# Close Brothers Finance plc
# Annual Report and Financial Statements
# for the year ended 31 July 2022

Registered Number: 04322721

## Close Brothers Finance plc

### COMPANY INFORMATION

| | |
|---|---|
| Directors: | M B Morgan<br>P A Townsend<br>R B Sack (appointed on 14 February 2022) |
| Secretary: | H M Thorpe |
| Registered Office: | 10 Crown Place<br>London<br>EC2A 4FT |
| Registered Number: | 04322721 |
| Independent Auditors: | PricewaterhouseCoopers LLP<br>Chartered Accountants and Statutory Auditors<br>7 More London Riverside<br>London<br>SE1 2RT<br>United Kingdom |

## STRATEGIC REPORT

The directors present their strategic report for Close Brothers Finance plc ("the Company") in accordance with Section 414C of the Companies Act 2006 for the year ended 31 July 2022.

## BUSINESS REVIEW AND PRINCIPAL ACTIVITIES

Close Brothers Finance plc ("The Company") is a finance company. It exists as a funding vehicle for Close Brothers Limited ("CBL") Group ("the CBL Group"). Seven fixed rate bonds and four floating rate bonds were in issue under the Close Brothers Finance plc £2bn Euro Medium Term Note Programme ("EMTN") guaranteed by Close Brothers Limited as at 31 July 2022:

- 10 year £350m 1.625% fixed rate senior unsecured bond issued 3 December 2020, maturing 3 December 2030,
- 10 year £50m 1.625% fixed rate senior unsecured bond issued 28 July 2021, maturing 3 December 2030,
- 12 year €25m 2.27% fixed rate senior unsecured bond issued 13 August 2015, maturing 13 August 2027,
- 8 year €20m 1.437% fixed rate senior unsecured bond issued 12 April 2016, maturing 12 April 2024,
- 10 year £250m 2.75% fixed rate senior unsecured bond issued 19 October 2016, maturing 19 October 2026,
- 5 year €20m 0% fixed rate senior unsecured bond issued 17 December 2020, maturing 17 December 2025,
- 5 year £50m 2.75% fixed rate senior unsecured bond issued 31 January 2022, maturing 19 October 2026,
- 2 year €20m 3 month Euribor +70bps floating rate senior unsecured bond issued 28 July 2021 maturing 28 July 2023,
- 2 year €40m 3 month Euribor +70bps floating rate senior unsecured bond issued 21 July 2021, maturing 21 July 2023,
- 2 year €42m 3 month Euribor +100bps floating rate senior unsecured bond issued 23 December 2021 maturing 23 December 2023,
- 2 year €50m 3 month Euribor +100bps floating rate senior unsecured bond issued 10 February 2022 maturing 23 December 2023.

The Notes are listed on the London Stock Exchange and €20m of bonds matured and were repaid during the year.

It is envisaged that the Company will be in existence for the duration of the transactions.

The directors do not anticipate any major changes to the present level of activity, or the nature of, the Company's business in the near future.

## RESULTS FOR THE YEAR AND KEY PERFORMANCE INDICATORS

The Company's directors are of the opinion that analysis using key performance indicators is not necessary or appropriate for an understanding of the Company's development, performance or position. The performance of CBL, the parent company, is presented in its Annual Report which also includes the results of this Company. The Company exists as a funding vehicle for the group and does not generate profit and loss on its own account.

The results for the year ended 31 July 2022 are set out in the Income Statement on page 13. The financial position of the Company as at 31 July 2022 is set out in the Balance Sheet on page 15. The result for the financial year amounted to £nil (2021: £nil).

## PRINCIPAL RISKS AND UNCERTAINTIES

The Company has issued third party senior unsecured debt. The issued debt is publicly listed. Cash, accrued interest income, accrued interest payable and other items arise directly from the Company's operations. The Company is a member of Close Brothers Group plc ("the Group"). As such, the Company benefits from services provided by specialist teams, risk management procedures and controls as described in the Close Brothers Group plc financial statements, which are then applied consistently across the CBL Group.

The principal risks and uncertainties the directors expect to have the greatest impact on the Company, due to their impact on the performance of the Loans (in particular, future cash flows and default rates), relate to pressures resulting from uncertainty and changes in the macroeconomic environment.

The UK currently faces significant economic uncertainty. This uncertainty is greater than historic levels of uncertainty, due to COVID-19, Brexit, and geopolitical tensions (heightened following the Russian military invasion of Ukraine). This has resulted in a significant and ongoing increase in cost inflation and therefore increased pressure for the Bank of England to continue to increase base rate from an unprecedented low level. All of these factors result in increased pressure on affordability and a heightened risk that borrowers may ultimately default on their Loan.

As the Notes are a limited recourse obligation of the Company, the Company is not ultimately exposed if the borrowers are unable to repay the Loans. The Company will continue to monitor the effect of these macroeconomic factors have on borrowers' ability to service their Loans and consequently the performance of the Company.

**PRINCIPAL RISKS AND UNCERTAINTIES (continued)**
The Company's activities expose it to a number of financial risks including credit risk, interest rate risk and liquidity risk.

Market Risk
The impact of Covid-19, Brexit, and geopolitical tensions (heightened following the Russian military invasion of Ukraine) have notably increased economic uncertainty in the UK. Notwithstanding the resilience of our model, we are continuing to plan for a range of different economic and business scenarios.

The Company's activities expose it primarily to financial risk of changes in interest rates and foreign currency exchange rates. The Company is a funding vehicle whereby the funds raised from loan notes issued to third parties would be transferred to CBL on the same economic terms as that of the loan notes. Due to this the interest rate and foreign currency exchange rate risk for the Company are negligible.

We continue to closely monitor and adhere to regulatory guidance in response to Covid-19. We are confident that our tried and tested business model will leave us well prepared to respond to the challenges and opportunities ahead. The Company is a funding vehicle and as such any additional market risk from Covid-19, Brexit and geopolitical tensions are minimal.

Credit risk
Credit risk is one of the principal risks the Company faces. The credit risk is the risk of loss if CBL fails to perform its obligation or fails to perform them in a timely fashion. We continue to monitor closely the uncertainty over Brexit and the UK economic outlook combined with rising consumer debt levels.

*No amounts are past due or impaired.*

Liquidity risk
Liquidity risk is the potential that obligations cannot be met as they fall due as a consequence of having a timing mismatch. The proceeds of the notes issued have been loaned to CBL on the same economic terms to mitigate this risk.

CBL has a prudent liquidity position with funding significantly in excess of its loans and advances to customers. It has a large portfolio of high quality liquid assets including cash placed on deposit with the Bank of England. CBL measures liquidity risk with a variety of measures including regular stress testing and regular cash flow monitoring and reporting to both the Asset and Liability Committee and Risk and Compliance Committees.

**CAPITAL MANAGEMENT**
The Company is not subject to any external capital requirements, except for the minimum requirement under the Companies Act 2006. The Company has not breached this minimum requirement.

**SECTION 172(1) STATEMENT**
In accordance with the Companies Act 2006 (the "Act") (as amended by the Companies (Miscellaneous Reporting) Regulations 2018), the directors provide the following statement describing how they have had regard to the matters set out in section 172(1) of the Act, when performing their duty to promote the success of the Company under section 172.

Section 172 requires a director to have regard to the following matters, among others, when discharging their duty: the likely consequences of any decision in the long term; the interests of the company's employees; the need to foster the company's business relationships with suppliers, customers and others; the impact of the company's operations on the community and the environment; the desirability of the company maintaining a reputation for high standards of business conduct; and the need to act fairly with members of the Company.

The Company is a subsidiary of Close Brothers Limited and is part of the Close Brothers Group (the "**Group**"). As such it follows a range of group-wide policies in place to ensure compliance with all regulatory requirements and adherence to the highest professional and ethical standards in dealing with suppliers and colleagues, and to ensure that it continues to operate in a socially responsible and compliant manner. In doing so, and by balancing the interests of the Company's stakeholders when making decisions, the Board seeks to maintain a reputation for high standards of business conduct.

Further information on these group-wide policies can be found in the annual report and accounts of the Company's ultimate holding company, Close Brothers Group plc.

The Company exists as a funding vehicle for the Group through the issuance of notes under a Euro Medium Term Note Programme by the Company as required, guaranteed by Close Brothers Limited. As such, it performs a very limited

**SECTION 172(1) STATEMENT (continued)**

range of activities and the breadth of stakeholder and other considerations that would often apply to commercial trading companies do not generally apply to the decisions made by the directors. Accordingly, the Company has no employees, only a sole member, and a limited number and range of stakeholders. Combined with the size of the Group which it supports, this means that stakeholder engagement takes place at an operational or Group level. The board considers that 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 only.

Board meetings are held periodically where the directors consider the Company's principal activities and make decisions. At those meetings, the directors receive information in a range of different formats on section 172 matters when making relevant decisions.

The directors have had regards to the matters set out in section 172(1) of the Act as follows:

- the documents governing the financing transactions to which the Company is party have been formulated with the aim of achieving the Company's purpose and business objectives and promoting the success of the Company with a long term view.
- as the Company exists as a funding vehicle for the Group, it does not generate profit and loss on its own account.
- the Company has no employees.
- the directors have regard to the obligations of the Company to fulfil its payment obligations to bondholders amongst other factors as part of their decision making process;
- the Company has no physical presence or operations and accordingly has a very minimal impact on the community and the environment;
- the Company is a subsidiary of the Group, which gives significant consideration to the impact it has on the environment and communities;
- the Company is wholly owned by other companies in the Group. All of its shares are held by Close Brothers Limited, with the exception of one share which is held by Close Brothers Group plc.

During the financial year, the board met to discuss the update of the Euro Medium Term Note Programme. As part of its consideration of the programme documents, the Board considered whether the Company's participation in the update would be in the best interest of the Company's business and would promote the success of the Company for the benefit of its members as a whole, as well as the likely long term consequences of the decision.

Approved by the Board of Directors and signed on its behalf by:

M B Morgan
Director
27 September 2022

## DIRECTORS' REPORT
The directors present their annual report and the audited financial statements for the year ended 31 July 2022.

## GENERAL INFORMATION
Close Brothers Finance plc ("the Company") is a special purpose public company limited by shares, established as a funding vehicle for the CBL Group. The Company is incorporated and domiciled in the United Kingdom and registered in England and Wales.

## DIRECTORS
The directors of the company, who were in office during the year and up to the date of signing the financial statements were:

P A Townsend
M B Morgan
R B Sack (appointed on 14 February 2022)

None of the directors has any beneficial interest in the ordinary share capital of the Company. None of the directors had any interest during the year in any material contract or arrangement with the Company.

## COMPANY SECRETARY
The Company secretary during the year, and up to the date of signing the financial statements, was H M Thorpe.

## REGISTERED OFFICE
10 Crown Place
London
EC2A 4FT

## EMPLOYEES
The Company has no employees (2021: none).

## GOING CONCERN
In order to form a view as to the most appropriate basis of preparation of these financial statements, the Directors have assessed the likelihood of whether the Company will be able to continue trading over the foreseeable future versus the likelihood of either intending to or being forced to either cease trading or place the Company into liquidation. CBL has continued to use the Company to issue Notes under the EMTN in 2022, and there is no intention for CBL to cease using the Company and make payments under the intercompany loans mirroring the Notes as they fall due.

The Directors have undertaken a going concern assessment including a review of principal and emerging risks. Whilst noting the significant economic uncertainty facing the UK, after making inquiries, the directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future, a period of not less than 12 months from the date of this report.

Accordingly, they continue to adopt the going concern basis in preparing the Annual report and financial statements.

## DIVIDENDS
The directors do not recommend the payment of a dividend (2021: £nil).

## FUTURE DEVELOPMENTS
The directors expect the general level of activity to remain consistent with the 2022 year in the forthcoming year. This is as a result of no significant changes and no events of significant impact after balance sheet date.

## EVENTS AFTER THE BALANCE SHEET DATE
There are no significant events after the reporting period affecting the Company.

## ISSUED SHARE CAPITAL
The Company's issued share capital consists of two fully paid ordinary shares of £1 (2021: £1) and 49,998 partially paid ordinary shares of 25p each (2021: 49,998).

## THIRD PARTY INDEMNITIES
Qualifying third party indemnity provisions for the benefit of the directors were in force during the year under review and remain in force as at the date of approval of the annual reports and financial statements.

## DIRECTORS CONFIRMATIONS
In the case of each director in office at the date the Directors' Report is approved:

## DIRECTORS CONFIRMATIONS (continued)

- so far as the director is aware, there is no relevant audit information of which the Company's auditors are unaware; and
- the director has taken all the steps that they ought to have taken as directors in order to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of Section 418 of the Companies Act 2006.

**STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE FINANCIAL STATEMENTS**

The directors are responsible for preparing the Annual Report and Financial Statements and the financial statements in accordance with applicable law and regulation.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law).

Under company law, directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing the financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable United Kingdom Accounting Standards, comprising FRS 101, have been followed, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are also responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006.

**FINANCIAL RISK MANAGEMENT OBJECTIVES**

Financial risks including associated financial risks such Market Risk, Credit risk and Liquidity risk have all been disclosed in the Strategic Report.

**SECTION 172 STATEMENT**

As more fully described in the Section 172(1) statement in the Strategic Report, the directors have been charged with governance in accordance with the transaction documents which govern the structure and operation of the transactions to which the Company is party.

**INDEPENDENT AUDITORS**

The auditors, PricewaterhouseCoopers LLP, have indicated their willingness to continue in office and a resolution concerning their re-appointment will be proposed at the next Annual General Meeting.

Approved by the Board of Directors and signed on its behalf by:

M B Morgan
Director
27 September 2022

# Independent auditors' report to the members of Close Brothers Finance plc

# Report on the audit of the financial statements

## Opinion

In our opinion, Close Brothers Finance plc's financial statements:

- give a true and fair view of the state of the company's affairs as at 31 July 2022 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law); and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report and Financial Statements (the "Annual Report"), which comprise: the balance sheet as at 31 July 2022; the income statement, the statement of comprehensive income and the statement of changes in equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Our opinion is consistent with our reporting to the directors.

## Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

## Independence

We remained independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, as applicable to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

To the best of our knowledge and belief, we declare that non-audit services prohibited by the FRC's Ethical Standard were not provided.

We have provided no non-audit services to the company in the period under audit.

## Our audit approach

## Overview

Audit scope

- As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements.
- The scope of our audit and the nature, timing and extent of audit procedures performed were determined by our risk assessment and other qualitative factors.
- We identified all material financial statement line items and disclosures including those that were considered qualitatively material, and conducted our work over those accordingly.

Key audit matters

- Measurement of debt securities in issue

Materiality

- Overall materiality: £8,843,200 (2021: £7,700,000) based on 1% of total assets.
- Performance materiality: £6,632,400 (2021: £5,775,000).

## The scope of our audit

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements.

## Key audit matters

Key audit matters are those matters that, in the auditors' professional judgement, were of most significance in the audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by the auditors, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters, and any comments we make on the results of our procedures thereon, were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

This is not a complete list of all risks identified by our audit.

The Measurement of debt securities in issue is a new key audit matter this year. Impact of COVID-19, which was a key audit matter last year, is no longer included because of our consideration that it does not represent an area of increased audit attention in its own right. Otherwise, the key audit matters below are consistent with last year.

| **Key audit matter** | **How our audit addressed the key audit matter** |
|---|---|
| *Measurement of debt securities in issue*<br>The company is a funding vehicle, which issued fixed and floating rate notes (the 'Debt securities in issue' or the 'Notes') listed on the London Stock Exchange under the £2,000,000,000 Euro Medium Term Note Programme guaranteed by Close Brothers Limited ('CBL') to raise funding for Close Brothers Limited Group ("the CBL Group"). The proceeds from the issuance of the notes are lent to CBL on terms matching the corresponding notes. The activities of the company is limited to the servicing of the Debt securities in issue from the interest and principal repayments received under the corresponding loans to CBL. The audit of the measurement of the Debt securities in issue therefore was a key audit area. Related disclosures in the financial statements:<br>Note 2. Significant accounting policies<br>Note 7. Creditors<br>Note 10. Financial risk management | In response to this key audit matter we have:<br>- Obtained confirmation from the Paying Agent of the balances outstanding under the Notes as at the year end;<br>- Agreed redemptions and the proceeds of issuances in the year to the underlying legal documentation and bank statements of the company;<br>- Tested the measurement at year end of the Debt securities in issue at amortised cost; and<br>- Tested the corresponding note disclosures in the financial statements.<br>We have no matters to note in relation to the above procedures. |

## How we tailored the audit scope

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the structure of the company, the accounting processes and controls, and the industry in which it operates.

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. We identified all material financial statement line items and disclosures, including those which were considered qualitatively material. The audit was carried out by one audit team working with the legal entity finance team.

## Materiality

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

| | |
|---|---|
| *Overall company materiality* | £8,843,200 (2021: £7,700,000). |
| *How we determined it* | 1% of total assets |
| *Rationale for benchmark applied* | As a Special Purpose Vehicle ('SPV'), the company is established as a not for profit entity, funded almost entirely by debt, it would follow that users focus their attention on the SPV's total assets as suggested by ISA (UK) 320 paragraph A3. It is therefore considered appropriate that overall materiality could in the context of an SPV be calculated as 1% of total assets. |

We use performance materiality to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds overall materiality. Specifically, we use performance materiality in determining the scope of our audit and the nature and extent of our testing of account balances, classes of transactions and disclosures, for example in determining sample sizes. Our performance materiality was 75% (2021: 75%) of overall materiality, amounting to £6,632,400 (2021: £5,775,000) for the company financial statements.

In determining the performance materiality, we considered a number of factors - the history of misstatements, risk assessment and aggregation risk and the effectiveness of controls - and concluded that an amount at the upper end of our normal range was appropriate.

We agreed with the directors that we would report to them misstatements identified during our audit above £442,160 (2021: £500,000) as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

## Conclusions relating to going concern

Our evaluation of the directors' assessment of the company's ability to continue to adopt the going concern basis of accounting included:

- Evaluation of management's going concern assessment
- Evaluation and testing of the control environment in place over CBL liquidity and capital forecasting to the extent these are relevant to the going concern assessment of the company;
- Evaluation of CBL's forecast financial performance, liquidity and capital positions over the going concern period;
- Review of the credit rating agency ratings and actions of CBL.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

However, because not all future events or conditions can be predicted, this conclusion is not a guarantee as to the company's ability to continue as a going concern.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

## Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Strategic report and Directors' Report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on our work undertaken in the course of the audit, the Companies Act 2006 requires us also to report certain opinions and matters as described below.

## Strategic report and Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic report and Directors' Report for the year ended 31 July 2022 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic report and Directors' Report.

## Responsibilities for the financial statements and the audit

## Responsibilities of the directors for the financial statements

As explained more fully in the Statement of directors' responsibilities in respect of the financial statements, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

## Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below.

Based on our understanding of the company and industry, we identified that the principal risks of non-compliance with laws and regulations related to a breach of the listing rules, and we considered the extent to which non-compliance might have a material effect on the financial statements. We also considered those laws and regulations that have a direct impact on the financial statements such as Companies Act 2006. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to posting of inappropriate journal entries and significant one-off or unusual transactions. Audit procedures performed by the engagement team included:

- Making inquiries with management and those charged with governance in relation to known or suspected instances of non-compliance with laws and regulations and fraud;
- Testing journal entries using a risk-based approach, and evaluating if there was evidence of bias;
- Evaluating the business rationale for any significant transactions that are outside the normal course of business.

There are inherent limitations in the audit procedures described above. We are less likely to become aware of instances of non-compliance with laws and regulations that are not closely related to events and transactions reflected in the financial statements. Also, the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

Our audit testing might include testing complete populations of certain transactions and balances, possibly using data auditing techniques. However, it typically involves selecting a limited number of items for testing, rather than testing complete populations. We will often seek to target particular items for testing based on their size or risk characteristics. In other cases, we will use audit sampling to enable us to draw a conclusion about the population from which the sample is selected.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

### Use of this report

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

# Other required reporting

### Companies Act 2006 exception reporting

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not obtained all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the company, or returns adequate for our audit have not been received from branches not visited by us; or
- certain disclosures of directors' remuneration specified by law are not made; or
- the financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

## Appointment

We were appointed by the directors on 16 November 2017 to audit the financial statements for the year ended 31 July 2018 and subsequent financial periods. The period of total uninterrupted engagement is 5 years, covering the years ended 31 July 2018 to 31 July 2022.

H. Varley

Heather Varley (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
28 September 2022

**Close Brothers Finance plc**
**Income Statement**
For the year ended 31 July 2022

| | Note | 2022 £ | 2021 £ |
|---|---|---|---|
| Interest receivable and similar income | 5 | 15,151,928 | 22,421,400 |
| Interest payable and similar charges | 5 | (15,151,928) | (22,421,400) |
| **Net interest income** | 5 | - | - |
| **Result before tax** | | - | - |
| Tax on result | | - | - |
| **Result for the financial year** | | - | - |

*The above statement should be read in conjunction with the accompanying notes.*

**Close Brothers Finance plc**
**Statement of Comprehensive Income**
For the year ended 31 July 2022

| | 2022 £ | 2021 £ |
|---|---|---|
| **Result for the financial year** | - | - |
| Other comprehensive income that may be reclassified to income statement | - | - |
| Other comprehensive income that will not be reclassified to income statement | - | - |
| **Other comprehensive income for the year net of tax** | - | - |
| **Total comprehensive income for the year** | - | - |

*The above statement should be read in conjunction with the accompanying notes.*

**Close Brothers Finance plc**
**Balance Sheet**
As at 31 July 2022

| | Note | 2022 £ | 2021 £ |
|---|---|---|---|
| **Current assets** | | | |
| Debtors | | | |
| - due within one year | 6 | 54,556,792 | 20,586,253 |
| - due after one year | 6 | 829,772,565 | 751,283,030 |
| | | **884,329,357** | **771,869,283** |
| **Creditors: amounts falling due within one year** | 7 | 54,556,792 | 20,586,253 |
| **Net current assets** | | **829,772,565** | **751,283,030** |
| **Creditors: amounts falling due after more than one year** | 7 | 829,760,063 | 751,270,528 |
| **Net assets** | | **12,502** | **12,502** |
| **Capital and reserves** | | | |
| Called up share capital | 8 | 12,502 | 12,502 |
| **Total shareholders' funds** | | **12,502** | **12,502** |

*The above statement should be read in conjunction with the accompanying notes.*

These financial statements of Close Brothers Finance plc (registered number 04322721) were approved and authorised for issue by the Board of Directors on 27 September 2022. They were signed on its behalf by:

M B Morgan
Director
27 September 2022

**Close Brothers Finance plc**
**Statement of Changes in Equity**
For the year ended 31 July 2022

| | Called up share capital | Total shareholders' funds |
|---|---|---|
| | £ | £ |
| **Balance at 1 August 2020** | **12,502** | **12,502** |
| Result for the year | - | - |
| Other comprehensive income for the year | - | - |
| **Total comprehensive income for the year** | **-** | **-** |
| **Balance at 31 July 2021** | **12,502** | **12,502** |
| Result for the year | - | - |
| Other comprehensive income for the year | - | - |
| **Total comprehensive income for the year** | **-** | **-** |
| **Balance at 31 July 2022** | **12,502** | **12,502** |

*The above statement should be read in conjunction with the accompanying notes.*

### 1. General information

Close Brothers Finance plc is a public company limited by shares, incorporated in the United Kingdom and registered in England and Wales under the Companies Act. The address of the registered office is 10 Crown Place, London, EC2A 4FT. The Company is a finance company, and it exists as a funding vehicle for CBL and the CBL Group to act as the issuer of debt securities under the Close Brothers Finance plc £2bn Euro Medium Term Note Programme ("EMTN") guaranteed by Close Brothers Limited.

Details of the undertaking in whose consolidated financial statements the Company is included are shown in note 11 to the financial statements.

### 2. Significant accounting policies

The principal accounting policies are summarised below. They have all been applied consistently throughout the year and the preceding year.

#### a) Basis of preparation

The Company meets the definition of a qualifying entity under Financial Reporting Standard 101 (FRS 101) issued by the Financial Reporting Council. The financial statements have been prepared in compliance with The Companies Act 2006 as applicable to companies using FRS 101 'Reduced Disclosure Framework'.

The Company has applied Financial Reporting Standard 101 Reduced Disclosure Framework ("FRS 101") issued by the Financial Reporting Council ("FRC") incorporating the Amendments to FRS 101 issued by the FRC in July 2015 other than those relating to legal changes and has not applied the amendments to company law made by The Companies, Partnerships and Groups (Accounts and Reports) Regulations 2015 that are effective for accounting periods beginning on or after 1 January 2016.

The accounting policies, which have been applied consistently throughout the period to the Company's financial statements are set out below.

The directors have adjusted the format of the income statement as allowed under Companies Act 2006. In the opinion of the directors, net interest income is a more appropriate measure of the Company's performance than turnover and cost of sales.

The preparation of financial statements in conformity with FRS 101 requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in note 3.

As permitted by FRS 101, the Company has taken advantage of the disclosure exemptions available under that standard in relation to presentation of a cash-flow statement and standards not yet effective. Where relevant, equivalent disclosures have been given in the financial statements of Close Brothers Group plc. The financial statements of Close Brothers Group plc are available to the public and can be obtained as set out in note 11.

The financial statements have been prepared on the historical cost basis as explained in the accounting policies below. Historical cost is generally based on the fair value of the consideration given in exchange for the goods and services.

#### b) Going concern

In order to form a view as to the most appropriate basis of preparation of these financial statements, the Directors have assessed the likelihood of whether the Company will be able to continue trading over the foreseeable future versus the likelihood of either intending to or being forced to either cease trading or place the Company into liquidation.

The Directors have undertaken a going concern assessment including a review of principal and emerging risks. Whilst noting the significant economic uncertainty facing the UK, after making inquiries, the directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future, a period of not less than 12 months from the date of this report.

Accordingly, they continue to adopt the going concern basis in preparing the Annual Report.

**2. Significant accounting policies (continued)**

**b) Revenue recognition**
**Interest income**
Interest receivable comprises interest received on intra group lending. Interest receivable and similar income and interest payable and similar charges have been calculated using the effective interest rate ("EIR") method. The EIR method is a method of calculating the amortised cost of a financial asset or liability and of allocating the interest income or interest expense over the expected life of the financial instrument. The EIR is the rate that exactly discounts the estimated future cash payments or receipts over the expected life of the financial instrument or, when appropriate, a shorter period, to the net carrying amount of the financial asset or financial liability. When calculating the EIR, the future cash flows are estimated after considering all the contractual terms of the instrument but not future credit losses.

**c) Financial assets and liabilities**
The Company's financial instruments comprise the Debt securities in issue, the Amounts due from CBL undertakings and Cash at bank and in Hand.

**(i) Debt securities in issue**
Debt securities in issue are recognised initially at fair value incorporating the directly related incremental transaction costs. Subsequent to initial recognition, debt securities in issue are stated at amortised cost with any difference between cost and redemption value being recognised in the statement of comprehensive income over the period of the borrowings on an effective interest rate basis.

**(ii) Amounts due from CBL undertaking**
Financial assets are classified at initial recognition on the basis of the business model within which they are managed and their contractual cash flow characteristics. The Company's Financial assets are held to collect contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Initial recognition is at fair value plus directly attributable transaction costs. Interest income is accounted for using the effective interest rate method.

Impairment gains and losses are recognised in the income statement.

Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or where the company has transferred substantially all risks and rewards of ownership. If substantially all the risks and rewards have been neither retained nor transferred the assets continue to be recognised to the extent of the company's continuing involvement.

In accordance with IFRS 9, expected credit losses are recognised for loans and advances to customers and banks, other financial assets held at amortised cost, financial assets measured at fair value through other comprehensive income, loan commitments and financial guarantee contracts.

The impairment charge in the income statement includes the change in expected credit losses.

At initial recognition, financial assets are considered to be in Stage 1. If a significant increase in credit risk since initial recognition occurs, these financial assets are considered to be in Stage 2. As a backstop, all financial assets 30 days past due are considered to have experienced a significant increase in credit risk and are transferred to Stage 2.

A financial asset will remain classified as Stage 2 until the credit risk has improved such that it no longer represents a significant increase since origination and is returned to Stage 1. At a minimum this means that all payments must be up to date, the quantitative probability of default assessment trigger is no longer met, and the account is not evidencing qualitative assessment triggers.

When objective evidence exists that a financial asset is credit impaired, such as the occurrence of a credit default event or identification of an unlikeliness to pay indicator the financial asset is considered to be in Stage 3. As a backstop, all financial assets 90 days or more past due are considered to be credit impaired and transferred to Stage 3.

**2. Significant accounting policies (continued)**

**(ii) Amounts due from CBL undertaking (continued)**

Loans and advances to customers are written off against the related provisions when there are no reasonable expectations of further recovery following realisation of all associated collateral and available recovery actions against the customer. Subsequent recoveries of amounts previously written off decrease the amount of impairment losses recorded in the income statement.

Financial assets less than 30 days past due are recognised in stage 1. Financial assets greater than or equal to 30 days but less than 90 days past due are recognised in stage 2. Financial assets that are 90 (or greater) days past due are recognised in stage 3.

The stage classification is management's internal approach to categorising the probability that the receivable will default and the calculation of expected credit losses for loans and advances and receivables relating to operating lease assets is based on a simplified lifetime only expected credit loss approach.

Our expected credit losses are assessed against actual loss experienced via a series of provision adequacy reviews. These reviews also incorporate management judgement to ensure that our ECL coverage ratios are appropriate and actively monitored as such.

By their nature, limitations in the Company's impairment models or input data may be identified through ongoing model monitoring and validation of models. In certain circumstances, management make appropriate adjustments to model-calculated expected credit losses. These adjustments are based on management judgements, to ensure the expected credit loss provision adequately reflects the expected outcome. These adjustments are generally determined by taking into account the attributes or risks of a financial asset which are not captured by existing impairment model outputs.

**(iii) Cash and cash equivalents**

Cash and cash equivalents comprise cash and amounts due from banks with a maturity of less than three months. As the cash can only be used to meet certain specific liabilities and is not available to be used at the Company's discretion, it is viewed as restricted cash.

**d) Share capital**

Shares are included in shareholder funds. Other instruments are classified as liabilities if they contain an obligation to transfer economic benefits and if not, they are included in shareholder funds.

**e) Foreign currency**

The financial statements are presented in pounds sterling, which is the currency of the primary economic environment in which the Company operates (its functional currency).

Transactions in currencies other than the functional currency are recorded at the rate of exchange at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are reported at the rates of exchange prevailing at that date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated. Exchange differences are recognised in profit or loss in the period in which they arise. Upon each issuance of Notes under the EMTN programme, the proceeds are lent to CBL on the same day in the same currency and under the same economic terms.

**3. Critical accounting estimates and judgements**

The reported results of the Company are sensitive to the accounting policies, assumptions and estimates that underlie the preparation of its financial statements. UK company law and IFRS require the directors, in preparing the Company's financial statements, to select suitable accounting policies, apply them consistently and make judgements and estimates that are reasonable and prudent. The Company's estimates and assumptions are based on historical experience and expectation of future events and are reviewed periodically. The actual outcome may be materially different from that anticipated. There were no areas requiring critical accounting estimates and judgements.

**4. Auditors' remuneration**

Fees payable to the Company's auditors and their associates for the audit of the Company's annual financial statements were £17,476 (2021: £16,172). Audit fees and other administrative expenses in this and the prior year were borne by Close Brothers Limited which is the immediate parent undertaking. Fees payable to the Company's auditors and their associates for non-audit services to the Company are not required to be disclosed because the financial statements of the parent company are required to disclose such fees on a consolidated basis.

## 5. Net Interest Income

| | 2022<br>£ | 2021<br>£ |
|---|---|---|
| **Interest receivable and similar income** | | |
| Interest receivable and similar income | 15,151,928 | 22,421,400 |
| | **15,151,928** | **22,421,400** |
| **Interest payable and similar charges** | | |
| Interest payable and similar charges | (15,151,928) | (22,421,400) |
| | **(15,151,928)** | **(22,421,400)** |
| **Net interest income** | - | - |

## 6. Debtors

| | 2022<br>£ | 2021<br>£ |
|---|---|---|
| **Amounts falling due within one year:** | | |
| Amounts due from CBL undertakings | 54,556,792 | 20,586,253 |
| | **54,556,792** | **20,586,253** |
| **Amounts falling due after more than one year:** | | |
| Amounts due from CBL undertakings | 829,772,565 | 751,283,030 |
| | **829,772,565** | **751,283,030** |
| | **884,329,357** | **771,869,283** |

## 7. Creditors

The Company has issued seven fixed rate and four floating rate senior unsecured bonds. These have been classified as debt securities in issue and held on balance sheet at amortised cost:

| | 2022<br>£ | 2021<br>£ |
|---|---|---|
| **Amounts falling due within one year:** | | |
| Debt securities in issue | 54,556,792 | 20,586,253 |
| | **54,556,792** | **20,586,253** |
| **Amounts falling due after more than one year:** | | |
| Debt securities in issue | 829,760,063 | 751,270,528 |
| | **829,760,063** | **751,270,528** |
| | **884,316,855** | **771,856,781** |

| **Debt securities in issue:** | 2022<br>£ | 2021<br>£ |
|---|---|---|
| 10 year £350m 1.625% bond maturing 3 December 2030 | 347,222,809 | 346,780,301 |
| 10 year £50m 1.625% bond maturing 3 December 2030 | 49,849,921 | 49,816,253 |
| 12 year €25m 2.27% bond maturing 13 August 2027 | 21,394,054 | 21,666,209 |
| 8 year €20m 1.437% bond maturing 12 April 2024 | 16,861,870 | 17,073,535 |
| 10 year £250m 2.75% bond maturing 19 October 2026 | 251,223,560 | 251,050,655 |

## 7. Creditors (continued)

| | | |
|---|---|---|
| 5 year €20m 0% bond maturing 17 December 2025 | 16,849,713 | 17,087,947 |
| 2 year €20m 3 month Euribor +70bps bond maturing 28 July 2023 | 16,852,176 | 17,113,402 |
| 2 year €40m 3 month Euribor +70bps bond maturing 21 July 2023 | 33,707,423 | 34,225,814 |
| 2 year €20m 3 month Euribor +45bps bond maturing 12 November 2021 | - | 17,042,665 |
| 5 year £50m 2.75% bond maturing 19 October 2026 | 52,050,731 | - |
| 2 year €50m 3 month Euribor +100bps bond maturing 23 December 2023 | 42,556,024 | - |
| 2 year €42m 3 month Euribor +100bps bond maturing 23 December 2023 | 35,748,574 | - |
| | **884,316,855** | **771,856,781** |

## 8. Called up share capital

The Company's called up share capital consists of two authorised and paid ordinary shares of £1 (2021: £1) and 49,998 (2021: 49,998) partially paid ordinary shares of 25p (2021: 25p) each.

The company is not subject to any externally proposed capital requirements except for the minimum requirement under the Companies Act 2006. The Company has not breached the minimum requirement.

## 9. Directors' emoluments

None of the directors had any material interest in any contract of significance in relation to the business of the Company and none of the directors received any emoluments for their services in the current year or prior year.

## 10. Financial Risk Management

**Categories of financial instruments at fair value**

As a diversified company of financial services businesses, financial instruments are central to the Company's activities. The risk associated with financial instruments represents a significant component of those faced by the Company and is analysed in more detail below.

### a) Classification

The following tables analyse the Company's assets and liabilities in accordance with the categories of financial instruments in IFRS 9.

| | Financial Instruments Held At Amortised Cost | Total |
|---|---|---|
| | £ | £ |
| **At 31 July 2022** | | |
| **Assets** | | |
| Amounts due from CBL undertakings | 884,329,357 | **884,329,357** |
| | **884,329,357** | **884,329,357** |
| **Liabilities** | | |
| Debt securities in issue | 884,316,855 | **884,316,855** |
| | **884,316,855** | **884,316,855** |

| | Financial Instruments Amortised Cost | Total |
|---|---|---|
| | £ | £ |
| **At 31 July 2021** | | |
| **Assets** | | |
| Amounts due from CBL undertakings | 771,869,283 | **771,869,283** |
| | **771,869,283** | **771,869,283** |
| **Liabilities** | | |
| Debt securities in issue | 771,856,781 | **771,856,781** |
| | **771,856,781** | **771,856,781** |

**10. Financial risk management (continued)**

**a) Classification (continued)**

The principal balance and legal maturity date of the debt securities in issue has been disclosed in Note 7 on page 20.

**b) Valuation**

The following table summarises the carrying amounts and incorporates the Company's fair values of those financial assets and liabilities not presented on the Company's balance sheet at fair value. The fair values in the table below may be different from the actual amount that will be received/paid on the settlement or maturity of the financial instrument:

| | 2022 | |
|---|---|---|
| | **Fair value** | **Carrying value** |
| | **£** | **£** |
| Debt securities in issue | 823,352,497 | 884,316,855 |

| | 2021 | |
|---|---|---|
| | **Fair value** | **Carrying value** |
| | **£** | **£** |
| Debt securities in issue | 804,672,736 | 771,856,781 |

**c) Credit Risk**

Credit risk is the risk of a reduction in earnings and/or value, as a result of the failure of a counterparty or associated party with whom the Company has contracted to meet its obligations in a timely manner and arises mainly from the amounts due from CBL undertakings representing the Loans to Close Brothers Limited, the legal terms of which exactly mirror the terms of the corresponding Debt securities issued and disclosed in Note 7.

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Company. The Company applies consistent and prudent lending criteria mitigating credit risk. The Company, being an SPV for the purpose of the securities issuances under the EMTN programme, will have no exposure to credit risk other than those under the intercompany loans provided to CBL under the Debt issuances. Based on the assessment completed no provisions are required under IFRS 9.

**Maximum exposure to credit risk**

The table below presents the Company's maximum exposure to credit risk, before taking account of any collateral and credit risk mitigation, arising from its on balance sheet and off balance sheet financial instruments at 31 July 2022. For off balance sheet instruments, the maximum exposure to credit risk represents the contractual nominal amounts.

| | 2022 | 2021 |
|---|---|---|
| | £ | £ |
| **On balance sheet** | | |
| Amounts due from CBL | 884,329,357 | 771,869,283 |
| Total maximum exposure to credit risk | **884,329,357** | **771,869,283** |

**d) Market risk**

The Company's activities expose it primarily to financial risk of changes in interest rates and foreign currency exchange rates. The Company is a funding vehicle whereby the funds raised from loan notes issued to third parties would be transferred to CBL on the same economic terms as that of the loan notes. Due to this the interest rate and foreign currency exchange rate risk for the Company are negligible.

**e) Liquidity risk**

Liquidity risk is the risk that liabilities cannot be met when they fall due or can only be met at an uneconomic price.

The following table analyses the contractual maturities of the Company's on-balance sheet financial liabilities including interest payable on an undiscounted cash flow basis.

**10. Financial Risk Management (continued)**

**e) Liquidity risk (continued)**

| | On demand | In less than three months | In more than three months but not more than six months | In more than six months but not more than one year | In more than one year but not more than five years | In more than five years | Total |
|---|---|---|---|---|---|---|---|
| | £ | £ | £ | £ | £ | £ | £ |
| **At 31 July 2022** | | | | | | | |
| Debt securities in issue | - | 4,870,607 | 3,518,875 | 58,594,177 | 468,351,325 | 444,247,940 | **979,582,924** |
| | **-** | **4,870,607** | **3,518,875** | **58,594,177** | **468,351,325** | **444,247,940** | **979,582,924** |
| **At 31 July 2021** | | | | | | | |
| Debt securities in issue | - | 3,921,137 | 20,294,486 | 6,932,429 | 141,146,838 | 704,960,382 | **877,255,272** |
| | **-** | **3,921,137** | **20,294,486** | **6,932,429** | **141,146,838** | **704,960,382** | **877,255,272** |

**11. Ultimate Parent Undertaking**

The Company's ultimate parent company and ultimate controlling party is Close Brothers Group plc, a company incorporated in the United Kingdom. The parent undertaking of the largest group, which includes the Company, and for which group financial statements are prepared, is Close Brothers Group plc.

The parent undertaking of the smallest such group is Close Brothers Limited, a company incorporated in the United Kingdom. Copies of the group financial statements of Close Brothers Group plc and Close Brothers Limited are available from 10 Crown Place, London EC2A 4FT. The Company's immediate controlling party is Close Brothers Limited.

**12. Events after the balance sheet date**

There are no significant events after the reporting period affecting the Company.

**13. Related Party Transactions**

During the year additional funding of £112m (2021: £106m) was provided to CBL through the issuance of external bonds. As at the year end, the Company had provided £880 million (2021: £768 million) of funding to CBL. There was interest of £15.2 million (2021: £22.4 million) to the Company from CBL on the funding as at 31 July 2022. Accrued interest due to the Company from CBL as at 31 July 2022 was £4 million (2021: £4.1 million).