

Investment Firms Prudential Regime Disclosure

FOR THE PERIOD 1 AUGUST 2022 TO 31
JULY 2023

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1.

Overview

Overview

Introduction and Context

The Investment Firm Prudential Regime ('IFPR') is the prudential regime for firms providing investment services (such as investment advice) to consumers relating to financial instruments that fall within the scope of the Markets in Financial Instruments Directive (MIFID). The regime came into force on 1 January 2022.

The IFPR aims to refocus prudential requirements and expectations away from the risks firms face, to also consider and look to manage potential harm firms can pose to consumers and markets.

This document sets out the public disclosures for Close Brothers Asset Management (CBAM) as of 31 July 2023; the end of CBAM's financial reporting period.

These disclosures will be updated annually and be made available on the CBAM website.

2.

Risk Management Objectives and Policies

Risk Appetite

Established framework in place for Risk Appetite

Risk appetite

Risk appetite is the amount of risk that a firm is willing to take in pursuit of its strategic objectives and business plan. Risk appetite is a key component of the risk management framework. Risk Appetite establishes internal boundaries to help define risks which CBAM has no appetite for, such as risks which impact on safety, core values or key operational standards and risks we may be willing to take. Risk Appetite sets out a common direction for management to execute within, whilst requiring the application of controls and governance.

Risk appetite statements and Key Risk Indicators

Risk Appetite Statements (“RAS”) are used by CBAM to agree and communicate risk appetite tolerance across identified risks. They work in conjunction with Key Risk Indicators (“KRI’s) which are used to monitor adherence to risk appetite on an ongoing basis. Input is provided through business engagement at the Risk and Compliance Committee (RCC), both as part of the annual RAS and KRI review process and via the review and challenge of KRIs throughout the year. RAS are required to cover all Principal Risks as identified in the Group’s Enterprise Risk Management Framework and should incorporate both quantitative and qualitative expressions of appetite. KRIs are primarily quantitative in nature and enable ongoing monitoring of underlying risk exposures. KRIs are reviewed on a regular basis, to ensure they remain relevant and accurate as a risk monitoring metric. CBAM accepts that operational risk cannot be fully eliminated and applies a cost / benefit approach to its exposures with a focus on protecting CBAM’s reputation, ensuring that it complies fully with regulation and provides good outcomes for clients

Risk appetite governance

Risk appetite is set on a top-down basis by the CBAM Executive Committee (“ExCo”) with consideration of the Group risk appetite position. This is managed through review and approval of the RAS which protect CBAM and its stakeholders by ensuring it:

1. Invests in the business for the long term
2. Maintains a strong capital base and balance sheet
3. Consistently supports clients
4. Acts sustainably and responsibly considering the interest of all stakeholder groups
5. Provides an integrated wealth management offering comprising of financial planning advice and bespoke portfolio management

CBAM’s RAS consists of qualitative statements and quantitative KRIs which together facilitate effective risk appetite management and oversight.

Enterprise Risk Management

ERM approach forms basis for risk management framework

Introduction

Enterprise Risk Management (“ERM”) represents a core management discipline which enables the individuals, when operating in an evolving landscape, to focus on addressing the varying types of risk across the business which potentially could impact CBAM’s objectives.

Framework and Purpose

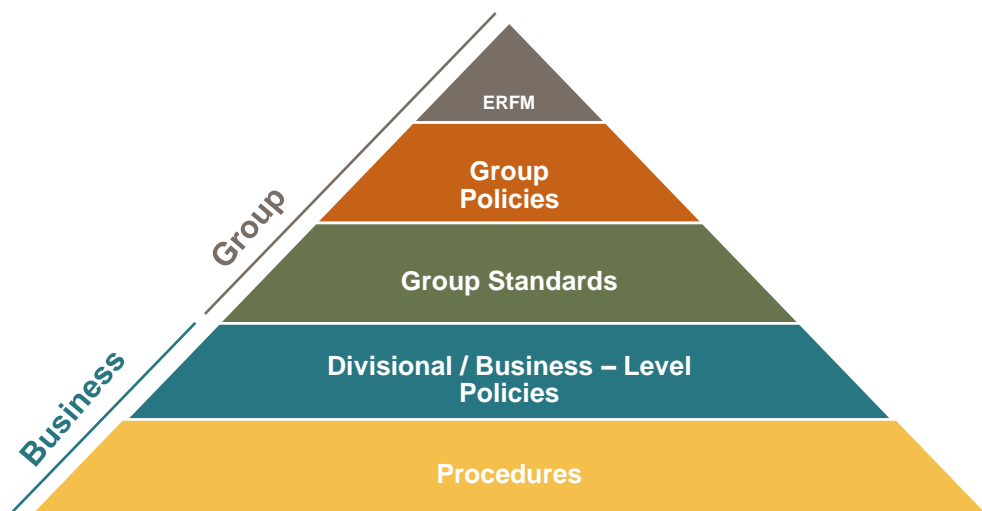
An Enterprise Risk Management Framework (“ERMF”) is in place to define the components and structure of risk management enabling the effective identification, evaluation, monitoring and where appropriate mitigation of risk and helps to promote a full understanding of CBAMs principal risks and capital positions. The ERMF is embedded fully across the business to ensure an effective risk culture is present throughout CBAM. This ensures appropriate responses are in place to protect CBAM and prevent detriment to its clients or colleagues. This enables CBAM to meet its goals and enhances its ability to respond to new opportunities.

Key risk management principles align with ERM approach

The overall ERMF hierarchy identifies key building blocks that are led by laws, regulation, best practice and business strategy. It subsequently provides the overarching structure for policy management across the business, defining roles and responsibilities across all stages of the policy, standard and procedure lifecycle. It aims to:

1. Protect long-term viability and produce sustainable revenue streams, not simply maximise short-term profits
2. Ensure business management identify all risks and are responsible for ensuring day to day management, balance risk/return
3. Embed risk management in each business area by providing training and guidance
4. Make certain all senior managers and managers promote a culture in which risks are identified, assessed and reported in open, transparent and objective manner
5. Ensure risk management is proportionate to the scale and complexity of CBAM
6. Confirm risk management and control supports all decision making

Group Policy Framework



Three Lines of Defence Model

	First Line	Second Line	Third Line
Close Brothers Asset Management	The Business	Risk, Legal and Compliance	Internal Audit
Risk Governance Role	<p>Day to day ownership, responsibility and accountability for risks:</p> <p>Identifying, assessing, remediating and preventing risks</p> <p>Measuring risk through KRIs</p> <p>Reporting risk</p> <p>Implementing a robust control environment</p>	<p>Provides support and independent challenge to the first line:</p> <p>Design and operation of the risk framework</p> <p>Risk and control Self – Assessments</p> <p>Risk appetite and strategy</p> <p>Challenging the adequacy of mitigation plans</p> <p>Risk reporting</p> <p>Committee governance and challenge</p>	<p>Provides independent challenge on the first and second line:</p> <p>Appropriateness and effectiveness of internal controls</p> <p>Effectiveness of policy implementation</p>
Key Features	<p>Promotes a principles based conduct culture, focussing on client, excellence, people and integrity</p> <p>Implements the risk framework</p> <p>Manages and controls risks</p> <p>Implements risk self – assessment</p>	<p>Overarching risk and compliance oversight, delivering a qualitative and quantitative view of risk</p> <p>Oversight of business conduct</p> <p>Supports the business through developing and advising on risk strategies</p> <p>Facilitates constructive check and challenge on all risk types impacting the business</p>	<p>Draws on deep knowledge of the group and its businesses</p> <p>Provides independent assurance on the activities of the firm including the ERMF</p> <p>Assesses the appropriateness and effectiveness of internal controls</p> <p>Incorporates a review of culture and conduct</p>
Departments	<p>Advice, Business Development and Marketing, Change Management and IT, Finance and Facilities, HR, Bespoke, Funds, Operations</p>	<p>Legal, Compliance and Risk (including Data Protection and Financial Crime)</p>	<p>Internal Group Auditors</p>
Responsible	<p>An ExCo member in place for each of the departments above.</p>	<p>Iain Wallace (Head of Legal, Compliance and Risk) is the ExCo member for the second line and has a direct reporting line into the CBAM CEO.</p>	<p>Head of Group Internal Audit with Independent reporting line established</p>

3.

Governance arrangements

Business Overview

Close Brothers Group plc (CBG) is a specialist financial services group which makes loans, takes deposits, trades securities and provides advice and investment management solutions to a wide range of clients. Its long established and distinctive business model is focused on taking a sustainable approach to managing the business for the long-term.

The company was established in 1878 and today employs over 3,000 people, principally in the UK. CBG is listed on the London Stock Exchange and is a constituent of the FTSE 250. The firm is comprised of 3 divisions: Banking, Securities and Asset Management.

The Banking division provides specialist lending to small and medium-sized businesses and individual customers, with broad coverage throughout the UK. They offer financing and rental solutions across a wide range of asset classes to satisfy the diverse needs of its clients. The Bank's range of personal and corporate deposits provides funding for its lending services.

The Securities division (Winterflood) is a leading market-maker in the UK, providing execution services to over 300 stockbrokers, private asset managers and institutional investment managers.

Close Brothers Asset Management (CBAM) provides a full range of financial advice, investment management and self-directed services to private clients and professional advisers. CBAM has an experienced team of financial advisers and a range of investment management solutions including funds, segregated portfolios and fully bespoke portfolio management.



Further details can be found in the Strategic Report section of the CBG Annual Report.

Governance arrangements

Corporate Structure

Legal and organisational structure

The below table explains the different legal entities within the Close Brothers Asset Management group of companies, alongside their regulatory status.

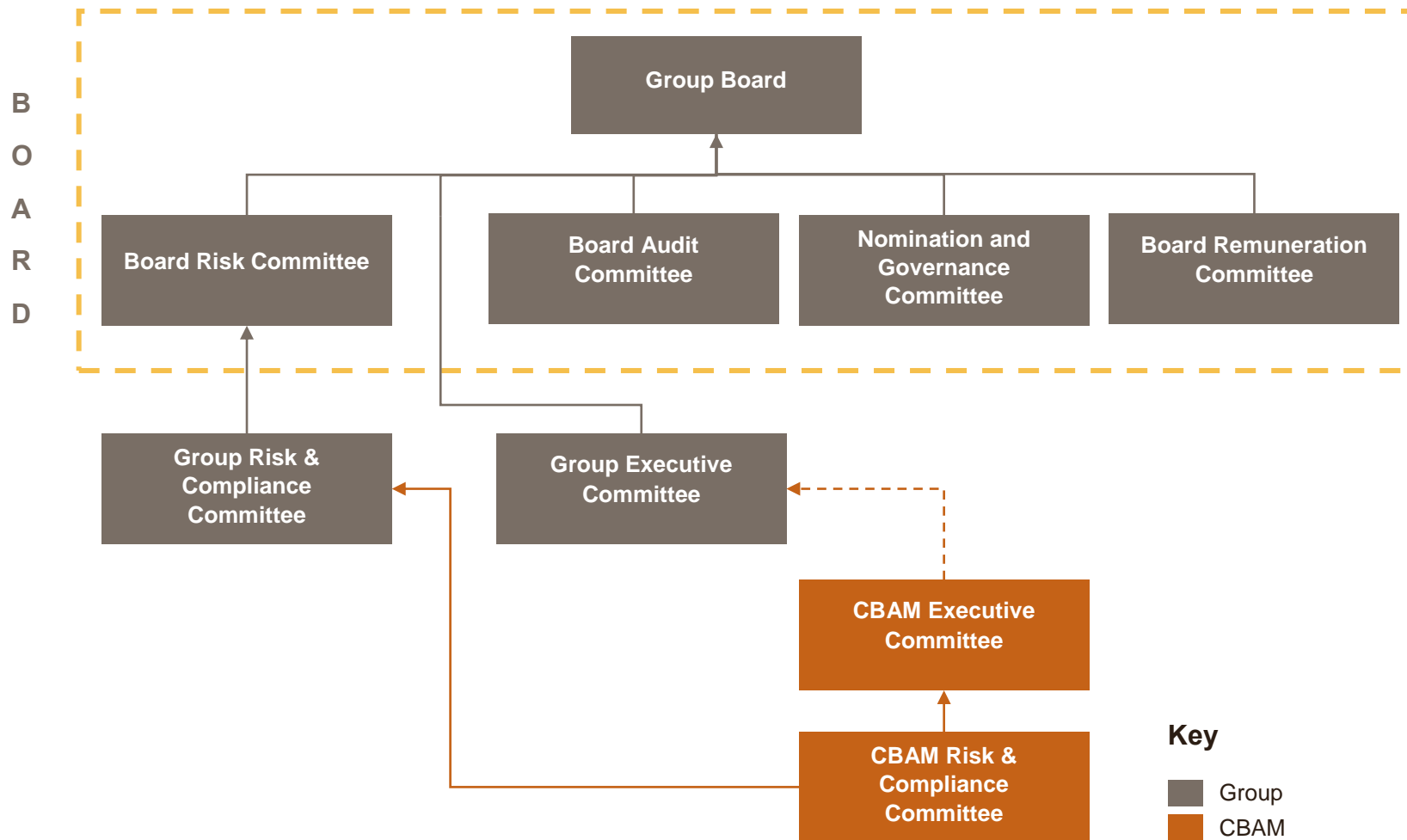
Entity	FCA Regulated	Regulatory Status
Close Asset Management Holdings Ltd ("CAMHL")	✗	Divisional Parent Company, no regulatory activities
Close Asset Management Ltd ("CAML")	✓	MIFIDPRU ¹ investment firm
Close Asset Management UK Ltd ("CAM UK")	✓	CPMI ² firm with MIFIDPRU permissions
EOS Wealth Management Ltd ("EOS")	✓	MIFIDPRU investment firm
Close Investments Ltd ("CIL")	✓	Non-MIFIDPRU activities
PMN Financial Management Ltd ("PMN")	✓	MIFIDPRU permissions however has exemption
Place Campbell Close Brothers Ltd ("PCCB")	✓	Appointed representative - Non-MIFIDPRU activities
CBF Wealth Management Ltd ("CBF")	✗	No regulatory activities
Close Brothers Asset Management (Guernsey) Ltd ("CBAMG")	✓	Investment firm based in Guernsey
Close Portfolio Management Ltd ("CPM")	✗	Dormant
Cavanagh Financial Management Ltd ("CFM")	✗	Dormant
CFSL Management Ltd ("CFSL")	✗	Dormant
Lion Nominees Ltd ("Lion")	✗	Nominee Company

¹ FCA regulations for Markets in Financial Instruments Directive Investment Firms

² Collective Portfolio Management Investment Firm

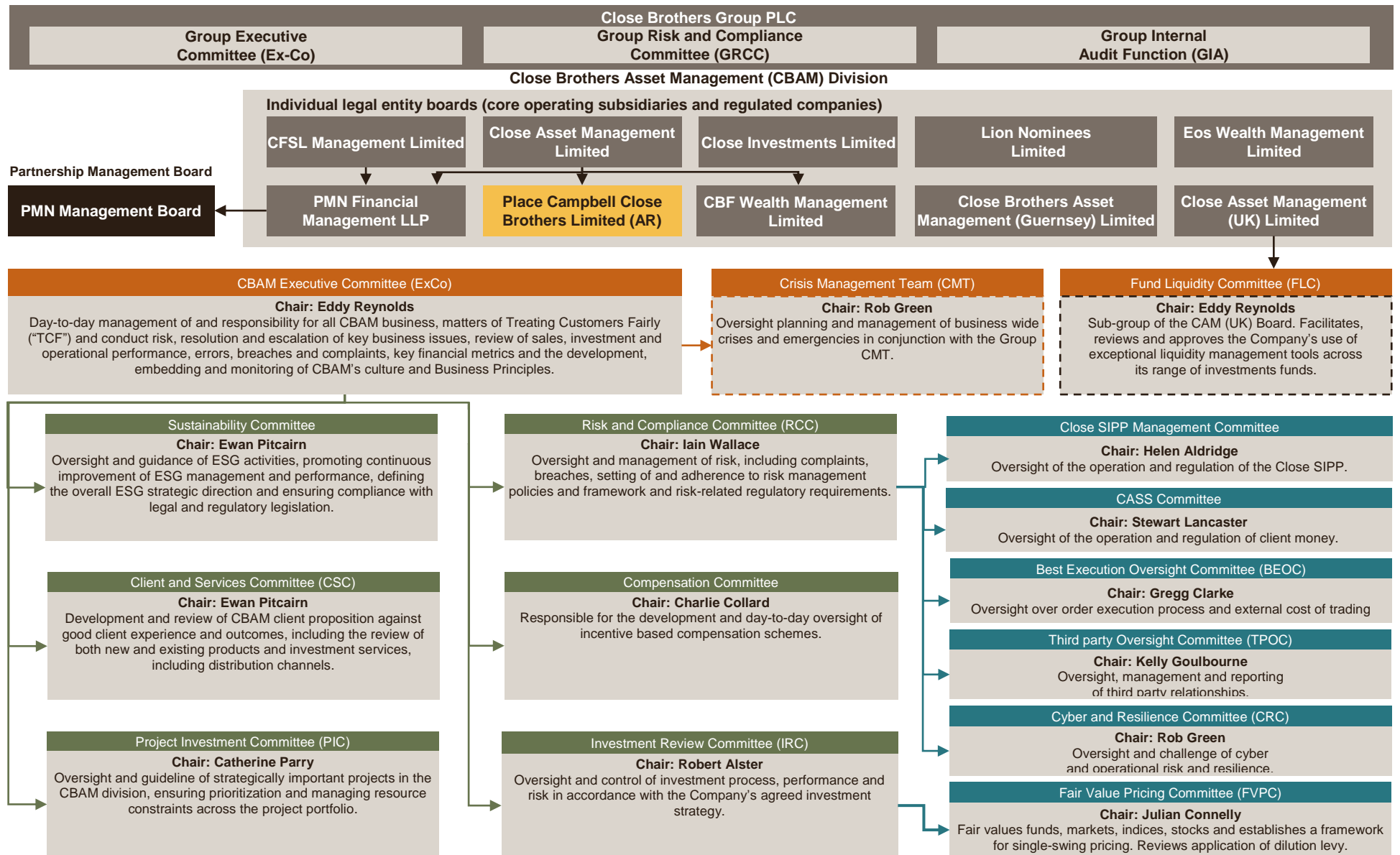
Group Risk Governance Structure

Group Governance Structure Chart



CBAM Committee Framework

CBAM Governance Structure Chart



CBAM Governance Structure

In light of the nature, scale, and breadth of its business, CBAM has chosen to operate a governance framework which places emphasis on the formal delegation of the day-to-day management of the division to its executive management. Collective responsibility for the overall strategic direction and operation of CBAM has been formally delegated by the CBG board to the CBAM ExCo which comprises of CBAM senior management. This cross-membership facilitates the required level of oversight and information flow between the CBG board and the ExCo. The ExCo has in turn formally delegated certain responsibilities to, and conferred powers upon, various functional governance committees to assist it in dealing with and making decisions on complex technical or specialised matters. This approach to governance ensures a clear and appropriate apportionment of significant responsibilities, and that the division's strategic aims are implemented within a prudent and effective governance, control and decision making framework.

The CBG board reserves for itself the review of and decisions relating to CBAM's structure, capital and financial resources, financial reporting and controls, and material or significant matters such as acquisitions, disposals and investments.

CBAM seeks to engage directly with stakeholders wherever possible on certain issues, though the size of the Group means that stakeholder engagement often takes place at an operational or Group level. This approach creates greater efficiency and facilitates a greater positive impact on environmental, social and other issues than may be possible at an individual company level, as well as ensuring consistency of approach across the Group. Additional details on engagement at Group level with stakeholders, including employees, suppliers, customers, the community and environment can be found in the Strategic Report section of the Annual Report and Accounts of CBG.

Directorships held by Executive body 'ExCo'

ExCo Member	Role	Number of other external directorships held under MIFIDPRU 8.3.2R
Eddy Reynolds	Chief Executive Officer (CEO)	-
Catherine Parry	Chief Financial Officer (CFO)	-
Charlie Collard	Head of Human Resources	-
Iain Wallace	Head of Legal, Compliance and Risk	-
Gregg Clarke	Chief Operating Officer (COO)	1
Giles Marshall	Head of Bespoke	-
John Edmeads	Head of Wealth Planning	-
Robert Alster	Chief Investment Officer	-

Diversity & Inclusion

Please refer to the Close Brothers Group plc Annual Report found at <https://www.closebrothers.com/annual-report-2023>

4.

Own funds

Own funds

Reconciliation of Regulatory Own Funds under IFPR

The below table provides a reconciliation of regulatory own funds and the applicable filters and deductions as at 31 July 2023 including relevant references back to the audited financial statements in line with MIFIDPRU 8.4.1R. Note retained earnings are inclusive of profits for the year ended 31 July 2023, which have been audited have been signed and published.

Composition of regulatory own funds							
	Item	CAM		CAM UK		EOS	
		Amount (GBP Thousands)	Source based on reference numbers/letters of the balance sheet in the audited financial statements	Amount (GBP Thousands)	Source based on reference numbers/letters of the balance sheet in the audited financial statements	Amount (GBP Thousands)	Source based on reference numbers/letters of the balance sheet in the audited financial statements
1	OWN FUNDS	87,498		25,170		1,369	
2	TIER 1 CAPITAL	87,498		25,170		1,369	
3	COMMON EQUITY TIER 1 CAPITAL	87,498		25,170		1,369	
4	Fully paid up capital instruments	12,997	Statement of changes in equity	500	Statement of changes in equity	1	Statement of changes in equity
5	Share premium			397	Statement of changes in equity		
6	Retained earnings	74,501	Statement of changes in equity	23,173	Statement of changes in equity	1,368	Statement of changes in equity
7	Accumulated other comprehensive income						
8	Other reserves			1,100	Statement of changes in equity		
9	Adjustments to CET1 due to prudential filters						
10	Other funds						
11	(-) TOTAL DEDUCTIONS FROM COMMON EQUITY TIER 1						
19	CET1: Other capital elements, deductions and adjustments						
20	ADDITIONAL TIER 1 CAPITAL						
21	Fully paid up, directly issued capital instruments						
22	Share premium						
23	(-) TOTAL DEDUCTIONS FROM ADDITIONAL TIER 1						
24	Additional tier 1: Other capital elements, deductions and adjustments						
25	TIER 2 CAPITAL						
26	Fully paid up, directly issued capital instruments						
27	Share premium						

28	(-) TOTAL DEDUCTIONS FROM TIER 2						
29	Tier 2: Other capital elements, deductions and adjustments						

Reconciliation of regulatory own funds under IFPR to the balance sheet in the audited financial statements

Close Asset Management Limited				
Own funds: reconciliation of regulatory own funds to balance sheet in the audited financial statements (in £'000's)				
		a	b	c
		Balance sheet as in published/audited financial statements	Under regulatory scope of consolidation	Cross-reference to template OF1
		At period end	At period end	
Assets - Breakdown by asset classes according to the balance sheet in the audited financial statements				
1	Investment in subsidiaries and joint investments	5,149		
2	Trade debtors	229		
3	Amounts owed by group undertakings	40,530		
4	Other debtors	8,717		
5	Prepayments and accrued income	8,861		
6	Deferred taxation	14		
7	Cash at bank and in hand	33,779		
8	Total assets	97,099		
Liabilities - breakdown by liability according to the balance sheet in the audited financial statements				
1	Amounts owed to group undertakings	3,500		
2	Other taxation	3,061		
3	Other creditors	2,375		
4	Accruals and deferred income	665		
5	Total Liabilities	9,601		
Shareholders' equity				
1	Called up share capital	12,997		Item 4
2	Profit and Loss account	74,501		Item 6
3	Total Shareholders' equity	87,498		

Close Asset Management UK Limited

Own funds: reconciliation of regulatory own funds to balance sheet in the audited financial statements (in £'000's)

		a	b	c
		Balance sheet as in published/audited financial statements	Under regulatory scope of consolidation	Cross-reference to template OF1
		At period end	At period end	
Assets - Breakdown by asset classes according to the balance sheet in the audited financial statements				
1	Amounts owed to group undertakings	21,968		
2	Other debtors	18,746		
3	Prepayments and accrued income	2,823		
4	Cash at bank and in hand	3,492		
5	Total assets	47,029		
Liabilities - breakdown by liability according to the balance sheet in the audited financial statements				
1	Amounts owed to group undertakings	1,577		
2	Current tax liabilities	749		
3	Other creditors	18,745		
4	Accruals and deferred income	788		
4	Total Liabilities	21,859		
Shareholders' equity				
1	Called up share capital	500		Item 4
2	Share premium account	397		Item 5
3	Capital redemption reserve	1,100		Item 8
4	Profit and Loss account	23,173		Item 6
5	Total Shareholders' equity	25,170		

Eos Wealth Management Limited

Own funds: reconciliation of regulatory own funds to balance sheet in the audited financial statements (in £'000's)

		a	b	c
		Balance sheet as in published/audited financial statements	Under regulatory scope of consolidation	Cross-reference to template OF1
		At period end	At period end	
Assets - Breakdown by asset classes according to the balance sheet in the audited financial statements				
1	Other debtors	1,754		
2	Cash at bank and in hand	3,868		
3	Total assets	5,622		
Liabilities - breakdown by liability according to the balance sheet in the audited financial statements				
1	Amounts owed to group undertakings	4,211		
2	Accruals and deferred income	42		
3	Total Liabilities	4,253		
Shareholders' equity				
1	Called up share capital	1		Item 4
2	Profit and Loss account	1,368		Item 6
3	Total Shareholders' equity	1,369		

Main features of own funds instruments issued

Own funds: main features of own instruments issued by the firm					
	CAM	CAM UK		EOS	
Governing law of instrument	UK	UK	UK	UK	UK
Instrument type	Ordinary shares	Ordinary shares	Preference shares	A shares	B shares
Public or private placement	Private	Private	Private	Private	Private
Number issued	20,000,000	500,000	50,000	75,000	15,000
Nominal amount of instrument	£1.00	£1.00	£1.00	£0.01	£0.01
Number allotted, called up and fully paid	12997000	500000	Nil	75000	15000
Accounting classification	Equity	Equity	Equity	Equity	Equity
Amount recognised in financial statements (in £'000's)	£12,997	£500	£Nil	£1	£0
Amount recognised in regulatory capital (in £'000's)	£12,997	£500	N/A	£1	£0
Regulatory capital classification	Common Equity Tier 1	Common Equity Tier 1	N/A	Common Equity Tier 1	Common Equity Tier 1
Redeemable		Yes			
Cumulative/non-cumulative		Non-cumulative			
Perpetual or dated					
Issuer call subject to prior supervisory approval					
Maturity date					
Original call date, contingent call dates and redemption amount					
Subsequent call dates; if applicable					
Coupons/dividends					
Fixed or floating dividend/coupon	Floating	Floating	Floating	Floating	Floating
Dividend stopper					
Convertible or non-convertible					
Write down features					

5.

Own funds requirements

Own funds requirements

K factor requirement and fixed overheads requirement

The Prudential sourcebook for MIFID investment firms (i.e. MIFIDPRU) of the FCA handbook sets out the K factor methodology. For CBAM, the relevant K-factors are: K-AUM, K-ASA, K-CMH, K-COH, and K-DTF.

	K Factor	Description
Risk to Client	K-AUM	Assets Under Management
	K-ASA	Assets Safeguarded and Administered
	K-CMH	Client Money Held
	K-COH	Client Orders Handled
Risk to Firm	K-TCD	Trading Counterparty Default
	K-DTF	Daily Trading Flow
	K-CON	Concentration Risk
Risk to Market	K-NPR	Net Position Risk
	K-CMG	Clearing Margin Given

The table below shows the K factor requirement broken down and fixed overhead requirement (“FOR”) set out as per MIFIDPRU 4.3 and MIFIDPRU 8.5:

Own funds requirements at period end (in £'000's)				
		CAM	CAM UK	EOS
K factor	Σ K-AUM, K-CMH & K-ASA	8,606	-	-
	Σ K-COH & K-DTF	63	-	-
	Σ K-NPR, K-CMG & K-COH			
	Total	8,669	-	-
FOR requirement		26,659	1,433	484

ICARA Process

As part of the Internal Capital Adequacy and Risk Assessment (ICARA) process, CBAM considers potential harm it could cause clients and markets as well as any risks to the safety and soundness of our business. This is completed by assessing key risks across CBAM to determine the level of own funds and liquidity the firm needs to hold. This is to ensure;

- that CBAM can remain viable throughout the economic cycle, with the ability to address any potential harm from its ongoing activities
- to allow its business to wind-down in an orderly way minimising harm to clients or the markets in which the firm operates

The following key ICARA elements are assessed as part of the process:

- **Business strategy and growth plans** – CBAM has considered the services which we offer to clients, our business strategy and growth plans to identify potential harms
- **Comprehensive key risk and harms assessment** – CBAM considers key harms through analysing key risks to the division and considering how the control environment minimises the likelihood of crystallisation of those risks and the impact of the material harm
- **Internal assessment of own funds adequacy** – CBAM assess own funds requirements where controls will not adequately mitigate the risk
- **Internal assessment of liquidity adequacy** – CBAM assess what liquid assets are required to cover risks where the control has not fully mitigated the risk
- **Capital and liquidity planning (i.e. financial, own funds, and liquidity)** – CBAM forecasts capital and liquidity needs for expected and stressed scenarios where the firm needs to wind-down
- **Stress testing** – CBAM will undertake stress testing on complex risks to ensure harms are being fully captured
- **Reverse stress testing** – CBAM will undertake reverse stress testing which will identify circumstances where our business model and strategies might fail.
- **Recovery actions** – CBAM has a recovery plan in place, which details recovery actions to restore own funds
- **Wind-down Plan** – CBAM has developed a wind-down plan, which minimises harm to clients and the market. CBAM has considered an expected scenario and a stressed scenario in its wind-down planning.

6.

Remuneration

Remuneration Policies & Practices

Remuneration Governance

The Close Brothers Group Remuneration Committee serves as the Remuneration Committee for CBAM, with input provided by relevant CBAM sub-committees.

All variable remuneration for material risk takers (“MRTs”) is awarded at the Remuneration Committee’s discretion. Variable Remuneration for CBAM employees not identified as MRTs is awarded at the discretion of the CBAM ExCo.

Identification of Material Risk Takers

Individuals are identified as “MIFIDPRU MRTs” with reference to qualitative criteria set out under the MIFIDPRU Remuneration code, as well as taking into account the specific types of activities and risks that are relevant to CBAM, including those of a prudential, operational, conduct and reputational nature. Analysis is also completed on certain key indicators, such as business and revenue size to determine whether any additional individuals should be captured, in line with MIFIDPRU Remuneration Code requirements.

Individuals are also identified as “UCITS MRTs” with reference to qualitative and quantitative criteria set out under the UCITS Remuneration code.

An identification exercise to identify MIFIDPRU MRTs and UCITS MRTs is completed annually by CBAM HR and updated throughout the year as required due to internal staffing changes, recruitment scenarios and leavers. Input is provided by CBAM Risk and Compliance, as well as Group Reward. The final list of MIFIDPRU MRTs and UCITS MRTs is approved annually by the Remuneration Committee.

Remuneration Structures

Fixed Remuneration

Fixed remuneration includes salaries, pension and benefits. The level of, and approach to setting, fixed pay aligns with the approach within the Group Total Reward Principles.

Variable Remuneration

The approach to variable remuneration aligns with the approach the Group Total Reward Principles, with additional details on the approach taken specifically within CBAM set out below.

Ratios of fixed-to-variable pay applicable to MIFIDPRU MRTs

In line with the Group Total Reward Principles, all remuneration will be categorised as either fixed or variable remuneration. This categorisation will be used for the purposes of calculating the maximum pay ratios applicable to each staff category.

Specific fixed-variable remuneration ratios have been set for MIFIDPRU MRTs. Different ratios apply dependent on where the individual sits within the firm, with different ratios applicable for front office end back office staff, and control functions.

Category of Staff	Normal maximum ratio	Exceptional maximum ratio*
‘Front Office’	1: 4	1: 8
‘Back Office’	1: 3	1: 4
‘Control Functions’	1: 2	1: 3

**The exceptional maximum ratio will include any guaranteed variable remediation, buy-out award, retention award or severance payment that may be awarded to an individual in a given performance year.*

When setting the ratios, CBAM has considered all relevant factors, including:

- CBAM's business activities and associated prudential and conduct risks;
- The impact that different MIFIDPRU MRTs have on the risk profile of CBAM and ensuring the ratios do not encourage excessive risk taking;
- The potential scenario that CBAM might exceed its financial and non-financial objectives;
- The need to maintain cost flexibility in light of changes of profits and losses over time;
- Competitiveness of ratios in light of market data;
- Ability to attract and retain key talent; and
- Ensuring the ratios allows strong performance to be rewarded by CBAM

Ratios may differ from one performance period to the next and will be updated on an annual basis. CBAM may set different ratios for MIFIDPRU MRTs in different business units, corporate and internal control functions and for different categories of MIFIDPRU MRTs. The Remuneration Committee is required to approve the ratios on an annual basis.

For all staff, including those individuals who are identified solely as UCITS MRTs, CBAM will ensure that the fixed and variable components of staff remuneration are appropriately balanced.

Discretionary bonus scheme and formulaic schemes

Some staff in CBAM are eligible for a discretionary bonus dependent on their role and function. The bonus value is determined annually based on the achievement of pre-determined objectives that are set at the start of each year. The value of the bonus is also dictated by the overall level of pool finding, the role of the individual and their corresponding on-target bonus opportunity, and performance assessment. Some staff in CBAM are also eligible for formulaic bonus schemes. These schemes are based on receiving an agreed portion of any business generated. They operate in line with the principles below.

All variable remuneration will be subject to appropriate individual and business performance assessment, taking into account all types of risk, both current and future, relevant to CBAM

Performance assessment

All variable remuneration awarded to employees within CBAM takes into account individual performance, contribution and potential (covering both financial and non-financial elements), performance of the relevant business unit, where relevant, and the overall performance and profitability of CBAM.

No award or payment of variable remuneration will be made where it would affect the ability of CBAM to maintain a sound capital base. Similarly, no variable remuneration will be awarded or paid to staff where it is considered by the Remuneration Committee not to be sustainable according to the financial situation of CBAM and justified on the basis of the performance of CBAM, relevant business unit or UCITS managed and the individual concerned. In this way, the cost of capital and liquidity required will be taken into account as part of the final bonus pool determination.

Awards are made to individuals on the basis of their performance, with specific performance and behaviour ratings taking both financial and non-financial performance into account. Non-financial criteria will form a material part of an individual's performance assessment. Assessments of individual performance will take into account behavioural indicators (such as compliance and risk policy breaches, disciplinary action and conduct rules breaches and client feedback). Non-financial criteria may override financial performance where appropriate.

Risk adjustment

Risk assessment and risk adjustment form an important part of the Group's Total Reward Principles and are also applied within CBAM.

On the basis of an assessment provided by the Group Chief Risk Officer (with input provided by the CBAM Risk Function), the Remuneration Committee will exercise discretion for the purposes of determining the final pools of variable remuneration to ensure that the final pool takes into account current and future (ex ante) risks, both financial and non-financial.

Risk adjustment may be applied at a pool/aggregate or team level.

As part of the risk adjustment process the CBAM Risk, Compliance, Internal Audit, HR/Reward and Finance functions all provide input at the different stages of the process.

Ex post risk adjustments: in year adjustments, malus and clawback

Ex post risk adjustments to current year awards may be applied to all staff, in line with the Group Total Reward Principles above.

Decisions regarding the application of ex post risk adjustments in the case of MIFIDPRU MRTs will be taken by the Remuneration Committee in addition to decisions regarding the application of ex post risk adjustment in the case of CBAM employees not identified as MIFIDPRU MRTs where the issue is of sufficient materiality.

Circumstances in which a malus adjustment may be applied to variable remuneration awarded to MIFIDPRU MRTs include but are not limited to circumstances in which:

- The employee's termination for misconduct or being issued with a formal disciplinary warning for misconduct under the applicable disciplinary policy;
- Where an event has occurred which has caused, or is reasonably likely to cause, serious reputational damage to CBAM or another entity within the wider group for which the Remuneration Committee determines the individual to be wholly or partly responsible;
- CBAM suffers a material loss, financial or otherwise, where the employee has operated outside the risk parameters or risk profile applicable to the employee's position and as such, the Remuneration Committee considers a material failure in risk management has occurred;
- The assessment of any performance condition was based on a material error or materially inaccurate or misleading information.

Circumstances in which clawback may be applied to variable remuneration awarded to MIFIDPRU MRTs include but are not limited to the following circumstances:

- Serious reputational damage to CBAM or any member of the wider group, for which the Remuneration Committee determines the individual was wholly or partly responsible or accountable;
- Fraud, gross misconduct or severe negligence on the part of the individual;
- CBAM or the individual's business unit suffers a material failure of risk management or a material loss, financial or otherwise, where the individual has operated outside of the risk parameters or risk profile applicable.

Clawback may be applied to deferred variable remuneration for up to four years from the date of the award and may be applied to upfront variable remuneration for up to three years from the date of the award.

For individuals within CBAM who are not MIFIDPRU MRTs, a three year clawback period will be applied to any variable remuneration which is deferred in shares (with no clawback period applying to other variable remuneration).

Further details on the ex-post risk adjustment provisions applicable to the different forms of variable remuneration is set out in the relevant plan rules and individual award documentation.

Deferral

Some staff are required to defer their awards into the CBAM Incentive Investment Plan (IIP). Under this scheme, deferred Annual Bonus awards made to CBAM employees can be deferred into the IIP. Awards cliff vest in cash after three years subject to achieving performance conditions. For other staff not eligible to participate in the IIP, two thirds of any bonus award over 100% of base salary is deferred into Group shares.

Other forms of Variable remuneration awards

CBAM may award other forms of variable remuneration, including guaranteed variable remuneration, buy-out awards, retention awards and severance payments. In all cases, CBAM will ensure that awards of such remunerations are appropriate, taking all relevant circumstances into account.

Guaranteed variable remuneration

CBAM may occasionally award guaranteed variable remuneration (or sign on bonuses) to its staff in recruitment scenarios in exceptional circumstances. Guaranteed variable remuneration awards are limited to the first year of service and any such awards will only be made where CBAM has a strong and sound capital base, which will be assessed prior to making any of awards.

Any guaranteed variable remuneration to MIFIDPRU MRTs will be subject to malus (if deferral is applied) and clawback and must be included in the calculation of the fixed-to-variable remuneration ratio for the performance year in which the award is made. The exceptional pay ratio will apply in such scenarios.

Any guaranteed variable remuneration or sign on awards made to MIFIDPPRU MRTs or UCITS MRTs must be approved by the Remuneration Committee and all such awards made to non-MRTs above £250,000 will be approved by the Remuneration Committee Chair.

By-Out awards

Buy-out awards may be made to compensate a new member of staff for the forfeiture of unvested deferred variable remuneration awarded by their previous employer. For buy-out awards made to MIFIDPRU MRTs, CBAM will ensure that the buy-out aligns with the long term interests of CBAM. CBAM will ensure that such awards were no more generous in amount than the original award and they contain provisions on periods of deferral, vesting and malus and clawback that are no shorter than any corresponding periods that applied to unvested variable remuneration under the original award which remained outstanding.

All buy-out awards must be included in the fixed-to-variable remuneration ratio for the performance period in which the award was made. For clarity, the exceptional pay ratio will apply in such scenarios. Remuneration committee approval will be required for all buy-outs awards made to MIFIDPRU MRTs or UCITS MRTs and all buy-out award values above £250,000 will be approved by the Remuneration Committee Chair.

Retention awards

CBAM does not commonly make retention awards and any such awards may only be made in rare circumstances. They will only be made in the context of a defined event or where the individual is being required to remain in role over a set period of time e.g. in the event of restructurings, wind downs, after a change of control or in the context of specific projects within CBAM.

While retention awards are not exclusively based on performance criteria, the payment of awards may be made dependent on MIFIDPRU MRTs meeting certain financial and non-financial performance criteria that have been defined in advance.

Retention awards will not be awarded to compensate for performance related remuneration not paid due to insufficient performance or CBAM's financial situation.

Where any retention award is made to MIFIDPRU MRTs, the same general rules for variable remuneration will apply, (including the application of malus and clawback) and any retention award will be included in the calculation of the fixed-to-variable remuneration ratio for the performance period in which the award is made. The exceptional pay ratio will apply in such scenarios. All retention awards will be approved by the Remuneration committee.

Severance payments

Severance payments are relating to the early termination of a contract of employment with CBAM. It does not include (a) payments made in lieu of notice (whether paid as a lump sum or paid in instalments), (b) payments relating to accrued but unused annual leave entitlements, (c) any current year variable remuneration or (d) any deferred payments paid at the normal time under the relevant plan rules. Any severance payments related to early termination will reflect the individual's performance and contribution over time and will be designed in a way which does not reward failure or misconduct.

The following criteria may be taken into account for the purposes of determining the amount of a severance payment:

- The length of the individual's employment
- Any current year variable performance related remuneration
- The nature of the individual role within CBAM
- The reasons for the early cessation of employment
- The potential risks, costs of legal fees and settlement costs

Severance pay for MIFIDPRU MRTs will be included in the fixed-to-variable remuneration ratio for the performance period in which the severance payment is made. For clarity, the exceptional pay ratio will apply in such scenarios. Where any severance pay is awarded to MIFIDPRU MRTs, malus and clawback will apply. The Remuneration Committee's approval will be required for all severance payments made to MIFIDPRU MRTs or UCITS MRTs and for all severance payments awarded to any non-MRT in excess of £250,000 will be approved by the Remuneration Committee Chair.

Remuneration by fixed and variable component

A breakdown of the fixed and variable elements paid to all staff in FY23 is shown below. The value of the fixed and variable components of pay awarded to Seniors Managers, Material Risk Takers (“MRTs”) and other staff is also reflected:

£m Remuneration	Senior Managers	Other MRTs	Other Staff	TOTAL
Fixed	£2,210,667	£2,975,862	£51,890,900	£57,077,429
Variable	£1,343,322	£3,764,438	£18,325,336	£23,433,096
Total	£3,553,989	£6,740,300	£70,216,236	£80,510,525

The total amount of guaranteed variable remuneration and severance pay awarded to MRTs is shown in the table below:

£m Remuneration	Senior Managers	Other MRTs	Other Staff	TOTAL
Guaranteed variable awards	£0	£0	£157,000	£157,000
Severance awards	£78,012	£0	£339,050	£417,062

As reflected in the table below, across the full FY23 reporting period, 24 individuals were identified as MRT’s:

	Non-MRT’s	MRT’s
Number of staff	968	24
Total fixed remuneration	£51,890,900	£5,186,529
Total variable remuneration	£18,325,336	£5,107,760
of which, awarded in cash	£18,053,972	£4,497,555
of which, awarded in non-cash	£271,364	£610,206
Proportion of total remuneration deferred	£6,124,314	£929,337

Adjustments

There were two individual awards of variable remuneration that have been downwardly adjusted in-year for Non-MRT’s as reflected below:

	Non-MRT’s	MRT’s
Number of individual awards of variable remuneration that have been downwardly adjusted in-year	2	-
Total of all in-year adjustments to variable remuneration	£3,975	£0
Number of individual awards of variable remuneration from previous years that have been downwardly adjusted (malus)	0	0
Total of adjustments to previous years’ awards variable remuneration	£0	£0
Number of individual awards of variable remuneration to which clawback has been applied	0	0
Total amount of clawback applied	£0	£0