

Corporate Governance Report

Board operations and compliance

Compliance with the UK Corporate Governance Code

The Code, published by the Financial Reporting Council (“FRC”), applied to the company throughout the financial year. A copy of the Code can be found on the FRC’s website: www.frc.org.uk.

It is the board’s view that, throughout the year, the company has applied the principles and complied with the provisions set out in the Code. The table below sets out the relevant sections of our Annual Report, where shareholders can read in more detail how we have embedded governance principles and specific provisions of the Code across our organisation.

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Governance Framework

Our governance framework supports good governance across the group and facilitates delivery of the strategy through effective decision-making.

Certain matters are reserved for the board, primarily in relation to:

- Setting and monitoring strategy for the group
- Corporate structure, capital, and ensuring adequate financial resources
- Financial reporting and controls
- Oversight of risk management, regulatory compliance, internal controls and whistleblowing
- Significant financial matters including acquisitions, disposals and investments
- Shareholder, market and regulatory communication
- Board and committee membership
- Remuneration of the board and executive management
- Delegation of authority
- Corporate governance matters

When carrying out its duties, the board acts in accordance with relevant legislative and regulatory requirements and, in particular, takes into account the directors’ duties set out in the Companies Act 2006, including s.172, the interests of the company’s stakeholders, and any other relevant factors.

The board has delegated responsibility for certain matters to its committees. Each committee has written terms of reference, which are available at www.closebrothers.com. The chair of each committee reports at each subsequent board meeting to the board on matters discussed at committee meetings. All non-executive directors have access to the papers of committees and have a standing invitation to attend any committee meeting. Reports from the board’s committees are set out later in this Annual Report and they include further detail on each committee’s role and responsibilities, and the activities undertaken during the year.

Board Leadership

The board’s primary role is to provide effective leadership and stewardship for the group as a whole and to ensure that the company is effectively managed, delivers long-term shareholder value and contributes to wider society.

The board sets the group’s purpose and strategic objectives and monitors management’s performance against those objectives, ensuring alignment with the group’s culture and stakeholder expectations. The board also supervises the group’s operations, with the aim of ensuring that it maintains a framework of prudent and effective controls, enabling risks to be properly assessed and appropriately managed.

The board considers strategic issues, the group’s business model and receives regular group and divisional executive updates on performance against strategic goals and relevant developments in the wider market, including from a regulatory perspective. During the year, a range of activities enabled the board to focus on these areas, including a strategy session in May 2023 and regular deep dives, more information about both of which can be found in the box below.



May 2023 Strategy Session

- Considered group strategic issues and opportunities
- Facilitated by external strategic experts
- Topics of discussion included the group’s budget, funding and growth plans, and investor feedback
- Various strategic opportunities across the business were presented for consideration, challenge and debate
- Follow-up actions agreed and tracked

Deep Dives

- A number of “deep-dive” sessions were held during the year
- Each focused on an individual business area or topic relevant to the legal and regulatory landscape within which our businesses operate
- The board aims to cover each of the group’s businesses at such a session on a rolling two-year basis

Meetings of the Board

The board's role in assessing the basis on which the group generates and preserves value over the long term is supported by continuous focus on consumer outcomes and other stakeholder considerations. It spends time during the year, in scheduled board meetings, during its annual strategy discussions and in other sessions with senior management and stakeholders, considering how opportunities and risks to the future success of the group's business should be addressed. These discussions include extensive consideration of the sustainability of the group's business model. Further information on these considerations can be found in the Strategic Report on pages 38 to 64 of this Annual Report.

Each scheduled board meeting also includes time for discussion between the chairman and the non-executive directors, without the executive directors present.

Another key function of the board is to define, promote and monitor the group's culture and values, setting the tone from the top. More on our culture and values can be found on pages 30 to 31 of this Annual Report. When making decisions, the board has regard to the interests of a range of stakeholders, including employees, customers, clients and shareholders, as well as its broader duties under section 172 of the Companies Act 2006. The company's section 172 statement can be found on page 34 of this Annual Report. Case studies illustrating key decisions of the board while having regard to section 172 can be found on page 152.

In addition, the board appoints one of the directors to act as the group's whistleblowing champion and this is currently Oliver Corbett. As part of this role, Oliver engages with the group head of operational risk and compliance regularly in relation to whistleblowing matters during the course of the year. For more details about the company's whistleblowing procedure, see page 55.

The board also appoints one of its directors to act as the group's consumer duty champion and this is currently Sally Williams. For more details about the company's compliance with the new consumer duty regulation, see page 25.

The annual schedule of board meetings is decided a significant length of time in advance in order to ensure, so far as possible, the availability of all directors. In the event that, in exceptional circumstances, directors are unable to attend a meeting, they receive papers as usual and have the opportunity to relay their comments and questions in advance, as well as follow up with the chairman if necessary. The same process applies in respect of the board committees.

In addition to these meetings, a number of ad hoc meetings were held to consider specific items of business. All directors attended a strategy session with senior management in May 2023, more details of which can be found on page 142.

Attendance at Board and Committee Meetings

	Board	Nomination and Governance Committee	Risk Committee	Audit Committee	Remuneration Committee
Executive Directors					
Adrian Sainsbury	7/7	–	–	–	–
Mike Morgan	7/7	–	–	–	–
Non-executive Directors					
Mike Biggs	7/7	5/5	–	–	6/6
Mark Pain	7/7	5/5	6/6	–	6/6
Oliver Corbett	7/7	5/5	6/6	4/5	–
Patricia Halliday	7/7	–	6/6	5/5	–
Tracey Graham ¹	7/7	2/2	6/6	–	6/6
Peter Duffy ¹	7/7	2/2	6/6	–	6/6
Sally Williams	7/7	–	5/6	4/5	–
Tesula Mohindra	7/7	–	6/6	5/5	–
Kari Hale ²	2/2	–	–	–	–
Former Non-executive Directors					
Lesley Jones ³	2/2	1/2	1/2	1/2	0/1
Bridget Macaskill ³	2/2	2/2	2/2	–	1/1

1. Tracey Graham and Peter Duffy were appointed as members of the Nomination and Governance Committee with effect from 26 January 2023.

2. Kari Hale was appointed as a director and as a member of the Audit and Risk Committees with effect from 28 June 2023.

3. Lesley Jones and Bridget Macaskill retired as non-executive directors at the conclusion of the company's AGM on 17 November 2022.

Corporate Governance Report continued

Board operations and compliance

Roles and Responsibilities

In line with the Code, the role of the chairman is distinct and separate from that of the chief executive and there is a clear division of responsibilities between the two roles. The roles of the chairman, chief executive and senior independent director, as approved by the board in July 2019, can be found on the company's website at www.closebrothers.com. The roles of certain members of the board are summarised below.

In addition, the chairman and chief executive have various prescribed responsibilities under the Senior Managers Regime overseen by the PRA. Some board members also take on additional responsibilities required by legislation

such as whistleblowing champion or Consumer Duty champion. More information about these specific roles can be found on page 143.

Powers of Directors

The directors are responsible for the management of the company. They may exercise all powers of the company, subject to any directions given by special resolution and the articles of association. The directors have been authorised to allot and issue ordinary shares and to make market purchases of the company's ordinary shares by virtue of resolutions passed at the company's 2022 AGM.

Further detail regarding these authorisations is set out on page 191.

Division of Responsibilities

Role	Responsibilities
Mike Biggs Chairman	<ul style="list-style-type: none"> Responsible for leading the board and ensuring that it operates effectively Sets the agenda for meetings and promotes balanced and effective decision-making and challenge of executive management with sufficient time for constructive debate and discussion Ensures that the board as a whole develops and monitors the group's strategy Ensures that the culture in the boardroom promotes effective debate and good governance Supports the development of the group's culture and sets the tone from the top Promotes effective engagement between the board, its shareholders and other stakeholders Leads the annual board evaluation process Chairs the Nomination and Governance Committee and monitors the board's composition and non-executive succession planning
Mark Pain Senior Independent Director	<ul style="list-style-type: none"> Provides a sounding board for the chairman Provides an alternative channel of communication for shareholders and other stakeholders Meets with non-executive directors annually without the chairman present to appraise the chairman's performance
Non-executive Directors	<ul style="list-style-type: none"> Provide constructive challenge and scrutiny of the performance of management Bring external perspective, knowledge and experience to the board Assist in the development of strategy and the decision-making process Promote the highest standards of integrity and governance Through membership of the group's committees, determine appropriate levels of remuneration, review the integrity of the financial statements, review succession plans for the board and the Executive Committee and monitor the risk profile of the group Gather the views of the workforce through attendance at key business events and through employee engagement
Adrian Sainsbury Chief Executive	<ul style="list-style-type: none"> Executes the group's strategy as agreed with the board Leads the Executive Committee in the day-to-day management of the group Ensures that the group's business is conducted with the highest standards of integrity aligned with the group's culture Manages the group's risk exposure in line with board policies and risk appetite Leads the group's investor relations activities
Sarah Peazer-Davies Company Secretary	<ul style="list-style-type: none"> Advises the directors on governance and legal matters, and the discharge of their duties Ensures the board receives high-quality information and in sufficient time Supports relationship-building and the flow of information between the board and the Executive Committee Facilitates board induction and training Available to provide advice and services to support all directors Organises all board and committee meetings as well as the Annual General Meeting ("AGM")

Non-executive Directors' Independence and Time Commitment

The board has assessed the independence of each of the non-executive directors. It is of the opinion that each non-executive director acts in an independent and objective manner under provision 10 of the Code, free from any relationship that could affect their judgement. The board considers, for each non-executive director, among other things:

- whether they are independent in character and judgement;
- how they conduct themselves in board and committee meetings;
- whether they have any interests which may give rise to an actual or perceived conflict of interest; and
- whether they act in the best interests of the company, its shareholders and other stakeholders at all times.

Each non-executive director is required to confirm at least annually whether any circumstances exist which could impair their independence. At the start of each board meeting, all directors are reminded of their obligations relating to conflicts of interest and are asked to declare any changes since the last meeting. The company secretary maintains a register of conflicts authorised by the board.

As part of its consideration of non-executive independence, the board has given particularly rigorous consideration to the overlapping directorships held by Kari Hale and Mark Pain on the boards of the company and AXA UK plc. It has considered the nature of those directorships, and the character, behaviour, contribution and judgement of Kari and Mark during the proportion of the year for which they have each been directors of the company. It has concluded that both directors continue to demonstrate independence as evidenced by, among other things, their contribution to board meetings and their challenge of senior management.

The board has also given particular consideration to the independence of Oliver Corbett who has been a non-executive director for more than nine years, having been appointed in June 2014. The board has determined that, notwithstanding his term of office, Oliver is independent in character, judgement and in his valuable contributions to the board and its committees, including in his challenge of management.

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

The board is satisfied that each non-executive director is able to dedicate the necessary amount of time to the company's affairs, following consideration of each non-executive director's other time commitments. The letters of appointment for each of the company's non-executive directors set out a minimum time commitment in discharging their duties as a director and require them to seek prior board approval before they take on additional commitments.

As required by the Code, the board assesses whether external appointments should be approved, with significant consideration being given in advance of proposed additional appointments being taken on by any of our directors.

In September 2022, Tesula Mohindra and Tracey Graham were appointed as non-executive directors of the RAC group and Nationwide Building Society respectively, with Tesula also being appointed as a non-executive director of several subsidiaries within the RAC group. These appointments were considered and approved by the board in July 2022, sufficiently far in advance of the appointments taking effect.

In January 2023, Sally Williams was appointed a trustee of Ovarian Cancer Action and chair of the audit and risk committees. This appointment was considered and approved by the board in November 2022.

As part of its assessment in each case, the board considered whether the external appointment was likely to give rise to any actual or potential conflicts of interest, how any such conflicts could be managed or mitigated, and whether the proposed external appointment would be likely to compromise the director's ability to dedicate appropriate time and diligence to their existing responsibilities to the group. Following review and discussion, the board was satisfied that none of the proposed external appointments would restrict or prevent any of the directors above from carrying out their duties and responsibilities as directors of the company and accordingly, the appointments were approved.

Corporate Governance Report continued

Board operations and compliance

Conflicts of Interest

The articles of association include provisions giving the directors authority to approve conflicts of interest and potential conflicts of interest, as permitted under the Companies Act 2006.

Directors are responsible for notifying the chairman and the company secretary of any actual or potential conflicts as soon as they become aware of them. A procedure has been established whereby actual and potential conflicts of interest are regularly reviewed and appropriate authorisation sought. This procedure includes mechanisms for the identification of conflicts prior to the appointment of any new director or if a new conflict arises during the year. The decision to authorise a conflict of interest can only be made by non-conflicted directors and in making such a decision the directors must act in a way they consider, in good faith, will be most likely to promote the success of the company. The company secretary maintains a register of conflicts authorised by the board. The board believes that this procedure operated effectively throughout the year.

Election and Re-election of Directors at the 2023 AGM

In accordance with the Code, all directors retire and submit themselves for re-election at each AGM. The board will only recommend to shareholders that executive and non-executive directors be proposed for election or re-election at an AGM after evaluating the performance of the individual directors and considering their suitability, time commitment and ability to continue to contribute to the board.

Kari Hale joined the board on 28 June 2023 and will be proposed for election at the AGM in November 2023.

Following individual performance evaluations undertaken during the year of both the executive and non-executive directors, an assessment of the board's skills, knowledge and experience, and completion of the annual evaluation of the board and its committees, the board has determined that all directors continue to be effective and demonstrate sufficient commitment to their role. At the recommendation of the Nomination and Governance Committee, the board will therefore be recommending that all serving directors be elected or re-elected by shareholders at the 2023 AGM, with the exception of Oliver Corbett, who will step down from the board at the conclusion of the AGM, having completed nine years' service on the board.

Risk Management and Internal Controls

The board considers a range of routine and one-off matters in relation to risk management and internal controls, and the group chief risk officer attends all scheduled board meetings to report to the board on risk management activities across the group. For example, in 2023 the board approved the group risk appetite statements, core risk management policies, and the group's enhanced Pillar 3 disclosures.

In addition, throughout the year under review, the board paid particular attention to liquidity risk across the group. As a result of broader macroeconomic and geopolitical factors across Europe and market shocks within the UK economy which resulted in capital market volatility, the decision was made to delay a bond issuance which had been built into the group's funding plans. The board considered and monitored, over a period of time, a range of liquidity scenarios in the context of the group's risk appetite triggers and limits and the bond issuance successfully went ahead in June 2023.

Further information on the bond issuance can be found on page 152.

The board confirms that throughout the year ended 31 July 2023 and up to the date of approval of this Annual Report, there have been rigorous processes in place to identify, evaluate and manage the principal risks faced by the group. These principal risks include those that would threaten the group's business model, future performance, solvency or liquidity. The board has also assessed the likelihood of a risk occurring and the costs of control in accordance with the Guidance on Risk Management, Internal Control and Related Financial and Business Reporting published by the FRC.

Whistleblowing

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

During the year, the board received half-yearly updates from the group head of operational risk and compliance. These updates covered:

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

Corporate Governance Report continued

Board activities

The board and its committees engaged in a range of activities during the year under review, including in relation to the following:

Strategy

- Reviewed the strategic aims and the performance of businesses across the Banking, Winterflood and the Asset Management divisions, as well as for the group as a whole
- Supported the implementation of transformational projects
- Reviewed the competitive landscape
- Reviewed and approved the group's budget and three-year strategic plan
- Held a strategy session in conjunction with the Executive Committee
- Reviewed the investment programme strategy and updates
- Reviewed the group's sustainability strategy
- Received regular business unit updates
- Received deep-dive reviews of selected business areas
- Received regular updates on climate and sustainability activities
- Approved the group's annual tax strategy

Financial and Corporate Reporting

- Received regular reports from the group finance director on financial performance
- Reviewed rolling forecasts and approved the 2024 budget
- Approved full-year and half-year results
- Received reports from the group's internal audit function
- Reviewed the new disclosure framework to ensure compliance with TCFD reporting

Structure, Capital and Liquidity

- Reviewed the group's stress testing policy
- Reviewed the group's treasury policy
- Considered the group's capital strategy
- Approved a senior bond issuance of £250 million in June 2023, following a period of market volatility and adverse market conditions

Stakeholders

- Received regular updates on customers and clients
- Received and discussed the annual Employee Opinion Survey results
- Reviewed periodic updates on the culture dashboard
- Received regular feedback on investor relations activities including meetings with shareholders and post-results roadshows
- Approved the annual Modern Slavery Statement
- Held the 2022 Annual General Meeting

Risk and Control

- Received reports from the chief risk officer
- Approved the group's Enterprise Risk Management Framework
- Approved the annual review of the Group and Bank ICAAP and ILAAP
- Reviewed and considered the group's risk appetite statements
- Reviewed and approved enhanced Pillar 3 disclosures
- Reviewed and discussed the group's principal risks and considered emerging risks
- Reviewed the group's annual compliance plan
- Reviewed the group's Whistleblowing Policy and received an update on activity
- Approved the annual renewal of the group's insurances
- Approved the group Credit Risk Policy, Financial Management Policy, Reporting and Control Policy, Disclosure Policy and ICAAP Policy
- Approved the implementation of the actions set out within the Period Summary Meeting letter from the Prudential Regulation Authority



Site visit to Close Brothers' businesses in Doncaster and Derby

Site visits are designed to provide non-executive directors with first-hand insights into the operational activities of the group and with opportunities to enhance their understanding of colleagues' experiences by engaging with them directly within their working environment.

As more travel became possible in the financial year, following the relaxation of the Covid-19 restrictions, directors visited some Close Brothers' business sites over the course of two days in February 2023. Three non-executive directors were joined by the then company secretary and general counsel on a visit to South Yorkshire and the East Midlands which focused on the retail and commercial businesses. The activities included shadowing colleagues, informal roundtables and networking with management, and touring a vehicle dealership.

The site visit gave the non-executive directors a better understanding of the group's customer and colleague experiences, as it supplemented the reports that the board had received on culture during the year. It was an opportunity to interact with a diverse group of colleagues and learn about their experiences, the challenges they face and their opportunities for career development. The site visit also provided a good opportunity for board members to get to know each other better.

Corporate Governance Report continued

Board activities

Governance

- Appointed Kari Hale as an independent non-executive director
- Appointed Tracey Graham as the chair of the Remuneration Committee and Patricia Halliday as the chair of the Risk Committee
- Conducted and reviewed the outcome of the board and committee performance evaluation and supported the review of the chairman's performance by the senior independent director
- Monitored progress on actions from previous years' board and committee performance evaluations
- Reviewed the terms of reference of the Audit, Remuneration, Risk, and Nomination and Governance Committees
- Reviewed and approved minor amendments to the matters reserved for the board
- Approved the updated board Diversity and Inclusion Policy
- Received regular training and updates
- Undertook a review of, and approved an appropriate increase in, non-executive director fees to align with the market
- Approved the arrangements for the Annual General Meeting in 2022
- Recommended the reappointment of directors by shareholders

Customers

- Oversaw the use of new segmental data modelling to deepen and refine the group's understanding of customer needs and financial behaviours, and to allow the group to tailor its products to meet the expectations and needs of its customers
- Considered customer vulnerability
- Consideration of the Customer Commitment Framework
- Discussed the impact of inflationary pressures on its customer base, in light of macroeconomic factors

Regulatory and Compliance

- Received updates from management on meetings held with the PRA and FCA during the year to discuss, amongst other topics, securities issuances and liquidity
- Received updates on Consumer Duty implementation
- Approved the group Recovery Plan, designed to maintain the viability and the financial position of the group through an effective and robust set of recovery options in the event of a broad range of stress scenarios and in accordance with the recommendations of the PRA
- Received detailed reports on progress made against the Annual Compliance Plan
- Received updates from the Money Laundering Reporting Officers

2022

September

- Full-year results and roadshow
- Review of risk appetite and certain policies

2023

January

- Trading update
- Whistleblowing update
- Project updates
- Approval of Modern Slavery Statement

March

- Half-year results and roadshow
- Money laundering update
- Various policy approvals

June

- Appointments and resignations
- Chairman's governance roadshow
- Bond announcement

November

- Annual General Meeting 2022
- Committee chair changes
- Trading update

February

- Doncaster and Derby site visit

May

- Trading update
- Strategy day

July

- Trading update
- Roadshows

Corporate Governance Report continued

Board induction, training and evaluation

Induction

On appointment, and in accordance with the director induction policy which was approved by the Nomination and Governance Committee and is reviewed periodically, all new directors receive a comprehensive and personalised induction programme. The programme is developed and overseen by the company secretary to familiarise new directors with the group and the regulatory, market, risk and governance framework within which it operates. The company also offers additional support and information to directors when they are appointed as a committee chair or member.

Induction programmes are tailored to a director's particular requirements, but typically include site visits, one-to-one meetings with executive directors, the company secretary and senior management, and a confidential meeting with the external auditor. Directors also receive guidance on their statutory and regulatory responsibilities, together with a range of relevant current and historical information about the group and its business. A key aim of the induction is to ensure that new board members are equipped to contribute to the group and the work of the board as quickly as possible.

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

Training and Professional Development

A central training programme is in place for members of the board, which is reviewed at least annually by the Nomination and Governance Committee. The directors attend sessions focusing on specific topics of interest or regulatory and operational relevance. During the year, these sessions included detailed guidance on cyber security, Consumer Duty and directors' duties. Annual training is also provided on the Senior Managers and Certification Regime. In addition, the chairman discusses and agrees any specific requirements as part of each non-executive director's regular review.



Induction Programme for Kari Hale

Kari Hale's induction programme commenced in June 2023 and has included the following elements:

- one-to-one meetings with executive directors covering strategy, operational and financial matters, people, the regulatory framework, and culture and values;
- briefings from executive committee members and senior managers, including the company secretary, about their respective business areas and central functions including legal, risk and compliance, internal audit, investor relations and corporate development, IT and cyber security, and various financial functions;
- a private meeting with the external audit partner;
- access to reference materials including relevant current and historical information about the group and its business such as financial data;
- access to board papers through the online board materials portal; and
- future planned site visits to the group's offices with the relevant senior management.

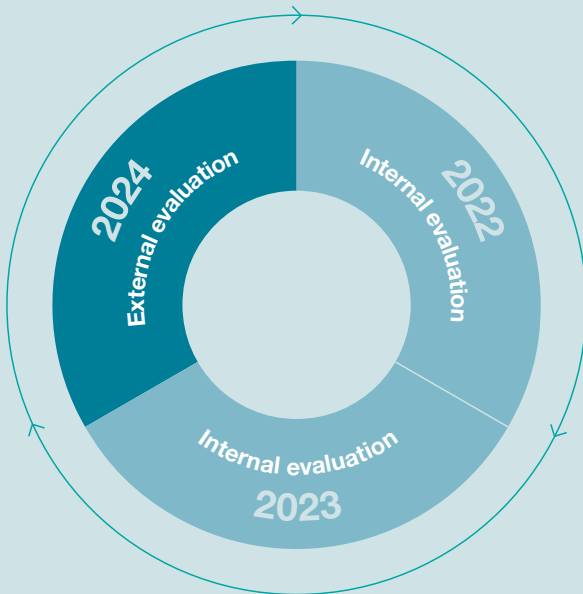
Regular touchpoints with the chairman and company secretary were established to monitor progress and ensure that Kari Hale was receiving all the information required to fulfil his role.

In the coming year, Kari Hale is expected to meet individually with the committee chairs to understand the role of, and interaction between, each committee. He will also visit our regional sites to see the businesses in action and engage with our workforce.

Corporate Governance Report continued

Board induction, training and evaluation

Evaluation Cycle



Evaluation

In accordance with the Code, the board undertakes a formal and rigorous evaluation annually to assess the effectiveness of its individual directors, its committees and the board as a whole, with the evaluation process being externally facilitated every three years.

The evaluation process during the year under review was conducted internally by the company secretary and led by the chairman. Each of the directors completed a questionnaire which considered a range of different areas relevant to board effectiveness and corporate governance including:

- the role and composition of the board and its committees;
- culture, strategy, purpose and values;
- stakeholder engagement;
- the business of the board, board behaviours, and the information and resources available to the board; and
- progress against the recommendations of prior years' evaluations.

The results of the evaluation were presented to the Nomination and Governance Committee and the board in July 2023 and will be considered and discussed further in the coming months. The overall conclusion of the evaluation was that the board and its committees remain strong and continue to operate effectively, with clarity as to their role and purpose. In terms of the operation of the board, the evaluation found that the board is chaired well, with all board members given sufficient opportunity to contribute to board discussions, which involve an appropriate level of constructive challenge as well as clear and collective focus on the link between strategy, the group's business model and the customer proposition.

A detailed review of the findings from the evaluation will be undertaken and a programme scheduled to continue to implement the matters raised throughout the course of the following year.

Implementation of the Findings of the 2022 Evaluation

Key recommendations	Actions taken
Reduction in length and density of board papers and review of board meeting frequency to enhance the flow of information from senior management to the board	Additional board paper guidance and templates were provided to authors. The frequency of board meetings was reviewed and some minor adjustments were made as a result
Increased reporting on stakeholder considerations and stakeholder engagement, particularly for less visible stakeholders	The revised board paper guidance includes greater focus on stakeholders. Additional deep dives and site visits have been scheduled, focusing on less visible areas of the business
Recognition of the strategic focus of the board and the success of the dedicated strategy session, which should be repeated on an annual basis with the Executive Committee	The dedicated strategy session was repeated in May 2023, and actions agreed at the session were tracked
Additional topical areas for board training and development identified for inclusion in the annual training programme	Specific training sessions and materials were provided in response

Directors' Performance

In addition to the formal evaluation, the chairman holds regular meetings with individual directors at which, among other things, their individual performance is discussed. Informed by the chairman's continuing observation of individual directors during the year, these discussions form part of the basis for recommending the election and re-election of directors at the company's AGM, and include consideration of the director's performance and contribution to the board and its committees, their time commitment and the board's overall composition.

Chairman's Performance

As in previous years, Mark Pain, in his role as the senior independent director, led the annual assessment of the chairman's performance. This involved discussions with the other non-executive directors individually, without the chairman being present, and consultation with the chief executive and group finance director. The senior independent director subsequently provided feedback to the chairman.

Directors' Fitness and Propriety

In line with its regulatory obligations, the group undertakes annual reviews of the fitness and propriety of all those in senior manager functions, including all of the company's directors and a number of other senior executives. This process comprises assessments of individuals' honesty, integrity and reputation, financial soundness, competence and capability, and continuing professional development. This year's reviews have confirmed the fitness and propriety of all of the company's directors and other senior executives who perform senior management functions. Consideration of matters relating to fitness and propriety also form an important part of the board's recruitment process for non-executive directors.

Corporate Governance Report continued

Stakeholder engagement

The board recognises that, for the company to be successful over the long term, it is important to build and maintain successful relationships with a wide range of stakeholders and for the board to understand the views of the group's key stakeholders. When taking decisions, the board considers the interests of, and the group's impact on, its relationships with shareholders, customers, partners, suppliers, regulators, employees and local communities.

During the year, as part of the group's responsibility to contribute to wider society, the board discussed the group's charitable efforts and community activities during the year, which included donations totalling £120,000 to Stop Hate UK, The Wildlife Trusts, Smart Works and Bookmark.

Board Decision Making

The board makes decisions and provides oversight with the aim of promoting the Company's success for the long-term sustainable benefit of its shareholders, while having due regard for the interests of all stakeholders and the likely consequences of a particular decision. Further information about the Company's key stakeholder groups can be found in the Strategic Report on pages 35 to 37.

The board recognises that different stakeholders have different values and priorities, even within the same stakeholder group. The board diligently weighs up these differences and takes them into account when making decisions. Feedback from stakeholders, both before and after decisions have been made by the board, represents an important input into the decision-making process.

Further detail of the company's stakeholder groups, as well as the company's section 172 statement, can be found in the Strategic Report on pages 34 to 37.

The two case studies at right provide practical examples of how the board takes into account the Company's different stakeholders as an integral part of its decision-making process.



Investment in Retail Finance

We see investment through the cycle as vital in protecting our model, enhancing efficiency and future-proofing our income generation capabilities, whilst enabling us to meet emerging regulatory requirements and implement system upgrades. Each year, the consolidated investment plan is presented to the board for its review and challenge, and if thought fit, approval. Any material changes proposed subsequently are also presented for approval.

The board initially approved investment in a Retail simplification programme that will transform operations and reduce the cost of running the business, while enhancing the operational risk and control environment. The board then considered subsequent proposals from the Retail Finance business to deliver the projects over a longer time scale than originally anticipated, to balance the operational capacity for delivery and the investment demands across other areas of the business.

The board explored the need to balance thorough planning with the ability to react and adapt. It discussed the impact of various investment options on different stakeholder groups, including the Retail Finance business, its colleagues and customers. Having considered all factors in depth, the board agreed that extending the time frame for delivery was in the best interests of the company and its stakeholders as a whole. The board continues to monitor the progress of the investment programme and any further proposals that may be made in the future.

Bond Issuance

The company issues bonds from time to time as part of its funding strategy. In May 2023, a committee of the board considered a proposal to issue fixed rate senior notes of up to a principal amount of £250 million to the market. The issuance was part of the group's funding strategy including replacing a £250 million 2.75% bond which matured in April 2023. The company was monitoring market conditions over the preceding months and had kept the board updated on market developments.

The committee considered the proposal in light of the best interests of the company, its members and other stakeholders. It considered factors including likely demand for the bond, the company's immediate and longer term funding requirements, and market sentiment. The bond issuance went ahead, being a £250 million 7.75% 5-year Senior fixed rate bond with strong demand and a successful uptake. The board will continue to monitor the company's funding strategy and consider future financing proposals.

Workforce Engagement

Culture and values

The board recognises the importance that culture and values play in the long-term success and sustainability of the group, and the role of the board in establishing, monitoring and assessing culture. The board also acknowledges the importance of individual directors, and the board as a whole, acting with integrity, leading by example and promoting the desired culture. The board spends time monitoring, and satisfying itself as to, the alignment of the group's purpose, values and strategy with its culture.

During the year, the board monitored, assessed and promoted the group's culture in the following ways:

- The chief executive's updates to the board included dedicated reporting on people and culture within each division to allow the board to consider cultural issues with appropriate granularity.
- Site visits and non-executive directors' attendance at various employee events and meetings such as that of the group Asset and Liability Committee, the group Risk and Compliance Committee, and various business risk and compliance committees as well as business sites such as the trip to Doncaster and Derby, more information about which can be found on page 147.
- The board received updates on the Employee Opinion Survey, which tracks against our own and sector-wide cultural markers; the quarterly culture dashboard which includes external stakeholder considerations; and external guidance and insight on culture, including from regulators and industry bodies. All of these are used by the board to benchmark the group's approach and plans, and other initiatives across the group to embed the desired behaviours and the "Close Brothers Way".
- The Remuneration Committee considered culture, behaviour and conduct issues and the inclusion of culture-related objectives as part of the executive directors' performance assessment (further detail on which can be found in the Directors' Remuneration Report on pages 177 to 179).
- The board reviewed the group's whistleblowing arrangements by which employees can raise concerns in confidence and, if they wish, anonymously, and the Risk Committee reviewed a conduct risk dashboard covering an assessment of relevant issues and developments for each of the group's divisions.

Engagement with Employees

As permitted by the Code, the board has put in place its own arrangements to engage with employees across the group and, following discussion by the Nomination and Governance Committee, a framework for board engagement with employees is managed by the company secretary, in conjunction with the group head of human resources. This framework presents a range of different opportunities

for board members to engage directly with employees and also to receive feedback on relevant issues from management. The framework takes account of guidance and suggestions published by the FRC in this area.

The board acknowledges the benefits of meaningful two-way engagement between the directors and senior management and the group's employees. To this end, the board and senior management provide employees with regular information on matters of interest or concern to them and consult with them or relevant representatives when making relevant decisions which are likely to affect their interests.

Examples of engagement and consultation in the year included:

- non-executive directors' participation at town hall events in a number of functions such as finance, risk and human resources, attended by significant numbers of employees. These events typically include Q&A sessions, with employees having the opportunity to submit questions and topics in advance;
- non-executive director site visits to Doncaster, Derby and Brighton to meet employees at different levels of the group's operations across the UK and to understand employee-related issues and priorities, as well as more informal meet and greet events attended by the directors;
- participation by directors in focused initiatives operated for different groups of employees such as the 10,000 Black Interns programme, the upReach internship programme which focuses on social mobility, the Emerging Leaders Programme for high potential employees, our ASPIRE programme for school leavers, and graduate networking sessions; and
- regular communications from executive directors to employees on the performance and operations of the group, in relation to the half-year and full-year results.

The board considers that its employee engagement activities during the year have been effective and have allowed a number of directors to engage widely with employees across a broad manner of settings and engagement styles. The board considers that the activities above have helped to achieve a common awareness on the part of employees and contributed to a better understanding of the group's activities, purpose, strategic aims, and the long-term success of the company.

Corporate Governance Report continued

Nomination and Governance Committee Report



Mike Biggs
Chairman

Membership

Mike Biggs (Chair), Oliver Corbett, Tracey Graham, Peter Duffy and Mark Pain.

Other regular attendees by invitation

- Group chief executive
- Group head of human resources

Meetings

- Number of scheduled meetings: five
- For details of attendance, see page 143

Interaction with other committees

The Nomination and Governance Committee makes recommendations to all other committees regarding the appointment and removal of their members and chair.

How time was spent



Dear Shareholder

On behalf of the board, I am pleased to present the report of the Nomination and Governance Committee for 2023. The report sets out an overview of the Committee’s role and responsibilities and its key activities during the year.

Non-executive director succession remained an important focus for the Committee. Following a detailed review of the board’s composition, it was agreed that an additional non-executive director would be a valuable addition to the board. Following an extensive recruitment process, Kari Hale was appointed to the board in June 2023 and is recommended for election as a director at the 2023 AGM.

The Committee reviewed the skills and experience of the non-executive directors to ensure that the board continues to be able to perform its role effectively, following which it recommended to the board that all serving directors be re-elected at the 2023 AGM, with the exception of Oliver Corbett, who will not stand for re-election having completed nine years of service.

The Committee also spent time considering succession planning and talent management for roles below board level, monitoring activities and initiatives to develop the group’s talent pipeline and improve gender balance and other types of diversity among senior management.

The Committee has received and considered updates on sustainability and environmental, social and governance (“ESG”) developments relevant to the group, including consideration of matters arising from engagement with shareholders and other stakeholders, diversity and inclusion, and the impact of climate change on the group. These will continue to be key areas for the Committee and the board as a whole in the coming years.

Michael N. Biggs
Chairman

26 September 2023



2023 Highlights

- Considered board composition and succession, including successfully concluding the search for an additional non-executive director and appointing two new members to the Committee.
- Reviewed talent and executive management succession planning, including oversight of activities to support and encourage the development of a diverse and inclusive talent pipeline.
- Recommended the approval of a number of changes to the board diversity and inclusion policy.
- Oversaw the board and committee evaluation process undertaken during the year.
- Monitored sustainability and ESG developments and considered their implications for the group.
- Reviewed the TCFD framework and proposed disclosures.

Key Responsibilities and Activities of the Committee

- regularly reviewing the structure, size and composition of the board and its committees, and making recommendations to the board with regard to any changes;
- considering the leadership needs of the group and succession planning for directors and senior executives;
- considering the appointment or retirement of directors;
- reviewing the continued independence of the non-executive directors;
- assessing the board’s balance of skills, knowledge and experience;
- evaluating the skills, knowledge and experience required for a particular appointment, where appropriate with the assistance of external advisers to facilitate the search for suitable candidates;
- assessing the contribution and time commitment of the non-executive directors; and
- monitoring ESG and sustainability developments relevant to the group (including diversity and inclusion and developments relating to climate change and associated reporting requirements).

Appointments to the Committee

During the year, each of Tracey Graham and Peter Duffy were appointed to the Committee. This followed a review of the Committee’s composition and a recognition of the additional skills and perspectives it would benefit from.

Non-executive Directors’ Skill Sets

The Committee has considered and reaffirmed the skill sets and experience of the company’s non-executive directors, including their extensive experience within financial services and in regulated or listed companies. The Committee also assessed the contribution and time commitment of the non-executive directors.

The chart on page 137 indicates the number of non-executive directors who bring the broad cross-section of skills expected of the board, as well as highlighting the particularly strong skills and experiences of non-executive directors and where there are opportunities to further enhance the board’s collective knowledge.

Further information on the background and experience of each of the non-executive directors can be found in their biographies on pages 138 to 140.

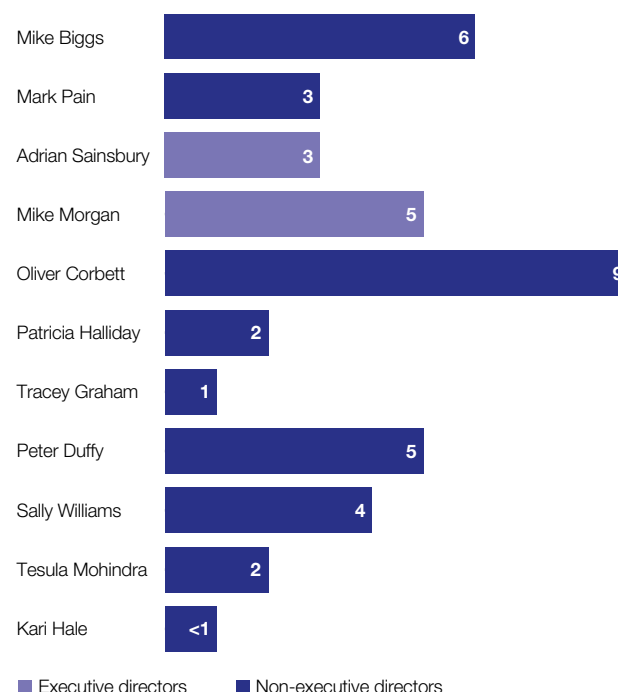
Given the regulated environment within which the group operates, directors are required to undertake the annual PRA fitness and propriety assessment.

Committee Memberships

The Committee monitors the composition of each of the board’s committees, which is as follows:

	Nomination and Governance Committee	Audit Committee	Risk Committee	Remuneration Committee
Mike Biggs	Chair			•
Mark Pain	•		•	•
Oliver Corbett	•	Chair	•	
Patricia Halliday		•	Chair	
Tracey Graham	•		•	Chair
Peter Duffy	•		•	•
Sally Williams		•	•	
Tesula Mohindra		•	•	
Kari Hale		•	•	

Director tenure (in years)



Corporate Governance Report continued

Nomination and Governance Committee Report

Non-executive Director Succession

As part of the Committee's considered and orderly approach to succession planning, it oversaw the formal and robust search process in relation to the appointment of Kari Hale as an independent non-executive director.

The Committee reviewed and approved a detailed description for the role having considered the particular skills, experience and background required. As part of the board recruitment search, the Committee assessed the balance of knowledge and expertise needed to ensure the continued effective leadership of the group, and the development and oversight of its strategy, purpose and culture. In identifying and recommending candidates for appointment to the board, the Committee considered candidates from a wide range of backgrounds, assessing them on merit against objective criteria and with due regard to the benefits of diversity on the board.

The search for Kari Hale followed the usual detailed and considered approach and was conducted in conjunction with an external search firm, Russell Reynolds. The firm was instructed to consider candidates with a diversity of backgrounds and experiences. The firm is not connected to the company in any way and is a signatory to the Voluntary Code of Conduct for Executive Search Firms.

Following the preparation of a long-list of candidates, a shortlist was selected by the Committee and interviews were held with the involvement of both non-executive and executive directors. The Committee considered the other commitments of candidates to ensure that they would have sufficient time to devote to their duties to the group. Following completion of the processes to the Committee's satisfaction and receipt of all necessary regulatory approvals, it recommended Kari's appointment to the board, and his appointment to the Audit and Risk Committees.

Kari brings significant experience from audit and financial services and is a strong addition to the existing range of skills and expertise on the board.

Further details on Kari's experience can be found in his biography on page 140.

The Committee adopts a proactive and structured approach to succession planning and remains mindful of board changes that will occur in the future as directors reach the end of their terms, and of the need to ensure continuity of knowledge and experience within the board as a whole. The Committee notes the Chairman's tenure, which is now at six years, and is aware of the eventual need to ensure the orderly succession of his role in the future.

Following the retirement of Lesley Jones and Bridget Macaskill from the board, during the year each of Patricia Halliday and Tracey Graham were appointed as chair of the Risk and Remuneration Committees, respectively.

In addition, the Committee determined that it would benefit from an extended membership and so each of Tracey Graham and Peter Duffy were appointed to the Committee on 26 January, following the approval of the board.

Election and Re-election of Directors at the 2023 AGM

The Committee is responsible for considering and making recommendations to the board concerning the election and re-election of directors, having regard to their performance, suitability, time commitment and ability to continue to contribute to the board. Following this year's review in advance of the 2023 AGM, the Committee has recommended to the board that all serving directors, with the exception of Oliver Corbett, be elected or re-elected at the AGM. Oliver has served nine years on the board of the company and will retire at the conclusion of the AGM.

You can read more about the board's recommendation that all directors be elected or re-elected at the 2023 AGM on page 146.

Senior Management Talent Development and Succession Planning

The Committee spent considerable time during the year reviewing talent and considering the group's succession planning at board and senior management level. Activities included a formal review by the Committee of senior management succession planning, assessing the capability and potential of incumbents in key roles and the succession pipeline across the group. The Committee also considered specific appointments to senior management roles at both group and divisional level. The Committee recognises the importance of talent development and ensuring that the group continues to attract, retain and develop skilled, high-potential individuals, and this will remain an important focus in the year ahead. All non-executive directors are invited to attend Committee meetings which consider talent and development to give them full visibility of the succession pipeline.

Further information on talent and succession planning can be found in the Sustainability Report on page 57.

Diversity and Inclusion

Diversity and inclusion remains a key focus of the Committee, at board level, across senior management and within our wider workforce. The Committee recognises the importance of ensuring that the board and its committees collectively possess the appropriate range and balance of skills, knowledge and expertise, and embrace the advantages to be derived from having a diversity of gender, social and ethnic backgrounds represented on the board, bringing different perspectives and the challenge needed to ensure effective decision-making. It is recognised that the group's

stakeholders are diverse and they have a variety of needs. These needs are met by the diversity of thought, culture, background and perspectives that are reflected within our board through an inclusive environment which allows different perspectives to be given due consideration in strategic matters, and enables the board to consider the needs and expectations of all stakeholders. The Committee considers that the board remains diverse, drawing on the knowledge, skills and experience of directors from a range of backgrounds, but will seek to take opportunities to further improve the diversity of the board, where this is consistent with the skills, experience and expertise required at a particular point in time. Diversity and inclusion at board level will continue to be an area of focus for the Committee.

During the year, the Committee undertook its annual review of the board diversity and inclusion policy, and recommended a number of enhancements in line with the FTSE Women Leaders Review (previously the Hampton-Alexander Review) and the Parker Review. The updated policy was subsequently approved by the board and is available at www.closebrothers.com. The policy sets out specific objectives with regard to diversity and inclusion in the boardroom, the recruitment of new directors, and longer-term targets, as well as corresponding governance responsibilities.

The Committee also considered the group's diversity in the context of the new Listing Rule requirements on diversity metrics and reporting which apply to the company for the first time this year. As at 31 July 2023, being the reference date for the purposes of Listing Rule 9.8.6R(9)(a),

which requires the disclosure of certain diversity statistics, and as shown in the tables below:

- women represented 36% of our board following the appointment of Kari Hale as a director; however, we expect to once again meet our target of having 40% female directors from November 2023 when Oliver Corbett steps down from the board at the conclusion of the 2023 AGM;
- the board met its target of having one director from a minority ethnic background; and
- the board does not currently meet the requirement to have one of the senior board positions (chair, senior independent director, chief executive or chief financial officer) occupied by a female director. The directors who hold these roles were appointed following formal, rigorous and transparent nomination procedures and are the most suitable and experienced individuals for their roles and the group's needs. The board recognises that this will be a consideration for future appointments to these roles.

Diversity in the group's senior manager population continues to improve, and the board expects this trajectory to continue in the years ahead. The tables below illustrate the gender and ethnic diversity of the executive management population, which comprises the executive committee and includes the company secretary, but excludes administrative or support staff, pursuant to Listing Rule (LR) 9.8.6R(10).

The Committee continues to monitor the approach to diversity and inclusion across the group, which is described in detail on pages 156 to 158.

Gender identity reporting¹ under LR9.8.6R(10)

	Number of board members	Percentage of the board	Number of senior positions on the board (CEO, CFO, SID and Chair)	Number in executive management	Percentage of executive management
Men	7	64%	4	8	67%
Women	4	36%	–	4	33%
Not specified/prefer not to say	–	–	–	–	–

Ethnic background reporting¹ under LR9.8.6R(10)

	Number of board members	Percentage of the board	Number of senior positions on the board (CEO, CFO, SID and Chair)	Number in executive management	Percentage of executive management
White British or other White (including minority-white groups)	10	91%	4	9	75%
Mixed/Multiple Ethnic Groups	–	–	–	1	8%
Asian/Asian British	1	9%	–	2	17%
Black/African/Caribbean/Black British	–	–	–	–	–
Other ethnic group, including Arab	–	–	–	–	–
Not specified/prefer not to say	–	–	–	–	–

1. The numerical data detailing gender identity and ethnic background is as disclosed by the relevant individuals as at 31 July 2023, being the chosen reference date for the purposes of LR9.8.6R(9)(a), and reflects the composition of the board and executive management as at that date.

Corporate Governance Report continued

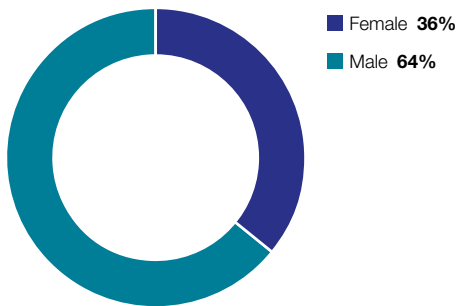
Nomination and Governance Committee Report

The Committee takes seriously its role in overseeing the development of a diverse pipeline for senior management positions and the link between diversity and inclusion and delivery of the company’s purpose and strategic aims. To that end, it considered updates during the year in relation to diversity and inclusion initiatives across the group. Among other things, the Committee discussed the group’s approach to recruitment, training and development programmes for employees, management’s work with diversity and inclusion campaign groups, and activities of discrete employee networks including in the areas of gender, ethnic diversity,

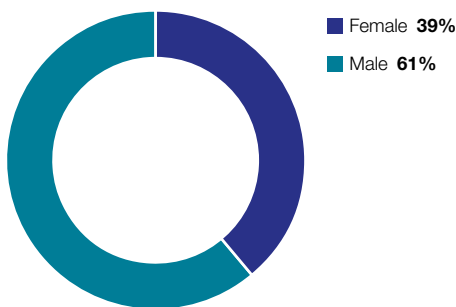
accessibility, LGBTQ+, working parents and carers, mental wellbeing and social mobility. The group is a member of Moving Ahead, Mission Include and is a signatory to the Women in Finance Charter, the Race at Work Charter and the Business Disability Forum. The group also participates in the 10,000 Black Interns Initiative.

Please see the charts on this page for a breakdown of the group’s gender diversity. More detail on the group’s approach to diversity and inclusion can be found in the Sustainability Report on pages 38 to 64.

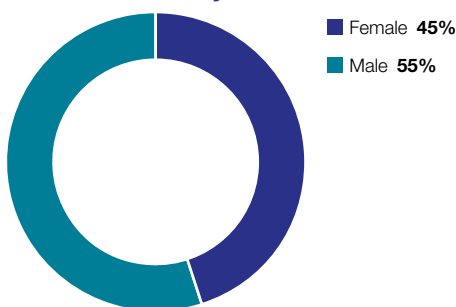
Board diversity



Senior management¹



Workforce diversity²



1. Comprises all members of the executive committee as shown on page 141 and the company secretary, as well as their direct reports.
 2. Comprises all employees of the group including senior management.

Environmental, Social and Governance Matters

Throughout the year, the Committee received and considered dedicated updates on ESG matters relevant to the group. The group’s head of sustainability attends relevant sections of the Committee’s meetings to provide updates on the group’s activities in this area. The Committee’s consideration of ESG matters throughout the year covered a wide range of topics and was informed by, among other things, engagement with shareholders and other stakeholders, legislative and regulatory initiatives and wider market developments. Areas of focus this year included the group’s sustainability strategy and targets (including progress in the year and future plans), wider market themes and trends, and the group’s progress towards disclosure requirements relating to the TCFD. The Committee will continue to consider ESG, climate change and broader sustainability matters in the year ahead and make such recommendations to the board as it considers necessary.

Sustainability

The Committee recognises and welcomes the continuing and increasing focus on sustainability and the contribution that the group makes to the wider community. On behalf of the board, during the year, the Committee regularly discussed sustainability considerations across a broad range topics, in particular in relation to customer and client expectations of the group and the increasing focus on sustainable business operations.

Further information on the group’s approach to sustainability can be found in the Sustainability Report on pages 38 to 64 of this Annual Report.

Committee Effectiveness

As described in more detail on pages 150 to 151, an internal evaluation of the effectiveness of the board and its committees was undertaken during the year in line with the requirements of the UK Corporate Governance Code. During the year, the Committee reviewed and updated its terms of reference to ensure that they remain appropriate.

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

Corporate Governance Report continued

Audit Committee Report



Oliver Corbett
Chair of the Audit Committee

Membership

Oliver Corbett (Chair), Kari Hale, Patricia Halliday, Tesula Mohindra and Sally Williams.

Other regular attendees by invitation

- Chairman of the board
- Executive directors
- Group head of internal audit
- Group chief risk officer
- Group financial controller
- Group financial planning and analysis director
- Group head of operational risk and compliance
- External auditor

Meetings

- Number of scheduled meetings: five
- For details of attendance, see page 143

The chair of the Audit Committee must be a member of the Risk Committee. The Audit Committee jointly oversees, along with the Risk Committee, the recommendations of the Group’s internal and external auditors and the effectiveness of the Group’s internal control and risk management systems.

How time was spent



Dear Shareholder

On behalf of the board, I am pleased to present the report of the Audit Committee for 2023, outlining how the Committee discharged its responsibilities and met its objectives.

The Committee oversees and challenges the group’s financial reporting and maintenance of an effective internal control environment.

We have remained focused on challenging the key accounting judgements, assessing the integrity and fair presentation of the group’s financial reporting and reviewing the maintenance and effectiveness of the group’s internal controls. The Committee also monitored and reviewed the activities and performance of internal and external audit.

Looking ahead to 2024, along with the core responsibilities, the Committee will continue to monitor opportunities for improvement across financial reporting and internal control.

Finally, I would like to extend my thanks to my fellow members of the Committee for their contribution and engagement. After nine years, at the AGM, I will be stepping down from both the board and as chair of the Audit Committee.

Oliver Corbett
Chair of the Audit Committee

26 September 2023

2023 Highlights

- Discussing and challenging key accounting judgements with a particular focus on provisioning, goodwill and revenue recognition.
- Assessing the impact of a wide range of macroeconomic factors on the group.
- Reviewing the integrity of the group’s financial reporting, including climate-related disclosures.
- Assisting with the determination of the appropriateness of adopting the going concern basis of accounting and in performing the assessment of the viability of the group.
- Monitoring the impact of corporate governance and audit reforms on the group.
- Reviewing, challenging and approving the annual internal audit plan and internal audit reports.
- Overseeing the effectiveness and continuous improvement of internal control.

Corporate Governance Report continued

Audit Committee Report

Key Responsibilities

The Committee's key responsibilities, on behalf of the board, are to:

- monitor significant accounting judgements;
- monitor the integrity of financial reporting including recommending to the board whether it is fair, balanced and understandable;
- oversee the effectiveness of the group's internal controls;
- review the activities and effectiveness of the group internal audit function;
- review the effectiveness and quality of the external audit process and the independence of the external auditor;
- recommend the external auditor of the group and their fees; and
- review the findings of the audit with the external auditor.

The Committee reports to the board on how it discharges its responsibilities and makes recommendations to the board, all of which have been accepted during the year.

Committee Composition, Operation and Effectiveness

The Committee acts independently of management to ensure the interests of shareholders are properly protected in relation to financial reporting and internal control.

The Committee members bring a diverse range of experience in finance, risk, control and business, with particular experience in the financial services sector. The board has confirmed that the members of the Committee have the necessary expertise to provide effective challenge to management; this includes the chair.

The qualification for each of the members is outlined on pages 138 to 140.

In addition to the standing invitations set out on page 159, invitations are also extended to other members of management as necessary. The chair meets with management ahead of meetings to discuss specific items of focus.

During the course of the year, the Committee held separate sessions with the internal and external audit teams, without management present.

An internal evaluation of the board and its committees was undertaken this year in line with the requirements of the UK Corporate Governance Code. The results of this review confirmed that the Committee is operating effectively. The Committee considers that during the financial year it had access to sufficient resources to enable it to carry out its duties.

External Audit

The Committee oversees the relationship with PricewaterhouseCoopers LLP ("PwC"), its external auditor, covering engagement terms, fees and independence. Both the Committee and the external auditor have policies and procedures designed to protect independence and objectivity.

PwC has been auditor to the group since August 2017. Heather Varley has been the group's lead audit partner since March 2022. Heather attended all meetings of the Committee.

During the year the Committee reviewed the external audit plan and the resulting findings, which included control observations and areas of focus.

Principal matters discussed with PwC are set out in its report on pages 194 to 203.

External Auditor Effectiveness and Appointment

The Committee assesses the independence and objectivity, qualifications and effectiveness of the external auditor on an annual basis as well as making a recommendation on the reappointment of the auditor to the board. This year the evaluation focused on the following key areas:

- the quality of audit expertise, judgement and dialogue with the Committee and senior management;
- the independence and objectivity demonstrated by the audit team;
- the senior leadership of the audit team; and
- the quality of the service including consistency of approach and responsiveness.

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

Looking ahead, subject to shareholder approval, PwC will undertake the audit of the company and the group for the year ended 31 July 2024.

In conformance with the required rules, provisions and good corporate governance in respect of audit tendering and rotation, the group will be required to tender for the external audit in the 2027 financial year end. The Committee will consider in due course its plan for the tender.

Financial Reporting and Key Accounting Judgement

The Committee spent considerable time reviewing the Interim Report and Annual Report. The Committee discussed and challenged the key accounting judgements made by management in preparing the financial statements. This also included consideration of the internal controls over financial reporting. The Committee noted that there were no new material standards, or amendments to standards, relevant to the group that became effective for the reporting period.

The key judgement areas were largely unchanged from the prior year, reflecting the group's adherence to its business model and the consistency of its approach to financial reporting. The main areas of focus are outlined below. Each of these matters were discussed with the external auditor and, where appropriate, has been addressed in the external auditors' report.

Key issue	Committee review and conclusion
<p>Expected credit loss ("ECL") provision</p> <p>31 July 2023: £380.6 million</p> <p>31 July 2022: £285.6 million</p> <p>The group's ECL provision is dependent on management's judgements.</p> <p>Given the materiality of the group's loan book, ensuring that the group's ECL models and related IFRS 9 judgements and disclosures are appropriate remains a key priority for the Committee.</p>	<p>Regular IFRS 9 updates were provided to the Committee throughout the year.</p> <p>The Committee challenged the level of provisions held by the group, and the judgements and estimates used to calculate these provisions. Particular focus was given to:</p> <ul style="list-style-type: none"> • the latest macroeconomic backdrop and the extent to which models are able to capture these risks; • the ongoing use and approval of model adjustments; • the high level of estimation uncertainty in setting forward-looking macroeconomic assumptions, and their associated weights; • management's model enhancement plans; and • provisioning for Novitas and the related assumptions. <p>Credit risk and provisions disclosures were discussed to ensure they were clear and gave a transparent articulation of the group's credit risk profile, and key drivers of the ECL charge. This included considering the changes in presentation to the Risk Report and audited credit risk disclosures.</p> <p>In the next financial year, the Committee will monitor provisions and disclosures to ensure they continue to reflect the economic risks for customers and the credit risk in the loan book.</p> <p>Conclusion: the Committee was satisfied that the impairment provision and the disclosures provided in the financial statements were appropriate.</p>
<p>Goodwill</p> <p>31 July 2023: £94.6 million</p> <p>31 July 2022: £94.7 million</p> <p>Goodwill is allocated to eight cash generating units ("CGUs"), all of which must be tested annually for impairment. This assessment is based on management judgement.</p>	<p>The Committee was presented with the goodwill impairment assessment through the course of the year. These updates included enhancements to the impairment assessment methodology for discount rates, cash flow assumptions and sensitivity analysis.</p> <p>The Committee challenged the appropriateness of the assessment, including discussing the outcome with the group's auditor. Particular focus was given to the cash flow assumptions for Winterflood Securities, which recorded lower profits in the year driven by difficult market conditions. The Committee noted the long track record of the business balanced against future market conditions remaining uncertain.</p> <p>Conclusion: the Committee was satisfied that there was no impairment and the disclosures provided in the financial statements were appropriate.</p>

Corporate Governance Report continued

Audit Committee Report

Key issue	Committee review and conclusion
<p>Revenue recognition</p> <p>The group offers a range of products and services for which revenue is recognised under IFRS 9, IFRS 15 and IFRS 16. Appropriate recognition is a key focus of the Committee.</p>	<p>The Committee reviewed management's approach to revenue recognition, highlighting the key areas where judgement is required across interest, fee and commission income. The Committee noted the consistency of approach with prior years and the detailed assessment that is performed by management and challenged by PwC.</p> <p>Conclusion: the Committee was satisfied that revenue recognition for each of the group's key businesses is appropriate.</p>
<p>Going concern and Viability Statement</p> <p>The directors are required to confirm whether they have a reasonable expectation that the company and the group will be able to continue to operate and meet their liabilities as they fall due for a specified period. The Viability Statement must also disclose the basis for the directors' conclusions and explain why the period chosen is appropriate.</p>	<p>The Committee assisted the board in determining the appropriateness of adopting the going concern basis of accounting and in performing the assessment of the viability of the group.</p> <p>The Committee reviewed papers from management in support of the going concern basis and the longer-term viability of the group.</p> <p>The Committee assessed the proven stability of the group's business model, which is supported by:</p> <ul style="list-style-type: none"> • a diverse portfolio of businesses; • resilience when subjected to internal stress testing; • a strong capital base; and • adequate access to liquidity. <p>The Committee discussed the group's principal risks which may affect future development, performance and financial position. The Committee considered projected profitability and capital ratios along with funding and liquidity forecasts, over a period of three years; in addition, it considered changes in the economic, technological and regulatory environment. Particular focus was given to the macroeconomic backdrop, including funding markets and macroeconomic uncertainty and volatility.</p> <p>Conclusion: the Committee concluded that it remained appropriate to prepare the accounts on a going concern basis, advised the board that three years was a suitable period of review for the Viability Statement, and recommended the Viability Statement to the board for approval, as set out on pages 132 and 133.</p>
<p>Fair, balanced and understandable</p> <p>Under the UK Corporate Governance Code, the board is required to perform an assessment of fair, balanced and understandable reporting.</p>	<p>On behalf of the board, the Committee reviewed the financial statements as a whole to assess whether they were fair, balanced and understandable.</p> <p>Ahead of presentation to the Committee, a robust review process of the Annual Report from across the business was conducted to ensure disclosures were balanced and accurate.</p> <p>The Committee reviewed the group's performance in light of the principal and emerging risks. The Committee discussed and challenged the balance and fairness of the overall report with the management and considered the views of the external auditor.</p> <p>Conclusion: the Committee was satisfied that the Annual Report, taken as a whole, could be regarded as fair, balanced and understandable and proposed that the board approved the Annual Report in that respect.</p>

Financial reporting controls

Risk management and internal controls

In conjunction with the Risk Committee, we have satisfied ourselves that the group's internal financial control framework is effective and adequately aligned with the group's risk profile. We are satisfied that internal financial controls are appropriately designed and effective in identifying risks faced by the group.

Full details of the internal control framework are given within the Risk management section on pages 83 to 89.

At each meeting the Committee is presented with a report from the head of internal audit, and reviews major findings relating to control weaknesses and management's response. In addition, a year-end update was provided to the Committee covering the Group Financial Control Framework.

Restoring trust in audit and corporate governance

The Committee has evaluated, and will continue to evaluate, the impact on the group of the proposals for restoring trust in audit and corporate governance.

During the year, the Committee discussed a number of the proposed reforms including the effectiveness of internal controls and the potential for an Audit and Assurance Policy ("AAP"). This has extended to discussions with the external auditor, considering specifically IT controls. Impact assessments are under way based on the latest consultation released in May 2023.

Group Internal Audit

A new group head of internal audit was recruited and joined the group in September 2022.

The Committee reviewed, challenged and approved the six-monthly internal audit plan and amendments made during the year. It also approved an updated internal audit charter, which sets out the mandate and remit of the function.

It received regular reports on internal audit activities across the group detailing areas identified during audits for strengthening across the group's risk management and internal control framework and management's progress on remediation of issues.

The Annual Internal Audit Assessment, which found the governance and risk and control framework of the group to be generally effective, was received by the Committee in accordance with the Chartered Institute of Internal Auditors' guidance.

The Committee completed its annual review of the effectiveness of the internal audit function and its level of independence. The evaluation for the year under review was completed internally and supported by feedback from the Committee and management. The internal audit function was found to be working well with a good culture of engagement between management and internal audit.

In addition to reviewing the internal audit function's effectiveness, the Committee assessed the level of internal audit resource and the appropriateness of the skills and experience of the internal audit function. It concluded the function was adequately resourced with additional co-source available for specialist skills.

Whistleblowing Champion

The chair of the Audit Committee is the group's whistleblowing champion. The group continues to place a high priority on employees' understanding of the process to enable them to speak out with confidence when appropriate.

Further information on the board's activities in this area can be found on page 146 of the Corporate Governance Report.

Non-audit Services

The Committee oversees the group's policy on the provision of non-audit services by the external auditor, which incorporates the Financial Reporting Council's Revised Ethical Standard from March 2020.

The group's policy is that permission to engage the external auditor will always be refused where there is an actual or potential threat to independence. However, the Committee will give permission where the service complies with the group policy and where:

- work is closely related to the audit;
- a detailed understanding of the group is required; and
- the external auditor can provide a higher quality and/or better value service.

The group follows the mandatory regulatory cap requirement of 70% which compares the annual value of non-audit services compared to the average of three years' audit fees.

During the year, total audit fees amounted to £3.9 million (2022: £2.9 million) while total non-audit fees including those relating to services required by legislation amounted to £0.8 million (2022: £0.8 million), representing 21% (2022: 28%) of the current year audit fee. This includes non-audit services not required by legislation of £0.2 million (2022: £0.3 million), 5% (2022: 10%) of the audit fee, predominantly relating to the review of the group's interim financial statements and funding assurance work.

The Committee was satisfied that these fees, individually and in aggregate, were consistent with the non-audit services policy and did not believe that they posed a threat to the external auditors' independence.

Statutory Audit Services Order Compliance

The company confirms compliance with the provisions of the Statutory Audit Services for Large Companies Market Investigation (Mandatory Use of Competitive Tender Processes and Audit Committee Responsibilities) Order 2014 for the year to 31 July 2023.

Corporate Governance Report continued

Risk Committee Report



Patricia Halliday
Chair of the Risk Committee

Membership

Patricia Halliday (Chair), Oliver Corbett, Peter Duffy, Tracey Graham, Kari Hale, Tesula Mohindra, Mark Pain and Sally Williams.

Other regular attendees by invitation

- Chairman of the board
- Executive directors
- Group head of internal audit
- Group chief risk officer
- General counsel
- Group head of operational risk and compliance
- External auditor

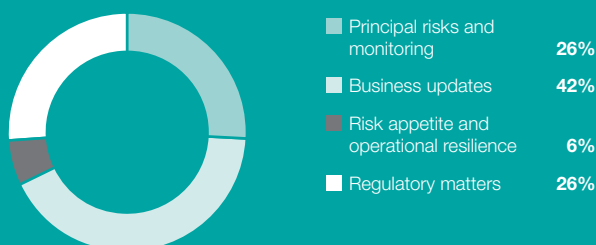
Meetings

- Number of scheduled meetings: six
- For details of attendance, see page 143

Interaction with other committees

The Risk Committee must include, as one of its members, the chair of the Audit Committee. It jointly oversees, along with the Audit Committee, the recommendations of the Group’s internal and external auditors and the effectiveness of the Group’s internal control and risk management systems. It also provides advice and input to the Remuneration Committee on remuneration policies and performance objectives.

How time was spent



Dear Shareholder

On behalf of the board, I am pleased to introduce the Risk Committee report for the year ended 31 July 2023. The report sets out an overview of the Risk Committee’s key responsibilities and the principal areas of risk we have focused on during the year.

Over the last 12 months, the group has continued to manage risk effectively notwithstanding the challenges presented by a dynamic and volatile external environment, and maintained strong capital and liquidity levels.

The backdrop of ongoing economic uncertainty and the potential impact on our customers continues to be a priority area of focus for the group. Agenda items at the Risk Committee this year have reflected this, including the considerable work undertaken to meet Consumer Duty requirements and monitoring our operational risk indicators and operational resilience.

The rise in cost of living from higher inflation and interest rates has yet to have a material impact on our lending book, but we maintained strong bad debt coverage levels to capture lagging factors. We have also maintained our prudent lending criteria, and appropriately set our risk appetite. As previously announced, we also recognised increased provisions in relation to Novitas in the first half, which based on our current assessment, adequately reflects the remaining risk of credit losses for the Novitas loan book. Further details on our risk management approach and the internal controls are provided in the Risk Report on pages 83 to 95.

Looking back on my first year as chair of the Risk Committee, an embedded, strong risk culture and risk management framework are evident. The year ahead is likely to remain challenging and we will continue to focus on credit risk and operational risk, and continue to progress against the regulatory agenda, particularly in the areas of operational resilience, conduct risk and climate risk.

Patricia Halliday
Chair of the Risk Committee
26 September 2023



2023 Highlights

- Delivery of substantive improvements to meet Consumer Duty requirements by the regulatory deadline.
- Continued oversight and challenge of our operational resilience plans, including investment in our cyber maturity, oversight of third-party service providers, regular review of risk management of the IT change portfolio and enhancements to controls to manage financial sanctions risk.
- Review and challenge of stress event planning activities to ensure the group remains well-equipped to adapt operationally to macroeconomic conditions and associated effects, supplemented by credit portfolio deep dives and model reviews.
- Continuation of embedding the management of risks and opportunities associated with climate change around the group (see page 38).

Key Responsibilities

The Risk Committee's principal roles and responsibilities are to support the board in its oversight of risk management across the group. The identification, management and mitigation of risk is fundamental to the success of the group. The Risk Committee also plays an important role in setting the tone and culture that promotes effective risk management across the group. The Risk Committee's key responsibilities are to:

- oversee the maintenance and development of a supportive culture and "tone from the top" in relation to the management of risk;
- review and recommend to the board for approval the group's risk appetite, which is the level of risk the group is willing to take in pursuit of its strategic objectives;
- monitor the group's risk profile against the prescribed risk appetite;
- review the effectiveness of the risk management framework to ensure that key risks are identified and appropriately managed;
- provide input from a risk perspective into the alignment of remuneration with performance against risk appetite (through the Remuneration Committee); and
- undertake a robust assessment of both the principal and emerging risks facing the group over the course of the year, and review reports from the risk and compliance functions on the effectiveness of the processes that support the management and mitigation of those risks.

Overview of Main Activities During the Year

As consumers and borrowing businesses have faced increased borrowing costs and supply chain pressures, we remain vigilant and are focused on identification of signs of stress. In addition to our usual schedule of client monitoring, we maintain a rolling programme of credit portfolio reviews. Oversight of key lending portfolios including motor, property, energy and invoice finance have been regular features on the Risk Committee agenda this year.

During this financial year we have continued to revisit our stress event planning activities; our annual stress testing exercises continue to demonstrate our resilience and sufficient resources of both capital and liquidity. In addition, we have implemented enhancements to our monitoring of credit spread risk in the banking book to further strengthen our funding and liquidity framework.

Our risk management framework underpins our operational culture to enable a responsive and forward-looking approach to the risks we face as a group. During this financial year we conducted our regular review of principal and emerging risks, with changes reflected in our Risk Report on pages 90 to 95. This year has also seen a further evolution and expansion of our conduct risk reporting to the entire group to enable further focus on good customer outcomes and this is presented quarterly to the Risk Committee.

As ever, the risks posed by the external environment are multi-faceted and work on our operational resilience agenda to manage these has continued apace throughout the year, with updates to the Committee a regular agenda item. Fraud risk and identification remain high on our radar and during the year we have also implemented enhancements to our controls to manage financial sanctions risk. In addition, we have benefited from frequent updates on progress in our cyber maturity plan.

We have maintained robust and healthy liquidity levels throughout the year consistent with our borrow long, lend short approach. The Risk Committee maintains good visibility and oversight of ALCO.

The linkage between culture, risk and compensation remains an important one and the Risk Committee and the group chief risk officer have provided input to the Remuneration Committee again this year to ensure that risk behaviours and the management of operational risk incidents over the course of the financial year are appropriately reflected in decisions taken about performance and reward.

Corporate Governance Report continued

Risk Committee Report

Looking Ahead to 2024

We expect the macroeconomic environment to remain challenging and we will continue to focus on the regulatory agenda, with enhanced monitoring in place to comply with Consumer Duty requirements and delivery of our operational resilience plans. As the organisation continues to evolve and enhance its operational capabilities, a level of risk exists in relation to the execution of that change; accordingly, the Risk Committee recognises change as a key risk and the importance of effective oversight to monitor this. Change execution risk was therefore reflected as an emerging risk during this financial year and we will monitor and manage in line with our risk mitigation measures and controls.

The 2024 financial year will see a continued focus on further embedding our approach to operational resilience in line with the policy and framework that has been established. We will expand our next round of scenario testing of important business services and associated impact tolerances in line with regulatory expectations. The risk posed by cyber crime continues to increase in severity and the Committee has received regular updates on latest initiatives and progress which will continue apace into the new financial year and beyond.

The measures taken in this financial year in response to the macroeconomic environment and its impact on our borrowers stand us in good stead for any ongoing uncertainty as we move forward. In particular, we remain vigilant for early signs of credit stress and are focused on ensuring we retain an appropriate control framework with an ability to react as required. At the centre of this will be a focus on identifying vulnerable customers and delivering good customer outcomes. The Risk Committee will continue to receive and review regular updates and management information to facilitate visibility on this.

Identification of emerging risks and possible emergence periods form part of the regular monthly reporting suite to our risk committees. This, along with our business-as-usual horizon scanning activities, should ensure that we are able to anticipate and take appropriate management actions. Central to our ability to do this is our established risk measurement, monitoring and reporting framework. Our focus on products and markets we know and understand aligns with a consistent risk appetite against which we measure ourselves. Our model risk landscape will continue to evolve in 2024 financial year as we progress through the process of our IRB application.

Having continued our positive trajectory in this financial year to embed climate-related financial risk into our group risk management framework, as we define our transition pathways we will tailor risk appetites in line with our strategic ambitions and alignment with our net zero aspirations by 2050. The actions already taken to accelerate the resolution of issues surrounding Novitas will protect the core strengths of our business moving forward and enable support to our existing customers to ensure good outcomes.