Directors' Remuneration Report

Bridget Macaskill Chair of the Remuneration Committee

This report sets out our approach to remuneration for the group's employees and directors for the 2020 financial year, and new policy for the next three years.

The Directors' Remuneration Report is divided into three sections:

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

Annual Statement from the Remuneration Committee Chair

On behalf of the board and the Remuneration Committee, I am pleased to present the Directors' Remuneration Report for the 2020 financial year.

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

How the group performed during the 2020 financial year

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

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

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

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

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

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

Directors' Remuneration Report continued

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

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

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

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

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

Executive director remuneration outcomes in 2020 financial year

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

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

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

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

The financial targets within the Long-Term Incentive Plan ("LTIP") grants awarded in 2017 have also proven highly demanding given the current market conditions. Adjusted EPS growth over the three-year period remained under the minimum threshold and did not vest. Average annual return on equity over the performance period was above the threshold target. The continued prudent approach to capital management combined with a good performance in risk, compliance and controls mean that the risk management objectives element scored highly. The overall level of the vesting of the LTIP has increased from the previous year's award. The vesting outcomes are set out on pages 107 to 109.

Directors' Remuneration Policy

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

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

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

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

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

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

Implementation of the Policy in 2021 financial year

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

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

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

Changes to the board of directors during the year

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

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

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

Group-wide employee remuneration

The responsibility for determining the reward practices on a group-wide basis lies with the Remuneration Committee.

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

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

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

Gender pay disclosure

This year the Remuneration Committee has overseen the publication of our third gender pay gap report, which is published on our website at https://www.closebrothers.com/sites/default/files/CBG_Gender_Pay_Gap_Report_2019_2020.pdf. We are confident that men and women are paid equally for performing equivalent roles across our businesses and are committed to taking steps to reduce our gender pay gap, which is primarily driven by a lower proportion of women in senior and front office roles where market rates are higher. Our focus on closing the gender pay gap is through increasing female representation at all levels by setting representation targets and supporting development programmes. As signatories of the Women in Finance Charter we set a target of 30% of senior manager roles being held by a female by July 2020 and are pleased to have met that target by reaching a new level of 33%. At the end of the financial year we also exceeded the government's target for 33% of board members to be women and remain broadly in line with Hampton-Alexander gender targets for executives and their direct reports.

Whilst gender pay provides the most direct link to remuneration, we have a broad focus and ambitions around inclusion matters and are committed to fairness and equality. We are signatories of the Social Mobility pledge and this year we also became signatories of the Race at Work Charter to help direct our actions around race equality. Objectives to support inclusion are linked to executive pay through risk management objectives within our executives' long-term incentive plan.

We are pleased that our employees continue to feel that we are an inclusive organisation, as demonstrated by responses in the employee opinion survey, and we continue to push forward and implement activities and initiatives in this sphere to ensure we are building an inclusive environment where all our colleagues feel proud to work for us.

UK Corporate Governance Code

The updates in our proposed new Policy mean that we will be fully compliant with the executive pay provisions of the 2018 UK Corporate Governance Code. Our pay arrangements are also consistent with the following principles set out in the Code:

- Clarity – this Directors' Remuneration Report provides open and transparent disclosure of our executive remuneration arrangements for our internal and external stakeholders.
- Simplicity and alignment to culture - incentive arrangements for our executives are straightforward with individuals eligible for an annual bonus and, at more senior levels, a single long-term incentive plan. Performance measures used in these plans are designed to support delivery of the group's key strategic priorities and our commitment to adopt a responsible, sustainable business model, in line with our purpose and values.

Directors' Remuneration Report continued

- Predictability - our incentive arrangements contain maximum opportunity levels with outcomes varying depending on the level of performance achieved against specific measures. The charts on page 98 provide estimates of the potential total reward opportunity for the executive directors under our Policy.
- Proportionality and risk - our variable remuneration arrangements are designed to provide a fair and proportionate link between group performance and reward. In particular, partial deferral of the annual bonus into shares, five-year release periods for LTIP awards and stretching shareholding requirements that apply during and post-employment provide a clear link to the ongoing performance of the group and therefore long-term alignment with stakeholders. We are also satisfied that the variable pay structures do not encourage inappropriate risk-taking. Notwithstanding this, the Remuneration Committee retains an overriding discretion that allows it to adjust formulaic annual bonus and/or LTIP outcomes so as to guard against disproportionate out-turns. Malus and clawback provisions also apply to both the annual bonus and LTIP and can be triggered in circumstances outlined in the Policy.

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

Bridget Macaskill
Chair of the Remuneration Committee

22 September 2020

Directors' Remuneration Policy

This section of the report sets out the group's proposed Remuneration Policy for directors and explains each element and how it will operate. This Directors' Remuneration Policy will be subject to a binding shareholder vote at our AGM in November 2020 and, if approved, will apply from the date of the AGM.

The Remuneration Committee ("the Committee") discussed the detail of the Policy over a series of meetings which considered the strategic priorities of the business and evolving market and regulatory practice. Input was sought from the management team, while ensuring that conflicts of interest were suitably mitigated. An external perspective was provided by our major shareholders and independent advisers.

As noted in the Committee Chair's Annual Statement, this Policy remains largely unchanged from the previous policy approved by shareholders in 2017 other than the following governance and administrative updates:

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

The reward structure aims to:

- attract, motivate and retain high calibre EDs;
- reward good performance;
- promote the achievement of the group's annual plans and its long-term strategic objectives;
- align the interests of EDs with those of all key stakeholders, in particular our shareholders, clients and regulators; and
- support effective risk management and promote a positive corporate culture and appropriate conduct to both employees and clients.

Directors' Remuneration Report continued

Remuneration Policy for executive directors

Element and how it supports the group's short-term and long-term strategic objectives	Operation and maximum payable	Performance framework, recovery and withholding
Base salary Attracts and retains high calibre employees. Reflects the employee's role and experience.	Salaries are based on the individual's role and experience and external factors, as applicable. Paid monthly in cash. Salaries will be reviewed annually or when there is a change in role or responsibility. Any changes normally take effect from 1 August and will generally not exceed those for the broader employee population. Increases may be made above this level in certain circumstances, such as: • progression within the role; • increase in scope and responsibility of the role; • increase in experience where an individual has been recruited on a lower salary initially; and • increase in size and complexity of the company.	Not applicable.
Changes from previous policy A description has been provided of the considerations that the Committee will take into account for increasing salaries above the average for all employees during the remuneration policy period.		
Benefits Enables the EDs to perform their roles effectively by contributing to their wellbeing and security. Provides competitive benefits consistent with the role.	Any benefits allowances will be paid monthly and will not form part of pensionable salary. Benefits may include: • Private medical cover. • Health screening. • Life assurance cover. • Income protection cover. • Directors' and Officers' Liability Insurance. • Allowance in lieu of a company car. The maximum allowance is £18,000 for the chief executive and £12,000 for other EDs. • Other benefits or payments in lieu of benefits may also be provided in certain circumstances (such as relocation expenses).	Not applicable.
Changes from previous policy None.		
Pension Provides an appropriate and competitive level of personal and dependant retirement benefits.	EDs will receive a level of pension contribution (in the form of a cash allowance or contribution to a pension arrangement) that is in line with the wider workforce.	Not applicable.
Changes from previous policy Reduction in maximum pension contribution from 22.5% of salary to up to 10% of salary, to bring this fully in line with the level currently offered to the wider workforce.		

Element and how it supports the group's short-term and long-term strategic objectives	Operation and maximum payable	Performance framework, recovery and withholding
Annual bonus Rewards good performance. Motivates employees to support the group's goals, strategies and values over both the medium and long term. Aligns the interests of senior employees and executives with those of key stakeholders, including shareholders, and increases retention for senior employees, through the use of deferrals.	60% of the annual bonus will usually be deferred into shares (in the form of nil cost options or conditional awards) and will usually vest in equal tranches over three years, subject to remaining in service. The remaining annual bonus will be delivered immediately in cash. The annual bonus is capped at 300% of base salary. At the Committee's discretion, dividend equivalents will usually be paid in cash or additional shares when the deferred awards vest.	Individual bonuses are determined based on both financial and non-financial performance measures in the financial year, including adherence to relevant risk and control frameworks. At the Committee's discretion, an element of the bonus may also be based on personal performance. Weightings At least 60% of the annual bonus opportunity will be based on financial performance. The non-financial element will be determined based on performance measured against a balanced scorecard, including (but not limited to): • strategic objectives; and/or • people and customer metrics; and/or • risk, conduct and compliance measures. The Committee maintains discretion to vary the measures and their respective weightings within each category. The actual performance objectives will be set at the beginning of each financial year but will not be disclosed prospectively due to commercial sensitivity reasons. They will be designed to align the interests of EDs with the key stakeholders over the medium term, be challenging and also provide an effective incentive for the EDs. Performance against the objectives that comprise the balanced scorecard and their weightings will be disclosed retrospectively on an annual basis as part of the Annual Report on Remuneration. Amount payable for threshold performance No more than one third of maximum. Amount payable for target performance No more than 50% of maximum. Recovery and withholding The cash element is subject to clawback and the deferred element is subject to malus and clawback conditions, as outlined on pages 96 and 97.

Changes from previous policy

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

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

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

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Element and how it supports the group's short-term and long-term strategic objectives	Operation and maximum payable	Performance framework, recovery and withholding
Long-Term Incentive Plan Motivates executives to achieve the group's longer-term strategic objectives. Aids the attraction and retention of key staff. Aligns executive interests with those of shareholders.	Awards are made in the form of nil cost options or conditional awards and usually vest after three years subject to achieving performance conditions and remaining in service. On vesting, awards will usually be subject to a further two-year post-vesting retention period before options can be exercised by, or conditional awards paid to, EDs. At the Committee's discretion, dividend equivalents will usually be paid in cash or additional shares when LTIP awards are released. EDs are eligible to receive an annual award of shares with a face value of up to 350% of base salary, excluding dividend equivalents.	Measures and weightings Individual awards vest based on performance against both financial and non-financial performance measures. At least 70% of the award will be based on performance against financial measures. The remainder will be based on non-financial performance. The Committee maintains discretion to vary the measures and their respective weightings within each category. The choice of measures and their respective weightings will be disclosed annually as part of the Annual Report on Remuneration. The Committee has an overriding discretion, in respect of awards granted on or after 15 November 2018, to adjust vesting outcomes where it considers the application of formulaic performance conditions to be inappropriate. Amount payable for threshold performance For each element of the award, vesting starts at 25% for threshold performance, rising on a straight-line basis to 100% for maximum performance. The target ranges set for the financial measures in each grant and performance against the targets at vesting will be reported in the Annual Report on Remuneration for the relevant financial years. Recovery and withholding LTIP awards are subject to malus and clawback provisions, as outlined on pages 96 and 97.

Changes from previous policy

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

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

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

Element and how it supports the group's short-term and long-term strategic objectives	Operation and maximum payable	Performance framework, recovery and withholding
Save As You Earn ("SAYE") Aligns the interests of executives with those of shareholders through building a shareholding.	EDs have the option to save a fixed amount per month over a three or five-year timeframe. At the end of the period employees can withdraw all of their savings, or use some or all of their savings to buy shares at the guaranteed option price. The option price is set at the beginning of the participation period and is usually set at a 20% discount to the share price at invitation. EDs can make total maximum contributions of up to £6,000 per annum, or up to the maximum permitted by HMRC rules at any given time. The Committee reserves the discretion to increase the maximum contributions in line with any HMRC rule changes during the period of the Policy.	Not applicable, as this is a voluntary scheme where EDs have invested their own earnings.
Changes from previous policy None.		
Share Incentive Plan ("SIP") Aligns the interests of executives with those of shareholders through building a shareholding.	EDs are able to contribute up to a maximum of £1,800 per annum from pre-income tax and national insurance earnings to buy Partnership Shares. At present the Committee has determined that EDs have the ability to buy Partnership Shares. Currently there is no match but the Committee retains the discretion to offer Matching Shares of up to twice the number of Partnership Shares and or award free shares. This will be on the same basis for all employees should the Committee exercise this discretion. Dividends paid on shares held in the SIP are reinvested to acquire further Dividend Shares. The Committee reserves the discretion to increase the maximum contributions in line with any HMRC rule changes during the period of the Policy.	Not applicable, as this is a voluntary scheme where EDs have invested their own earnings.
Changes from previous policy None.		
Shareholding requirement Aligns the interests of executives with those of shareholders.	EDs are expected to build and maintain a holding of company shares equal to at least 200% of base salary. EDs will normally be expected to maintain a minimum shareholding of 200% of base salary for the two years after stepping down as an ED. This post-employment guideline will apply from the date of adoption of the Policy. The Committee retains discretion to waive this guideline if it is not considered appropriate in the specific circumstances.	Not applicable.
Changes from previous policy Introducing a post-employment shareholding requirement for the EDs in line with the 2018 Code requirements.		
Other	The group will pay legal, training and other reasonable and appropriate fees, including any relevant tax liabilities, incurred by the EDs as a result of doing their job.	Not applicable.
Changes from previous policy None.		

Directors' Remuneration Report continued

Additional details on the Directors' Remuneration Policy

The Committee may amend the performance condition applying to an LTIP award if an event or a series of events happens as a result of which the Committee considers it fair and reasonable to make the change, provided that the performance condition is not made either materially easier or materially more difficult to achieve than when the award was originally granted. The power to change includes the power to adjust the existing performance condition or to impose a new performance condition or objective condition. The Committee will make full and clear disclosure of any such adjustments within the Annual Report on Remuneration for the relevant financial year.

The Committee has an overriding discretion (in respect of awards granted on or after 15 November 2018), notwithstanding any performance conditions, to adjust vesting outcomes where it considers the application of formulaic performance conditions to be inappropriate. The Committee will make full and clear disclosure of any such adjustments within the Annual Report on Remuneration for the relevant financial year.

The Committee may make minor amendments to this Policy (for regulatory, exchange control, tax or administrative purposes, to correct clerical errors or to take account of a change in legislation) without obtaining shareholder approval for that amendment.

In the event of a variation of share capital, demerger, special dividend, distribution or any other corporate event which may affect the current or future value of a share award, the Committee may adjust an award as appropriate.

Rationale for choice of performance conditions

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

At maximum performance, the ratio of financial to non-financial measures for the group chief executive and group finance director across the annual bonus and LTIP is approximately two-thirds. The Committee believes this combination provides a good balance of financial and non-financial measures, supports the medium and long-term strategic objectives of the group, is consistent with regulatory requirements and provides alignment with shareholders' interests.

The actual performance targets will be set at the beginning of each financial year based on prior year performance, expected performance, strategic priorities for the year and other internal and external factors as appropriate. All targets will be set at levels that are stretching but remain achievable within the context of this model and the broader external environment.

Malus and clawback

The LTIP rules and the rules which apply to the deferred element of the annual bonus contain malus and clawback provisions that allow the Remuneration Committee to reduce or recover a payment or an award. The cash element of the annual bonus is also subject to clawback provisions.

Malus is the adjustment of LTIP awards or the deferred element of the annual bonus because of the occurrence of one or more circumstances listed below. The adjustment may result in the value being reduced, including to nil.

Clawback is the recovery of the cash element of the annual bonus, vested LTIP awards (including adjustments in respect of dividends) and/or vested awards over the deferred element of the annual bonus (including adjustments in respect of dividends) as a result of the occurrence of one or more circumstances listed below. Clawback may apply to all or part of a payment and may be effected, among other means, by requiring the transfer of shares, payment of cash or reduction of other awards or bonuses.

The circumstances in which malus and clawback can be applied currently differ between the LTIP and the annual bonus (the cash element and the deferred element). The company has extended the circumstances in which malus and clawback can be applied and is intending to align the position between the LTIP and annual bonus (cash and deferred elements) in the future. The company intends to apply the extended malus and clawback conditions for LTIP awards for 2020 grant onwards and for the annual bonus awards from 2021 onwards. Please refer to the previous directors' remuneration policy for details of the current malus and clawback triggers which apply to bonus awards and LTIP awards made prior to these dates.

In determining whether to exercise its discretion to apply malus and clawback, the Remuneration Committee will have regard to all relevant circumstances, which will usually include (where relevant) whether, and if so, the extent to which, the ED was responsible for the events in question.

The cash element of the annual bonus is subject to clawback for a period of three years from award. The deferred element vests in equal tranches over three years, and is subject to malus prior to vesting and clawback for three years from the date of grant. LTIP awards are subject to malus for the three-year period to the point of vesting, and are subject to clawback for five years from the date of grant (two years after vesting).

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

Malus triggers

The Remuneration Committee may apply malus to unvested LTIP awards granted on or after 21 September 2020 in the following circumstances:

- The assessment of any performance target or condition, the related bonus and/or the number of shares subject to an award was based on material error, or materially inaccurate or misleading information;
- The ED's employment is terminated for misconduct, or if the ED has been issued with a formal disciplinary warning for misconduct under the company's disciplinary policy (or, if the ED has left employment, the Remuneration Committee becomes aware of circumstances that would have led to their employment being terminated for misconduct or to the issue of a formal disciplinary warning for misconduct had the ED still been in employment);
- The company or a material proportion of the group become(s) insolvent or suffer(s) a corporate failure so that ordinary shares in the company no longer have material value, and for which the Remuneration Committee determines the ED was wholly or partly responsible;
- An event has occurred which has caused, or in the opinion of the Remuneration Committee is reasonably likely to cause, serious reputational damage to the company or any member of the group, and for which the Remuneration Committee determines the ED was wholly or partly responsible;
- The company suffers a material loss, financial or otherwise, where the ED has operated outside the risk parameters or risk profile applicable to their position and for which the Remuneration Committee determines the ED was wholly or partly responsible; and
- The payment of the award in whole or in part is not sustainable when assessing the overall financial viability of the company.

Clawback triggers

The Remuneration Committee may apply clawback to LTIP awards granted on or after 21 September 2020 in the following circumstances:

- Discovery of a material misstatement resulting in an adjustment in the audited consolidated accounts of the group, or the audited accounts of any material subsidiary;
- The assessment of any performance target or condition, the related bonus and/or the number of shares subject to an award was based on material error, or materially inaccurate or misleading information;
- Action or conduct which, in the reasonable opinion of the board, amounts to fraud or gross misconduct (or, if the ED has left employment, the Remuneration Committee becomes aware of circumstances that would have amounted to fraud or gross misconduct had the ED still been in employment);
- The company or a material proportion of the group become(s) insolvent or suffer(s) a corporate failure so that ordinary shares in the company no longer have material value, and for which the Remuneration Committee determines the ED was wholly or partly responsible;
- An event has occurred which has caused, or in the opinion of the Remuneration Committee is reasonably likely to cause, serious reputational damage to the company or any member of the group, and for which the Remuneration Committee determines the ED was wholly or partly responsible; and
- The Company suffers a material loss, financial or otherwise, where the ED has operated outside the risk parameters or risk profile applicable to their position and for which the Remuneration Committee determines the ED was wholly or partly responsible.

Consistency of ED remuneration with wider employee population

The pay and terms and conditions of employment of employees within the group were taken into consideration when setting the Policy and pay of the EDs. The Committee does not formally consult with employees when setting the Policy, although the employee opinion survey conducted every two years includes remuneration as one of the topics surveyed.

The principles of remuneration are applied throughout the group and are designed to support the group's key attributes across our businesses, which are expertise, service and relationships. Remuneration structures and arrangements for all employees are based on the individual's role, experience, performance and relevant market practice.

Annual bonuses are based on role, business performance, market conditions and individual performance. These bonuses are not capped; except for EDs. All highly remunerated employees have a portion of their bonuses deferred.

A limited group of senior employees receive LTIP awards, generally on the same basis as the EDs, but the maximum face value of these awards is generally materially lower as a percentage of base salary.

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

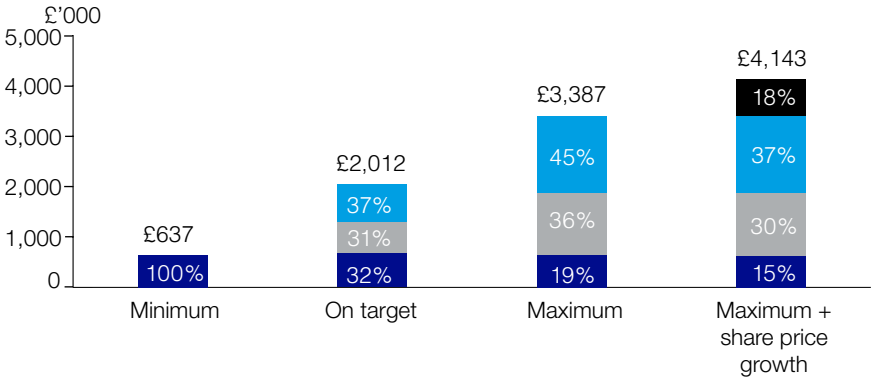
All UK employees are eligible to participate in the SAYE and SIP plans.

Directors' Remuneration Report continued

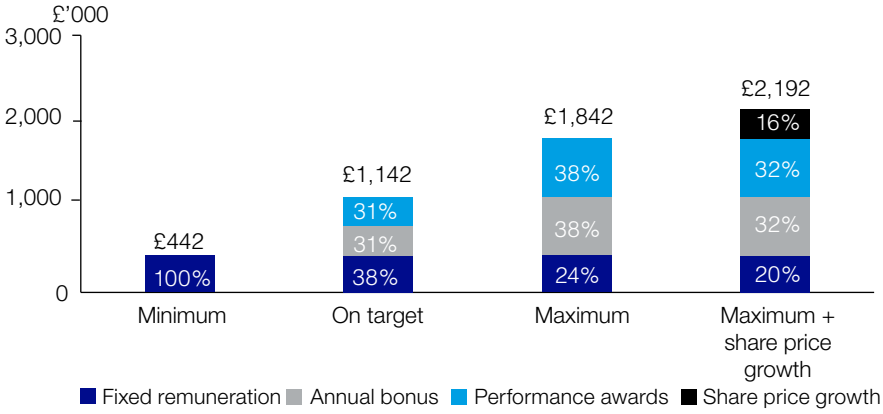
Illustrations of application of Remuneration Policy for EDs

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

CEO: Adrian Sainsbury



CFO: Mike Morgan



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

Approach to recruitment remuneration

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

The Committee may, to the extent permitted by the Listing Rules, seek to "buy out" remuneration or any other compensation arrangements with another employer that the ED forfeits as a result of joining the group. In such cases, the Committee will seek to replace this with awards that match the quantum and terms of the forfeited awards as closely as possible. There may be situations where a new director has to relocate in order to take up the post with the group. In such situations reasonable financial and/or practical support will be provided to enable the relocation. This may include the cost of any tax that is incurred as a result of the move.

In the event that an internal appointment is made, or where an ED is appointed as a result of transfer into the group on an acquisition of another company, the Committee may continue with existing remuneration provisions for any such individual where appropriate.

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

their year of appointment.

Legacy awards

The Committee reserves the right to make any remuneration payments and/or payments for loss of office (including exercising any discretions available to it in connection with such payments) notwithstanding that they are not in line with the Policy set out above where the terms of the payment were agreed (i) before this Policy came into effect, provided that the terms of the payment were consistent with the shareholder-approved policy in force at the time they were agreed; or (ii) at a time when the relevant individual was not a director of the company and, in the opinion of the Committee, the payment was not in consideration for the individual becoming a director of the company. For these purposes "payments" includes the Committee satisfying awards of variable remuneration and, in relation to an award over shares, the terms of the payment are "agreed" at the time the award is granted.

Policy for payment on loss of office

Standard provision	Policy	Details
Notice period	12 months' notice from the company. 12 months' notice from the ED.	• EDs may be required to work during the notice period, may be placed on garden leave or may be provided with pay in lieu of notice if not required to work the full period. • All EDs are subject to annual re-election by shareholders.
Compensation for loss of office in service contracts	No more than 12 months' salary, pension allowance and benefits.	• Payment will be commensurate with the company's legal obligations and we will seek appropriate mitigation of loss by the ED.
Treatment of annual bonus on termination	No bonus is paid unless the ED is employed on date of payment (unless the Committee determines otherwise).	• The Committee may award a pro-rated bonus to EDs who work for part of the year or are "good leavers" (as determined by the Committee) in certain circumstances, although there is no automatic entitlement. "Good leaver" status may be granted in cases such as death, disability or retirement. • The Committee has discretion to reduce the entitlement of a "good leaver" in line with performance, the circumstances of the termination, and the malus conditions applicable to the annual bonus. In determining the level of bonus to be paid, the Committee may, at its discretion, take into account performance up to the date of cessation or over the financial year as a whole based on appropriate performance measures as determined by the Committee. The bonus may, at the Committee's discretion, be paid entirely in cash.
Treatment of unvested deferred awards under the annual bonus plan	Deferred awards will usually be released on the normal release date, unless the Committee elects to release the shares on an earlier date.	• An ED's deferred shares will lapse (unless the Committee determines otherwise) if their employment ends for cause or by reason of their bankruptcy or because they join another financial services company within 12 months of termination. In all other circumstances, deferred shares will be released to a departing ED on the normal release dates (unless the Committee elects to release the shares on an earlier date). • The deferred shares are released in full in the event of a change in control unless the Committee determines otherwise in circumstances specified in the incentive plan rules.
Treatment of the LTIP awards	Vested awards will usually be released on the normal release date, unless the Committee elects to release the shares on an earlier date. Unvested awards lapse unless the individual is a "good leaver" (leaves employment because of death, retirement, ill-health, injury or disability, redundancy, their employing company transfers out of the group or the business for which the individual works transfers out of the group or otherwise at the discretion of the Committee).	• For "good leavers", unvested awards are pro-rated for the period of employment during the performance period. The extent of vesting will be based on the original performance condition assessed over the full performance period (unless the Committee elects to assess performance over an alternative period). • Unless the Committee determines otherwise in circumstances specified in the incentive plan rules, in the event of a change in control, unvested awards will vest subject to time pro-rating and the achievement against the performance targets at that point (or such other date that the Committee determines). However, the Committee retains the discretion to decrease the extent to which any such unvested awards vest taking into consideration other relevant factors, including the circumstances of the change in control.

Directors' Remuneration Report continued

Standard provision	Policy	Details
Outside appointments	EDs may accept external appointments.	• Board approval must be sought before accepting the appointment. • The fees may be retained by the director.
Chairman and non-executive directors	Engaged under letters of appointment for terms not exceeding three years. Renewable by mutual agreement and can be terminated on one month's notice.	• All non-executive directors are subject to annual re-election. • No compensation is payable if required to stand down.
Other	The Committee reserves the right to make any other payments in connection with a director's cessation of office or employment where the payments are made in good faith in discharge of an existing legal obligation (or by way of damages for breach of such an obligation) or by way of a compromise or settlement of any claim arising in connection with the cessation of a director's office or employment. Any such payments may include but are not limited to paying any fees for outplacement assistance and/or the director's legal and/or professional advice fees and/or reasonable relocation costs in connection with cessation of office or employment.	
Other notable provisions in service contracts	There are no other notable provisions in the service contracts.	

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

Dates of EDs' service contracts

Name	Date of service contract
Preben Prebensen[1]	9 February 2009
Adrian Sainsbury	1 May 2020
Mike Morgan	15 November 2018

1 Preben Prebensen stood down as chief executive and as a director at the conclusion of the board's meeting held on 21 September 2020.

Remuneration Policy for the chairman and non-executive directors

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

Non-executive directors' appointment letters

Name	Date of appointment	Current letter of appointment start date
Mike Biggs	14 March 2017	21 September 2020
Lesley Jones	23 December 2013	21 November 2019
Geoffrey Howe	4 January 2011	21 November 2019
Bridget Macaskill	21 November 2013	21 November 2019
Oliver Corbett	3 June 2014	21 November 2019
Peter Duffy	1 January 2019	21 November 2019
Sally Williams	1 January 2020	1 January 2020

Consideration of shareholders' views

The chairman of the board consults our major shareholders on a regular basis on key issues, including remuneration. A formal consultation exercise was undertaken during 2020 with our major shareholders and shareholder advisory bodies as part of the process of reviewing this policy.

Annual Report on Remuneration

Remuneration Committee

Committee roles and responsibilities

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

Membership

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

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

Directors' Remuneration Report continued

Membership activity in the 2020 financial year

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

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

Advice

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

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

Slaughter and May provided legal advice on the company's equity scheme rules. Fees paid to Slaughter and May were £21,500, calculated on a time and material basis.

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

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

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

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

Implementation of the policy in 2020

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

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

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

Link between reward and performance

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

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

For the 2017 Long-Term Incentive Plan vesting this year, 70% of the vesting is based on financial goals and 30% is based on risk, compliance and control objectives. For the financial goals, the AEPS reduction of 43.4% over the last three years was below the threshold performance target of 10% growth and consequently the AEPS element of the LTIP has not vested. The average annual return on equity of 13.6% per annum has exceeded the threshold target of 12.0% per annum, meaning the RoE element contributed 13.9% to the overall vesting. The continued prudent approach to capital management combined with a good performance in risk, compliance and controls mean that the risk management objectives element vested at 94.2% contributing 28.2% to the overall vesting. As a result, the LTIP vested at 42.1% overall this year (see page 107 for further details).

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

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

Salary

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

Benefits

Preben Prebensen received an £18,000 allowance in lieu of a company car. Mike Morgan does not receive an allowance in lieu of a company car. They also received private health cover. The discount to the share price on grant of SAYE options is included in the year of grant.

Pension

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

Annual bonus

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

Directors' Remuneration Report continued

Summary of annual bonus achievement

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

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

Financial measures – RoE targets

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

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

Group-wide performance and executive directors' objectives for the 2020 financial year

The group entered the current crisis in a strong position, with our effective operational resilience allowing us to adapt and remain open for business throughout.

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

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

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

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

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

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

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

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

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

Key: ✓ Performance objective has been achieved = Satisfactory outcome, further progress to be made

X Performance objective has not been met

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

Directors' Remuneration Report continued

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

Long-term performance awards

The performance awards in the single total figure of remuneration include the 2017 LTIP grant. This will vest on 3 October 2020, and the overall vesting is outlined in the table below.

Details of the overall vesting for the LTIP

Performance measure	Threshold target[1]	Maximum target	Actual achieved	Overall vesting
Adjusted EPS growth[2] (35% weighting)	10%	30%	**(43.4)%**	**0.0%**
RoE[3] (35% weighting)	12%	20%	**13.6%**	**13.9%**
Risk management objectives ("RMO") (30% weighting)	n/a	n/a	**94.2%**	**28.2%**
Overall vesting				**42.1%**

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

The share price during the relevant performance period for the LTIP decreased by 23.9% over the three-year period from the date of grant to the end of the performance period. The average share price used to value the awards due to vest in October 2020 was 1,111.0p (from 1 May 2020 to 31 July 2020), which was the performance measurement period). The 2017 LTIP award was originally granted at 1,459.0p.

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

Details of the assessment of the risk management objectives for the LTIP

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

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

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

Year one and year two assessments were set out in the 2018 and 2019 Directors' Remuneration Reports respectively. The year three performance assessment is detailed on the following page.

Directors' Remuneration Report continued

Year three performance assessment against risk management objectives

Key: ✓ Performance objective has been achieved ═ Satisfactory outcome, further progress to be made

✗ Performance objective has not been met

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

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

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

Implementation of the policy in 2021

Base salary

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

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

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

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

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

2021 annual bonus (i.e. bonus awarded in respect of the 2021 performance year)

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

Nature of measures	Choice of measures	Targets	Percentage of bonus opportunity	Vesting ranges
Financial	RoE	10% to 18%	30%	Threshold – 33%[2]
	CET1	12.6% to 15.6%	30%	Maximum – 100%
Non-financial	Strategic scorecard: Strategic objectives and People and customers	Discretionary assessment[1]	40%	Minimum – 0% Maximum – 100%

1 Due to commercial sensitivity, the details of the performance targets and achievement against those will be outlined in the 2021 Annual Report on Remuneration.
2 Performance below threshold in the financial measures would result in zero vesting of the financial measure.

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

2020 LTIP (i.e. LTIP awarded in respect of the 2020 to 2022 cycle)

The 2020 LTIP awards due to be granted in October 2020 are shown in the table below.

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

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

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

Directors' Remuneration Report continued

The 2020 LTIP targets are detailed in the table below.

Nature of measures	Choice of measures	Targets	Weightings	Vesting ranges
Financial	Adjusted EPS growth	10% to 30% over 3 years	35%	Threshold – 25% Maximum – 100%
	RoE	10% to 18%[1]	35%	Threshold – 25% Maximum – 100%
Non-financial	Risk management objectives	Discretionary assessment against specific goals	30%	Threshold – 25% Maximum – 100%

1 Average over three-year performance period.

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

The four risk management objectives for the 2021 financial year remain the same as the prior year and are detailed in the following table.

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

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

Relative importance of spend on pay

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

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

1 Final dividend proposed for the financial year.

Change in remuneration of the directors and all employees

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

	2020									
		Executive directors[2]		Chairman and non-executive directors[4]						
	Average Employee[1]	Preben Prebensen	Mike Morgan[3]	Mike Biggs	Lesley Jones	Geoffrey Howe	Bridget Macaskill	Oliver Corbett	Peter Duffy[5]	Sally Williams[6]
Salary	**1.8%**	0%	0%	0%	5.6%	2.9%	5.6%	5.6%	0%	–
Benefits	**1.8%**	0%	0%	(25.7)%	(57.0)%	32.6%	(50.5)%	0%	0%	–
Bonus	**13.1%**	(51.3)%	(54.7)%	–	–	–	–	–	–	–

1 Calculated by dividing staff cost related to salaries, bonus and benefits by the average number of employees.
2 Calculated using the data from the single figure table in the annual report on remuneration on page 103.
3 Mike Morgan was appointed a director in November 2018. To enable a meaningful comparison, his 2019 salary, benefits and bonus were adjusted to reflect a full-year.
4 Calculated using the fees and taxable benefits from the single figure table for non-executive directors on page 114.
5 Peter Duffy was appointed a non-executive director on 1 January 2019. To enable a meaningful comparison, his 2019 fees were adjusted to reflect a full-year appointment to the Board.
6 Sally Williams was appointed a non-executive director on 1 January 2020 therefore there is no year-on-year comparison.

Pay ratios

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

Year	Method	25th Percentile	Median	75% Percentile
2020	Option A	64 : 1	38 : 1	23 : 1

Our ratios have been calculated using the most robust methodology option 'A' prescribed under the UK Companies (Miscellaneous Reporting) Regulations 2018. Under this option, the ratios are calculated using the following:

- the full-time equivalent salaries and allowances for employees in the UK as at 31 July 2020;
- pensions and benefits paid during the 2020 financial year;
- annual bonus awarded for the 2020 financial year;
- actual and projected gains realised from exercising awards from taxable employee share plans;
- sales incentives paid during the 2020 financial year; and
- projection of vested performance awards.

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

Chief executive: Historical information

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

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

LTIP vesting for the last seven years

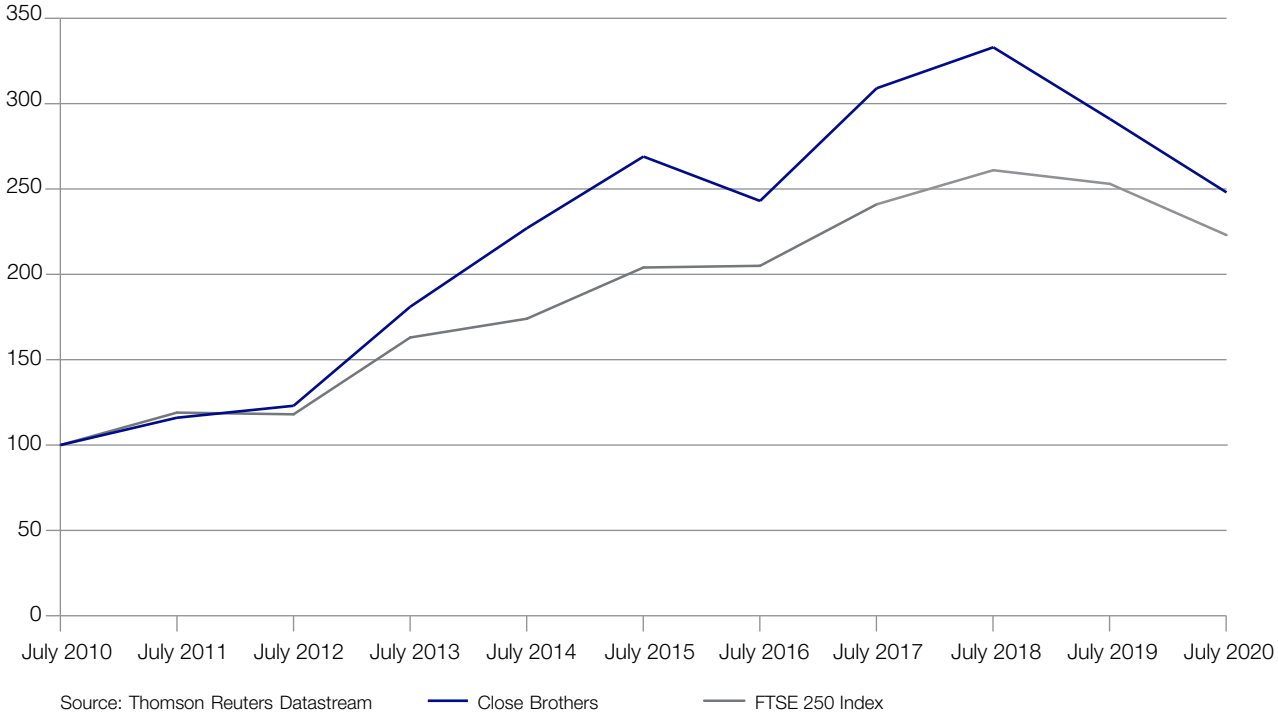
		Vesting percentage				
Year awarded	Year vested	Adjusted EPS	TSR	RoE	RMO	Total
2011[1]	2014	100%	100%	–	85%	95%
2012[2]	2015	100%	100%	–	87%	97%
2013[2]	2016	100%	25%	–	89%	68%
2014[2]	2017	56%	26%	–	92%	51%
2015[2]	2018	0%	0%	–	93%	19%
2016[2]	2019	0%	28%	–	94%	30%
2017[3]	2020	0%	–	38%	94%	42%

1 Vesting was subject to one-third adjusted EPS, one-third absolute TSR and one-third strategic goals for all awards granted for 2011.
2 Vesting was subject to 40% adjusted EPS, 40% absolute TSR and 20% risk management objectives for the 2012 to 2016 awards.
3 Vesting was subject to 35% adjusted EPS, 35% RoE and 30% risk management objectives for the 2017 award.

Directors' Remuneration Report continued

Performance graph

The graph below shows a comparison of TSR for the company's shares for the 10 years ended 31 July 2020 against the TSR for the companies comprising the FTSE 250 Index.



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

Scheme interests awarded during the year (Audited)

The face value and key details of the share awards granted in the 2020 financial year are shown in the table below. These were all delivered as nil cost options. The Deferred Share Award ("DSA") is a mandatory deferral of a portion of the annual bonus. The share price used to calculate the number of shares awarded was £13.66, the average mid-market closing price for the five days prior to grant (1 October 2019).

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

1 The awards are all delivered as nil cost options.
2 The DSA vests in equal tranches over three years.
3 Performance conditions are detailed on page 107.
4 LTIPs granted in 2019 have an additional two-year holding period.

External appointments

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

Payments to departing directors (Audited)

Preben Prebensen will be eligible for a time-prorated bonus for the period of the 2021 financial year that he was chief executive. This award will be determined by the Committee during the 2021 compensation round, and disclosed in next year's Directors Remuneration Report. Preben will not receive a 2020 LTIP award, recognising he will not be in the business for the majority of the long-term performance period. He will be treated as a good leaver for his existing unvested LTIP awards, such that outstanding awards as at the date of termination will not lapse. As a good leaver, vesting of shares will be pro-rated to reflect the period of employment up to the termination date of 21 September 2020. Vesting will remain subject to performance testing against the published performance conditions for each award and shares shall vest according to the original schedule. The term "good leaver" is used to mean (in respect of grants taking effect on or after 16 November 2017) leaving for a "permitted reason" (as defined in the current Share Incentive Plan Rules) and (in respect of grants taking effect before 16 November 2017) the Committee decided that his awards shall not lapse on the date on which employment ends (in accordance with the previous rules). In relation to the Deferred Annual Bonus plan, under the rules of the scheme, provided that Preben does not join another financial service business in the 12 months following termination of his

employment, he will continue to remain eligible to receive his outstanding deferrals on the usual vesting schedule. However, the Committee has exercised its discretion, such that taking up a non-executive director role during that 12-month period for a business in the financial services sector that does not compete in a material way with Close Brothers in the markets in which it operates by offering similar products in such markets, will not affect his eligibility. These arrangements are also based on the assumption that Preben will retire from his executive career and does not take up an executive role elsewhere. All Preben's deferred awards remain subject to the prevailing Malus and Clawback conditions.

Payments to past directors (Audited)

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

Executive directors' shareholding and share interests (Audited)

The interests of the directors in the ordinary shares of the group at 31 July 2020 are set out below:

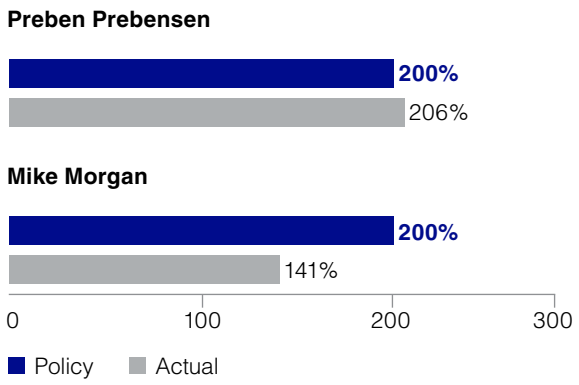
Name	Shareholding requirement at 31 July 2020[1]	**Number of shares owned outright[2] 2020**	Outstanding share awards not subject to performance conditions[3]		Outstanding share awards subject to performance conditions[4]		Outstanding options[5]	
			2020	2019	**2020**	2019	**2020**	2019
Preben Prebensen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

1 Based on the closing mid-market share price of 1,096p on 31 July 2020.
2 This includes shares owned outright by closely associated persons.
3 This includes DSA.
4 This includes LTIP awards.
5 These are comprised of SAYE options.

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

Executive directors' shareholding

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



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

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

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

Notes to the details of executive directors' share exercises during the year

No executive director exercised options during the 2020 financial year.

Directors' Remuneration Report continued

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

	2020						2019					
Name	**Basic fee[1] £'000**	**Committee chairman £'000**	**Committee member £'000**	**Senior independent director £'000**	**Benefits[2] £'000**	**Total £'000**	Basic fee[1] £'000	Committee chairman £'000	Committee member £'000	Senior independent director £'000	Benefits[2] £'000	Total £'000
Mike Biggs	**300**	**–**	**–**	**–**	**4**	**304**	300	–	–	–	5	305
Lesley Jones	**70**	**33**	**10**	**–**	**1**	**114**	67	30	10	–	3	110
Geoffrey Howe	**70**	**–**	**15**	**20**	**–**	**105**	67	–	15	20	–	102
Bridget Macaskill	**70**	**33**	**10**	**–**	**5**	**118**	67	30	10	–	11	118
Oliver Corbett	**70**	**33**	**10**	**–**	**–**	**113**	67	30	10	–	–	107
Peter Duffy	**70**	**–**	**5**	**–**	**–**	**75**	39	–	3	–	–	42
Sally Williams[3]	**41**	**–**	**6**	**–**	**1**	**48**	–	–	–	–	–	–

1 Non-executive director fees were last increased with effect from 1 August 2019.
2 Benefits include travel-related expenses in respect of attendance at board meetings which are taxable. Amounts disclosed have been grossed up using the appropriate tax rate as the company pays the non-executive directors' tax.
3 Sally Williams was appointed a non-executive director on 1 January 2020.

Notes to the single total figure of remuneration for non-executive directors

The fees payable to non-executive directors for the 2020 and 2021 financial years are as follows:

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

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

Non-executive directors' share interests (Audited)

The interests of the non-executive directors in the ordinary shares of the company are set out below:

Name	**Shares held beneficially at 31 July 2020**	Shares held beneficially at 31 July 2019
Mike Biggs	**500**	500
Lesley Jones	**–**	–
Geoffrey Howe	**5,000**	5,000
Bridget Macaskill	**2,500**	2,500
Oliver Corbett	**–**	–
Peter Duffy	**848**	–
Sally Williams	**–**	–

There were no changes in notifiable interests between 1 August 2020 and 18 September 2020.

This report was approved by the board of directors on 22 September 2020 and signed on its behalf by:

Bridget Macaskill
Chair of the Remuneration Committee