
Other assets	—	—	—	—
	309.9	104.1	13.4	427.4
Liabilities				
Short positions:				
Debt securities	2.3	1.2	—	3.5
Equity shares	1.7	4.6	0.1	6.4
Derivative financial instruments	—	184.7	11.2	195.9
Contingent consideration	—	—	2.8	2.8
	4.0	190.5	14.1	208.6

Movements in financial instruments categorised as Level 3 were:

	Loans and advances to customers held at FVTPL £ million	Derivative financial assets £ million	Derivative financial liabilities £ million	Equity shares £ million	Contingent consideration £ million	Other assets £ million	Total £ million
At 1 August 2022	—	—	—	0.2	(1.3)	—	(1.1)
Total gains/(losses) recognised in the consolidated income statement	—	9.5	(9.4)	—	(0.1)	—	—
Purchases, issues, originations and transfers in	—	1.6	(1.8)	—	0.6	—	0.4
Sales, settlements and transfers out	—	—	—	—	—	—	—
At 31 July 2023	—	11.1	(11.2)	0.2	(0.8)	—	(0.7)
Total gains/(losses) recognised in the consolidated income statement	—	(5.0)	4.8	—	0.4	—	0.2
Purchases, issues, originations and transfers in	11.8	—	—	—	(0.5)	0.8	12.1
Sales, settlements and transfers out	—	—	—	(0.1)	(0.9)	—	(1.0)
At 31 July 2024	**11.8**	**6.1**	**(6.4)**	**0.1**	**(1.8)**	**0.8**	**10.6**

The gains recognised in the consolidated income statement relating to Level 3 instruments held at 31 July 2024 amounted to £0.2 million (2023: £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.

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 2024 £ million	31 July 2023 £ million
On balance sheet		
Cash and balances at central banks	**1,584.0**	1,937.0
Settlement balances	**627.5**	707.0
Loans and advances to banks	**293.7**	330.3
Loans and advances to customers	**9,830.8**	9,255.0
Debt securities	**740.5**	307.6
Loans to money brokers against stock advanced	**22.5**	37.6
Derivative financial instruments	**101.4**	88.5
Other financial assets	**103.6**	95.5
	13,304.0	12,758.5
Off balance sheet		
Irrevocable undrawn commitments	**281.8**	263.9
Total maximum exposure to credit risk	**13,585.8**	13,022.4

Assets pledged and received as collateral

The group pledges assets for repurchase agreements and securities borrowing agreements which are generally conducted under terms that are customary to standard borrowing contracts.

The group is a participant of the Bank of England's Term Funding Scheme with Additional Incentives for SMEs ("TFSME") and the Indexed Long-Term Repo ("ILTR").

Under these schemes, asset finance loan receivables of £404.8 million (31 July 2023: £863.4 million) and retained notes relating to Motor Finance loan receivables of £34.4 million (31 July 2023: £83.4 million) were positioned as collateral with the Bank of England, against which £110.0 million (31 July 2023: £600.0 million) of cash was drawn from the TFSME and £nil (31 July 2023: £5.0 million) from the ILTR.

26. Financial Risk Management (continued)

The term of the TFSME transactions is four years from the date of each drawdown but the group may choose to repay earlier at its discretion. The term of the ILTR transaction is six months and cannot be repaid earlier. 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 £1,657.0 million (31 July 2023: £1,436.3 million) of its insurance premium and motor loan receivables in return for cash and asset-backed securities in issue of £1,453.7 million (31 July 2023: £1,187.4 million). This includes the £34.4 million (31 July 2023: £83.4 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 on its consolidated balance sheet.

The majority of loans and advances to customers are secured against specific assets. Consistent and prudent lending criteria are applied across the whole loan book with emphasis on the quality of the security provided.

As at 31 July 2024, Winterflood had pledged equity and debt securities of £18.3 million (31 July 2023: £5.2 million) in the normal course of business.

Financial assets: Loans and advances to customers

The group's approach to managing credit risk relating to loans and advances to customers is set out on pages 90 to 92 in the Risk Report.

Information on the group's internal credit risk reporting can be found on pages 100 to 101 in the Risk Report, including an analysis of gross loans and advances to customers, trade receivables and undrawn facilities by the group's internal credit risk grading.

Information on the collateral held in relation to loans and advances to customers can be found on pages 102 to 103 in the Risk Report, including analyses of gross loans and advances to customers by LTV ratio.

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, sovereign and central bank debt, SSA bonds and covered bonds. 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 £22.5 million (31 July 2023: £37.6 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 provision £ million	Total £ million
At 31 July 2024					
Not past due	**599.9**	**–**	**–**	**–**	**599.9**
Less than 30 days past due	**24.6**	**–**	**–**	**–**	**24.6**
More than 30 days but less than 90 days past due	**–**	**2.5**	**–**	**–**	**2.5**
More than 90 days past due	**–**	**–**	**0.5**	**–**	**0.5**
	624.5	**2.5**	**0.5**	**–**	**627.5**

	Stage 1 £ million	Stage 2 £ million	Stage 3 £ million	Impairment provision £ million	Total £ million
At 31 July 2023					
Not past due	622.1	—	—	—	622.1
Less than 30 days past due	83.9	—	—	—	83.9
More than 30 days but less than 90 days past due	—	0.6	—	—	0.6
More than 90 days past due	—	—	0.5	(0.1)	0.4
	706.0	0.6	0.5	(0.1)	707.0

Company financial assets: Amounts owed by subsidiaries
Amounts owed by subsidiaries on the company balance sheet largely relate to Close Brothers Limited and Close Brothers Holdings Limited, and the credit risk presented by these financial assets is immaterial.

(d) Market risk

Interest rate risk
Additional disclosures on the group's interest rate risk can be found on pages 107 to 108 in the Risk Report.

Foreign exchange risk
Additional disclosures on the group's foreign exchange risk can be found on pages 108 to 109 in the Risk Report.

Market price risk
Trading financial instruments: Equity shares and debt securities
The group's trading activities relate to Winterflood. Additional disclosures on Winterflood's market price risk can be found on pages 115 to 116 of the Risk Report.

Non-trading financial instruments
Net gains and losses on non-trading financial instruments are disclosed in Notes 11.

26. Financial Risk Management (continued)

(e) Liquidity risk

Liquidity risk is the risk that liabilities cannot be met when they fall due or can only be met at an uneconomic price and arises mainly in the Banking division. The following table analyses the contractual maturities of the group's on balance sheet financial liabilities on an undiscounted cash flow basis. Additional disclosures on the group's liquidity risk can be found on pages 104 to 105 of the Risk Report.

	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 2024							
Settlement balances	**—**	**600.1**	**—**	**—**	**—**	**—**	**600.1**
Deposits by banks	**0.9**	**53.2**	**86.1**	**—**	**—**	**—**	**140.2**
Deposits by customers	**708.9**	**2,309.5**	**1,502.1**	**2,008.7**	**2,474.8**	**—**	**9,004.0**
Loans and overdrafts from banks	**46.7**	**9.9**	**1.4**	**2.7**	**111.7**	**—**	**172.4**
Debt securities in issue	**—**	**40.0**	**119.3**	**195.4**	**1,541.7**	**409.8**	**2,306.2**
Loans from money brokers against stock advanced	**16.7**	**—**	**—**	**—**	**—**	**—**	**16.7**
Subordinated loan capital	**—**	**2.0**	**—**	**2.0**	**16.0**	**209.0**	**229.0**
Derivative financial instruments	**0.3**	**47.3**	**37.0**	**50.6**	**183.0**	**86.8**	**405.0**
Lease liabilities	**0.2**	**3.2**	**2.7**	**3.9**	**29.6**	**18.1**	**57.7**
Other financial liabilities	**22.6**	**101.0**	**1.3**	**10.9**	**27.1**	**2.5**	**165.4**
Total	**796.3**	**3,166.2**	**1,749.9**	**2,274.2**	**4,383.9**	**726.2**	**13,096.7**

	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 2023							
Settlement balances	—	686.0	—	—	—	—	686.0
Deposits by banks	10.3	43.7	89.7	—	—	—	143.7
Deposits by customers	175.1	1,838.3	1,972.9	1,869.6	2,140.6	—	7,996.5
Loans and overdrafts from banks	31.8	25.2	7.6	243.8	383.2	—	691.6
Debt securities in issue	—	46.7	132.3	168.1	1,705.1	416.3	2,468.5
Loans from money brokers against stock advanced	4.8	—	—	—	—	—	4.8
Subordinated loan capital	—	2.0	—	2.0	16.0	213.0	233.0
Derivative financial instruments	0.2	21.7	23.5	39.0	167.6	73.0	325.0
Lease liabilities	0.2	4.8	4.1	6.9	26.7	19.6	62.3
Other financial liabilities	20.3	111.6	0.9	10.6	28.0	8.7	180.1
Total	242.7	2,780.0	2,231.0	2,340.0	4,467.2	730.6	12,791.5

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 2024	**0.9**	**259.9**	**37.0**	**49.8**	**178.6**	**86.8**	**613.0**
At 31 July 2023	41.2	153.9	26.0	39.4	167.5	73.0	501.0

(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 2024				
Derivative financial assets	**101.4**	**(97.9)**	**(0.8)**	**2.7**
Derivative financial liabilities	**129.0**	**(97.9)**	**(67.5)**	**(36.4)**
At 31 July 2023				
Derivative financial assets	88.5	(77.1)	—	11.4
Derivative financial liabilities	195.9	(77.1)	(144.0)	(25.2)

27. Interest in Unconsolidated Structured Entities

Structured entities are those entities that have been designed so that voting or similar rights are not the dominant factor in deciding who has control, such as when any voting rights relate to administrative tasks only, or when the relevant activities are directed by means of contractual arrangements.

The group has interests in structured entities as a result of contractual arrangements arising from the management of assets on behalf of its clients as part of its Asset Management division. These structured entities consist of unitised vehicles such as Authorised Unit Trusts ("AUTs") and Open Ended Investment Companies ("OEICs") which entitle investors to a percentage of the vehicle's net asset value. The structured entities are financed by the purchase of units or shares by investors. The group does not hold direct investments in its structured entities.

As fund manager, the group does not guarantee returns on its funds or commit to financially support its funds. The business activity of all structured entities is the management of assets in order to maximise investment returns for investors from capital appreciation and/or investment income. The group earns a management fee from its structured entities, based on a percentage of the entity's net asset value.

The main risk the group faces from its interest in assets under management on behalf of external investors is the loss of fee income as a result of the withdrawal of funds by clients. Outflows from funds are dependent on market sentiment, asset performance and investor considerations. The assets under management of unconsolidated structured entities managed by the group were £5,434.0 million at 31 July 2024 (31 July 2023: £5,111.0 million). Included in revenue on the consolidated income statement is management fee income of £33.5 million (2023: £33.7 million) from unconsolidated structured entities managed by the group.

28. 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 2024, which are all wholly owned and incorporated in the UK unless otherwise stated.

The investment in subsidiary of £487.0 million (31 July 2023: £287.0 million) in the company balance sheet relates to a 100% shareholding in Close Brothers Holdings Limited of £287.0 million (31 July 2023: £287.0 million) and an investment in the AT1 securities of Close Brothers Limited of £200.0 million (31 July 2023: £nil). The company issued AT1 securities of £200.0 million on 29 November 2023 as described in Note 20 and simultaneously entered into a back-to-back transaction with its subsidiary Close Brothers Limited.

There was no impairment of these investments in this and the prior year albeit there were indicators of impairment following the FCA's industry review of motor commissions and the group's recent share price movements. The impairment assessment of the investment in Close Brothers Holdings Limited, based on a discounted cash flow analysis of expected future dividends, which includes consideration for the potential impact of the FCA's motor commissions review, demonstrated that its value in use remains above its carrying value.

As set out in Note 29 "Post Balance Sheet Event", the group announced it entered into an agreement to sell CBAM to Oaktree on 19 September 2024 following a comprehensive strategic review. This post balance sheet transaction has no impact on the conclusion of the impairment assessment relating to the company's investment in Close Brothers Holdings Limited, the immediate parent of CBAM. The recoverable amount of the company's investment in Close Brothers Holdings Limited remained above its carrying value at 31 July 2024.

28. Investments in Subsidiaries (continued)

Group

Close Brothers Holdings Limited[1]

Banking

Air and General Finance Limited[2]
Arrow Audit Services Limited[1]
Brook Funding (No.1) Limited[18, 21]
Close Asset Finance Limited[2]
Close Brewery Rentals Limited[5]
Close Brothers Asset Finance GmbH[13] (Germany)
Close Brothers DAC[16] (Ireland)
Close Brothers Factoring GmbH[13] (Germany)
Close Brothers Finance Designated Activity Company[19] (Ireland)
Close Brothers Finance plc[1]
Close Brothers Limited[1]
Close Brothers Motor Finance Payments Limited[19] (Ireland)
Close Brothers Premium DAC[16] (Ireland)
Close Brothers Retention Holdings Designated Activity Company[19] (Ireland)
Close Brothers Technology Services Limited[1]
Close Brothers Vehicle Hire Limited[12]
Close Business Finance Limited[2]
Close Credit Management (Holdings) Limited[1]
Close Finance (CI) Limited[14] (Jersey)
Close Invoice Finance Limited[1]
Close Leasing Limited[11]
Close PF Funding I Limited[9, 21]
Commercial Acceptances Limited[6]
Commercial Finance Credit Limited[2]
Corporate Asset Solutions Limited[4]
Finance for Industry Limited[1]
Finance for Industry Services Limited[1]
Kingston Asset Finance Limited[2]
Kingston Asset Leasing Limited[2]
Novitas Loans Limited[2]
Novitas (Salisbury) Limited[2]
Orbita Funding 2020-1 plc[18, 21]
Orbita Funding 2022-1 plc[9, 21]
Orbita Funding 2023-1 plc[9, 21]
Orbita Funding 2024-1 plc[9, 21]
Orbita Holdings Limited[10, 21]
Orbita Holdings no.2 Limited[9, 21]
Surrey Asset Finance Limited[2]
Topaz Asset Finance 2019-1 DAC[20, 21]
Topaz Asset Finance 2020-1 DAC[20, 21]

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[15] (Delaware, USA)

Asset Management

Bottriell Adams LLP[1]
Cavanagh Financial Management Limited[7]
CBF Wealth Management Limited[1]
CFSL Management Limited[1]
Close Asset Management Holdings Limited[1]
Close Asset Management Limited[1]
Close Asset Management (UK) Limited[1]
Close Brothers Asset Management (Guernsey) Limited[17] (Guernsey)
Close Investments Limited[1]
Close Portfolio Management Limited[1]
EOS Wealth Management Limited[1]
Lion Nominees Limited[1]
Place Campbell Close Brothers Limited[8] (joint venture with 50% shareholding)
PMN Financial Management LLP[1]

Registered office addresses:
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. 30 Finsbury Square, London EC2A 1AG, United Kingdom.
5. Unit 1, Kingfisher Park, Headlands Business Park, Ringwood, Hampshire BH24 3NX, United Kingdom.
6. 101 Wigmore Street, London W1U 1QU, United Kingdom.
7. 60 Melville Street, Edinburgh EH3 7HF, United Kingdom.
8. Wilmington House, High Street, East Grinstead, West Sussex RH19 3AU, United Kingdom.
9. 10th Floor, 5 Churchill Place, London E14 5HU, United Kingdom.
10. 1 Bartholomew Lane, London EC2N 2AX, United Kingdom.
11. Olympic Court Third Avenue, Trafford Park Village, Manchester M17 1AP, United Kingdom.
12. Lows Lane, Stanton-By-Dale, Ilkeston, Derbyshire DE7 4QU, United Kingdom.
13. Grosse Bleiche 35-39, 55116, Mainz, Germany.
14. Conway House, Conway Street, St Helier JE4 5SR, Jersey.
15. 1209 Orange Street, Wilmington 19801, New Castle, Delaware, USA.
16. Swift Square, Building 1, Santry Demesne, Northwood, Dublin, DO9 AOE4, Ireland.
17. PO Box 186, Royal Chambers, St Julian's Avenue, St Peter Port GY1 4HP, Guernsey.
18. 40a Station Road, Upminster, Essex RM14 2TR, United Kingdom.
19. Unit 18, Northwood House, Northwood Business Campus, Dublin 9 D09 A0E4, Ireland
20. 1-2 Victoria Buildings, Haddington Road, Dublin D04 XN32 Ireland

Subsidiaries by virtue of control:
21. The related undertakings are included in the consolidated financial statements as they are controlled by the group.

29. Post Balance Sheet Event

Following a comprehensive strategic review, on 19 September 2024, the group announced that it entered into an agreement to sell CBAM to Oaktree for an equity value of up to £200 million. CBAM is a well-regarded UK wealth management franchise and the transaction will strengthen the group's capital base and enhance its position to navigate the current uncertain environment.

Under the terms of the transaction, the equity value of up to £200 million includes £172 million of cash to be paid at or before completion of the transaction, comprising an upfront cash consideration of £146 million payable by Oaktree to the group on completion, a dividend of approximately £26 million payable by CBAM to the group on or before completion, subject to applicable regulatory capital requirements, and £28 million of contingent deferred consideration in the form of preference shares. The group intends to retain cash received by completion, expected to amount to approximately £172 million, gross of transaction costs.

As at 31 July 2024, CBAM had balance sheet assets of £192.0 million and liabilities of £70.2 million, comprised largely of working capital and intangible assets, with a net asset value of £121.8 million. The net asset value includes goodwill of £43.5 million and £12.2 million of intangible assets, resulting in a tangible net asset value of £66.1 million. CBAM is one of the group's five operating segments with total operating income of £157.8 million and profit after tax of £7.4 million in the 2024 financial year. Further detail on CBAM can be found within Note 3 "Segmental Analysis", including CBAM's income statement for the financial years ended 31 July 2024 and 31 July 2023.

The upfront proceeds are expected to increase the group's common equity tier 1 ("CET1") capital ratio by approximately 100 basis points on a pro forma basis. This calculation assumes a reduction in credit RWAs, no immediate reduction in operational RWAs and does not include any benefit from contingent deferred consideration. This estimate is subject to change before completion and is based on upfront proceeds from the transaction of c.£172 million, CBAM's net asset value of £121.8 million and excludes the deferred consideration. Therefore, the fair value of the business remains above its carrying value.

During the 2025 financial year, and in line with IFRS 9 "Financial Instruments" and IFRS 13 "Fair Value Measurement", a full accounting assessment of the contingent deferred consideration will be undertaken. The contingent deferred consideration will be in the form of preference shares, redeemable no later than Oaktree's exit, for an amount of up to £28 million plus interest at a rate of 8 per cent. per annum, stepping up after five years to 12 per cent. The deferred consideration is subject to potential deductions, including in relation to retention of key individuals and certain potential regulatory costs and separation cost overruns.

This is a non-adjusting event under the requirements of IAS 10 "Events After the Reporting Period" and as at 31 July 2024 the business did not meet the 'held for sale' criteria under IFRS 5 "Non-current Assets Held for Sale and Discontinued Operations". A sale was not assessed to be highly probable given the transaction status at that date, and therefore the held for sale criteria was not met.

The transaction is expected to complete in early 2025 calendar year. Details of the transaction can be found on the separate announcement published on 19 September 2024, available on the Investor Relations website.

Glossary and Definition of Key Terms

Additional Tier 1 ("AT1") capital	Additional regulatory capital that along with CET1 capital makes up a bank's Tier 1 regulatory capital. Includes the group's perpetual subordinated contingent convertible securities classified as other equity instruments under IAS 32
Adjusted	Adjusted measures are presented on a basis consistent with prior periods and exclude amortisation of intangible assets on acquisition, to present the performance of the group's acquired businesses consistent with its other businesses; and any exceptional and other adjusting items which do not reflect underlying trading performance
Adjusted Earnings per Share ("AEPS")	Adjusted profit attributable to ordinary shareholders divided by basic weighted average number of ordinary shares in issue
Applicable requirements	Applicable capital ratio requirements consist of the Pillar 1 requirement as defined by the CRR, the Pillar 2a requirement set by the PRA, and the capital conservation buffer and countercyclical buffer as defined by the CRD. Any applicable PRA buffer is excluded
Assets under administration	Total assets for which Winterflood Business Services provide custody and administrative services
Bad debt ratio	Impairment losses in the year as a percentage of average net loans and advances to customers and operating lease assets
Bargains per day	Average daily number of Winterflood's trades with third parties
Basic earnings per share ("EPS")	Profit attributable to ordinary shareholders divided by basic weighted average number of ordinary shares in issue
Bounce Back Loan Scheme ("BBLS")	UK government business lending scheme that helped 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 ("CRD")	European Union regulation implementing the Basel III requirements in Europe, alongside CRR II
Capital Requirements Regulation ("CRR")	Capital Requirements Regulation as implemented in the PRA Rulebook CRR Instrument and the PRA Rulebook CRR Firms: Leverage Instrument (collectively known as "CRR")
CDP	Formerly the "Carbon Disclosure Project", a leading, internationally recognised independent rating agency and assessor of corporate carbon emissions disclosures and actions
CET1 capital ratio	Measure of the group's CET1 capital as a percentage of risk weighted assets, as required by CRR
Common Equity Tier 1 ("CET1") capital	Measure of capital as defined by the CRR. CET1 capital consists of the highest quality capital including ordinary shares, share premium account, retained earnings and other reserves, less goodwill and certain intangible assets and other regulatory adjustments
Compensation ratio	Total staff costs as a percentage of adjusted operating income
Cost of funds	Interest expense incurred to support the lending activities divided by the average net loans and advances to customers and operating lease assets
Coronavirus Business Interruption Loan Scheme ("CBILS")	UK government business lending scheme that helped 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 helped medium and large-sized businesses access loans and other kinds of finance up to £200 million
Credit-impaired	Where one or more events that have a detrimental impact on the estimated future cash flows of a loan have occurred. Credit-impaired events are more severe than SICR triggers. Accounts which are credit-impaired will be allocated to Stage 3

Customer satisfaction score ("CSAT")	A measure of customer satisfaction expressed as a percentage of positive responses from the total of those surveyed
Discounting	The process of determining the present value of future payments
Dividend per share ("DPS")	Comprises the final dividend proposed for the respective year, together with the interim dividend declared and paid in the year
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 ("ETR")	Tax on operating profit/(loss) as a percentage of operating profit/(loss) on ordinary activities before tax
Expected credit loss ("ECL")	The unbiased probability-weighted average credit loss determined by evaluating a range of possible outcomes and future economic conditions
Expense/income ratio	Total adjusted operating expenses divided by operating income
Exposure at default ("EAD")	The capital outstanding at the point of default
Financial Conduct Authority ("FCA")	A financial regulatory body in the UK, regulating financial firms and maintaining integrity of the UK's financial market
Financial Ombudsman Service ("FOS")	The Financial Ombudsman Service settles complaints between consumers and businesses that provide financial services
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 available funding, excluding equity and funding held for liquidity purposes
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
Growth Guarantee Scheme ("GGS")	The successor scheme to the Recovery Loan Scheme, the Growth Guarantee Scheme launched in July 2024 and is designed to support access to finance for UK small businesses as they look to invest and grow
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 ("IFA")	Professional offering independent, whole of market advice to clients including investments, pensions, protection and mortgages
Internal Capital Adequacy Assessment Process ("ICAAP")	An annual self-assessment of a bank's material risks and the associated level of capital needed to be held, and undertaking appropriate stress testing of capital adequacy
Internal Liquidity Adequacy Assessment Process ("ILAAP")	The processes for the identification, measurement, management and monitoring of liquidity
Internal ratings based ("IRB") approach	A supervisor-approved method using internal models, rather than standardised risk weightings, to calculate regulatory capital requirements for credit risk
International Accounting Standards ("IAS")	Older set of standards issued by the International Accounting Standards Council, setting up accounting principles and rules for preparation of financial statements. IAS are being superseded by IFRS
International Financial Reporting Standards ("IFRS")	Globally accepted accounting standards issued by the IFRS Foundation and the International Accounting Standards Board

Investment costs	Includes depreciation and other costs related to investment in multi-year projects, new business initiatives and pilots, and cyber resilience. Excludes IFRS 16 depreciation
Leverage ratio	Tier 1 capital as a percentage of total balance sheet assets, adjusted for certain capital deductions, including intangible assets, and off-balance sheet exposures
Lifetime expected credit loss provision ("Lifetime ECL")	Losses that result from default events occurring within the lifetime of the loan
Liquidity coverage ratio ("LCR")	Measure of the group's HQLAs as a percentage of expected net cash outflows over the next 30 days in a stressed scenario
Loan to value ("LTV") ratio	For a secured or structurally protected loan, the loan balance as a percentage of the total value of the asset
Long-term bad debt ratio	Long-term bad debt ratio is calculated using IAS 39 until the change to IFRS 9 in FY19. Bad debt ratio excluding Novitas only disclosed from FY21 onwards. Long-term average bad debt ratio of 1.2% based on the average bad debt ratio for FY08-FY24, excluding Novitas.
Loss day	Where aggregate gross trading book revenues are negative at the end of a trading day
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
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 asset value ("NAV") per share	Total assets less total liabilities and other equity instruments, divided by the number of ordinary shares in issue excluding own shares
Net carrying amount	Loan book value after expected credit loss provision
Net flows	Net flows as a percentage of opening managed assets calculated on an annualised basis
Net interest margin ("NIM")	Operating income generated by lending activities, including interest income net of interest expense, fees and commissions income net of fees and commissions expense, and operating lease income net of operating lease expense, less depreciation on operating lease assets, divided by average net loans and advances to customers and operating lease assets
Net promoter score ("NPS")	A measure of customer satisfaction by which unfavourable ratings are deducted from favourable ratings; hence a score above 0 is good, and above 50 is excellent
Net stable funding ratio ("NSFR")	Regulatory measure of the group's weighted funding as a percentage of weighted assets
Net zero	Target of completely negating the amount of greenhouse gases produced by reducing emissions or implementing methods for their removal
Operating margin	Adjusted operating profit divided by operating income
Paris Agreement	International treaty on climate change, adopted in 2015, with a goal to limit global warming to well below 2°C, and preferably to 1.5°C, compared to pre-industrial levels
Personal Contract Plan ("PCP")	PCP is a form of vehicle finance where the customer defers a significant portion of credit to the final repayment at the end of the agreement, thereby lowering the monthly repayments compared to a standard hire-purchase arrangement. At the final repayment date, the customer has the option to: (a) pay the final payment and take the ownership of the vehicle; (b) return the vehicle and not pay the final repayment; or (c) part-exchange the vehicle with any equity being put towards the cost of a new vehicle
Probability of default ("PD")	Probability that a customer will default on their loan
Prudential Regulation Authority ("PRA")	A financial regulatory body, responsible for regulating and supervising banks and other financial institutions in the UK

Recovery Loan Scheme	Launched in April 2021 as a replacement to CBILS. Under the terms of the scheme, businesses of any size that have been adversely impacted by the Covid-19 pandemic can apply to borrow up to £10 million, with accredited lenders receiving a government-backed guarantee of 80% on losses that may arise
Return on assets	Adjusted operating profit attributable to ordinary shareholders divided by total closing assets at the balance sheet date
Return on average tangible equity ("RoTE")	Adjusted operating profit attributable to ordinary shareholders divided by average total shareholders' equity, excluding intangible assets and other equity instruments
Return on net loan book ("RoNLB")	Adjusted operating profit from lending activities divided by average net loans and advances to customers and operating lease assets
Return on opening equity ("RoE")	Adjusted operating profit attributable to ordinary shareholders divided by opening equity, excluding non-controlling interests and other equity instruments
Revenue margin	Income from advice, investment management and related services divided by average total client assets. Average total client assets calculated as a two-point average
Risk weighted assets ("RWAs")	A measure of the amount of a bank's assets, adjusted for risk in line with the CRR. It is used in determining the capital requirement for a financial institution
Scope 1, 2 and 3 emissions	Categorisation of greenhouse gas emissions, as defined by the Greenhouse Gas (GHG) Protocol, into direct emissions from owned or controlled sources (Scope 1), indirect emissions from the generation of purchased electricity, heating and cooling consumed by the reporting company (Scope 2), and all other indirect emissions that occur in a company's value chain (Scope 3)
Secured debt	Debt backed or secured by collateral
Senior debt	Represents the type of debt that takes priority over other unsecured or more junior debt owed by the issuer. Senior debt is first to be repaid ahead of other lenders or creditors
Significant increase in credit risk ("SICR")	An assessment of whether credit risk has increased significantly since initial recognition of a loan using a range of triggers. Accounts which have experienced a significant increase in credit risk will be allocated to Stage 2
Standardised approach	Generic term for regulator-defined approaches for calculating credit, operational and market risk capital requirements as set out in the CRR
Subordinated debt	Represents debt that ranks below, and is repaid after claims of, other secured or senior debt owed by the issuer
Tangible net asset value ("TNAV") per share	Total assets less total liabilities, other equity instruments and intangible assets, divided by the number of ordinary shares in issue excluding own shares
Task Force on Climate-related Financial Disclosures ("TCFD")	Regulatory framework to improve and increase reporting of climate-related financial information, including more effective and consistent disclosure of climate-related risks and opportunities
Term Funding Scheme ("TFS")	The Bank of England's Term Funding Scheme
Term Funding Scheme for Small and Medium-sized Enterprises ("TFSME")	The Bank of England's Term Funding Scheme with additional incentives for SMEs
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 funding as percentage of loan book	Total funding divided by net loans and advances to customers and operating lease assets
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	21 November 2024
Annual General Meeting	21 November 2024
Half year end	31 January 2025
Interim results	March 2025
Third quarter trading update	May 2025
Financial year end	31 July 2025
Preliminary results	September 2025

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.

Cautionary Statement

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. All statements other than statements of historical fact are, or may be deemed to be, forward-looking statements. 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. There are also a number of factors that could cause actual future operations, performance, financial conditions, results or developments to differ materially from the plans, goals and expectations expressed or implied by these forward-looking statements and forecasts. These factors include, but are not limited to, those contained in this report. 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 document should be construed as a profit forecast. Past performance cannot be relied upon as a guide to future performance and persons needing advice should consult an independent financial adviser.

This report does not constitute or form part of any offer or invitation to sell, or any solicitation of any offer to subscribe for or purchase any shares or other securities in the company or any of its group members, nor shall it or any part of it or the fact of its distribution form the basis of, or be relied on in connection with, any contract or commitment or investment decisions relating thereto, nor does it constitute a recommendation regarding the shares or other securities of the company or any of its group members. Statements in this report reflect the knowledge and information available at the time of its preparation. Liability arising from anything in this report shall be governed by English law. Nothing in this report shall exclude any liability under applicable laws that cannot be excluded in accordance with such laws.

Company Information

Registered Office

Close Brothers Group plc
10 Crown Place
London EC2A 4FT

Telephone: +44 (0)333 321 6100
Email: enquiries@closebrothers.com
Website: www.closebrothers.com
Company No. 00520241

Independent Auditor

PricewaterhouseCoopers LLP
1 Embankment Place
London WC2N 6RH

Solicitor

Slaughter and May
One Bunhill Row
London EC1Y 8YY

Corporate Brokers

Keefe, Bruyette & Woods (A Stifel Company)
UBS AG London Branch

Registrar

Link Group
Central Square
29 Wellington Street
Leeds LS1 4DL

Customer support centre: 0371 664 0300 (calls are charged at the standard geographic rate and will vary by provider)
From overseas: +44 (0)371 664 0300 (calls will be charged at the applicable international rate)
Lines are open from 9.00 am to 5.30 pm Monday to Friday, excluding public holidays in England and Wales
Email: shareholderenquiries@linkgroup.co.uk
Website: www.linkgroup.eu
Online proxy voting: www.signalshares.com

Shareholder Warning

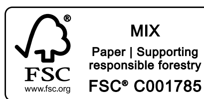
Fraudsters use persuasive and high-pressure tactics to lure investors into scams. They may offer to sell shares that prove to be worthless or non-existent, or to buy shares at an inflated price in return for an upfront payment. While high profits are promised, if you buy or sell shares in this way you will probably lose your money.

How to Avoid Share Fraud

- Keep in mind that firms authorised by the FCA are unlikely to contact you out of the blue with an offer to buy or sell shares.
- Do not get into a conversation, but note the name of the person and firm contacting you and then end the call.
- Check the Financial Services Register at https://register.fca.org.uk/s/ to see if the person and firm contacting you are authorised by the FCA.
- Beware of fraudsters claiming to be from an authorised firm, copying its website, or giving you false contact details.
- If you want to phone the caller back, use the firm's contact details listed on the Financial Services Register at https://register.fca.org.uk/s/
- If the firm does not have contact details on the Register or they tell you the details are out of date, call the FCA on 0800 111 6768.
- Search the list of unauthorised firms to avoid at https://www.fca.org.uk/consumers/unauthorised-firms-individuals
- Remember that if you buy or sell shares from an unauthorised firm, you cannot access the Financial Ombudsman Service or Financial Services Compensation Scheme.
- Get independent financial and professional advice before handing over any money.
- If it sounds too good to be true, it probably is.

Report a Scam

If fraudsters approach you, tell the FCA using the share fraud reporting form at https://www.fca.org.uk/consumers/report-scam-us. You can also find out more about investment scams at https://www.fca.org.uk/scamsmart/how-avoid-investment-scams. You can call the FCA Consumer Helpline on 0800 111 6768. If you have already paid money to share fraudsters, call Action Fraud on 0300 123 2040.



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Close Brothers Group plc

10 Crown Place
London EC2A 4FT
Tel: +44 (0)333 321 6100
www.closebrothers.com