Directors' Remuneration Report

Bridget Macaskill Chair of the Remuneration Committee

This report sets out our approach to remuneration for the group's employees and directors for the 2021 financial year, and our new remuneration policy for the next three years.

The Directors' Remuneration Report is divided into three sections:
Annual Statement from the Remuneration Committee Chair, pages 97 to 99;
Directors' Remuneration Policy, pages 100 to 110; and
Annual Report on Remuneration, pages 110 to 125.

Annual Statement from the Remuneration Committee Chair

On behalf of the board and the Remuneration Committee, I am pleased to present the Directors' Remuneration Report for the 2021 financial year. This year we are presenting both our decisions for the 2021 financial year and a revised Remuneration Policy ("Policy") that will operate over the next three years. As a consequence of Capital Requirements Directive V ("CRD V") being fully adopted by the UK, a maximum 2:1 variable to fixed pay cap will apply to all the group's Material Risk Takers ("MRTs") that are in scope, including the executive directors, from 1 August 2021. We are therefore required to make changes to our Policy to ensure that we comply with CRD V and will be seeking shareholder approval for a new Policy at the 2021 Annual General Meeting ("AGM"). At the AGM, we will also be seeking formal shareholder approval to adopt a 2:1 variable to fixed pay cap, extending the mandated 1:1 ratio.

How the group performed during the 2021 financial year

The group performed strongly in the 2021 financial year, highlighting the benefits of its proven and resilient business model. Overall, the group reported an 88% increase in adjusted operating profit to £270.7 million (2020: £144.0 million), returning to pre-crisis levels and achieving a return on opening equity, our key financial measure, of 14.5%.The group's performance benefited from higher income levels across all divisions and significantly lower impairment charges in the lending business.

While Covid-19 continued to present challenges and dominate the external environment, the disciplined adherence to its resilient business model meant that the group was able to continue to support customers and colleagues while making the most of the growth opportunities in its core markets. The Banking division saw high new business volumes, with an increase in the loan book of 10.9% over the year while maintaining a strong net interest margin of 7.7% (2020: 7.5%). Impairment charges decreased significantly, reflecting strong underlying credit performance across Commercial, Retail and Property as well as a reduction in Covid-19 provisions. The bad debt ratio of 1.1% (2020: 2.3%) reflected an increase in provisions against the Novitas loan book, which accounted for a significant portion of the impairment charge for the year. Asset Management continued to grow assets under management and achieved a good net inflow rate of 7%, despite the impact of reduced face-to-face interaction with clients due to Covid-19 restrictions. Winterflood delivered a very strong trading performance as it benefited from exceptionally high levels of trading volumes for most of the year and the expertise of our traders, with only one loss day in a volatile market environment.

Following the appointment of the group's new chief executive, Adrian Sainsbury, in September 2020, the group introduced the evolution of its strategic priorities to "protect", "grow" and "sustain" the business model. A new "Model Fit Assessment Framework" was also introduced and included a set of criteria used to assess the group's initiatives. This framework was used as a key tool in the strategic review of Novitas, which concluded that the overall risk profile of the business is no longer compatible with the group's long-term strategy and risk appetite. As a result, in July 2021, the group decided to cease permanently the approval of lending to new customers across all of the products offered by Novitas, and to withdraw from the legal services financing market.

The group maintained a strong capital, funding and liquidity position. The CET1 capital ratio increased to 15.8% (31 July 2020: 14.1%) and remained well ahead of the applicable minimum regulatory requirements. This mainly reflected the group's strong capital generation through higher profit and the benefit from regulatory changes to the treatment of software assets as well as the significant amount of lending under the British Business Bank's CBILS Scheme, which attract a lower risk weighting. Our strong financial resources position us well to continue delivering on our strategy.

Directors' Remuneration Report continued

Following the group's strong performance in the year and to reflect the continued confidence in our business model and financial position, the board is proposing a final dividend of 42p per share, resulting in a full-year dividend per share of 60p, an increase of 50%.

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

Key performance indicator	2021	2020
Return on opening equity	**14.5%**	8.0%
Return on opening equity over three years[1]	**12.7%**	13.6%
CET1 capital ratio	**15.8%**	14.1%
Adjusted operating profit (£ million)	**270.7**	144.0
Adjusted earnings per share growth over three years[1]	**0.1%**	(43.4)%
Distribution to shareholders (£ million)[2]	**89.5**	59.8

1 For the three-year periods ended 31 July 2021 and 31 July 2020.
2 For the 2021 financial year, interim dividend paid and proposed final dividend.

Executive director remuneration outcomes for the 2021 financial year

As in previous years, the Remuneration Committee assessed the following factors when determining remuneration outcomes for the executive directors: how to maintain a fair balance between the interests of different stakeholders, including shareholders, employees and management; how to encourage and reward the behaviours that reflect our purpose and culture; and how to judge performance against objectives, including considering where the Remuneration Committee should apply discretion to adjust any formulaic outcomes.

Given the robust performance of the Group, the financial element of the executive directors' bonuses, which is linked to return on equity and the CET1 capital ratio, paid out at 82.5% of maximum. The year-end review of performance against the strategic scorecard (as detailed on pages 114 to 117) demonstrated that the management team has continued to progress key strategic priorities in spite of the continued uncertainties in the wider environment. The Remuneration Committee therefore determined to approve an annual bonus outcome of 73% for the strategic scorecard (see page 113 for further details).

The 2018 LTIP vested at 39.6% of maximum. Adjusted EPS growth over the three year period was 0.1% below the threshold and therefore this element did not vest. Average return on equity over the performance period was 12.7% and this element therefore vested at 11.1%. The continued prudent approach to capital management combined with a good performance in risk, compliance and controls mean that the risk management objectives element scored 95% and therefore vested at 28.5%. The overall level of the vesting of the LTIP has decreased from the previous year's award.

After consideration, the Remuneration Committee decided that these outcomes were appropriate and therefore did not require the application of discretion or further adjustment.

Recognising the continued progression in role of the group finance director

As disclosed at the time of his appointment in 2018, the group finance director's annual maximum bonus and LTIP opportunity were both set at 175% of salary initially, well within the 300% and 350% maximums respectively permitted within our approved Policy, and below the levels which had applied for the previous incumbent. This package reflected Mike Morgan's first-time appointment to group finance director. In recognition of Mike's significant progression in role since appointment, and in order to tilt the balance of his package towards long-term equity-based reward, the Remuneration Committee's intention had been to make a relatively modest increase in his LTIP opportunity from 175% of salary to 200% of salary for the 2022 financial year. As outlined above, the Remuneration Committee is required to make changes to the Remuneration Policy to reflect requirements under CRD V, and in particular the variable to fixed pay cap. In translating the group finance director's package into a CRD V compliant structure, the Remuneration Committee has therefore used an LTIP opportunity of 200% of salary to reflect the increase he would otherwise have received had we been able to continue with the current Policy.

Directors' Remuneration Policy and proposed implementation for the 2022 financial year

Our current Directors' Remuneration Policy was approved by shareholders at the 2020 AGM, with over 97% of the shareholders' votes cast in favour. Our intention was that this Policy would apply for a three-year period until the 2023 AGM unless material amendments to our executive remuneration structure were required to address regulatory changes. As noted above, it is necessary to amend the Policy that was approved by shareholders at the 2020 AGM in order to comply with requirements under CRD V, which will apply to the Company from the 2022 financial year onwards.

Given the strong support of our Remuneration Policy in 2020, our overarching principle in designing the new Policy has been to retain as many of the key features of the current Policy as possible whilst addressing the requirements of CRD V. We are therefore proposing the following decisions for our new Policy:

- No change will be made to the structure of the executive directors' pay elements, which includes salary, pension, annual bonus and LTIP. Changes will, however, need to be made to the quantum of fixed and variable pay elements to align with the variable to fixed pay cap.
- Pension contributions for executive directors will continue to be in line with the rate paid to all employees (currently equates to a 10% contribution).
- The current balance of the short to long-term variable pay opportunity will be retained to maintain alignment with shareholders.
- There will be no changes to deferral or retention periods for the annual bonus or LTIP. This reflects our Level 3 proportionality status.
- Malus and clawback provisions will continue to apply, allowing the Remuneration Committee to reduce awards in appropriate scenarios, and the period over which clawback provisions will apply will be extended in line with CRD V requirements.
- In-employment and post-employment shareholding requirements will remain at 200% of salary. This will require an increase in the absolute value of shareholdings due to the proposed increases in salary levels.
- The expected level of pay will be maintained for both executives at levels as close as possible to the current expected levels (though note the decisions made in relation to the group finance director's LTIP, as explained earlier). "Expected level of pay" is based on the average of the actual outcomes over the past five years.

In formulating these proposals the Remuneration Committee consulted extensively with shareholders, who welcomed this consistency in our approach. Shareholder feedback generally indicated that, in transitioning to a CRD V compliant structure, the proposed Policy was fair to executives, while continuing to be simple and effective in rewarding and incentivising outperformance.

Shareholders were supportive of the following changes we are making in order to ensure our Policy complies with CRD V, which are summarised below.

- From the 2022 financial year, the maximum annual bonus opportunity will be capped at 95% of salary and the maximum LTIP opportunity will be capped at 125% of salary, well below the current maximums of 300% and 350%.
- Increases to fixed pay will be applied to broadly maintain current expected pay levels within a CRD V compliant structure. The following salaries are proposed with effect from 1 August 2021:
  - Chief executive – Current: £550,000, proposed: £930,000.
  - Group finance director – Current: £400,000, proposed: £560,000.

- In order to compensate the executive directors fairly under CRD V, the rebalanced package should be targeted to match "expected level of pay", based on the average of the actual outcomes over the past five years. There will therefore be a reduction in the overall maximum value of the total compensation package while maintaining the "expected value" of the package for executive directors. In adopting this approach, the Remuneration Committee is comfortable that the last five years is sufficiently representative of our business cycle, and the experience of the executive directors in terms of pay outcomes, to be a reasonable point of reference.
- Whilst we will be maintaining the existing policy on executive directors' shareholding guidelines, as these are expressed as a percentage of base salary, in real terms the value of the shareholding requirement will in practice increase in line with the adjustments to salaries.
- Clawback period will be increased to seven years, extendable to 10 years, from award, in line with CRD V requirements.

We made enhancements to the draft policy based on helpful feedback from our shareholders and greatly appreciate the level of engagement and support that we received for these Policy changes, full details of which can be found on pages 100 to 110. We continue to believe these proposals are fair to both shareholders and the executive directors and reflect Close Brothers' responsible approach to executive pay and the fact that our remuneration framework has consistently delivered incentive payouts that have been well aligned with group and individual performance, and with the experience of our shareholders.

Changes to the board of directors during the year

As announced in last year's Annual Report, Adrian Sainsbury was appointed chief executive from 21 September 2020.

Preben Prebensen, our former chief executive, stepped down from his role on 21 September 2020. In recognition of his contribution during the period before he left, Preben has been awarded a time pro-rated bonus for the period of the 2021 financial year for which he was chief executive.

Group-wide employee remuneration

The responsibility for determining the reward practices on a group-wide basis lies with the Remuneration Committee. As in previous years, the Remuneration Committee continues to spend time in reviewing and approving the overall remuneration for all levels of employees across the group. For further details, please see the Remuneration Committee activity table on page 111.

The average salary increase awarded across the group was a modest 1%, with an emphasis on supporting pay levels for junior employees. The group continues to pay all staff at or above the national living wage, which is in excess of the national minimum wage. However, following a c.30% decrease in bonus awards in the 2020 financial year, the average bonus for the 2021 financial year has increased by 21%.

CRD V also means that the pay arrangements of any staff member identified as a group and banking MRT will have to comply with the new regulations. As such, adjustments have been made to the compensation mix of impacted individuals in line with the same principles as those used for the executive directors.

Gender-pay disclosures

This year the Remuneration Committee has overseen the publication of our fourth gender pay gap report, which is published on our website. We are confident that men and women are paid equally for performing equivalent roles across our businesses and are committed to taking steps to reduce our gender pay gap, which is primarily driven by a lower proportion of women in senior and front office roles, where market rates are higher. Our focus on closing the gender pay gap is through increasing female representation at all levels by setting representation targets and supporting development programmes. At the end of the financial year we exceeded the government's target for 33% of board members to be women and remain broadly in line with Hampton-Alexander gender targets for executives and their direct reports.

Whilst gender pay provides the most direct link to remuneration, our broader focus on inclusion ensures we prioritise fairness and equality for all colleagues. We are signatories of the Women in Finance and Race at Work Charters and the Social Mobility Pledge. This year we have broadened our inclusion remit to focus on disability inclusion through joining the Valuable 500 initiative.

Our objectives to support inclusion are linked to executive pay through risk management objectives within our executives' long-term incentive plan. We are pleased that our colleagues continue to feel that we are an inclusive organisation, as demonstrated by responses in the latest employee opinion survey, and we continue to push forward and implement activities and initiatives in this sphere to ensure we support an inclusive environment where all our colleagues feel a sense of belonging and are proud to work for us.

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

Bridget Macaskill
Chair of the Remuneration Committee

28 September 2021

Directors' Remuneration Report continued

Directors' Remuneration Policy

This section of the report sets out the group's proposed Remuneration Policy for directors and explains each element and how it will operate. This Directors' Remuneration Policy will be subject to a binding shareholder vote at our AGM in November 2021 and, if approved, will apply from the date of the AGM.

As a consequence of the CRD V being implemented in the UK, a number of amendments are required to be made to the Policy. The Remuneration Committee discussed the detail of these amendments over a series of meetings, which considered the strategic priorities of the business and evolving market and regulatory practice. Input was sought from the management team, while ensuring that conflicts of interest were suitably mitigated. An external perspective was provided by our major shareholders and independent advisers.

This Policy remains largely unchanged from the policy approved by shareholders in 2020 other than the following updates which are required to comply with CRD V:

- From 1 August 2021, executive directors ("EDs") will be subject to a 2:1 cap on the ratio of variable to fixed remuneration; accordingly, EDs maximum annual bonus opportunity will be capped at 95% of base salary and the maximum LTIP opportunity will be capped at 125% of base salary provided that, taken together, an EDs variable remuneration does not exceed the 2:1 cap on fixed remuneration.
- Increase EDs base salary, from 1st August 2021, to broadly maintain current expected pay levels in compliance with the cap on variable remuneration required under CRD V.
- Clawback periods on awards increased to seven years, extendable to 10 years, from award.

The reward structure aims to:

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

Remuneration Policy for executive directors

Element and how it supports the group's short-term and long-term strategic objectives	Operation and maximum payable	Performance framework, recovery and withholding
Base salary Attracts and retains high calibre employees. Reflects the employee's role and experience.	Salaries are based on the individual's role and experience and external factors, as applicable. Paid monthly in cash. Salaries will be reviewed annually or when there is a change in role or responsibility. Any changes normally take effect from 1 August and will generally not exceed those for the broader employee population. Increases may be made above this level in certain circumstances, such as: • a change in the regulatory environment; • progression within the role; • increase in scope and responsibility of the role; • increase in experience where an individual has been recruited on a lower salary initially; and • increase in size and complexity of the company.	Not applicable.
Changes from previous policy Base salaries for the EDs will be increased, to £930,000 for the chief executive and £560,000 for the group financial director, to account for a reduction in the ratio of variable to fixed remuneration payable under CRD V.		
Benefits Enables the EDs to perform their roles effectively by contributing to their wellbeing and security. Provides competitive benefits consistent with the role.	Any benefit allowances will be paid monthly and will not form part of pensionable salary. Benefits may include: • private medical cover. • health screening. • life assurance cover. • income protection cover. • directors' and Officers' liability insurance. • allowance in lieu of a company car. The maximum allowance is £18,000 for the chief executive and £12,000 for other EDs. • other benefits or payments in lieu of benefits may also be provided in certain circumstances (such as relocation expenses).	Not applicable.
Changes from previous policy None.		
Pension Provides an appropriate and competitive level of personal and dependant retirement benefits.	EDs will receive a level of pension contribution (in the form of a cash allowance or contribution to a pension arrangement) that is in line with the wider workforce.	Not applicable.
Changes from previous policy None.		

Directors' Remuneration Report continued

Element and how it supports the group's short-term and long-term strategic objectives	Operation and maximum payable	Performance framework, recovery and withholding
Annual bonus Rewards good performance. Motivates employees to support the group's goals, strategies and values over both the medium and long term. Aligns the interests of senior employees and executives with those of key stakeholders, including shareholders, and increases retention for senior employees, through the use of deferrals.	60% of the annual bonus will usually be deferred into shares (in the form of nil cost options or conditional awards) and will usually vest in equal tranches over three years, subject to remaining in service. The remaining annual bonus will be delivered immediately in cash. The annual bonus is capped at 95% of base salary. At the Remuneration Committee's discretion, dividend equivalents will usually be paid in cash or additional shares when the deferred awards vest.	Individual bonuses are determined based on both financial and non-financial performance measures in the financial year, including adherence to relevant risk and control frameworks. At the Remuneration Committee's discretion, an element of the bonus may also be based on personal performance. Weightings At least 60% of the annual bonus opportunity will be based on financial performance. The non-financial element will be determined based on performance measured against a balanced scorecard, including (but not limited to): • strategic objectives; and/or • people and customer metrics; and/or • risk, conduct and compliance measures. The Remuneration Committee maintains discretion to vary the measures and their respective weightings within each category. The actual performance objectives will be set at the beginning of each financial year but will not be disclosed prospectively due to commercial sensitivity reasons. They will be designed to align the interests of EDs with the key stakeholders over the medium term, be challenging and also provide an effective incentive for the EDs. Performance against the objectives that comprise the balanced scorecard and their weightings will be disclosed retrospectively on an annual basis as part of the Annual Report on Remuneration. Amount payable for threshold performance No more than one third of maximum. Amount payable for target performance No more than 50% of maximum. Recovery and withholding The cash element is subject to clawback and the deferred element is subject to malus and clawback conditions, as outlined on pages 105 and 106.

Changes from previous policy

The cap on the annual bonus has been reduced from 300% to 95% of base salary.

The clawback period for the deferred element of the annual bonus will be increased to seven years from the date of award, extendable to 10 years at the discretion of the Remuneration Committee where there is an ongoing investigation.

Element and how it supports the group's short-term and long-term strategic objectives	Operation and maximum payable	Performance framework, recovery and withholding
Long-Term Incentive Plan Motivates executives to achieve the group's longer-term strategic objectives. Aids the attraction and retention of key staff. Aligns executive interests with those of shareholders.	Awards are made in the form of nil cost options or conditional awards and usually vest after three years subject to achieving performance conditions and remaining in service. On vesting, awards will usually be subject to a further two-year post-vesting retention period before options can be exercised by, or conditional awards paid to, EDs. At the Remuneration Committee's discretion, dividend equivalents will usually be paid in cash or additional shares when LTIP awards are released. EDs are eligible to receive an annual award of shares with a face value of up to 125% of base salary, excluding dividend equivalents.	Measures and weightings Individual awards vest based on performance against both financial and non-financial performance measures. At least 70% of the award will be based on performance against financial measures. The remainder will be based on non-financial performance. The Remuneration Committee maintains discretion to vary the measures and their respective weightings within each category. The choice of measures and their respective weightings will be disclosed annually as part of the Annual Report on Remuneration. The Remuneration Committee has an overriding discretion, in respect of awards granted on or after 15 November 2018, to adjust vesting outcomes where it considers the application of formulaic performance conditions to be inappropriate. Amount payable for threshold performance For each element of the award, vesting starts at 25% for threshold performance, rising on a straight-line basis to 100% for maximum performance. The target ranges set for the financial measures in each grant and performance against the targets at vesting will be reported in the Annual Report on Remuneration for the relevant financial years. Recovery and withholding LTIP awards are subject to malus and clawback provisions, as outlined on pages 105 and 106.
Changes from previous policy The cap on LTIP awards has been reduced from 350% to 125% of base salary. The clawback period for LTIP awards has been increased to seven years from the date of award, extendable to 10 years by the Remuneration Committee where there is an ongoing investigation.		
Save As You Earn ("SAYE") Aligns the interests of executives with those of shareholders through building a shareholding.	EDs have the option to save a fixed amount per month over a three or five-year timeframe. At the end of the period employees can withdraw all of their savings, or use some or all of their savings to buy shares at the guaranteed option price. The option price is set at the beginning of the participation period and is usually set at a 20% discount to the share price at invitation. EDs can make total maximum contributions of up to £6,000 per annum, or up to the maximum permitted by HMRC rules at any given time. The Remuneration Committee reserves the discretion to increase the maximum contributions in line with any HMRC rule changes during the period of the Policy.	Not applicable, as this is a voluntary scheme where EDs have invested their own earnings.
Changes from previous policy None.		

Directors' Remuneration Report continued

Element and how it supports the group's short-term and long-term strategic objectives	Operation and maximum payable	Performance framework, recovery and withholding
Share Incentive Plan ("SIP") Aligns the interests of executives with those of shareholders through building a shareholding.	EDs are able to contribute up to a maximum of £1,800 per annum from pre-tax income and national insurance earnings to buy Partnership Shares. At present the Remuneration Committee has determined that EDs have the ability to buy Partnership Shares. Currently there is no match, but the Remuneration Committee retains the discretion to offer Matching Shares of up to twice the number of Partnership Shares and/or award free shares. This will be on the same basis for all employees should the Remuneration Committee exercise this discretion. Dividends paid on shares held in the SIP are reinvested to acquire further Dividend Shares. The Remuneration Committee reserves the discretion to increase the maximum contributions in line with any HMRC rule changes during the period of the Policy.	Not applicable, as this is a voluntary scheme where EDs have invested their own earnings.
Changes from previous policy None.		
Shareholding requirement Aligns the interests of executives with those of shareholders.	EDs are expected to build and maintain a holding of company shares equal to at least 200% of base salary. EDs will normally be expected to maintain a minimum shareholding of 200% of base salary for the first two years after stepping down as an ED. The Remuneration Committee retains discretion to waive this guideline if it is not considered appropriate in the specific circumstances.	Not applicable.
Changes from previous policy None.		
Other	The group will pay legal, training and other reasonable and appropriate fees, including any relevant tax liabilities, incurred by the EDs as a result of doing their job.	
Changes from previous policy None.		

Additional details on the Directors' Remuneration Policy

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

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

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

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

Rationale for choice of performance conditions

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

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

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

Malus and clawback

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

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

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

The company has extended the circumstances in which malus and clawback can be applied, to align the terms between the LTIP and annual bonus (cash and deferred elements). The company has applied the extended malus and clawback conditions for LTIP awards granted in 2020 onwards and intends to apply the extended malus and clawback conditions for the annual bonus awards from 2021 onwards. Please refer to the previous Directors' Remuneration Policy for details of the current malus and clawback triggers which apply to bonus awards and LTIP awards made prior to these dates.

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

The cash element of the annual bonus is subject to clawback for a period of three years from award. The deferred element vests in equal tranches over three years, and is subject to malus prior to vesting and clawback for seven years from the date of grant, extendable to 10 years by the Remuneration Committee where there is an ongoing investigation. LTIP awards are subject to malus for the three-year period to the point of vesting, and are subject to clawback for seven years from the date of grant (four years after vesting), extendable to 10 years by the Remuneration Committee where there is an ongoing investigation.

Directors’ Remuneration Report continued

Malus triggers

The Remuneration Committee may apply malus to unvested LTIP awards granted on or after 21 September 2020 and to annual bonus awards granted on or after 23 September 2021 in the following circumstances:

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

Clawback triggers

The Remuneration Committee may apply clawback to LTIP awards granted on or after 21 September 2020 and to annual bonus awards granted on or after 23 September 2021 in the following circumstances:

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

Consistency of ED remuneration with wider employee population

The pay and terms and conditions of employment of employees within the group were taken into consideration when setting the Policy and pay of the EDs. The Remuneration Committee does not formally consult with employees when setting the Policy, although the employee opinion survey conducted every year includes remuneration as one of the topics surveyed. The Remuneration Committee also receives feedback from engagement with, and communication to, employees on matters relating to remuneration issues, which it uses to inform its broader approach to remuneration, including with respect to the alignment between executive remuneration and the approach to compensation for employees across the group. At each scheduled meeting, the Remuneration Committee reviews a ‘Remuneration Dashboard’ containing metrics, analysis and other information, which the Committee uses as part of its decision-making, including as part of the annual compensation process. It covers a wide-range of areas throughout the year, such as workforce demographics, pay and reward at different levels across the group, gender pay and SAYE participation.

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

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

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

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

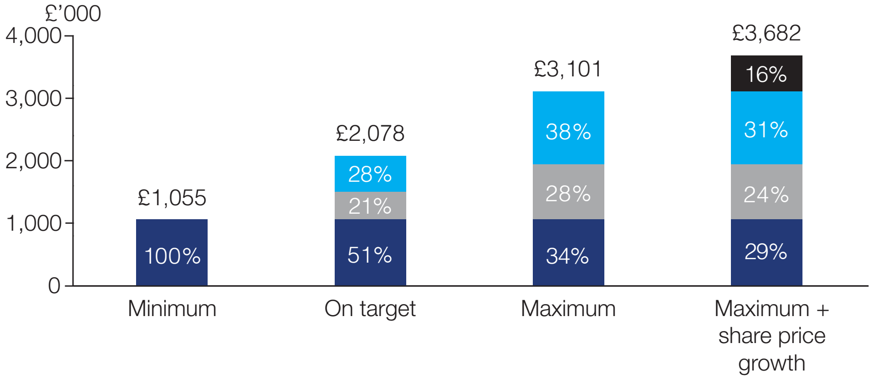
Employees receive the same level of pension contributions (in the form of a cash allowance or contribution to a pension arrangement) as EDs.

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

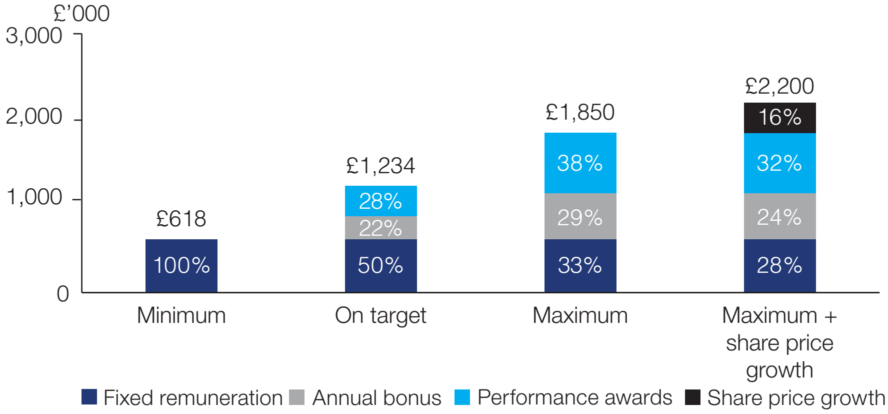
Illustrations of application of Remuneration Policy for EDs

The scenario charts below provide illustrations of potential remuneration outcomes for our EDs in 2022, based on the 2021 Remuneration Policy set out on pages 100 to 106, based on the assumptions provided in the table below.

Chief executive: Adrian Sainsbury



Group finance director: Mike Morgan



Element	Assumptions used
Fixed remuneration	Consists of 2022 base salary (chief executive £930,000; group finance director £560,000), 2022 benefits and 2022 pension allowance (10% of salary)
Minimum	No variable elements are awarded
On target	Annual bonus: Awarded at 47.5% of base salary for the chief executive and the group finance director (50% of maximum potential for 2022) LITP: Awards with face value of 125% of salary for the chief executive and the group finance director and assumed 50% vesting
Maximum	Annual bonus: Awarded at 95% of base salary for the chief executive and the group finance director (100% of maximum potential for 2022) LTIP: Awards with face value of 125% of salary for the chief executive and the group finance director and assumed 100% vesting
Maximum (with share price growth)	Maximum scenario with assumed 50% share price growth over the LTIP performance period
Other	No adjustment for dividend equivalents

Approach to recruitment remuneration

The remuneration package for new EDs will comply with the Policy for EDs outlined on pages 100 to 107 and the following paragraphs. The Remuneration Committee will seek to pay no more than is necessary to secure the right candidate.

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

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

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

Directors' Remuneration Report continued

In the event of an interim appointment being made to fill an ED role on a short term basis or if exceptional circumstances require that the Chairman or a non-executive director takes on an executive function on a short term basis, the Remuneration Committee retains discretion to make appropriate remuneration decisions outside the standard Policy to meet the individual circumstances of recruitment.

Legacy awards

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

Policy for payment on loss of office

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

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

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

Dates of EDs' service contracts

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

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

Remuneration Policy for the chairman and non-executive directors

Element and how it supports the group's short-term and long-term strategic objectives	Operation and maximum payable
Fees Attract and retain a chairman and independent non-executive directors who have the requisite skills and experience to determine the strategy of the group and oversee its implementation.	Fees are paid in cash and are reviewed periodically. Fees for the chairman and non-executive directors are set by the board. The non-executive directors do not participate in decisions to set their own remuneration. The chairman of the board receives a fee as chairman but receives no other fees for chairmanship or membership of any committees. Non-executive directors receive a base fee. The senior independent director receives an additional fee for this role. Additional fees are paid for chairmanship of each of the Audit, Remuneration and Risk Committees. Additional fees are paid for membership of committees, with the exception of the Nomination and Governance Committee, for which no additional fees are payable. Additional fees may be payable for other additional board responsibilities and/or time commitments. The chairman and non-executive directors are entitled to claim reimbursement for reasonable expenses and associated tax liabilities incurred in connection with the performance of their duties for the company, including travel expenses. Overall aggregate fees will remain within the £1.25 million authorised by our articles of association. There is no performance framework, recovery or withholding.

Directors' Remuneration Report continued

Non-executive directors' appointment letters

Name	Date of appointment	Current letter of appointment start date
Mike Biggs	14 March 2017	21 September 2020
Lesley Jones	23 December 2013	21 November 2019
Geoffrey Howe[1]	4 January 2011	21 November 2019
Bridget Macaskill	21 November 2013	21 November 2019
Oliver Corbett	3 June 2014	21 November 2019
Peter Duffy	1 January 2019	21 November 2019
Sally Williams	1 January 2020	1 January 2020
Mark Pain	1 January 2021	1 January 2021
Tesula Mohindra	15 July 2021	15 July 2021
Patricia Halliday[2]	1 August 2021	1 August 2021

1 Geoffrey Howe stood down as a non-executive director on 19 November 2020.
2 Although Patricia Halliday is a non-executive director of the company at the date of this report, she did not join the board until the start of the 2022 financial year.

Consideration of shareholders' views

The chairman of the board consults our major shareholders on a regular basis on key issues, including remuneration. A formal consultation exercise was undertaken during 2021 with our major shareholders and shareholder advisory bodies as part of the process of reviewing this Policy.

Annual Report on Remuneration

Remuneration Committee

Committee roles and responsibilities

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

Membership

The Remuneration Committee comprises Bridget Macaskill as chair, together with Mike Biggs, Peter Duffy, Lesley Jones and Mark Pain. Geoffrey Howe and Oliver Corbett stepped down as Committee members on 19 November 2020 and 28 February 2021 respectively. Mike Biggs, Peter Duffy and Mark Pain joined the Committee effective 1 March 2021. A record of the Committee members' attendance at the five meetings held during the year is set out on page 80. There were two additional ad hoc meetings, firstly to finalise 2020 compensation awards in August 2020 and secondly to discuss changes to the Directors' Remuneration Policy required by CRD V in March 2021.

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

Membership activity in the 2021 financial year

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

	August 2020	September 2020	January 2021	March 2021	April 2021	June 2021	July 2021
Remuneration policy and disclosures							
Review and approval of Remuneration Policy Statement for 2020	•	•					
Review and approval of Directors' Remuneration Report for 2020		•					
Review and approval of the remuneration section of the Pillar 3 disclosure for 2020		•					
Review of Directors' Remuneration Policy for 2022			•	•	•	•	•
Annual remuneration governance review			•				
Annual review of Total Reward Principles					•		
Risk and reward							
Review and approve risk-adjustment process/outcomes					•		•
Annual review whether to apply malus and clawback to remuneration	•					•	
Annual remuneration discussions							
Approval of LTIP performance targets for 2021 awards		•					
Final review and approval of EDs' annual bonus targets and objectives		•					•
Review of performance testing results for vesting 2017 or 2018 LTIP awards	•	•				•	•
Review EDs' performance against their annual bonus targets and objectives	•		•				•
Review EDs' compensation packages based on the CRD V			•	•	•		
Review and approval approach to year-end compensation					•	•	
Year-end all-employee group-wide salary and bonus analysis/proposals for 2020 or 2021	•				•	•	•
Governance review of the sales incentive schemes					•		
Review and approval of the risk management objectives for the 2017 or 2018 LTIP vesting	•						•
Review proposed 2020 or 2021 compensation for Material Risk Takers	•					•	•
Initial review of EDs' annual bonus targets and objectives for 2021 or 2022	•						•
Review of sales incentive schemes and approval of schemes for 2022							•
Regulatory and external developments							
Review of revised Capital Requirements Directive rules			•				
Material Risk Takers identification for 2021		•	•		•		
Review and approve Material Risk Takers identification for 2022 based on the CRD V changes				•	•	•	
Gender pay gap review		•	•				
Special business							
Review and approval of CEO exit arrangements		•		•			
Approve Omnibus Scheme Rules changes			•				
Committee remit and effectiveness							
Review terms of reference							•

UK Corporate Governance Code

As detailed in the Directors' Remuneration Report last year, we continue to be compliant with the executive pay provisions of the 2018 UK Corporate Governance Code. Our pay arrangements are also consistent with the following principles set out in the Code:

- Clarity – this Directors' Remuneration Report provides open and transparent disclosure of our executive remuneration arrangements for our internal and external stakeholders.
- Simplicity and alignment to culture – incentive arrangements for our executives are straightforward, with individuals eligible for an annual bonus and, at more senior levels, a single long-term incentive plan. Performance measures used in these plans are designed to support delivery of the group's key strategic priorities and our commitment to adopt a responsible, sustainable business model, in line with our purpose and values.
- Predictability – our incentive arrangements contain maximum opportunity levels with outcomes varying depending on the level of performance achieved against specific measures. The charts on page 107 provide estimates of the potential total reward opportunity for the executive directors under our Policy.

Directors' Remuneration Report continued

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

Advice

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

The Remuneration Committee's remuneration advisers are Deloitte LLP (a member of the Remuneration Consultants Group) and were appointed by the Remuneration Committee following a competitive tendering process. During the year, separate teams within Deloitte provided advice to the group on risk, cyber, IT, internal audit and related projects. The Remuneration Committee assesses the performance of Deloitte, the associated fees and the quality of remuneration advice provided, to ensure that it remains objective and independent of the provision of these other services. Total fees paid to Deloitte were £154,250 during the 2021 financial year, calculated on a time and material basis.

Slaughter and May provided legal advice on the company's equity scheme rules. Fees paid to Slaughter and May were £112,800, calculated on a time and material basis.

Statement of voting on the Directors' Remuneration Policy at the 2020 AGM

	For	Against	Number of abstentions
Directors' Remuneration Policy	97.1%	2.9%	461,438

Statement of voting on the Directors' Remuneration Report at the 2020 AGM

	For	Against	Number of abstentions
Annual Report on Remuneration	96.4%	3.6%	462,443

Implementation of the policy in 2021

Single total figure of remuneration for executive directors 2021 (Audited)

	Salary		Benefits		Pension		Total fixed remuneration		Annual Bonus[1]		Performance awards[2,3]		Total variable remuneration		Total remuneration	
	2021	2020	**2021**	2020	**2021**	2020	**2021**	2020	**2021**	2020	**2021**	2020	**2021**	2020	**2021**	2020
Name	**£'000**	£'000	**£'000**	£'000	**£'000**	£'000	**£'000**	£'000	**£'000**	£'000	**£'000**	£'000	**£'000**	£'000	**£'000**	£'000
Adrian Sainsbury[4,5]	**475**	–	**22**	–	**48**	–	**545**	–	**843**	–	**325**	–	**1,168**	–	**1,713**	–
Mike Morgan	**400**	400	**9**	2	**35**	35	**444**	437	**551**	218	**263**	379	**814**	597	**1,258**	1,034
Preben Prebensen[6]	**78**	550	**3**	19	**17**	124	**98**	693	**180**	660	**582**	690	**762**	1350	**860**	2,043

1 60% of Adrian Sainsbury's, Mike Morgan's and Preben Prebensen's annual bonus is deferred into shares
2 The figures for the performance awards for 2020 have been recalculated using the actual share price on the date of vesting for the LTIP of £10.55. The three-month average to 31 July 2020 was used for the 2020 report given that the awards were vesting after publication of the report.
3 The figures for the performance award for 2021 have been calculated using the three-month average to 31 July 2021. As this share price is lower than the grant date share price, none of this value relates to share price appreciation.
4 Adrian Sainsbury was appointed chief executive on the 21 September 2020. His salary, benefits, bonus and pension in the table relate to the period he was an executive director.
5 Adrian Sainsbury's performance awards were granted before he was appointed to the board. The full award relates to a vested LTIP that was subject to the performance criteria outlined on page 117.
6 Preben Prebensen stepped down as chief executive on the 21 September 2020 and his remuneration has been time pro-rated accordingly.

Link between reward and performance

The group delivered strong results in the 2021 financial year, maximising the opportunities as the economy recovers from the Covid-19 crisis. The board is now proposing payment of a 60p per share dividend in respect of the 2021 financial year, reflecting our confidence in the group's business model and strong financial position.

Overall, the group reported an increase in adjusted operating profit to £270.7 million (2020: £144.0 million), resulting in a solid return on opening equity of 14.5% (2020: 8.0%), which has been reflected in the EDs' bonuses, with this element vesting at 65% of the potential maximum. The CET1 measure, introduced this financial year, has increased to 15.8% (2020: 14.1%) and is vesting at 100%. The resulting combined overall vesting of the two financial measures is 82.5% of the potential maximum. The executive directors continued to demonstrate a high level of progress against specified objectives, and this resulted in strong performance scores against the strategic scorecard (see pages 114 to 117 for further details).

For the 2018 Long-Term Incentive Plan vesting this year, 70% of the vesting is based on financial goals and 30% is based on risk, compliance and control objectives. For the financial goals, the adjusted earnings per share growth of 0.1% over the last three years was below the threshold performance target of 10% growth and consequently the adjusted earnings per share element of the LTIP has not vested. The average annual return on equity of 12.7% per annum has exceeded the threshold target of 12.0% per annum, meaning the return on opening equity element contributed 11.1% to the overall vesting. The continued prudent approach to capital management combined with a good performance in risk, compliance and controls mean that the risk management objectives element vested at 95%, contributing 28.5% to the overall vesting. As a result, the LTIP vested at 39.6% overall this year (see page 117 for further details).

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

Salary

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

Benefits

Adrian Sainsbury and Preben Prebensen received an £18,000 allowance in lieu of a company car (time pro-rated for period in executive director role). Mike Morgan does not receive an allowance in lieu of a company car. They also received private health cover. The discount to the share price on grant of SAYE options is included in the year of grant.

Pension

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

Annual bonus

Maximum bonus potential for the 2021 financial year was 225% of salary for Adrian Sainsbury (time pro-rated for period in executive director role), 175% of salary for Mike Morgan and 300% of salary for Preben Prebensen (time pro-rated for period as executive director). The bonuses for executive directors were determined with reference to RoE and CET1 targets and a group-wide strategic scorecard. Details of the achievements and targets are outlined below.

Summary of annual bonus achievement

	Financial target (RoE)				Financial target (CET1)				Group-wide strategic scorecard				
	Weighting	Potential maximum £'000s	**Actual per cent of maximum**	**Actual amount awarded £'000s**	Weighting	Potential maximum £'000s	**Actual per cent of maximum**	**Actual amount awarded £'000s**	Weighting	Potential maximum £'000s	**Actual per cent awarded**	**Actual amount awarded £'000s**	**Total bonus awarded £'000s**
Adrian Sainsbury[1]	30%	321	**65%**	**209**	30%	321	**100%**	**321**	40%	428	**73%**	**313**	**843**
Mike Morgan	30%	210	**65%**	**137**	30%	210	**100%**	**210**	40%	280	**73%**	**204**	**551**
Preben Prebensen[2]	30%	68	**65%**	**45**	30%	68	**100%**	**68**	40%	91	**73%**	**67**	**180**

1 Adrian Sainsbury's potential maximum for all elements of the annual bonus award are time pro-rated based on his appointment as chief executive on the 21 September 2020.
2 Preben Prebensen's potential maximum for all elements of the annual bonus award are time pro-rated based on him stepping down as chief executive on the 21 September 2020.

The RoE for the 2021 financial year was 14.5% against a target range of 10% to 18%, warranting an award of 65% of the potential maximum bonus for this element.

The CET1 capital ratio for the 2021 financial year was 15.8% against a target range of 12.6% to 15.6%, warranting an award of 100% of the potential maximum bonus for this element.

Financial measures

Financial measure	Threshold 33.3% of maximum potential	Target 50% of maximum potential	Maximum 100% of maximum potential	**Actual financial element achieved**	**Percentage of financial element paid**
RoE	10.0%	13.0%	18.0%	**14.5%**	**65%**
CET1 capital ratio	12.6%	14.1%	15.6%	**15.8%**	**100%**

For Adrian Sainsbury, Mike Morgan and Preben Prebensen, 60% of any annual bonus is deferred into group shares vesting in equal tranches over three years in line with the 2020 Remuneration Policy.

Group-wide performance and executive directors' objectives for the 2021 financial year (Audited)

Covid-19 continued to present challenges this year and management's priority has been to ensure the group remained in a strong position to support customers and colleagues while making the most of the opportunities as the economy recovers.

The group continued to support employees with a constant focus on their wellbeing. The recent employee opinion survey achieved strong scores and showed high levels of employee engagement, demonstrating the strength of Close Brothers' culture. The group offered a range of forbearance measures to assist customers during the crisis with most of them now resuming payments or no longer in forbearance. The continued focus on customers and clients is demonstrated by the strong customer satisfaction scores achieved. The playbooks and simulations run in prior years benefited the group's agile response to this changing environment.

The disciplined application of the group's business model was highlighted by this year's strong financial performance. The Banking division saw high new business levels and made the most of the cyclical growth opportunities, while maintaining its underwriting and pricing discipline, with a consistent strong net interest margin, which remains well ahead of the peer group average. Strong new business volumes were supported by demand for loans issued under the UK government support schemes. The group made a strategic decision to focus on CBILS over the Bounce Back Loan Scheme ("BBLS"), as it enabled it to apply normal underwriting and pricing discipline. Impairment charges reduced significantly as the group experienced strong underlying credit performance across the Commercial, Retail and Property businesses, as well as a reduction in Covid-19 provisions. The bad debt ratio of 1.1% (2020: 2.3%) included the impact of a significant increase in credit provisions against the Novitas loan book within the Commercial business.

Directors' Remuneration Report continued

Asset Management achieved good net inflows and Winterflood delivered a strong trading performance, highlighting the benefits of the group's diverse portfolio of businesses and variety of profit streams.

The group maintained a strong balance sheet, with a prudent funding and liquidity position. The capital levels remain significantly above the applicable minimum requirements. In addition, two successful debt issuances took place in the year, reflecting the group's prudent approach to managing funding and liquidity.

The multi-year investment programmes, which included the submission of our initial IRB application to the PRA in December, progressed well in the year and continued to deliver tangible benefits and to protect the business.

The group progressed well on the delivery of its sustainability objectives over the past year and announced its support for the Paris Agreement on net zero goals and its commitment to become operationally net zero through its Scope 1 and Scope 2 carbon emissions by 2030.

The group remains well positioned to continue to make the most of the opportunities arising in the current environment and to continue supporting employees and customers as the economy recovers.

Annual performance objectives are determined by the Remuneration Committee at the start of each financial year, and are designed to support the group's wider strategic objectives.

The table on pages 114 to 117 sets out examples of the strategic scorecard objectives which were in place in 2021, performance metrics against these objectives where appropriate, and an overview of the factors that the Remuneration Committee has taken into account when assessing the performance of the executives.

The Remuneration Committee determines the overall outcome of the balanced scorecard and adjusts the final individual rating to take into account the individual contributions to successful outcomes of the scorecard objectives.

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

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

X Performance objective has not been met

Objective	Assessment of performance against objectives including performance metrics
Delivering in the Covid environment ✓	Performance metrics • Net interest margin at 7.7% (2020: 7.5%) • Bad debt ratio of 1.1% (10-year range: 0.6%-2.3%) • Strong loan book growth of 10.9% (10-year range: 0%-20%) • Return on net loan book of 2.6% (10-year range: 1.3%-3.7%) • Return on opening equity of 14.5% (2020: 8.0%) • Over 90% of the loan book is secured or has some form of structural protection • Average loan book maturity of 17 months (31 July 2020: 15 months) • Average maturity of funding allocated to loan book of 24 months (31 July 2020: 18 months) • £1.8 billion of treasury assets (31 July 2020: £1.7 billion), predominantly held on deposit with the Bank of England • CET1 capital ratio of 15.8% (31 July 2020: 14.1%) • Leverage ratio of 11.8% (31 July 2020: 11.2%) • Group's strong credit ratings have been upgraded by Moody's Investors Services ("Moody's") and affirmed by Fitch Ratings ("Fitch") in the 2021 financial year
Effective management of Covid-19 related concessions, bad debt and collections ✓	Assessment • The performance of the forborne book remains encouraging. At 31 July 2021, the total balance of loans classified as forborne and subject to Covid-19 concessions reduced to £0.46 billion (31 July 2020: £1.4 billion) • As the pandemic progressed, the impact on customers and their ongoing performance and requirements have been monitored, including the uptake of concessions, payment performance, the resumption of normal payment terms and the requirement for further concessions • Conservative and appropriate cure periods associated with these concessions have been determined based on in-depth knowledge of portfolios and sub-portfolios

Objective	Assessment of performance against objectives including performance metrics
Maintain the group's pricing and underwriting discipline, in line with the overall credit risk appetite set by the group board	Assessment • Firm adherence to lending model with continued underwriting and pricing discipline • Strong new business volumes, particularly in Asset Finance and Motor Finance • Loan book growth has been supported by strong demand for loans issued under CBILS • Strategic decision to focus on CBILS over BBLS, as it enabled the group to apply normal underwriting and pricing discipline • Strategic decision to withdraw from the legal services financing market. This follows a strategic review of Novitas, which concluded that the overall risk profile of the business is no longer compatible with the group's long-term strategy and risk appetite • Core financial metrics remain consistent with the group's lending model • Credit risk metrics including security cover, tenor, pricing, credit quality and concentration risk remain within risk appetite
Creating and implementing a return to the workplace approach	Assessment • Covid-secure working environment established in over 95% of the group's locations prior to the national lockdown in January 2021 • In Banking, most field-based employees have now resumed face-to-face interaction with customers • Additional Winterflood trading floor established, providing enhanced contingency • Extensive work has been completed to risk assess hybrid working patterns, enabling the identification and mitigation of any risks arising • The group is in the process of adapting to and implementing future ways of working, taking into account the different needs of customers and each of the group's businesses, to suit its diverse nature
Developing and implementing the group's strategic narrative and priorities	Assessment • Following a review with the objective of evolving the group's strategy, the framework for articulating the group's future strategic priorities evolved from "protect, improve, extend" to "protect, grow, sustain" to reflect our commitment to the delivery of disciplined growth and the sustainability of the group's business model over the long term • To support the articulation of how the group plans to deliver disciplined growth, the "Model Fit Assessment Framework" was introduced • The evolved objectives were further articulated and presented at the group's recent Investor Event, with positive feedback received from shareholders and analysts • The group's strategic narrative was is also well understood internally following several Town Hall meetings attended by over 1,700 colleagues
Delivering for the future Recognising and responding to changes in customer behaviour	Assessment • High level review across all businesses of Covid-related changes in customer behaviours and macroeconomic environment conducted • Continued investment in technology, as a way of supporting the group's human-fronted approach, making its experts even more valuable • Investments in Motor and Asset enabled front ends to be implemented in an agile way which facilitated record volumes and allowed those businesses to respond and adapt to recent challenges of Covid-19 • In the Savings business, the online savings portal now has c.39,000 customers, representing 40% of retail customer base, registered for online banking. This has also been particularly valuable in a Covid-19 environment, as it has mitigated the challenges of offering a postal channel whilst working remotely • Motor Finance completed the initial phase of their external market review, setting out how the business is adapting to customers moving on line and looking to partner with disrupters
Investing to maintain the value of the model Progressing multi-year investment programmes	Assessment • Good progress on all multi-year investment programmes, with minor Covid-19 related delays • Preparations for a transition to the IRB approach remain on track, with the initial application to the PRA submitted in December 2020 • The group is progressing through the first phase of the PRA's IRB review process and continues to work with the regulator to support their review • Motor Finance transformation programme nearing completion, with the programme delivering improvements in the service proposition, enhancing operational efficiency, improving credit acceptance process and increasing sales effectiveness

Directors' Remuneration Report continued

Objective	Assessment of performance against objectives including performance metrics
Delivering disciplined growth	Assessment • Strong year of growth in the Banking division following the initial Covid-19 impact • Loan book up 10.9%, reflecting high levels of activity and supported by strong demand for CBILS loans • At 31 July 2021, over £1.14 billion had been lent across more than 5,700 loans under the government support schemes in the Commercial and Property businesses • Strategic decision to focus on CBILS over BBLS, as it enabled the group to apply normal underwriting and pricing discipline • Approved to lend under the Recovery Loan Scheme, but anticipate volumes to be substantially lower than lending via CBILS • Continued growth in Asset Management with net inflows of 7% despite reduced face-to-face interaction with clients due to Covid restrictions • Completed the acquisition of PMN Financial Management, an IFA business with c.£300 million assets under administration, in line with the group's plans to maximise long-term growth potential in the Asset Management business • Winterflood delivered an exceptionally strong trading performance and capitalised on increased trading volumes for most of the year • Winterflood Business Services has continued to grow its assets under administration, now at £6.2 billion (31 July 2020: £4.1 billion), capitalising on the trend for outsourcing
People Succession planning for key senior management team	Assessment • Smooth transition of chief executive • Implemented and embedded new group Executive Committee structure leading to simplification of management structure and reallocation of SMR responsibilities • Recruitment and smooth transition of group treasurer
Maintain strong employee engagement and reinforce position as employer of choice	Performance metrics • 91% employee engagement, above external benchmark of 82% • 96% of colleagues believe their immediate team work well together • 93% say colleagues go the extra mile to meet the needs of customers and clients
	Assessment • Employee opinion survey confirms continued strong employee engagement • Employee engagement score above external benchmark
Customers Maintain focus on the end customer	Performance metrics • All businesses scored above average net promoter score ("NPS") in financial services (+50) with scores ranging from +60 to +87 in the 2021 financial year
	Assessment • Continued support for our customers as the economy recovered from the Covid-19 crisis • Focused strongly on client needs and servicing • Maintained strong key customer metrics across the Banking businesses • Implemented government lending schemes in Asset Finance and Invoice Finance to support customer needs • New complaints dashboard introduced and successfully being used to track performance and focus effort on improvement areas
Support customers through forbearance and enhance strong long-term relationships	Performance metrics • Over 130,000 customer payment deferrals and other Covid-19 related concessions offered since the beginning of the pandemic
	Assessment • Wide range of forbearance measures offered across all businesses and in-line with regulatory guidance

Objective	Assessment of performance against objectives including performance metrics
Risk conduct and compliance Operate within risk appetite, preserve compliance with legal and regulatory obligations, maintain strong control framework and overall operational resilience	Assessment • Continued development of operational risk framework, which was significantly tested and shown to be effective during the Covid-19 crisis • Cyber security strategy enhanced and agreed with Board Risk Committee, with investments delivering significant improvements, particularly in technology • Internal audit reviews confirm businesses continue to operate within established and embedded credit and operational risk appetite, reflecting mature and transparent risk management practices • Maintained key regulatory and compliance controls • Short-term risks from the current working environment continue to be coordinated and monitored on an ongoing basis. Longer-term risks and opportunities being considered through a working group

Long-term performance awards (Audited)

The performance awards in the single total figure of remuneration include the 2018 LTIP grant. This will vest on 2 October 2021, and the overall vesting is outlined in the table below.

Details of the overall vesting for the LTIP

Performance measure	Threshold target[1]	Maximum target	Actual achieved	Overall vesting
Adjusted EPS growth[2] (35% weighting)	10%	30%	**0.1%**	**0.0%**
RoE[3] (35% weighting)	12%	20%	**12.7%**	**11.1%**
Risk management objectives ("RMO") (30% weighting)	n/a	n/a	**95.0%**	**28.5%**
Overall vesting				**39.6%**

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

In addition to the overall vesting of the performance measures, both share price and dividend equivalents affect the payout from the LTIP.

The share price during the relevant performance period for the LTIP decreased by 2.9% over the three-year period from the date of grant to the end of the performance period. The average share price used to value the awards due to vest in October 2021 was 1,570p from 1 May 2021 to 31 July 2021, which was the performance measurement period. The 2018 LTIP award was originally granted at 1,589.0p.

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

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

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

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

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

Year one and year two assessments were set out in the 2019 and 2020 Directors' Remuneration Reports respectively. The year three performance assessment is detailed on the following page.

Directors' Remuneration Report continued

Year three performance assessment against risk management objectives

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

X Performance objective has not been met

Element	Measure	Extent to which the Committee determined the target has been met
Capital and balance sheet management	Capital requirements ✓	• CET1 capital ratio increased from 14.1% to 15.8%, providing a significant headroom above the above the applicable minimum regulatory requirement of 7.6% excluding any PRA buffers.
	Dividend ✓	• Interim dividend, 2021 of 18p declared and paid, reflecting the group's strong performance in the first half of the financial year and confidence in our business model and financial position. • The board is proposing a final dividend of 42p, resulting in a full-year dividend per share of 60p, reflecting the group's strong performance in the year and continued confidence in our business model and financial position.
	Funding ✓	• Average maturity of funding allocated to loan book is 24 months, well in excess of the loan book at 17 months.
	Liquidity ✓	• Continue to comfortably meet the liquidity coverage ratio requirement with a 12-month average to 31 July 2021 LCR of 1,003% (2020: 823%).
Risk, compliance and controls	Internal Ratings Based approach ✓	• Achieved all key objectives and milestones with the initial formal application submitted to the PRA, as planned, in December 2020. • Concluded phase/module one of PRA application process with initial interviews conducted in May 2021. • The various workstreams under the project to transition to IRB led to a continued positive relationship with the regulator.
	Conduct and Culture ✓	• Approach to enhancing the Conduct Risk Framework and dashboard developed, approved and currently being piloted in certain businesses prior to group-wide roll out in the next financial year. • Overall cultural assessment for the group remains positive with strong scores on culture achieved in the latest employee opinion survey completed. • Positive employees feedback received around how Close Brothers supported colleagues through the pandemic. • Broadened our inclusion remit to focus on disability inclusion through joining the Valuable 500 initiative and signing up to the Mental Health at Work commitment. • At 31 July 2021, 32% of our senior managers were female. This reflects a slight drop from 33% in June but we remain confident in our overall progress to achieve our 2025 target of 36%. • Increased our ethnicity data disclosure to 75%, exceeding our target of 60%.
	Sustainability ✓	• Sustainability targets met, exceeded or on track. These include the achievement of a 23% reduction in group-wide overall Scope 1 and 2 emissions, maintenance of strong customer satisfaction scores across all our businesses, and a 25% improvement in fleet vehicle emissions. • Significant progress was made during the year in advancing and externally articulating the group's strategy on sustainability and the group's identified focus areas, objectives and associated measures of performance. • The group has announced that it is supportive of the goals of the Paris Agreement towards achieving net zero by 2050, reinforced by a new target of becoming operationally net zero through our Scope 1 and 2 emissions by 2030. • A qualitative review of climate risks was completed and a process to embed climate risk identification and risk methodology within the group's risk framework is being undertaken. • Assessment of our indirect Scope 3 emissions over the coming year in order to set out our own transition pathway to lower emissions.

Element	Measure	Extent to which the Committee determined the target has been met
	Operational resilience	• The group's operational resilience framework, standards and roadmap have been agreed with the Board Risk Committee. • A roadmap of investment in operational resilience has been confirmed with key resources and capabilities identified, including a group-wide resilience investment prioritisation in line with regulatory compliance timelines. • Repeatable methodology for defining important business services and defining impact tolerances agreed with the Board Risk Committee. Initial stress testing and monitoring of results under way. • Continued delivery of cyber improvement programme/framework with an independent assessment confirming the appropriateness of the group's approach to cyber security.

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

Element	Year one assessment	Year two assessment	Year three assessment	Overall vesting
Capital and balance sheet management	100%	95%	100%	98.3%
Risk, compliance and controls	90%	95%	90%	91.7%
Overall vesting				**95.0%**

Implementation of the policy in 2022

Base salary

	Salary effective from 1 August 2021[1]	Increase
Chief executive – Adrian Sainsbury	£930,000	–
Group finance director – Mike Morgan	£560,000	–

1 Subject to shareholder approval at the November 2021 AGM.

No merit base or cost of living increase has been given to the executive directors although base salaries will increase from £550,000 to £930,000 for the group chief executive and £400,000 to £560,000 for the group finance director as part of a compensation mix adjustment required by the implementation of the bonus cap introduced as part of CRD V. The salary increases are subject to shareholder approval at the 2021 AGM and will be backdated to the 1 August 2021, if approved. The average salary increase across the wider employee population was 2%, effective from 1 August 2021.

Adrian Sainsbury and Mike Morgan's allowance in lieu of pension will be 10% of base salary, which is in line with the level of benefit offered to the general employee population.

The executive directors will receive benefits in line with those outlined in the remuneration policy table on page 101.

There will be no other increases to allowances or benefits other than any potential increase in the cost of providing them.

2022 annual bonus (i.e. bonus awarded in respect of the 2022 performance year)

RoE continues to be a long-standing metric for the financial element of the executive directors' remuneration framework. The Remuneration Committee considers it to be a significant key performance indicator, as it provides strong evidence of adherence to the group's business model. At the start of the 2021 financial year, CET1 capital ratio was included as a complementary financial measure as the Remuneration Committee viewed this metric as particularly important given the uncertain environment as a result of Covid-19. As the economic outlook improved and uncertainty in the external environment has reduced, the Remuneration Committee has determined that the weighting within the financial measures should be reviewed, with a higher emphasis on returns, to reflect the group's commitment to delivering disciplined growth.

Nature of measures	Choice of measures	Targets	Percentage of bonus opportunity	Vesting ranges
Financial	RoE	10% to 18%	40%	Threshold – 33%[2] Maximum – 100%
	CET1 capital ratio	12.6% to 15.6%	20%	
Non-financial	Strategic scorecard: Strategic, People, Customers and risk, Conduct and compliance objectives	Discretionary assessment[1]	40%	Minimum – 0% Maximum – 100%

1 Due to commercial sensitivity, the details of the performance targets and achievement against those will be outlined in the 2022 Annual Report on Remuneration.
2 Performance below threshold in the financial measures would result in zero vesting of the financial measure.

Adrian Sainsbury and Mike Morgan have a proposed maximum bonus potential of 95% of salary that is subject to the new Remuneration Policy being approved at the 2021 AGM.

Directors' Remuneration Report continued

2021 LTIP (i.e. LTIP awarded in respect of the 2022 to 2024 cycle)

The 2021 LTIP awards due to be granted in November 2021 are shown in the table below.

	Chief executive **Adrian Sainsbury**	Group finance director **Mike Morgan**
2021 LTIP award	£1,162,000	£700,000
Percentage change in LTIP award from 2020	(23)%	0%
2021 LTIP award as a percentage of proposed 2022 salary	125%	125%

As the performance period for the 2021 LTIP awards commences from the 2022 financial year, the Remuneration Committee has proposed awards for the executive directors at the revised maximum level of 125% of their 2022 base salary under the new Remuneration Policy. These awards are subject to shareholder approval at the 2021 AGM.

The 2021 LTIP targets are detailed in the table below.

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

1 Average over three-year performance period.

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

For the 2022 financial year, an additional measure relating to operational risk has been added to the four risk management objectives in the prior year and are detailed in the following table.

Measure
Further progress our plans towards an Internal Ratings Based ("IRB") approach
Evolve the oversight of the conduct and culture framework and extend the diversity and inclusion strategy
Develop our sustainability strategic position and manage the financial risks and opportunities associated with climate change
Continue to build out our operational resilience strategy and framework
Continue to enhance effectiveness of our operational risk control environment

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

Relative spend on pay

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

	2021 £ million	2020 £ million
Remuneration paid	**363.2**	322.7
Distributions to shareholders[1]	**89.5**	59.8

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

Change in remuneration of the directors and all employees

The following table shows how the remuneration of the directors changed compared to the average employee population for the 2021 financial year. The year-on-year movement in salary and fees for the directors and employees reflects the annual review implemented in August 2020 and changes throughout the financial year ending 31 July 2021. Non-executive directors fees have not changed during the 2021 financial year however, there were a number of changes to the board and committees which are reflected in the salary figures below. The reduction in Preben Prebensen's figures reflect he was only in the position of chief executive for part of the year. Mike Morgan's bonus increased as a result of the significant improvement in the performance of the financial elements within the executive directors' annual bonus. The average increase in bonus for the general population is supported by the improved business performance. Adrian Sainsbury, Mark Pain and Tesula Mohindra were appointed directors during the 2021 financial year and have been omitted from the table below as there are no year on year remuneration comparisons.

	Executive directors[2]						Chairman and non-executive directors[3]													
	Average Employee[1]		Preben Prebensen		Mike Morgan[4]		Mike Biggs		Lesley Jones		Bridget Macaskill		Oliver Corbett		Geoffrey Howe[5]		Peter Duffy		Sally Williams	
	2021	2020	**2021**	2020	**2021**	2020	**2021**	2020	**2021**	2020	2021	2020	**2021**	2020	2021	2020	2021	2020	**2021**	2020
Salary	**0%**	1.8%	**(85.9)%**	0%	**0%**	0%	**0%**	0%	**0%**	5.6%	(1.8)%	5.6%	**(0.1)%**	5.6%	(69.9)%	2.9%	2.8%	0%	**0%**	–
Benefits	**0%**	1.8%	**(86.0)%**	0%	**479.8%**	0%	**119.5%**	(25.7)%	**(0.4)%**	(57.0)%	33.5%	(50.5)%	**0%**	0%	(36.0)%	32.6%	0%	0%	**(85.3)%**	–
Bonus	**21.2%**	13.1%	**(72.8)%**	(51.3)%	**152.2%**	(54.7)%	**–**	–	**–**	–	–	–	**–**	–	–	–	–	–	**–**	–

1 Calculated by dividing staff cost related to salaries, bonus and benefits by the average number of employees.
2 Calculated using the data from the single figure table in the annual report on remuneration.
3 Calculated using the fees and taxable benefits from the single figure table for non-executive directors on page 124.
4 Mike Morgan's 2021 benefits have increased by £7,000 as it includes the gain for the SAYE scheme joined during the year.
5 Geoffrey Howe stepped down as a non-executive director on 19 November 2020 and this is reflected in his 2021 figures.

Pay ratios

The table below compares the chief executive's single total remuneration figure to the remuneration of the group's UK employees over the last two financial years. The Remuneration Committee is satisfied that the median ratio is consistent with the pay, reward and progression policies for our employee population.

The chief executive's single total remuneration figure is Adrian Sainsbury's and Preben Prebensen's combined 2021 single figures. The combine figure over states the performance awards as it includes both individuals' awards that vest in the 2021 financial year.

Year	Method	25th Percentile	Median	75th Percentile
2021	Option A	79 : 1	47 : 1	29 : 1
2020	Option A	64 : 1	38 : 1	23 : 1

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

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

The 2021 total remuneration value for the employee at the 25th percentile, median and 75th percentile was £32,437, £54,729 and £89,927 respectively, of which the salary component made up £28,820, £38,500 and £70,000 respectively.

Chief executive: Historical information

	2012	2013	2014	2015	2016	2017	2018	2019	2020[1]	**2021[2]**
Preben Prebensen										
Single figure of total remuneration ('000)[3]	£2,496	£5,748	£7,411	£5,962	£3,995	£3,337	£2,541	£2,770	£2,043	**£860**
Annual bonus against maximum opportunity	90%	100%	100%	98%	95%	91%	86%	82%	40%	**78%**
LTIP, SMP and Matching Share Award vesting[4]	25%	79%	95%	97%	68%	51%	19%	30%	42%	**40%**

1 The figures for the performance awards for 2020 have been recalculated using the actual share price on the dates of vesting for the LTIP of £10.55. In the 2020 report, the three-month average to 31 July 2020 was used, given that the awards were vesting after publication of the report.
2 Preben Prebensen's remuneration for the 2021 financial year has been time pro-rated to 21 September 2021, the day he stepped down as chief executive.
3 The figures for 2012 to 2014 include the Matching Share Awards that were granted in 2009 at the time of Preben Prebensen's appointment as chief executive.
4 SMP and Matching Share Awards were last granted in the 2016 financial year.

	2021[1]
Adrian Sainsbury	
Single figure of total remuneration ('000)	**£1,713**
Annual bonus against maximum opportunity	**78%**
LTIP vesting	**40%**

1 Adrian Sainsbury was appointed chief executive on 21 September 2021 and his remuneration included in the single figure has been time pro-rated accordingly.

LTIP vesting for the last eight years

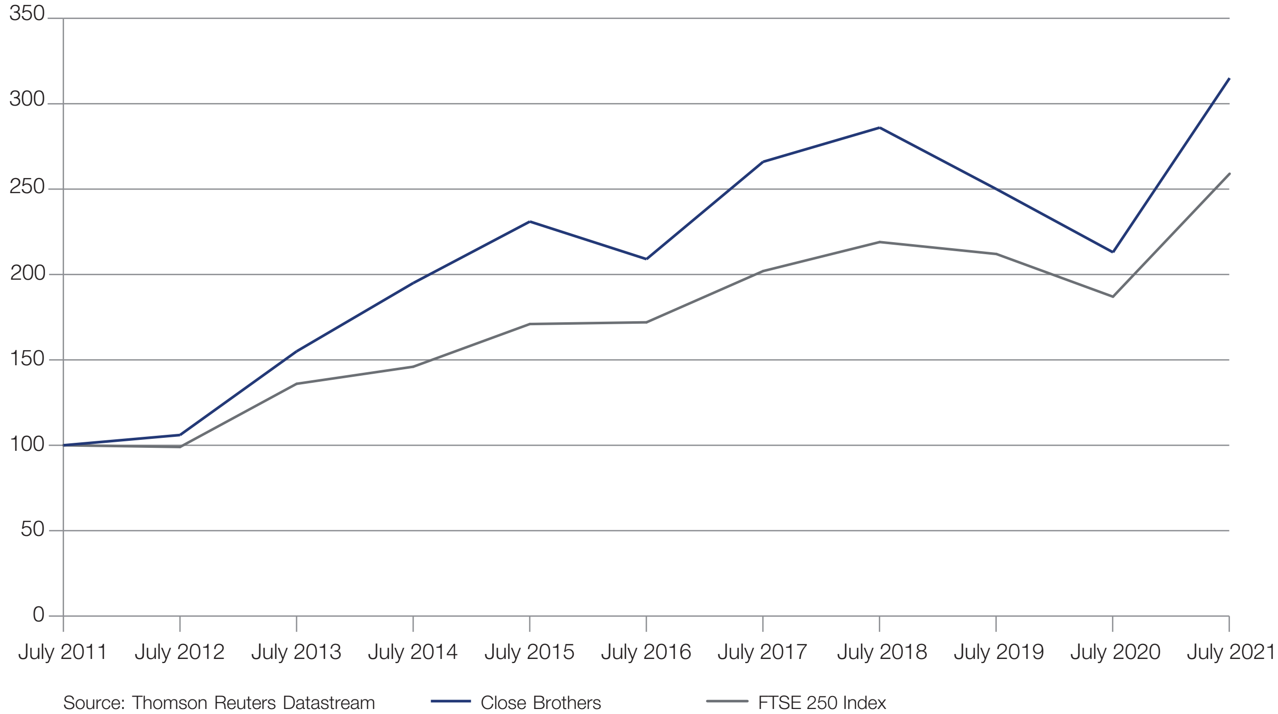
		Vesting percentage				
Year awarded	Year vested	Adjusted EPS	TSR	RoE	RMO	Total
2011[1]	2014	100%	100%	–	85%	95%
2012[2]	2015	100%	100%	–	87%	97%
2013[2]	2016	100%	25%	–	89%	68%
2014[2]	2017	56%	26%	–	92%	51%
2015[2]	2018	0%	0%	–	93%	19%
2016[2]	2019	0%	28%	–	94%	30%
2017[3]	2020	0%	–	38%	94%	42%
2018[3]	2021	0%	–	32%	95%	40%

1 Vesting was subject to one-third adjusted EPS, one-third absolute TSR and one-third strategic goals for all awards granted for 2011.
2 Vesting was subject to 40% adjusted EPS, 40% absolute TSR and 20% risk management objectives for the 2012 to 2016 awards.
3 Vesting was subject to 35% adjusted EPS, 35% RoE and 30% risk management objectives for the 2017 and 2018 awards.

Directors' Remuneration Report continued

Performance graph

The graph below shows a comparison of TSR for the company's shares for the 10 years ended 31 July 2021 against the TSR for the companies comprising the FTSE 250 Index.



Note:
This graph shows the value, by 31 July 2021, of £100 invested in Close Brothers Group plc on 31 July 2011 compared with the value of £100 invested in the FTSE 250 Index. The other points plotted are the intervening financial year ends. TSR has been calculated assuming that all dividends are reinvested on their ex-dividend date. The index has been selected because the company has been a constituent of the index throughout the period. The closing mid-market price of the company's shares on 30 July 2021 was 1.543p and the range during the year was 946p to 1,685p.

Scheme interests awarded during the year (Audited)

The face value and key details of the share awards granted in the 2021 financial year are shown in the table below. These were all delivered as nil cost options. The Deferred Share Award ("DSA") is a mandatory deferral of a portion of the annual bonus. The share price used to calculate the number of shares awarded was £9.88, the average mid-market closing price for the five days prior to grant (28 September 2020).

Name	Award type[1]	Vesting period	Performance conditions	Face value '000	Percentage vesting at threshold	Number of shares	Vesting/ performance period end date
Adrian Sainsbury	DSA[2]	1-3 years	No	£70	n/a	7,086	29-Sept-23
	LTIP[3,4]	3 years	Yes	£1,500	25%	151,838	29-Sept-23
Mike Morgan	DSA[2]	1-3 years	No	£131	n/a	13,265	29-Sept-23
	LTIP[3,4]	3 years	Yes	£700	25%	70,858	29-Sept-23
Preben Prebensen	DSA[2]	1-3 years	No	£396	n/a	40,086	29-Sept-23

1 The awards are all delivered as nil cost options.
2 The DSA vests in equal tranches over three years.
3 Performance conditions are detailed on page 120.
4 LTIPs vested from 2020 have an additional two-year holding period.

External appointments

Preben Prebensen received £ 9,904.47 in non-executive director fees (2020: £71,687) from The British Land Company plc for the period he was chief executive.

Payments to departing directors (Audited)

The treatment of Preben Prebensen's compensation arrangements was determined last year and set out in full on pages 112 and 113 in the 2020 Directors' remuneration report. In accordance with these arrangements, Preben Prebensen has been awarded a time pro-rated bonus for the period of the 2021 financial year he was chief executive in recognition of his performance until date of leaving and for his role in the smooth transition of the new chief executive. Preben Prebensen did not receive a termination payment upon departure.

Payments to past directors (Audited)

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

Executive directors' shareholding and share interests (Audited)

The interests of the directors in the ordinary shares of the group at 31 July 2021 are set out below:

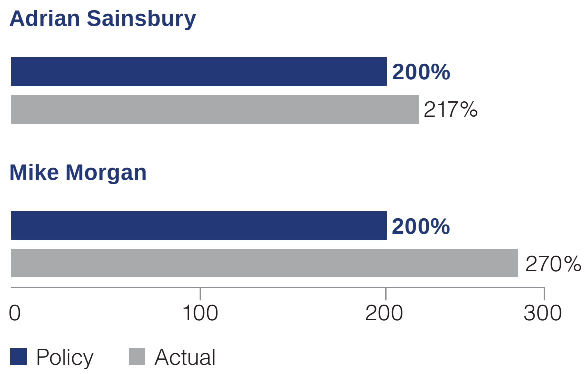
Name	Shareholding requirement at 31 July 2021[1]	Number of shares owned outright[2] 2021	Outstanding share awards not subject to performance conditions[3] 2021	2020	Outstanding share awards subject to performance conditions[4] 2021	2020	Outstanding options[5] 2021	2020
Adrian Sainsbury	71,290	**77,180**	**22,784**	–	**275,596**	–	**2,146**	–
Mike Morgan	51,848	**69,955**	**23,573**	15,620	**172,632**	135,699	**3,778**	2,505
Preben Prebensen[6]	114,286	**103,303**	**97,652**	116,625	**122,113**	386,819	**–**	1,458

1 Based on the closing mid-market share price of 1,543p on 31 July 2021.
2 This includes shares owned outright by closely associated persons.
3 This includes DSA.
4 This includes LTIP awards.
5 These are comprised of SAYE options.
6 Preben Prebensen's shareholding is as at 21 September 2020, the day he stepped down as chief executive.

No executive directors held shares that were vested but unexercised at 31 July 2021. There were no changes in notifiable interests between 1 August 2021 and 20 September 2021, other than the purchase of shares by Adrian Sainsbury within the SIP which increased his shareholding to 77,199 shares.

Executive directors' shareholding

The chart below compares the current executive directors' shareholding versus shareholding policy, as a percentage of salary.



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

Name	Award type	Held at 1 August 2020	Called[1]	Lapsed	Market price on award p	Market price on calling p	Total value on calling[1] £	Dividends paid on vested shares £
Adrian Sainsbury	2017 DSA	5,712	5,712	–	1,459.0	1,014.0	57,920	11,938
	2018 DSA	4,721	4,721	–	1,588.8	1,014.0	47,871	6,987
	2019 DSA	5,489	5,489	–	1,366.4	1,014.0	55,658	4,611
	2015 LTIP Special[2]	22,148	22,148	–	1,446.0	1,014.0	224,581	72,079
Mike Morgan	2018 DSA	315	315	–	1,588.8	1,022.0	3,219	340
	2019 DSA	4,997	4,997	–	1,366.4	1,022.0	51,069	2,199
	2015 LTIP Special[2]	10,374	10,374	–	1,446.0	1,022.0	106,022	29,612
	2015 LTIP Special[2]	6,697	6,697	–	1,493.4	1,022.0	68,443	19,116
Preben Prebensen	2017 DSA	21,343	21,343	–	1,459.0	1,401.6	299,143	44,607
	2018 DSA	17,863	17,863	–	1,588.8	1,401.6	250,368	26,437
	2019 DSA	19,853	19,853	–	1,366.4	1,401.6	278,260	16,677
	2017 LTIP	129,541	53,889	75,652	1,459.0	1,401.6	755,308	112,628

1 These are the actual number of shares and values realised on calling. Any variances in totals are due to rounding.
2 The 2015 LTIP Special Awards are performance awards granted to the individuals before they were appointed to the board. The awards were conditional on continued employment and positive EPS growth between grant and vesting.

Directors' Remuneration Report continued

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

The DSA is a mandatory deferral of a portion of the annual bonus.

The DSA and LTIP give executive directors the right to call for shares in the company from the employee benefit trust or treasury shares, at nil cost, together with a cash amount representing accrued notional dividends thereon. They may be called for at any time up to 12 months from the date of vesting. The DSA and LTIP awards may be forfeited in certain circumstances if the executive director leaves employment before the vesting date. The value of the awards is charged to the group's income statement in the year to which the award relates for the DSA and spread over the vesting period for the LTIP award.

As previously disclosed, the former chief executive, Preben Prebensen, was granted nil cost awards in 2017 under the Company's Long-Term Incentive Plan. Those awards vested in respect of 53,889 company shares at the end of the three-year performance period (ending on 3 October 2020), with the remainder lapsing. After vesting, the award was subject to a further two-year holding period, during which time the Award should not have been capable of exercise until 3 October 2022. Due to an administrative error on the part of the company, Preben's nil cost awards were exercised in December 2020, with the underlying shares being sold in the market, the proceeds of sale used to account for deductible taxes, and the net proceeds being remitted to Preben. On discovery of the administrative error, Preben cooperated fully with the company and has agreed to defer the vesting of awards over 51,076 shares in the company, held under the company's Deferred Annual Bonus Plan, that are due to vest in October 2021. These awards will instead be released on 3 October 2022 (being the date on which Preben's 2017 LTIP awards would have been released). Preben has also purchased an additional 2,813 shares in the company, and has agreed not to sell or transfer those shares until 3 October 2022. These steps have been taken with the intention of largely replicating the overall vesting and holding schedule applicable to the 2017 LTIP awards referred to above.

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

Name	Award type	Held at 1 August 2020	Exercised	Lapsed	Exercise price	Market price on exercise	Gain on calling
Adrian Sainsbury	2017 SAYE (Spring)	729	729	–	1,234.0	1,313.4	579
	2017 SAYE (Autumn)	774	774	–	1,162.0	1,313.4	1,172
Mike Morgan	–	–	–	–	–	–	–
Preben Prebensen	2017 SAYE (Spring)	1,458	1,458	–	1,234.0	1,313.4	1,158

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

	2021						2020					
Name	**Basic fee[1] £'000**	**Committee chairman £'000**	**Committee member £'000**	**Senior independent director £'000**	**Benefits[2] £'000**	**Total £'000**	Basic fee[1] £'000	Committee chairman £'000	Committee member £'000	Senior independent director £'000	Benefits[2] £'000	Total £'000
Mike Biggs	**300**	–	–	–	**8**	**308**	300	–	–	–	4	304
Lesley Jones	**70**	**33**	**10**	–	**1**	**114**	70	33	10	–	1	114
Geoffrey Howe[3]	**21**	–	**5**	**6**	–	**32**	70	–	15	20	–	105
Bridget Macaskill	**70**	**33**	**8**	–	**7**	**118**	70	33	10	–	5	118
Oliver Corbett[4]	**70**	**33**	**8**	**2**	–	**113**	70	33	10	–	–	113
Peter Duffy	**70**	–	**7**	–	–	**77**	70	–	5	–	–	75
Sally Williams	**70**	–	**10**	–	–	**80**	41	–	6	–	1	48
Mark Pain	**41**	–	**5**	**19**	–	**65**	–	–	–	–	–	–
Tesula Mohindra[5]	–	–	–	–	–	–	–	–	–	–	–	–

1 Non-executive director fees were last increased with effect from 1 August 2019.
2 Benefits include travel-related expenses in respect of attendance at board meetings which are taxable. Amounts disclosed have been grossed up using the appropriate tax rate as the company pays the non-executive directors' tax.
3 Geoffrey Howe stepped down as a non-executive director on 19 November 2020.
4 Oliver Corbett was appointed interim senior independent director for the period 19 November 2020 to 31 December 2020.
5 Tesula Mohindra was appointed a non-executive director on 15 July 2021 and not paid during the 2021 financial year.

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

The fees payable to non-executive directors for the 2021 and 2022 financial years are as follows. All fees with the exception of the chairmans' fee are increasing with effect from 1 August 2021. The committee membership fee is increasing for the first time since 2010.

Role	**2022**	2021
Chairman[1]	**£300,000**	£300,000
Non-executive director	**£71,000**	£70,000
Supplements		
Senior independent director[2]	**£34,000**	£33,000
Chair of Audit Committee	**£34,000**	£33,000
Chair of Remuneration Committee	**£34,000**	£33,000
Chair of Risk Committee	**£34,000**	£33,000
Committee membership[3]	**£6,000**	£5,000

1 The chairman receives no other fees for chairmanship or membership of board committees.
2 The senior independent director fee increased from £24,000 to £33,000 effective 1 January 2021.
3 No fees are payable to the chairman, or for membership, of the Nomination and Governance Committee.

Non-executive directors' share interests (Audited)

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

Name	**Shares held beneficially at 31 July 2021**	Shares held beneficially at 31 July 2020
Mike Biggs	**500**	500
Lesley Jones	**–**	–
Geoffrey Howe[1]	**5,000**	5,000
Bridget Macaskill	**2,500**	2,500
Oliver Corbett	**–**	–
Peter Duffy	**848**	848
Sally Williams	**–**	–
Mark Pain	**–**	–
Tesula Mohindra	**–**	–

1 Geoffrey Howe's shareholding is at 19 November 2020, the day he left the company.

There were no changes in notifiable interests between 1 August 2021 and 20 September 2021.

This report was approved by the board of directors on 28 September 2021 and signed on its behalf by:

Bridget Macaskill
Chair of the Remuneration Committee