Close Brothers Limited
Annual Report 2022

COMPANY NUMBER: 195626

PROFILE

Close Brothers Limited (the "**company**") is a private limited company incorporated in England. Its ultimate parent company is Close Brothers Group plc ("**CBG**"). The company is a member of the Close Brothers group, being Close Brothers Group plc and its subsidiaries (the "**Group**"), a leading UK merchant banking group providing lending, wealth management services and securities trading.

Close Brothers Limited and its subsidiaries (''**the group''**) provides specialist lending to small and medium-sized businesses and individuals across a diverse range of asset classes, and also offers deposit taking services.

The group provides specialist finance solutions through three lending segments: Retail, which provides intermediated finance, principally to individuals and small businesses, through motor dealers and insurance brokers; Commercial, which focuses on providing specialist and predominantly secured lending to the SME market and includes Asset Finance and Invoice and Specialty Finance; and Property, primarily focused on providing specialist residential development finance to well established professional developers in the UK.

The Treasury function provides funding for the group's lending activities through corporate deposits and retail savings products, as well as wholesale funding.

HIGHLIGHTS

	2022 **£ million**	2021 £ million
Operating profit before amortisation of intangible assets on acquisition, goodwill impairment and exceptional item	**229.5**	214.8
Statutory profit on ordinary activities before taxation	**229.4**	209.5
Loans and advances (including operating lease assets)	**9,098.9**	8,667.4
Deposits by customers	**6,770.4**	6,634.8
Shareholders' funds	**1,326.0**	1,273.4
Total assets	**11,508.3**	10,950.9

COMPANY INFORMATION

Directors

Mike Biggs*	Chairman
Mike Morgan*	Director
Adrian Sainsbury*	Director
Oliver Corbett*	Director
Peter Duffy*	Director
Patricia Halliday*	Director (Appointed 1 August 2021)
Lesley Jones*	Director
Bridget Macaskill*	Director
Tesula Mohindra*	Director
Mark Pain*	Director
Sally Williams*	Director
Tracey Graham*	Director (Appointed 22 March 2022)

* Director of Close Brothers Group plc

Company Secretary

H.M. Thorpe

Independent Auditors

PricewaterhouseCoopers
LLP

Registered Office

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Registered Number

195626

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Business Review[1]

Adjusted operating profit increased 7% to £229.5 million (2021: £214.8 million), reflecting good loan book growth and a strong net interest margin. Statutory operating profit increased to £229.4 million (2021: £209.5 million).

The loan book grew 5.0% over the year to £9.1 billion (31 July 2021: £8.7 billion) driven by healthy new business volumes in our Commercial businesses and high demand in Motor Finance, partly offset by a contraction in the Premium Finance and Property loan books. Momentum picked up over the course of the year, as the 1.9% loan book growth in the first half of the year was supplemented by 3.0% growth in the second half of the year. The return on net loan book remained stable on the prior year at 2.6% (2021: 2.6%).

The net interest margin of 7.8% increased marginally on the 2021 financial year (2021: 7.7%), primarily driven by lower cost of funds. We continue to adopt a disciplined approach to pricing and our specialist, relationship-driven model positions us well to maintain a strong net interest margin, although the trajectory will depend upon our ability to pass on further rate increases onto our customers.

As a result, operating income increased 10% to £695.4 million (2021: £634.0 million), reflecting the good loan book growth and a strong net interest margin.

Adjusted operating expenses increased 10% to £362.6 million (2021: £329.1 million) as we progressed our key investment programmes and continued to exercise rigorous control of our costs, whilst recognising the current inflationary environment. Business as usual ("BAU"[2]) costs increased by 7% to £278.8 million (2021: £260.3 million), primarily driven by higher staff costs reflecting salary increases in the current inflationary environment and increased performance-driven compensation.

Investment costs rose 22% to £83.8 million (2021: £68.8 million), reflecting spend on our multi-year strategic investment projects and related depreciation charges.[3]

Our investment projects align with our strategic priorities of protecting, growing and sustaining the business and continue to deliver tangible benefits. Our Internal Ratings Based ("IRB")[4] spend has driven enhancements in our risk management framework, whilst investment in our customer deposit platform has enabled the expansion of the Savings product offering, supporting a lower cost of funds.

In Asset Finance, investment in our systems has enabled new functionality and improved customer insights. Our Retail businesses are benefiting from digital investment, with Motor Finance utilising Application Programming Interface ("API") links to connect to strategic partners and offer our finance at various points of the customer journey and Premium Finance have launched insight tools to support brokers.

Whilst we remain mindful of inflationary pressures, we continue to exercise cost discipline. We expect costs related to existing investment programmes to stabilise over the next financial years, although depreciation charges related to these programmes will continue to increase.

The compensation ratio was flat on the prior year at 29% (2021: 29%) and the expense/ income ratio also remained stable at 52% (2021: 52%).

Impairment charges increased to £103.3 million (2021: £90.1 million), corresponding to a bad debt ratio of 1.2% (2021: 1.1%). Excluding Novitas, the bad debt ratio was 0.5% (2021: 0.2%), reflecting the release of Covid-19 provisions, partially offset by the ongoing review of provisions and coverage across our loan portfolios, including certain individual exposures in the Commercial business, as well as higher IFRS 9 provisions to take into account the outlook for the external environment.

Overall, there was a marginal decrease in provision coverage to 3.1% (31 July 2021: 3.2%). Excluding provisions related to the Novitas loan book, the coverage ratio reduced slightly to 1.9% (31 July 2021: 2.3%), primarily reflecting provision releases, mainly driven by reduced Covid-19 forborne balances.

Whilst we are not yet seeing a significant impact from rising inflation and interest rates and their effect on customers on our credit performance, we are alert to the highly uncertain macroeconomic environment and continue to closely monitor the performance of the book. We remain confident in the quality of our loan book, which is predominantly secured, prudently underwritten, diverse, and supported by the deep expertise of our people.

Return on opening equity in the Banking division reduced to 12.8% (2021: 14.0%). This is driven by an increase in the effective tax rate primarily reflecting a write-down in the group's deferred tax assets as a result of the legislated reduction in the rate of banking surcharge from 8% to 3% which was due to apply from April 2023, and the non-recurrence of the prior year write-up in the group's deferred tax assets as a result of legislation that year increasing the mainstream corporate tax rate from 19% to 25% (also due to apply from April 2023).

On 23 September 2022, the Chancellor of the Exchequer announced as part of his Growth Plan that the corporation tax rate increase from 19% to 25% from April 2023 will be cancelled, and that the banking surcharge rate will remain at 8%. The relevant legislation is expected to be enacted in the year ending 31 July 2023 and is a non-adjusting post balance sheet event. Had this change been enacted before 31 July 2022, the group's deferred tax asset balance at 31 July 2022 would have decreased by approximately £1.0 million, with a corresponding tax charge recognised in the income statement, net of a smaller credit to other comprehensive income.

Key Financials[1]

	2022 £ million	2021 £ million	Change %
Operating income	**695.4**	634.0	**10**

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Adjusted operating expenses	**(362.6)**	(329.1)	**10**
Impairment losses on financial assets	**(103.3)**	(90.1)	**15**
Adjusted operating profit	**229.5**	214.8	**7**

Key Performance Indicators[1]

	2022 %	2021 %
Net interest margin[5]	**7.8%**	7.7%
Expense/income ratio[6]	**52%**	52%
Compensation ratio[7]	**29%**	29%
Bad debt ratio[8]	**1.2%**	1.1%
Return on net loan book[9]	**2.6%**	2.6%
Return on opening equity[10]	**12.8%**	14.0%

	31 July 2022 £ million	31 July 2021 £ million	Change %
Closing loan book and operating lease assets[11]	**9,098.9**	8,667.4	5

1 Adjusted measures are presented on a basis consistent with prior periods and exclude amortisation of intangible assets on acquisition, to present the performance of the group's acquired businesses consistent with its other businesses; and any exceptional and other adjusting items which do not reflect underlying trading performance.
2 Operating expenses excluding depreciation and other costs related to investments.
3 Related ongoing costs resulting from investment projects are recategorised from investment costs to BAU costs after one year. For comparison purposes, £5.1 million has been recategorised from investment costs to BAU costs in the 2021 financial year to adjust for investment projects' ongoing costs that commenced prior to the 2022 financial year.
4 A supervisor-approved method using internal models, rather than standardised risk weightings, to calculate regulatory capital requirements for credit risk.
5 Adjusted income generated by lending activities, including interest income net of interest expense, fees and commissions income net of fees and commissions expense, and operating lease income net of operating lease expense, less depreciation on operating lease assets, divided by average loans and advances to customers (net of impaired loans) and operating lease assets.
6 Total adjusted operating expenses on adjusted operating income.
7 Total adjusted staff costs on adjusted operating income.
8 Impairment losses as a percentage of average net loans book and operating lease assets.
9 Adjusted operating profit from lending activities divided by average net loans book and operating lease assets.
10 Adjusted operating profit after tax and non-controlling interests on opening equity, excluding non-controlling interests.
11 Commercial, Asset Finance and Invoice and Speciality Finance loan books have been re-presented for 31 July 2021 to include £222.9 million of operating lease assets (£1.3 million in Asset Finance and £221.6 million in Invoice and Speciality Finance).

Exceptional and other adjusting items

Amortisation and impairment of intangible assets on acquisition was down significantly to £0.1 million (2021: £25.0 million). The prior year charge reflected the impairment of intangible assets recognised on acquisition in relation to Novitas following the decision to cease permanently the approval of lending to new customers across all of the products offered by Novitas.

There were no exceptional items recorded in the 2022 financial year (2021: £19.7 million). In 2021, we recognised an exceptional gain of £19.7 million reflecting a VAT refund from HMRC in relation to hire purchase agreements in the Motor Finance and Asset Finance businesses.

Loan Book

The loan book increased 5.0% year-on-year to £9.1 billion (31 July 2021: £8.7 billion), reflecting strong growth in our Commercial and Motor Finance businesses, partly offset by a contraction in the Premium Finance and Property businesses. Momentum picked up over the course of the year, as the 1.9% loan book growth in the first half of the year was supplemented by 3.0% growth in the second half of the year.

The Commercial loan book increased 9% to £4.6 billion (31 July 2021: £4.2 billion), driven by 7% growth in Asset Finance, reflecting strong new business volumes in the Transport, Broker, Contract Hire and Energy businesses in particular, as we saw good demand from customers. Invoice and Speciality Finance grew 14%, reflecting strong sales volumes and increased utilisation. The core Invoice Finance loan book increased 29% as we grew SME customer numbers.

The Retail loan book increased 3% to £3.1 billion (31 July 2021: £3.0 billion), with 7% growth in Motor Finance as we saw strong new business levels, reflecting continued demand in the used car market and the benefits from investment in the Motor Finance transformation programme. This was partly offset by a 4% decline in the Premium Finance book as a result of lower demand for the funding of insurance policies from consumers following previous Covid-19 restrictions.

The Property loan book contracted 2%, despite the growth seen in the second half of the year. This reflected high repayment levels, which more than offset drawdowns, given we continued to see heightened unit sales by developers as a result of the buoyant UK property market. Our new business volumes remained strong and our pipeline stands at over £1 billion.

The Republic of Ireland makes up approximately 7% of our total loan book (31 July 2021: 8%), with an offering from both our Commercial and Retail businesses. The Republic of Ireland Motor Finance business accounted for 18% of the Motor Finance loan book (31 July 2021: 21%) and 4% of the Banking loan book (31 July 2021: 5%). As previously announced, from 30 June 2022, we ceased writing new business under our previous partnership in the Republic of Ireland. We remain committed to the Irish market and are considering our long-term options.

Loan book growth continues to be an output of our business model, as we focus on delivering disciplined growth whilst continuing to prioritise our margins and credit quality. As outlined at the Investor Event in June 2021, we continue to actively work to identify incremental and new opportunities in both our existing and adjacent markets.

Across our businesses, we recognise a significant opportunity in broadening our financing of green and transition assets, as the UK aligns towards a net zero economy. Our current lending already spans a diverse array of green assets including wind and solar generation, battery electric vehicles and grid infrastructure, including battery electric storage systems.

While our Motor Finance business lends predominantly to the second hand car market, we have seen strong growth in battery electric vehicles in our Commercial business. Our Wholesale Fleet division provides finance for company car fleets and over one third of its loan book is now fully battery electric. As an initial green finance ambition, we have set ourselves the aim to provide funding for £1.0 billion of battery electric vehicles in the next five years.

Over the coming years, we will continue to build further our expertise in green and transition assets, cementing our reputation for specialist knowledge, financing and maximising commercial opportunities arising in the space, for example through the financing of battery electric storage systems and charging infrastructure across the UK.

The Asset Finance business is well positioned to capitalise on continued demand for asset financing. During the year, we have expanded our sector coverage, hiring agricultural equipment and materials handling teams who have both completed their first deals, and have increased our focus on the financing of green and transition assets.

In Invoice Finance, we expect the growth trajectory to follow the economic conditions. We continue to pursue opportunities in the Asset Backed Lending ("ABL") space, including also identifying syndication opportunities, partnering with other lenders. Our Brewery Rentals business has delivered a record year and our direct-to-outlet container rental product, EkegPlus, continues to see strong demand.

Our investment in the Motor Finance transformation programme has enabled us to further broaden our offering in this market and take advantage of heightened demand for used cars. The programme has improved efficiency and the introduction of e-sign functionality has delivered sustainability benefits. We have developed a unique proposition to provide dealers with real-time data and market insights, in partnership with AutoTrader, which has supported an increase in dealer numbers and reducing vehicle sales times. We have also developed a set of that enable us to connect seamlessly into strategic partners including AutoTrader and iVendi and provide our finance offering at various points of the customer journey. Alongside this, we continue to explore opportunities for growth over the longer term through the shift to Alternatively Fuelled Vehicles ("AFVs"), as they become more prevalent in the second hand car market. AFVs currently make up a low proportion of our Motor Finance loan book, in line with penetration in the wider second hand car market. We have expanded our credit policy to capture such vehicles and are currently piloting new AFV-suited offerings in selected markets.

For Premium Finance, we have launched new insight tools, Foresight and Focus 360, to enhance our offering and support brokers' decisioning. We anticipate demand for the funding of insurance policies could increase given the uncertain macroeconomic conditions.

In Property, we continue to make good progress expanding our regional presence, which now contributes over 50% of our loan book, as well as building out our bridging finance offering. In partnership with Travis Perkins, we have established a new facility, allowing SME housebuilders access to discounted building supplies and materials directly via a credit facility, without the need to demonstrate any trading or credit history, where a relationship with the client already exists and funding has previously been agreed. We are also piloting a specialist buy-to-let extension to our existing Property bridging finance clients, which is a natural evolution of our expertise in Property Finance and well aligned with our business model and risk appetite. Our pipeline of undrawn commitments remains strong at above £1 billion, although the heightened economic uncertainty is expected to continue to impact activity in the property market.

Overall, we remain confident in the growth outlook for the loan book over both the short and medium term.

Loan Book Analysis[1]

	31 July 2022 £ million	31 July 2021[1] £ million	Change %
Commercial	**4,561.4**	4,191.0	**9**
Asset Finance	**3,032.5**	2,845.9	7
Invoice and Speciality Finance	**1,528.9**	1,345.1	14
Retail	**3,064.0**	2,974.3	**3**
Motor Finance	**2,051.2**	1,924.4	7
Premium Finance	**1,012.8**	1,049.9	(4)
Property	**1,473.5**	1,502.1	**(2)**
Closing loan book and operating lease assets[2]	**9,098.9**	8,667.4	5

1 Loans and advances to customers has been re-presented for 31 July 2021 to include £222.9 million of operating lease assets, with a corresponding reduction to other assets.
2 Operating lease assets of £0.5 million (31 July 2021: £1.3 million) relate to Asset Finance & Leasing and £239.5 million (31 July 2021: £221.6 million) to Invoice and Speciality Finance.

Commercial

The Commercial businesses provide specialist, predominantly secured lending principally to the SME market and include Asset Finance and Invoice and Speciality Finance. We finance a diverse range of sectors, with Asset Finance offering commercial asset financing, hire purchase and leasing solutions across a broad range of assets including commercial vehicles, machine tools, contractors' plant, printing equipment, company car fleets, energy project finance, and aircraft and marine vessels. The Invoice and Speciality Finance business provides debt factoring, invoice discounting and asset-based lending, as well as covering our specialist businesses such as Brewery Rentals; Vehicle Hire; and Novitas.

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Adjusted operating profit in Commercial rose 71% to £92.1 million (2021: £53.9 million) as the business achieved positive operating leverage and saw a decrease in impairment charges. Statutory operating profit was £92.0 million (2021: £37.0 million).
Operating income increased 19% to £344.5 million (2021: £290.0 million), reflecting strong loan book growth in both Asset Finance and Invoice Finance. The net interest margin increased marginally to 7.9% (2021: 7.8%), mainly driven by a lower cost of funds.

Adjusted operating expenses of £180.0 million (2021: £158.2 million) were 14% higher than the prior year, reflecting higher staff costs to reflect business growth and the inflationary environment, as well as costs in relation to the group's withdrawal from the legal services financing market. In addition, investment spend in the Asset Finance transformation programme continued. The expense/income ratio decreased to 52% (2021: 55%) as the growth in operating income more than offset the cost increase.

Impairment charges decreased 7% to £72.4 million (2021: £77.9 million), corresponding to a reduced bad debt ratio of 1.7% (2021: 2.1%), reflecting the reduction in the Covid-19 forborne book and a lower charge in the year relating to Novitas, partly offset by an increase in provisions against certain individual exposures. A significant portion of the impairment charges reported in Commercial related to credit provisions against the Novitas loan book (2022: £60.7 million, 2021: £73.2 million), which reflect the latest assumptions on the case failure and recovery rates in this business.

The provision coverage reduced marginally to 4.0% (31 July 2021: 4.2%) reflecting reduced Covid-19 forbearance, partly offset by provisions against the Novitas loan book to take into account updated assumptions on case failure rates. Excluding Novitas, the provision coverage ratio reduced to 1.6% (31 July 2021: 2.1%).

The Commercial loan book increased 9% to £4.6 billion (31 July 2021: £4.2 billion). The Asset Finance book grew 7% to £3.0 billion (31 July 2021: £2.8 billion), reflecting strong new business volumes. The Invoice and Speciality Finance loan book increased 14% to £1.5 billion (31 July 2021: £1.3 billion), driven by high sales volumes, supported by the Recovery Loan Scheme, and improved utilisation, albeit this continues to remain slightly below pre-Covid-19 levels.

Retail

The Retail businesses provide intermediated finance, principally to individuals and small businesses, through motor dealers and insurance brokers.

Operating profit for Retail reduced 15% to £61.8 million (2021: £72.7 million), driven by higher impairment charges and increased operating expenses, which more than offset income growth.

Operating income increased 8% to £237.8 million (2021: £220.6 million), reflecting loan book growth and an increase in the net interest margin to 7.9% (2021: 7.6%), mainly driven by higher fee income in Premium Finance and a lower cost of funds.

Operating expenses rose 10% to £151.6 million (2021: £138.0 million), driven by higher staff costs and the cost of responding to ongoing regulatory change. In addition, ongoing investment in the Retail businesses, alongside related depreciation, continued. The expense/income ratio increased marginally to 64% (2021: 63%).

Impairment charges increased to £24.4 million (2021: £9.9 million), with a bad debt ratio of 0.8% (2021: 0.3%) which reflected a more normalised level of cancellations in the consumer portfolio following the strong credit performance in the prior year in Premium Finance and a rise in arrears in the Motor Finance business as a result of the impact on customers from the cessation of the UK Government's Covid-19 job retention scheme and the increase in inflation..

The provision coverage ratio remained stable at 2.2% (31 July 2021: 2.2%), mainly driven by the release of model-driven adjustments, partly offset by expected credit losses increasing to reflect loan book growth.

The Retail loan book increased 3% to £3.1 billion (31 July 2021: £3.0 billion). The Motor Finance book grew 7% to £2.1 billion (31 July 2021: £1.9 billion), as high new business levels reflected continued demand, and strong prices continued in the used car market.

The Premium Finance book declined 4% to £1.0 billion (31 July 2021: £1.0 billion) primarily as a result of lower demand for the funding of insurance policies from consumers. This was partially offset by strong new business volumes as customers look to ease cash flow pressures in the commercial market.

We remain confident in the credit quality of the Retail loan book. The Motor Finance loan book is predominantly secured on second hand vehicles which are less exposed to depreciation or significant declines in value than new cars. Our core Motor Finance product remains hire-purchase contracts, with less exposure to residual value risk associated with Personal Contract Plans ("PCP"), which accounted for c.11% of the Motor Finance loan book at 31 July 2022. The Premium Finance loan book benefits from various forms of structural protection including premium refundability and, in most cases, broker recourse for the personal lines product.

Property

Property comprises Property Finance and Commercial Acceptances. The Property Finance business is focused on specialist residential development finance to established professional developers in the UK. Commercial Acceptances provides bridging loans and loans for refurbishment projects.

Operating profit decreased 14% to £75.6 million (2021: £88.2 million) primarily reflecting a reduction in income, as well as an increase in impairment charges on the prior year.

Operating income was down 8% to £113.1 million (2021: £123.4 million) reflecting the reduction in the loan book. The net interest margin was stable at 7.6% (2021: 7.6%), mainly driven by lower cost of funds, partly offset by the negative impact of rising rates in the last few months of the financial year on the interest rate floors, which were set at 1%. With the UK base rate now above 1%, we expect no further impact in respect of these floors as a result of future rate rises.

Operating expenses were 6% lower at £31.0 million (2021: £32.9 million) as we maintained our rigorous focus on cost discipline. The expense/income ratio remained broadly stable on the prior year at 27% (2021: 27%).
Impairment charges increased to £6.5 million (2021: £2.3 million) following the ongoing review of provisions and the prior year benefiting from the release of Covid-19 related provisions, resulting in a bad debt ratio of 0.4% (2021: 0.1%). The provision coverage ratio decreased marginally to 2.4% (31 July 2021: 2.6%).

In spite of strong new business volumes, the Property loan book reduced £29 million to £1.5 billion (31 July 2021: £1.5 billion), as high repayment levels more than offset drawdowns, with the buoyant UK property market resulting in heightened unit sales by developers. Our pipeline of undrawn commitments remains strong at £1.0 billion (31 July 2021: £0.9 billion) and we continue to see success from regional expansion, with the regional loan book making up over 50% of the Property Finance portfolio.

The Property loan book is conservatively underwritten, with typical LTVs below standard market levels. We work with experienced, professional developers, with a focus on mid-priced family housing, and have minimal exposure to the prime central London market. Our long track record, expertise and quality of service ensure the business remains resilient to competition and continues to generate high levels of repeat business.

Capital

The Prudential Regulation Authority ("PRA") supervises Close Brothers Limited on an individual consolidation basis as permitted under the UK onshored Capital Requirements Regulation ("CRR") article 9. The individual consolidation group does not include all subsidiary undertakings and therefore differs to the accounting consolidation group under IFRS. All figures shown below are for this individual consolidation group.

The prudent management of capital is a core part of our business model and has been a key focus in the evolving environment to ensure we can continue to support customers, clients and colleagues.

Common equity tier 1 ("CET1") capital, which is audited, decreased 2% to £1,194.4 million (31 July 2021: £1,224.9 million) reflecting reversal of £50.2 million software assets benefit from regulatory changes in the treatment of software assets and a £34.8 million reduction in transitional IFRS 9 capital add-back. Profits generated in the year were £163.7m partially offset by the regulatory deduction of dividends paid and foreseen of £88.6 million.

Risk weighted assets ("RWAs"), which are unaudited, increased by 4% to £8.8 billion (31 July 2021: £8.4 billion) driven by growth in the commercial division loan book and in derivative exposures increasing counterparty credit risk and credit valuation adjustments.

The CET1 capital ratio decreased to 13.5% (31 July 2021: 14.6%), primarily due to reversal of software assets benefits and increase in credit risk RWAs. The total capital ratio decreased to 15.8% (31 July 2021: 17.3%). All capital ratios disclosed are unaudited.

In line with CRR, effective on 1 January 2022, the CET1 capital ratio no longer includes the benefit related to software assets which were previously exempt from the deduction requirement for intangible assets from CET1.

The group applies IFRS 9 regulatory transitional arrangements which allows banks to add back to their capital base a proportion of the IFRS 9 impairment charges during the transitional period. Our capital ratios are presented on a transitional basis after the application of these arrangements. Without their application, the CET1 and total capital ratios would be 12.7% and 14.9%, respectively.

We continue to make good progress on our preparations for a transition to the IRB approach. Following the submission of our initial application to the PRA in December 2020, we have received confirmation that our application has successfully transitioned to Phase 2. The next phase of formal review will commence in October 2022 and we are well positioned to respond promptly, although the timetable remains under the direction of the PRA. Our Motor Finance, Property Finance and Energy portfolios, where the use of models is most mature, have been submitted with our initial application, with other businesses to follow in future years.

	31 July 2022 £ million	31 July 2021 £ million
Common equity tier 1 capital	**1,194.4**	**1,224.9**
Total capital	**1,394.4**	**1,448.3**
Risk weighted assets	**8,847.6**	**8,387.4**
Common equity tier 1 capital ratio	**13.5%**	**14.6%**
Total capital ratio	**15.8%**	**17.3%**

Funding

The primary purpose of our treasury function is to manage funding and liquidity to support the lending businesses and manage interest rate risk. Our conservative approach to funding is based on the principle of "borrow long, lend short", with a spread of maturities over the medium and longer term, comfortably ahead of a shorter average loan book maturity. It is also diverse, drawing on a wide range of wholesale and deposit markets including several public debt securities at both group and operating company level as well as a number of securitisations.

We increased total funding in the year by 4% to £11.1 billion (31 July 2021: £10.7 billion) which accounted for 123% (31 July 2021: 123%) of the loan book at 31 July 2022. The average cost of funding reduced to 1.2% (2021: 1.4%), an

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increase from 1.1% in the first half of the 2022 financial year due to the increased cost of customer deposits.

Customer deposits increased 2% to £6.8 billion (31 July 2021: £6.6 billion) with non-retail deposits reducing by 7% to £3.7 billion (31 July 2021: £3.9 billion) and retail deposits increasing by 16% to £3.1 billion (31 July 2021: £2.7 billion) The previous investment in our customer deposit platform continues to generate benefits and has enabled us to enhance our Savings proposition. Our expanded Notice Account product range continues to thrive, with balances at c.£1.1 billion, and balances in our Fixed Rate Cash Individual Savings Accounts ("ISAs") have grown to c.£350 million since their launch in December 2020. We remain focused on continuing to extend the deposit product range, which will support us in growing and diversifying our retail deposit base and further optimise our cost of funding and maturity profile.

Secured funding increased 20% to £1.6 billion (31 July 2021: £1.3 billion) as we completed our fourth public Motor Finance securitisation in April 2022 and increased our current drawings under the Term Funding Scheme with additional incentives for SMEs ("TFSME") to £600 million (31 July 2021: £490 million).

Unsecured funding, which includes senior unsecured and subordinated bonds and undrawn committed revolving facilities, remained stable at £1.2 billion (31 July 2021: £1.2 billion).

We have maintained a prudent maturity profile. The average maturity of funding allocated to the loan book remained ahead of the loan book at 21 months (31 July 2021: 24 months), with the average loan book maturity at 17 months (31 July 2021: 17 months), in line with our "borrow long, lend short" principle.

Our strong credit ratings remain unchanged, with Moody's Investors Services ("Moody's") reaffirming their rating for Close Brothers Group as ''A2/P1'' and Close Brothers Limited as ''Aa3/P1'' with a ''negative'' outlook in July 2022, and Fitch Ratings ("Fitch") reaffirming their rating for both Close Brothers Group and Close Brothers Limited as ''A-/F2'', with a ''stable'' outlook in May 2022. This reflects the group's profitability, capital position, diversified business model and consistent risk appetite.

Funding Analysis[1]

	31 July 2022 £ million	31 July 2021 £ million
Customer deposits	6,770.4	6,634.8
Secured funding	1,598.7	1,333.7
Unsecured funding[2]	1,204.0	1,195.9
Intercompany	250.4	253.7
Equity	1,325.9	1,272.4
Total available funding	11,149.4	10,690.5
Total funding % loan book[3]	123%	123%
Average maturity of funding allocated to loan book[4]	21 months	24 Months

1 Numbers relate to core funding and exclude working capital facilities at the segment level.
2 Unsecured funding excludes £10.2 million (31 July 2021: £16.2 million) of non-facility overdrafts included in borrowings and includes £205.0 million (31 July 2021: £205.0 million) of undrawn facilities.
3 Total funding divided by net loans and advances to customers and operating lease assets.
4 Average maturity of total funding excluding equity and funding held for liquidity purposes.

Liquidity

The group continues to adopt a conservative stance on liquidity, ensuring it is comfortably ahead of both internal risk appetite and regulatory requirements.
We continued to maintain higher liquidity relative to the pre-Covid-19 position to provide additional flexibility given the uncertain UK economic outlook, whilst enabling us to maximise any opportunities available. Over the year, treasury assets increased 4% to £1.9 billion (31 July 2021: £1.8 billion) and were predominantly held on deposit with the Bank of England.

We regularly assess and stress test the group's liquidity requirements and continue to comfortably meet the liquidity coverage ratio ("LCR") regulatory requirements, with a 12-month average to 31 July 2022 LCR of 885% (2021: 960%). In addition to internal measures, we monitor funding risk based on the CRR II rules for the net stable funding ratio ("NSFR") which became effective on 1 January 2022. The NSFR as at 31 July 2022 was 133.6% (31 January 2022: 126.9%).

Liquidity Analysis

	31 July 2022 £ million	31 July 2021 £ million
Cash and balances at central banks	1,254.7	1,331.0
Sovereign and central bank debt[1]	415.4	192.5
Certificates of deposit	185.0	264.7
Treasury assets	1,855.1	1,788.2

1 Included in sovereign and central bank debt is £215.5 million encumbered UK Government debt (31 July 2021: £90.2 million)

Future developments

Our purpose of helping the people and businesses of Britain thrive over the long-term is a fundamental commitment to our customers that we will be there for them in both the good times and the bad. Our purpose is underpinned by our group-wide customer principles, which guide how we deliver the end-to-end experience to our customers, clients and partners throughout their journey with Close Brothers and also helps us measure how effectively we are performing across the key principles.

We continue to evolve our customer capability and conducted a customer experience maturity assessment across our businesses in the Spring to calibrate and benchmark against external best practice. From this, we have identified some key opportunities to further accelerate and embed customer centricity which builds on existing programmes in the business:
We are in the process of adding customer specific objectives to journey stage owner's KPI's with tailored

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objectives and explicit clarity on what behaviours need to be demonstrated to deliver on our customer, client and partner ambition.

Our Sustainability Objectives: We are known for our core strengths of a trusted client approach, disciplined lending, and adaptability. These position us well to support our customers as they navigate a changing world. We have demonstrated we take our responsibilities to our employees and our community seriously, acting ethically and responsibly. This is reflected in our sustainability objectives we have set as a business:

• Supporting our customers, clients and partners in the transition towards more sustainable practices
• Promoting an inclusive culture in everything we do
• Reducing our impact on the environment and responding to the threats and opportunities of climate change
• Promoting financial inclusion, helping borrowers that might be overlooked by larger finance providers and enabling savers and investors to access financial markets and advice to plan for their future

Further detail on the future developments can be found in the Strategic Report within the Annual Report of the company's ultimate parent company, CBG.

Non-Financial Information Statement

The requirement to include a non-financial statement in the Strategic Report has been met by the ultimate parent company, CBG, and is therefore not included here.

Section 172(1) statement and statement of engagement with other stakeholders including employees

The directors provide the following statement pursuant to the Companies Act 2006 (as amended by Companies (Miscellaneous Reporting) Regulations 2018) (the "Act") to describe how they have acted in accordance with their duty under Section 172 of the Act ("Section 172") to promote the success of the company for the benefit of its member(s) as a whole, and in so doing, how they have had regard to those factors set out in Section 172, (1) (a) to (f) during the financial year.

Furthermore, in compliance with the Large and Medium-sized Companies and Groups (Financial Statements and Reports) Regulations 2008 (as amended by the Companies (Miscellaneous Reporting) Regulations 2018), the directors provide the statement which follows to describe how they have engaged with employees, and how they have had regard to employee interests and the need to foster the company's business relationships with suppliers, customers and others, and in each case, the effect of that regard, including on the principal decisions taken by the company during the financial year.

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 as between members of the company.

The board of the company is collectively responsible for managing the affairs of the company to achieve its long-term prosperity by making important decisions, monitoring the underlying performance of the company, as well as being a means for establishing ethical standards. Understanding the interests of key stakeholders is an important part of the group's strategy and helps inform the directors' decision making throughout the year.

Board meetings are held as required where the directors will consider the company's principal activities and make decisions. Meetings are scheduled to provide adequate time for consideration and discussion by the directors of the interests of stakeholders, and for the directors to seek further information from management, as required. As a part of those meetings, the directors receive information in a range of different formats to assist them in discharging their responsibilities under Section 172 when making relevant decisions. This information may include, among other things, reports and presentations on financial and operational performance, business updates, budget planning and forecasts, HR matters, as well as specific areas of engagement, such as employee opinion surveys. When making decisions, the board seeks to understand the impact on each of its stakeholders, including the likely consequences of a decision in the long term, whilst acknowledging that a decision will not necessarily be favourable for all stakeholders, as there may be competing interests between them.

Necessarily in a large and regulated group, some decisions are delegated by the board to management and local businesses but within parameters set by the board and a robust framework that ensures ongoing oversight, monitoring and challenge by the board (including certain decisions and activities that are always reserved to the board). The board has regard to relevant factors set out in Section 172 in its activities in these areas, including considerations relating to the potential impact of delegated decisions on the long-term success of the group as a whole, the group's reputation for high standards of business conduct and the consequences of local decisions on the group's stakeholders. Examples of the board's oversight of matters related to areas of delegated or subsidiary responsibility in the 2022 financial year include monitoring the development, strategy and performance of individual businesses and subsidiaries, considering management's response to regulatory initiatives and engagement, and oversight of activities relating to culture, conduct and employee engagement at local level. Once again during the year, the board's monitoring of the group's businesses and subsidiaries has been particularly focused on the impact of, and response to, Covid-19.
The company is part of the wider Close Brothers Group (the "Group"), and as such it follows a range of group-wide

policies in place to protect employees and provide a safe working environment, to ensure compliance with all regulatory requirements and adherence to the highest professional and ethical standards in dealing with customers, suppliers and colleagues, as well as ensuring that it continues to be cognisant of its social and environmental responsibilities. 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 Financial Statements of the company's ultimate holding company, Close Brothers Group plc.

The directors seek 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. Where engagement has taken place at operational level, the outcome of that engagement has been brought to the board for its consideration where relevant throughout the year. During the financial year, engagement with stakeholders has been modified in response to the Covid-19 regulations and Government guidance, and has taken place virtually where necessary or appropriate. 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 Financial Statements of Close Brothers Group plc.

The table and case studies on the following page(s) set out further examples of the ways in which the board has engaged directly and indirectly with stakeholders during the financial year, as well as detailing how the directors have had regard to employee interests and the need to foster the company's business relationships with suppliers, customers and others, and the effect of that regard, including on principal decisions taken throughout the year, as well as matters set out in Section 172 (1)(a)-(f) when discharging their duties under Section 172.

OUR STAKEHOLDERS	WHY WE FOCUS ON THEM AND THE IMPACT OF ENGAGEMENT	STAKEHOLDERS' KEY PRIORITIES	HOW THE BOARD AND MANAGEMENT HAVE ENGAGED AND CONSIDERED STAKEHOLDER INTERESTS DURING THE YEAR
Colleagues	With approximately 4,000 employees around the UK, Ireland, the Channel Islands and Germany, we have a diverse and motivated workforce which delivers the highest levels of service to our customers, clients and partners. We are committed to the development of our colleagues, ensuring they are supported and engaged. Engagement with employees helps to attract, build and retain a high calibre talent pool and ensure that our employees remain enthusiastic about their work and Close Brothers.	• A safe working environment • A fair, supportive, diverse and inclusive culture where employee feedback is valued • Being appropriately rewarded for their contributions • Opportunities for training and development • Long-term successful performance of the group	**How we engage** Engagement takes place daily through line managers, with senior management regularly speaking at Town Halls and other business-wide forums. Listening to our colleagues and acting upon their feedback is essential to maintaining employee engagement, whether this is through undertaking regular employee opinion surveys or management leading engagement activities to provide updates on business performance. Training and mentoring programmes are in place to support the development of all employees. **Key engagement during the year** We ran an Employee Opinion Survey in February/March 2022 to gather feedback from our colleagues and provide them with a platform to anonymously share their views on working at Close Brothers. We listened closely to this feedback and held a

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OUR STAKEHOLDERS	WHY WE FOCUS ON THEM AND THE IMPACT OF ENGAGEMENT	STAKEHOLDERS' KEY PRIORITIES	HOW THE BOARD AND MANAGEMENT HAVE ENGAGED AND CONSIDERED STAKEHOLDER INTERESTS DURING THE YEAR
			series of Town Halls and team meetings with our colleagues to discuss the results and consider any actions to take. We also donated £2 per survey completed to our staff-nominated charities, Cancer Research UK and Make-a-Wish.
Customers, clients and partners	The needs of our customers, clients and partners are at the heart of our business and are core to our purpose of helping the people and businesses of Britain thrive over the long term. Our aim is to be there for our customers across all market conditions to help them meet their goals with ease and confidence that earns their loyalty and ensures we build long lasting customer relationships. The group has customers, clients and partners in the UK, Ireland, the Channel Islands, Germany and the United States. Our long-term success depends on the strength of our relationships with customers, clients and partners, our specialist expertise and maintaining high standards of service. As such, central to all decision-making is doing the right thing for customers, clients and partners, by helping them achieve financial solutions that enable and deliver their business, professional and personal goals that can help them thrive. and their businesses thrive.	• Building and maintaining strong personal relationships based on trust, understanding and specialist expertise • Understanding, treating, and valuing them as individuals • Receiving consistent, responsive, and supportive service delivered with simplicity, clarity, and ease • Meeting their new needs throughout changing economic cycles • Receiving customer-led propositions that meet their individual needs	**How we engage** Our specialist, expert teams consistently deliver high quality service to our customers, clients and partners. We engage with our customers throughout their end-to-end journey with us and actively seek their feedback. We pro-actively review the customer feedback we receive in our local business unit customer forums and continuously look at how we can improve our experience and service, ensuring the service we provide meets their needs and is aligned with our customer principles. We also use this feedback to evolve our proposition and offering as we adapt to the changing needs of our customers, clients and partners. **Key engagement during the year** We have supported our customers, clients and partners throughout the heightened uncertainty we have experienced during the year and maintained close contact as they navigated rising inflation and cost of living pressures, as well as the roll-off of Covid-related government support. We have discussed our customers' needs regularly to ensure we were best supporting them and reviewed this position regularly.
Suppliers	Our business is supported by a broad range of suppliers,	• Strong and sustainable	**How we engage with our suppliers**

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OUR STAKEHOLDERS	WHY WE FOCUS ON THEM AND THE IMPACT OF ENGAGEMENT	STAKEHOLDERS' KEY PRIORITIES	HOW THE BOARD AND MANAGEMENT HAVE ENGAGED AND CONSIDERED STAKEHOLDER INTERESTS DURING THE YEAR
	enabling us to provide high standards of service to our customers, clients and partners. We are focused on developing and maintaining transparent and sustainable working relationships with our suppliers. Engagement with our suppliers enables the group to develop and maintain long-term and sustainable relationships and ensures our suppliers can better understand and align to our risk management requirements and operate responsibly.	relationships with Close Brothers • Fair and equitable conduct of business • Appropriate and clear payment procedures • An understanding of the Close Brothers Group purpose and strategy • Robust risk management framework	Our key supplier relationships are owned by relationship managers and are supported by our central third-party management function who provide specialist expertise and support. Engagement with suppliers includes regular meetings, with strategic meetings taking place at least quarterly with our top tier suppliers, as well as an annual survey to seek feedback on Close Brothers as a client. **Key engagement during the year** Throughout the last year, we have continued to maintain our frequent contact with our suppliers and conduct regular reviews of service. Our annual survey of key suppliers was undertaken in July 2022, focusing on how Close Brothers performs as a client and how our suppliers feel about doing business with us. We continue to share a strategic vision with our suppliers to help them understand our direction and provide clarity, while ensuring that we remain considerate of our suppliers. We are also working in partnership with our key suppliers within Facilities and Fleet Management to directly collaborate and contribute to the sustainability agenda.
Regulators and Government	We are committed to sustaining high standards of business conduct across our business and maintain an active dialogue with government and regulatory bodies. The group fosters an open and transparent relationship with all our regulators,	• Good customer outcomes • Compliance with both applicable regulation and with regulators' expectations • Recognition of the importance of resilience and risk management	**How we engage** We maintain a proactive dialogue with the PRA and the FCA and have a constructive relationship with HMRC to help ensure we are aligned with the relevant regulatory frameworks. We regularly interact with the trade bodies and business associations we are affiliated

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OUR STAKEHOLDERS	WHY WE FOCUS ON THEM AND THE IMPACT OF ENGAGEMENT	STAKEHOLDERS' KEY PRIORITIES	HOW THE BOARD AND MANAGEMENT HAVE ENGAGED AND CONSIDERED STAKEHOLDER INTERESTS DURING THE YEAR
	including the Financial Conduct Authority ("FCA") and the Prudential Regulation Authority ("PRA"), as well as government authorities and trade associations. It is important that we maintain a culture that is focused on high standards in all our business activities, regulatory compliance and an open relationship with our regulators. Active engagement with the relevant regulators and associations helps to ensure the business is aware of and adapting to the evolving regulatory framework.	• Provision of high quality information and regulatory reporting • Active consideration of risks relating to sustainability and other climate matters • Transparent group tax strategy	with to ensure we are engaged with issues impacting our industry. **<u>Key engagement during the year</u>** We have continued to maintain a close working relationship with the regulators as we progress through the application process for moving to use the Internal Ratings Based approach. We submitted our initial application in December 2020 and since then, have moved through a series of reviews and interviews. We received confirmation from the PRA that our application successfully transitioned to Phase 2 of the process in March 2022. Phase 2 documentation was submitted in July 2022 and we are well positioned to support the next set of reviews.
Communities and Environment	Close Brothers is committed to contributing lasting value and making a positive impact on the society in which we operate and the environment more broadly. This underpins the growing range of programmes and initiatives we support that benefit our communities and the environment. Engaging with local communities helps the board and our employees develop our understanding of our clients, customers and partners so that we can support them and help them to achieve their ambitions, whilst also building employee engagement. We firmly believe that environmental considerations should form an integral part of the decisions we make as a business and employees across the group are actively engaged on responsible behaviours and environmental issues.	• A suitable strategy for approaching sustainability issues • Support for community initiatives • Job creation and social mobility • A long-term focus on addressing the impacts of climate change	**<u>How we engage</u>** Many of our employees participate in group-wide committees established to drive forward a range of initiatives around diversity and inclusion, helping the environment and charitable and community activities, with our employee volunteers the driving force behind our successful community and charitable events. We have a range of partnerships with leading organisations dedicated to creating positive impact via diversity, inclusion and social mobility schemes, while our regular interactions with industry bodies and third-party consultants help inform our strategy towards climate change and the environment. **<u>Key engagement during the year</u>** In recognition of the Queen's Platinum Jubilee, we donated a tree for every colleague to support the Queen's Green

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OUR STAKEHOLDERS	WHY WE FOCUS ON THEM AND THE IMPACT OF ENGAGEMENT	STAKEHOLDERS' KEY PRIORITIES	HOW THE BOARD AND MANAGEMENT HAVE ENGAGED AND CONSIDERED STAKEHOLDER INTERESTS DURING THE YEAR
			Canopy scheme. This will help to enhance our environment and create a legacy that will benefit future generations which is something that is deep rooted in Our Purpose and Our Responsibility. The donated trees will be planted in deprived urban areas and in and around schools where they will improve the quality of life in these communities by giving access to green spaces and all the benefits these bring.
Investors	Close Brothers has a proven and resilient business model and is focused on generating long-term, sustainable value for its investors, while also maintaining a strong capital base and balance sheet. Our investors are the providers of capital to our business so it is important that we engage actively with them and listen and respond to their feedback.	• Strong returns and financial resilience through the cycle • Capital generation and distributions • Sustainable and consistent business model • Appropriate governance practices and regard to environmental and social responsibility	**How we engage** We have an established programme of engagement for shareholders, debt capital providers and other market participants through our investor relations team, which includes regular dialogue with the executive team and chairman. We proactively collate feedback from our investors and relay this to senior management, the board and to our employees in the appropriate forums such as Town Halls. **Key engagement during the year** We maintained our programme of communication with the investment community throughout the year, including through our regular market updates and analyst presentations. We undertook investor roadshows covering the UK, North America and Europe and completed a series of meetings with sell-side analysts and sales desks, as well as with fixed income holders. In addition, our chairman held a corporate governance roadshow with top shareholders.

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Case studies

Below are some examples of the ways in which the board has engaged directly with stakeholders during the financial year, how stakeholder interests have been considered in the board's decision-making and wider role, and how the Directors have had regard to the matters set out in section 172(1)(a)-(f) when discharging their duties under section 172.

Principal Board Decision: Motor Finance strategy

Motor Finance has undergone a period of significant transformation, which has led to strong financial performance, whilst also enabling the business to successfully navigate regulatory change, improve its control framework and deliver strong colleague, customer and dealer satisfaction scores.

The board has been involved in the evolution of the Motor Finance strategy and continues to review opportunities for adapting the strategy and delivering disciplined growth.

How the board considered, and had regard to, the interests of key stakeholders and the requirements of section 172(1)

- The board is regularly updated on the changing market environment and how the business can adapt to this to enhance its proposition for its customers and dealer partners
- The directors have been kept up-to-date on changing customer behaviour, the increasing digitisation of the industry, and how the Motor Finance business is responding
- The board was updated on partnership opportunities where appropriate, as the business positions its finance offering at various points throughout the customer journey
- Updates have been provided on how the business continued to meet regulatory expectations by maintaining good customer outcomes
- The business has updated the board on how it has continued to attract dealer partners and develop its broader dealer proposition
- Consideration has been given to the opportunities presented by climate change and the growth opportunities arising from the rise of alternatively fuelled vehicles as their prevalence in the second hand car market gradually increases

Principal Board Decision: Climate Risk Scenario Analysis Stress testing

As a regulated lender, we are required by the Bank of England/Prudential Regulation Authority to conduct stress testing annually as part of our Internal Capital Adequacy Assessment Process ("ICAAP"). This year, we further enhanced our consideration of climate risk impacts within our ICAAP approach and specifically addressed long-horizon climate scenario analysis, aligning with PRA Supervisory Statement SS3/19, to assess the potential financial implications of climate-related risks and opportunities and assess our resilience to both physical and transition risks.

The Close Brothers Group also enhanced its climate risk disclosures to align with the recommendations of the Task Force on Climate-related Financial Disclosures ("TCFD"), which incorporated the scenario analysis and stress testing conducted on certain lending portfolios of CBL.

How the board considered, and had regard to, the interests of key stakeholders and the requirements of section 172(1)

- The board recognises its requirement by the regulator to understand the financial risks and opportunities from climate change and assess their impact on the company, including business strategy and risk appetite. The review of the climate risk scenario analysis by the board formed a core part of satisfying this requirement.
- The analysis considered various scenario temperature transition paths and the impact that these would have on the environment, our people, our customers and strategic partners.
- The behaviour of customers in response to the various climate scenarios was considered and taken into account when deciding on likely management actions and any potential impact on business strategy. In these scenarios, some customer behaviours were likely to be guided by personal choice, with others impacted by government policy.
- The impact of any management actions influence future business strategy and risk appetite.
- The climate disclosures produced by the Group, which CBL's climate risk stress testing and scenario analysis feeds into, are focused on enhancing transparency for the Group's stakeholders.

Our Responsibility

Employee Engagement

Listening to the views of our colleagues remains key to retaining a highly engaged workforce; ensuring our culture is one where our colleagues feel motivated, proud to work for us and can thrive. In February 2022, we ran our latest full Employee Opinion Survey to understand how our people were feeling.

We retained high levels of engagement at 87%, closely aligned to pre-pandemic levels. Our response rate also remained strong at 86%, enabling us to draw actionable insight from our results. Our scores remained broadly aligned to last year, retaining many high scores from our 2021 survey, particularly around teamwork, expertise, acting with integrity and treating customers and clients fairly. Our organisational culture was shown to be particularly strong when compared to other Financial Services firms with high scoring questions against the Financial Services Culture Board benchmarks. Feedback showed a strong sense of belonging with 94% colleagues feeling included and that they are treated with respect.

Employee Development

We provide a full range of training and development for our people irrespective of where they are in their careers. We work with our colleagues from induction and technical training to management, leadership and talent development programmes. We promote a range of mentoring schemes and opportunities to broaden external networks as well as sponsoring qualifications to further support professional development. All staff continue to have access to our learning portal offering a wide variety of practical tools and e-learning on a number of topics. The average number of training hours across the group is 13.3 per employee during the year. We require all employees to complete relevant regulatory training on an annual basis with further training offered when required and, this year, we again maintained a 100% completion rate of mandatory training by the last working day of the financial year.

Diversity and Equality

We celebrate diversity and are committed to creating an inclusive culture where all of our employees can feel proud to work for us, regardless of their gender, age, ethnicity, disability, sexual orientation or background. We want our colleagues to feel as though Close Brothers is a great place to work and are proud that 94% of colleagues feel included and 92% feel they can be themselves at work.

The group has continued to progress the diversity and inclusion agenda, including staying on track on ethnicity and gender diversity targets. This year we extended our partnership with the 10,000 Black Interns programme to provide 6-week paid internships to 30 students across the Group and continued focus on reducing our gender pay gap and remaining on Group-wide target to achieve 36% of senior manager roles being held by a female by 2025.

As part of our Dignity at Work Policy, our colleagues with disabilities are encouraged to share their condition with us, to ensure any reasonable adjustments can be made. We are also members of the Business Disability Forum to support the hiring, retention, training, career development and promotion of employees with disabilities.

Reducing environmental impact

We encourage waste recycling in all our offices and 100% of the waste contractors we use across our offices send zero waste to landfill. This year, we have continued to broaden our engagement with our supply chain on environmental matters, while working with those who share our ambitions to efficiently use resources and combat the adverse effects of climate change. We have extended the emissions data we collect from our suppliers and continue to explore ways in which we can incorporate carbon impact criteria into our choice of suppliers.

Post pandemic we continue to benefit from reduced commuting in the year with staff continuing use of flexible and hybrid working practices, with associated environmental benefits. We encourage our employees to make positive change by leasing low emission cars and participating in the cycle to work scheme. To support their own switch to an electric car, we offer our employees a salary sacrifice scheme as a route to make the shift. We have continued to reduce the impacts of our company car fleet by only now offering battery operated fully electric cars on to the fleet, with the aim to meet our zero-emission car fleet by 2025.

Listening to Our Customers and Improving Experience

We collect a broad range of customer satisfaction scores that help inform day-to-day changes as well as longer term strategic decisions to improve customer experience[1].

We continue to achieve strong net promoter scores ("NPS") across our businesses, and these evidence the strength of our relationships and the faith our customers place in us. The average NPS score in financial services is +50, which our businesses surpass in the table below. We also perform better than average in other metrics such as customer satisfaction scores ("CSAT").

	2022 NPS	2021 NPS
Premium Finance[1]	**NA**	+63
Retail Savings[1]	**NA**	+72
Motor Finance dealer	**+73**	+70
Asset Finance	**+88**	+72
Property Finance	**+87**	+87

	2022 CSAT	2021 CSAT
Online Savings	**86%**	82%
Invoice Finance[1]	**NA**	87%
Asset Finance	**88%**	81%

[1]Note: All scores as of June each year. Current year scores not collected for Premium Finance and Retail Savings NPS or Invoice Finance CSAT.

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Principal Risks and Uncertainties

Risk Management

Protecting our established business model is a key strategic objective. Effective management of the risks we face is central to everything we do.

The group faces a number of risks in the normal course of business providing lending and deposit taking. To manage these effectively, a consistent approach is adopted based on a set of overarching principles, namely:

- adhering to our established and proven business model;
- implementing an integrated risk management approach based on the concept of "three lines of defence"; and
- setting and operating within clearly defined risk appetites, monitored with defined metrics and limits.

Further details on our approach to risk management and corresponding framework can be found on pages 74 to 92 of the Annual Report of the company's ultimate parent company, CBG.

Risks and uncertainties

The following pages set out the principal risks that may impact the group's ability to deliver its strategy, how we seek to mitigate these risks, and relevant key developments, both over the last year and anticipated for the next financial year.

While we constantly monitor our portfolio for emerging risks, the group's activities, business model and strategy remain unchanged. As a result, the principal risks that the group face and our approach to mitigating them remain broadly consistent with prior years. This consistency has underpinned the group's track record of trading successfully and supporting our clients over many years.

The summary should not be regarded as a complete and comprehensive statement of all potential risks faced by the group but reflects those which the group currently believes may have a significant impact on its future performance.

Key:

No change

Risk decreased

Risk increased

Business Risk

Business risk is defined as the risk of realising lower than anticipated profits or experiencing a loss rather than a profit.

Exposure

The group operates in an environment where it is exposed to an array of independent factors. Its profitability is impacted by the broader UK economic climate, changes in technology, regulation and customer behaviour, cost movements and competition from traditional and new players, varying in both nature and extent across its divisions.

Changes in these factors may affect the bank's ability to write loans at its desired risk and return criteria, result in lower new business volumes or result in additional investment requirements and higher costs of operation

Risk Appetite

The group seeks to address business risk through the execution of a sustainable business model based on:

- Focusing on specialist markets where we can build leading market positions based on service, expertise and relationships;
- Focusing on quality and returns rather than overall loan book growth or market share;
- Investing in the business for the long-term;
- Maintaining a strong balance sheet;
- Consistently supporting our customers and clients through the cycle; and
- Acting sustainably and responsibly, considering the needs of all stakeholder groups and increasing demand for sustainable products and services.

Measurement

Business risk is measured through a number of key performance metrics and risk indicators at a business and group level which provide transparency on progress and execution against strategy. These indicators are typically reported monthly via relevant risk and finance committees, with oversight also exercised via the board, most notably though their review of key financial metrics and underlying performance trends.
Alongside these measures, the status of key group initiates and projects is also tracked and discussed, noting the importance of their successful delivery to the group's strategic trajectory.

Mitigation

To support the management of its core strategy, and help mitigate potential business risk, the group maintains a comprehensive framework covering both the design and approval of strategy, and the ongoing monitoring of its implementation.

The group's long track record of successful growth and profitability is supported by a consistent and disciplined approach to pricing and credit quality, both in competitive markets and through periods of heightened risk. This allows the group to continue to support customers at all stages in the financial cycle

We also build long-term relationships with our clients and intermediaries based on:

- speed and flexibility of services;
- our local presence and personal approach;
- the experience and expertise of our people; and
- our offering of tailored and client-driven product solutions.

This differentiated and consistent approach results in strong customer relationships and high levels of repeat business.

We are further protected by the diversity of our businesses and product portfolio, which provides resilience against competitive pressure or market weakness in any one of the sectors we operate in.

Monitoring
On an ongoing basis, strategy is formulated and managed at an individual business-level through local Executive Committees with top-down oversight maintained through the group's Executive Committee. Outputs also feed into the group's annual budgeting and planning process which typically operates on a three-year time horizon. The group's budget and plan is subject to review and challenge, initially at a business-level, and subsequently by the Group's executive committee ahead of final submission to the board who review, challenge and finally, agree the group's budget for the following year.

The ongoing strategic planning process is supplemented by an annual board strategy day, which takes a thematic approach to the review and challenge of group and business-level strategic priorities. In addition, a deep dive on strategy for each business is presented to the board for discussion on a biennial basis.

New growth initiatives and potential acquisitions are assessed against both the group's strategic objectives and Model Fit Assessment Framework, to ensure consistency with the group's strategic priorities and the key attributes of its business model.

Capital and liquidity adequacy planning conducted as part of both the annual ICAA and ILAA processes is also used to assess the resilience of the group's current strategy and business model in the event of different stress scenarios. Although not intrinsically linked, outputs and analysis from both exercises are used to guide strategic planning.

The annual risk appetite statement review also ensures that risk appetite, and supporting key risk indicators, is fully aligned with the financial and strategic plan. Agreed appetite is communicated throughout the group through the review and approval of divisional risk appetite statements and business-level key risk indicators.

The group also conducts monitoring focused on the external environment (for example, key market indices, growth of sustainable products and services). Within credit risk, all bank businesses monitor agreed external early warning indicators (for example, movement in housing indices) with a view to supporting the early identification of negative trends, and enhancing the group's ability to respond appropriately, minimising potential impact on performance.

In addition to business-level monitoring, emerging risks are also monitored and debated on an ongoing basis at all levels of the group and across all functions. These include developments in areas concerning technology, regulation and sustainability, which have the potential to present both opportunities and threats. Within the risk function specifically, reporting capabilities continue to be enhanced to further support the group's ability to identify, and more importantly, respond effectively, to changes in the external environment and in customer behaviours with a view to mitigating any potential impact on business performance.

Change

Notwithstanding the continued uncertain macroeconomic environment our business model remains proven and resilient. We continue to focus on supporting our customers, maintaining underwriting standards and investing in our business.

As the pressures resulting from Covid-19 have receded these have been replaced with other macroeconomic and geopolitical tensions. Accordingly, we remain prepared for a range of different economic and business scenarios to ensure it has the resources and operational capability to continue to perform effectively through this period of uncertainty.

For further details on emerging risks and uncertainties see pages 27 to 30. In addition, further commentary on the market environment and its impact in the bank is outlined on pages 25 to 26.

Capital Risk

Capital risk is the risk that the group has insufficient regulatory capital (including equity and other loss absorbing debt instruments) to operate effectively, including meeting minimum regulatory requirements, operating within board approved risk appetite and supporting its strategic goals.

Exposure
The group's exposure to capital risk principally arises from its requirement to meet minimum regulatory requirements set out in the Capital Requirements Directive and from related additional requirements and guidelines specified by the Prudential Regulation Authority, ("PRA"), and is usually specified in terms of minimum capital ratios which assess the level of regulatory capital and risk weighted assets.

Risk Appetite
The group looks to maintain a strong base level and composition of capital, sufficient to:

- Support the development and growth of business;
- Continue to meet Pillar 1 requirements, Individual Capital Guidance, additional Capital Requirements Directive buffers and leverage ratio requirements; and
- Be able to withstand a severe but plausible stress scenario with satisfactory capital and leverage ratios.

A prudent capital position is a core part of the group's business model allowing it to grow and invest in the business, support paying dividends to shareholders and meet regulatory requirements.
Capital triggers and limits are maintained within the risk appetite framework and are approved by the board at least annually.

Measurement
Capital risk is measured using CET1, Tier 1 and total capital ratios, and leverage ratios, determined in line with regulatory capital adequacy requirements. These ratios,

and associated metrics, are actively monitored, and reported quarterly to the regulator. They are also disclosed annually in the Group's Pillar 3 disclosures as well as in the Annual Report – see pages 90 to 91.

Mitigation
The group retains a range of capital risk mitigants, the most notable being its strong capital generating capacity, as evidenced by its track record of sustained profitability. It also maintains access to capital markets and in recent years has successfully renewed and increased its Tier 2 capital instruments.

Monitoring
Both actual and forecast capital adequacy is reported through the Group's governance framework with oversight from the Capital Adequacy Committee ("CAC"). Annually, as part of the ICAAP, the Group also undertakes its own assessment of its capital requirements against its principal risks (Pillar 2a) together with an assessment of how capital adequacy could be impacted in a range of stress scenarios (Pillar 2b). Under both assessments, the group ensures that it maintains sufficient levels of capital adequacy.

The group's finance team is responsible for measuring and monitoring the capital position and reporting to the board on a regular basis with any changes to the capital structure of the group reserved for the CBG Board. On a monthly basis, the group's latest and forecast capital positions are reported to the CAC, whose membership consists of finance, business and risk executives and senior management. The committee also monitors actual, forecast and stressed capital metrics under an Internal Ratings Based approach in order to prepare for anticipated future transition to this approach.

Change

Continuing economic uncertainty may impact capital in the short to medium term due to lower than expected profits. RWA density is expected gradually to increase as Coronovirus Business Interruption Loans ("CBILS") are refinanced. Capital is expected to be adversely impacted as IFRS9 transitional effects reduce. The group's capital requirements are forecast to increase by 1.4 percentage points as UK and Irish countercyclical capital buffers are introduced. These factors are embedded in the group's capital planning process and distance to risk appetite remains substantial.

Conduct Risk

Conduct risk is the risk that the group's behaviours, or those of its colleagues, whether intentional or unintentional, result in poor outcomes for customers or the markets in which it operates. It is rooted in the importance of delivering good customer outcomes at every stage of the customer journey.

Exposure
The group is exposed to conduct risk in its provision of products and services to customers and through other business activities that enable delivery. The group faces a significant volume of regulatory change, which is expected to continue over the near term aimed at enhancing consumer protection and maintaining market integrity given the current economic conditions. Failure to deliver good customer outcomes may lead to reputational harm, legal or regulatory sanctions or customer redress.

Risk Appetite
The group recognises the importance of delivering good customer outcomes and seeks to avoid customer detriment resulting from inappropriate judgements or behaviours in the execution of our business activities. To support this, it strives to maintain a culture which places the customer at the heart of the business model and remains dedicated to addressing customer dissatisfaction or detriment in a timely and fair manner.

The group is committed to maintaining the integrity of the markets in which it operates, avoiding any abusive or anti-competitive behaviour.

Measurement
Conduct risk is measured through a number of business activities which form part of the Conduct Risk Framework. These activities span seven areas where harm could occur, be it intentional or unintentional.

In addition, a number of quantitative and qualitative key risk indicators are determined at an individual business-level, with reporting to and oversight via the relevant bank Risk and Compliance Committee. Performance against the key risk indicators is reported to the Group Risk and Compliance Committee and the Board Risk Committee as needed.

Mitigation
The following controls and procedures are in place to help mitigate conduct risk:

- The group takes steps to proactively identify conduct risks and encourages individuals across the organisation to feel responsible for managing the conduct of their business and/or function;
- The group provides support to colleagues to enable them to improve the conduct of their business or function, including training and specialist training where required;
- The group's remuneration strategy is designed to incentivise good behaviours and due consideration is given to individual conduct as part of any remuneration;
- Policies and standards set out employee expectations around key areas including dealing with clients, dealing

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with markets, complaint handling, vulnerable customer, and conflicts of interest. Mandatory staff training on these topics is provided on a regular basis;
- All products are subject to a robust risk-based product development and review process.

Monitoring
Risk identification and management action are undertaken by management and employees as the first line of defence. Risk and compliance provide support, review and challenge, to ensure conduct risk reporting is robust and remains fit for purpose. Compliance monitoring undertake regular reviews of key areas, such as complaint handling and vulnerable customer processes to confirm customers are experiencing good outcomes. Group internal audit provide independent assurance on the control effectiveness of key areas using a risk-based approach.

All Risk and Compliance Committees are required to review conduct risk reporting and outputs and consider any required action. Where appropriate, issues may be escalated to both the Group Risk and Compliance Committee and the Board Risk Committee.

Over the past 18 months, conduct risk reporting has been enhanced in some of our businesses to provide increased transparency and visibility to monitor conduct risk.

Reporting on, and monitoring of, conduct risk is expected to further evolve with the introduction of new regulatory requirements for the Financial Conduct Authority's ("FCA")Consumer Duty for retail customers for our in-scope businesses of Motor Finance, Premium Finance, Asset Finance and Savings.

Change

Conduct Risk has increased in the last 12 months.

The economic environment is increasing pressure on consumers as result of the higher cost of living. This may widen the number of individuals and businesses requiring credit in an environment of rising interest rates. As a result, support for customers in financial difficulty, including vulnerable customers, is expected to increase. This comes at a time when the FCA has outlined new requirements under Consumer Duty, which introduces Principle 12 and requires firms to act to deliver good outcomes for retail customers. It sets a higher standard than the existing Principle-6 (a firm must pay due regard to the interests of its customers and treat them fairly) and principle 7 (a firm must pay due regard to the information needs of its clients and communicate information to them in a way which is clear, fair and not misleading) for retail businesses. Implementation activities for Consumer Duty are underway and will be incorporated into the Conduct Risk Framework. In the meantime, the group is focused on tailoring its approach to supporting customers to drive good customer outcomes.

Credit Risk

Credit risk is defined as the risk of a reduction in earnings and / or value due to the failure of a counterparty or associated party, with whom the group has contracted or is exposed as part of its operations, to meet its obligations in a timely manner.

Risk
Credit risk across the group arises predominantly through the lending activities of the bank. As a lender to businesses and individuals, the bank is exposed to credit losses if customers are unable to repay loans and outstanding interest and fees. At 31 July 2022 the group had loans and advances to customers amounting to £9.1 billion.
The group also has exposure to counterparties with which it places deposits or trades, and also has in place a small number of derivative contracts to hedge interest rate and foreign exchange exposures.

Risk Appetite
The group seeks to maintain the discipline of its lending criteria both to preserve its business model and maintain an acceptable return that appropriately balances risk and reward. This is underpinned by a strong customer focus and credit culture that extends across people, structures, policies and principles. This in turn provides an environment for long-term sustainable growth and low, predictable loan losses.

To support this approach, the group maintains a credit risk appetite framework in order to define and align credit risk strategy with its overall appetite for risk and business strategies as defined by the board.

The Group Credit Risk Appetite Statement ("CRAS") outlines the specific level of credit risk that the group is willing to assume, utilising defined quantitative limits and triggers and covers both credit concentration and portfolio performance measures.

All are based on the following key principles:
- To lend within asset classes we are familiar with, and in markets we know and understand.
- To operate as a predominantly secured, or structurally protected lender against identifiable and accessible assets, and maintain conservative Loan To Values ("LTV"s) across our portfolios.
- To maintain a diversified loan portfolio (by business, asset class and geography), as well as a short average tenor and low average loan size.
- To rely on local underwriting expertise, with delegated authority cascaded from the chief risk officer, with ongoing central oversight.
- To maintain rigorous and timely collections and arrears management processes.
- To operate strong control and governance within our lending businesses overseen by a central group credit risk team.

Ultimate responsibility for the approval and governance of the Group CRAS lies with the board, on recommendation from the Group Risk and Compliance Committee ("GRCC"), with support from the Credit Risk Management Committee ("CRMC"). Performance is monitored against agreed appetites on a monthly basis.

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The CRAS is embedded into business unit credit risk management through a hierarchy of local triggers and limits, which are approved by the CRMC (or the chief credit risk officer depending on materiality) and include formal caps and triggers against which performance is similarly monitored monthly via local Risk and Compliance Committees ("RCC"s). Material breaches are escalated via established governance channels.

CRAS metrics are closely aligned with the bank's overall strategy to facilitate monitoring of the composition and quality of new lending to ensure it remains within defined appetite.

Measurement

Consistent, accurate and consolidated Credit Risk Management Information ("CRMI") represents a key tool for effective credit risk management and measurement. CRMI facilitates the identification, measurement, monitoring and control of all material credit risks within the lending portfolios, setting clear credit risk appetite within which all lending is originated and ensures that asset portfolios are grown responsibly and profitably.

A central repository facilitates:

- The use of common data definitions for credit risk MI across all business units;
- Consistent and controlled extraction and housing of credit data from the bank's core business systems;
- Dynamic credit risk management to improve strategic policy decision making;
- Oversight and control of the profile of the lending book to manage to credit risk appetite;
- Identification, monitoring and control of material credit risks against a clear and communicated credit risk appetite statement; and

Mitigation

<u>Credit Assessment / Lending Criteria</u>

Our general approach to credit mitigation is based on the provision of affordable lending on a secured or structural protected basis, against assets that we know and understand. These assets are typically easily realisable with strong secondary markets and predictable values, and spread across a broad range of classes within established sectors.

Whilst diverse, our businesses adhere to a set of common lending principles resulting in stable portfolio credit quality and consistently low loss rates through the cycle.

The group's common lending principles are as follows:

1. Predominantly secured lender: 97.7% of loan book secured or structurally protected
2. Short average tenor: Portfolio residual maturity of 17 months
3. Low average loan size: Approximately 42% of loan book has a value of less than £50k
4. Diversified portfolio: by sector, asset class and UK geography. Low single-name concentration risk with the top ten facilities representing less than 5% of book
5. Local underwriting expertise with central oversight: focus on assets "we know and understand", with continued investments in people and systems

We seek to minimise our exposure to credit losses by applying these strict lending criteria when testing the credit quality and covenant of the borrower and maintaining consistent and conservative loan to value ratios with low average loan size and short-term tenors. All lending criteria and assessment procedures are thoroughly documented in robust credit policies and standards, at both a bank and business level.

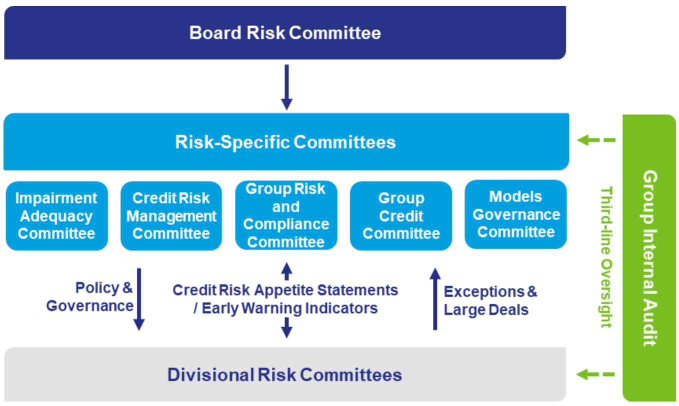
<u>Expertise</u>

We also employ credit risk staff across our various businesses who are specialists in their area and can support book growth in a manner that is consistent with both risk strategy and appetite. This local distribution allows us to form strong relationships with our customers and intermediaries based on a deep understanding of their needs and the markets in which they operate. Consistent underwriting disciplines and lending against assets that we know and understand benefits customers through-the-cycle and allows us to maintain our track record of strong margins and profitability.

<u>Governance Framework and Oversight</u>

Our lending is underpinned by a strong control and governance framework both within our lending businesses and through oversight via a central group credit risk team.

The Group's credit risk governance framework is structured as follows:



Credit underwriting is undertaken either centrally or through regional office networks, depending on the nature of the business and the size and complexity of the transaction. Underwriting authority is delegated from the Board Risk Committee, with lending businesses approving lower risk exposures locally subject to compliance with credit policy and risk appetite.

Local risk directors assure quality of underwriting decisions for all facilities within the business' delegated sanctioning authority level via a quality assurance programme which samples new business underwritten, with a particular focus on lending hotspots, for example, long-tenor agreements, new asset classes, or high LTVs. Outputs are reported at least quarterly with consolidated summaries presented at CRMC.

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These underwriting approaches are reinforced by timely collections and arrears management, working in conjunction with the customer to ensure the best possible outcome for both customer and the group.
The local model is supported by central oversight and control. An independent central credit risk function provides ongoing monitoring of material credit risks through regular reviews of appetite and policy.

Monitoring
High-level requirements are outlined in standards documents covering the identification, monitoring and management of problem lending, with detailed credit policy and guidance formalised within local credit policies, including guidelines on the identification and treatment of vulnerable customers.
This includes the documentation of internal policy and process for monitoring, recording and approving problem credits at all levels of exposure, business-specific definitions of criteria for identifying problem cases and requirements for outlining the courses of action available to protect our position, taking account of the terms / covenants of facilities, security enforcement options, legal remedies and third-party intervention (for example, brokers).

This process is owned by the risk directors, ensuring that prompt action is taken to review the financial conditions of customers when warning signs indicate deterioration in financial health, credit quality, covenant compliance or asset strength / coverage. Where possible, credit limits are amended where there is evidence of delinquency or deteriorating financial condition / capacity to repay.

Our credit risk framework aligns with the broader "three lines of defence" approach, with a governance structure flowing from local first line business teams, up to second line Risk Directors (and key oversight committees such as Credit Committees, RCCs, CRMC, Model Governance Committee ("MGC") and the Board Risk Committee ("BRC")), overlaid with a third line group internal audit function.

First Line Credit Risk Management: Lending businesses have primary responsibility for ensuring that a robust risk and control environment is established as part of day-to-day operations, and good quality credit applications are brought forward for consideration. They are also responsible for ensuring that their activities are compliant with the rules and guidance set out in local credit policies and processes. Each business unit has its own formalised credit risk appetite and policy documents, approved by local RCCs. This risk culture is facilitated by local profit and loss ownership, ensuring a long-term approach is taken, with an understanding of how loans will be repaid.

Credit Risk Oversight and Control: The second line of defence has three tiers; business-aligned risk directors and their teams, the central group credit risk team, and oversight committees. The risk directors report to the chief credit risk officer and are responsible for setting and communicating credit risk strategy, identifying exceptions and ensuring local compliance. The group credit risk team provides a further layer of oversight and approval, supported by credit committees, CRMC, MGC, GRCC and the BRC. Together the second line of defence provides a clear tactical and strategic understanding of credit risk, proposing enhancements to the credit risk framework for ongoing effective management and control.

The third line of defence is the Group internal audit function. They use both a risk-based approach and a rolling programme of reviews to ensure that the first and second lines of defence are working effectively.

Change

Credit losses have increased in the year to 31 July 2022, reflecting the impacts of ongoing market uncertainty which we continue to monitor closely. While direct Covid-19 impacts have receded, the overall credit risk outlook reflects a heightened level of uncertainty in the macroeconomic environment in the short- to medium-term due to a combination of evolving factors. These include the ongoing conflict in Ukraine, supply chain disruption, the rising cost of living, and inflation. In addition, the cessation of various government support schemes could have an impact on both consumers and businesses and the impact of this on our customers will be closely monitored. These factors could result in higher credit losses in the future.

Bad debt levels are broadly consistent year-on-year, with these new challenges offsetting earlier improvements in the macroeconomic outlook as we emerged from the pandemic. Risk appetite has remained consistent with our prudent, through the cycle, underwriting standards.

Forbearance levels have further decreased from those observed at the peak of the pandemic; however, they remain above historical, pre-pandemic levels. Although the economic outlook has improved, the trajectory in the short-to-medium term remains uncertain. In addition, the cessation of various government support schemes could have an impact on both consumers and business and the impact of this on our customers will be closely observed. These factors could result in higher credit losses in the future.

Assumptions relating to the Novitas business provisions have been updated. Other counterparty exposures are broadly unchanged, with the majority of our liquidity requirements and surplus funding placed with the Bank of England.

Further commentary on the credit quality of our loan book is outlined on pages 103 to 112. Further details on loans and advances to customers and debt securities held are in notes 11 and 12 on pages 73 to 79 of the financial statements.

Our approach to credit risk management and monitoring is outlined in more detail in note 27 on pages 103 to 112.

Operational Risk

Operational risk is defined as the risk of loss or adverse impact resulting from inadequate or failed internal processes, people and systems or from external events. This includes the risk of loss resulting from fraud / financial crime, cyber attacks and information security breaches.

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Exposure
The group is exposed to various operational risks through its day-to-day operations, all of which have the potential to result in financial loss or adverse impact.

Losses typically crystallise as a result of inadequate or failed internal processes, people, models and systems, or as a result of external factors.

Impacts to the business, customers, third parties and the markets in which we operate are considered within a maturing framework for resilient delivery of important business services.

Legal and regulatory risks are also considered as part of operational risk. Failure to comply with existing legal or regulatory requirements, or to adapt to changes in these requirements in a timely fashion, may have negative consequences for the group. Similarly, changes to regulation can impact our financial performance, capital, liquidity and the markets in which we operate.

Risk Appetite
We manage our exposure to operational risk through a balanced consideration of investment case and risk, accepting that it is not proportionate or feasible to fully eliminate operational risk.

In line with the group's conservative approach to risk management, we implement controls in a manner that reduces the likelihood of higher-impact risk events crystallising. Further, we monitor aggregate loss trends and seek to limit aggregate losses arising in any given year.

The group has limited appetite for operational risks with significant residual exposure and as such requires a near-term mitigation strategy for any such identified risks.

Measurement
Operational risk is measured through Key Risk Indicators ("KRI"s), observed impact of risk incidents, risk and control self-assessment and scenario analysis.

Each key risk within operational risk has a set of defined KRIs. These are regularly monitored via local, bank and Group committees with exceptions reported to both the GRCC and Board Risk Committee. The population of KRIs is reviewed annually in line with the scheduled review of the firm's risk appetite.

Operational risk incidents are identified and recorded in a common system. This facilitates root cause analysis, enables thematic and trend analysis, and enables the consistent delivery of management information into risk committees.

Risk and control self-assessments are completed by risk owners on a regular basis. This enables the consistent identification and assessment of key risks and controls. Where a risk owner self-assesses elevated levels of residual risk, additional management action is considered.

Scenario analysis is utilised to identify and consider potential low frequency / high impact events. Complementary approaches to desktop scenario analysis and scenario testing are deployed to test the efficacy of risk and control self-assessments, evaluate the resilience of important business services and drive Pillar 2a operational risk capital calculations.

Mitigation
The group seeks to maintain its operational resilience through effective management of operational risks, including by:
- sustaining robust operational risk management processes, governance and management information;
- identifying key systems, third party relationships, processes and staff, informing investment decisions;
- investing in technology to provide reliable and contemporary customer service offerings and effective model outputs;
- attracting, retaining and developing high quality staff through the operation of competitive remuneration and benefit structures and an inclusive environment that embraces diversity and recognises behaviours aligned to our cultural attributes;
- investing in cyber security including expertise, tools and staff engagement;
- maintaining focus on personal data protection;
- adopting fraud prevention and detection capabilities aligned with our risk profile; and
- planning and rehearsing strategic and operational responses to severe but plausible stress scenarios.

Legal and regulatory risks are mitigated by:
- responding in an appropriate, risk-based and proportionate manner to any changes to the legal and regulatory environment as well as those driven by strategic initiatives;

- implementing appropriate and proportionate policies, standards and procedures designed to capture relevant regulatory and legal requirements;
- providing clear advice on legal and regulatory requirements, including in relation to the scope of regulatory permissions and perimeter guidance;
- delivering relevant training to all staff, including anti-money laundering, anti-bribery and corruption, conduct risk, data protection and information security. This is augmented by tailored training to relevant employees in key areas;
- deploying a risk-based monitoring programme designed to assess the extent to which compliant practices are embedded within the business;
- maintaining, where possible, constructive and positive relationships and dialogue with regulatory bodies and authorities; and
- maintaining a prudent capital position with headroom above minimum capital requirements.

Monitoring

The board delegates authority to the GRCC to manage the Group's operational risk framework on a day to day basis and provide oversight of its exposure. The committee is supported by the Operations and Technology Risk Committee ("OTRC") which is responsible for oversight of technology, information security, third party and certain other resilience-related risks. Regular management information is presented to and discussed by these committees.

The risk function has a dedicated operational risk team that is responsible for maintaining the framework, toolsets and reporting necessary for effective operational risk management. Operational risk managers are aligned to businesses with a technical second line of defence team providing specialist oversight of technology, information security, data and resilience-related risks. Monitoring of all operational risk types is conducted via business RCCs with escalation to the GRCC and Board Risk Committee as appropriate.

In addition to the delivery of standardised management information across all operational risks, periodic deep dives are also conducted on key focus areas and reviewed by the GRCC and Board Risk Committee. In the last year, these have covered third party risk, cyber and more broadly operational resilience. Further independent assurance is obtained through reviews conducted by the compliance monitoring team, specialist external partners (e.g., regarding cyber risk management), and Group internal audit.

Change

Operational risks arising from Covid-19 subsided during the year following a global vaccine rollout. Ways of working have stabilised with associated control environment considerations having embedded. Investments in operational and cyber resilience continue to deliver improved control maturity. Notwithstanding these improvements, the overall operational risk profile has increased. Drivers include market-wide people risks relating to recruitment and retention, industry-wide information security, cyber threats and supply chain impacts arising from the Russian / Ukrainian conflict and expected increasing trends in attempted external fraud coinciding with increasing cost of living pressures.

Funding and Liquidity

Funding risk is defined as the risk of loss caused by the inability to raise funds at an acceptable price or to access markets in a timely manner.

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

Exposure

Funding and liquidity are managed on a separate legal entity basis with each division responsible for ensuring it maintains sufficient liquidity for its own purposes. The bank operates independently of each other with no facilities or other funding arrangements in place between them, and there is no liquidity reliance between the different divisions.

The bank's funding profile benefits from a broad array of liabilities, comparable with those of much larger banks. Its diversified approach to funding includes using secured funding, unsecured funding, retail deposits and non-retail deposits. Funding risk exposure primarily arises if it is unable to obtain the necessary funding to support its asset positions for the maturity expected to be required. Unsustainable or undiversified funding bases, such as an over-reliance on short-term deposits, can increase the level of risk and can lead to a deviation from the funding plan. In turn this can increase the costs of raising new funds, reducing our ability to originate new assets and potentially leading to negative market or customer perception.

The bank's Internal Liquidity Adequacy Assessment Process ("ILAAP") covers potential event drivers of a range of stress testing scenarios, including idiosyncratic examples, to ensure liquidity management remains a source of strength with a robust and prudent approach to assessing and maintaining liquidity requirements in place.

Risk appetite

The group adopts a conservative approach to funding and liquidity risk and seeks to maintain a distinctive funding and liquidity position characterised by preserving a simple and transparent balance sheet, sustaining a diverse range of funding sources and holding a prudent level of high-quality liquidity. As such the weighted average maturity of its funding is longer than the weighted average maturity of its lending portfolio.

These objectives form the basis for the Group Funding and Liquidity Risk Appetite Statement, approved annually by the board, which outlines the specific levels of funding and liquidity risk that the group is willing to assume.

Measurement

A variety of metrics are used to measure the bank's funding and liquidity position to ensure compliance with both

external regulatory requirements and internal risk appetite. These cover both the short and long-term view of liquidity and funding and have limits and early warning indicators in place that are approved via the Asset and Liability Committee (ALCO). These metrics include term funding as a percentage of loan book, weighted average tenor of loan book versus weighted average tenor of funding, available cash balance with the Bank of England and liquid to total asset ratio.
The primary measurement tool for funding is the bank's funding plan which seeks to ensure that the bank maintains a balanced and prudent approach to its funding risk that is in line with risk appetite. The funding plan is supplemented by metrics that highlight any funding concentration risks, funding ratios and levels of encumbrance.
Liquidity is managed in accordance with the ILAAP which is approved by the board. In addition to regulatory metrics, the bank also uses a suite of internally developed liquidity stress scenarios to monitor its potential liquidity exposure daily and determine its high-quality liquid asset requirements. This ensures that the bank remains within risk appetite and identifies potential areas of vulnerability. The outcomes of these scenarios are formally reported to the ALCO, GRCC and the board.

Mitigation
Our funding approach is based on the principles of "borrow long, lend short" and ensuring a diverse range of sources and channels of funding. Retail and corporate customer funding is supported by wholesale funding programmes including unsecured medium-term notes and securitisation programmes. The group has also drawn against the Bank of England's TFSME scheme, that was introduced to support lending in the prevailing low interest rate environment. This approach provides resilience and flexibility. Total available funding is kept well in excess of the loan book funding requirement to ensure funding is available when needed.
Total available funding is kept well in excess of the loan book to ensure funding is available when needed.

A strong liquidity position is maintained to ensure that we remain comfortably within both internal risk appetites and regulatory requirements. Liquidity risk is assessed on a daily basis to ensure adequate liquidity is held and remains readily accessible in stressed conditions.

Funding and liquidity risks are reviewed at each meeting of the ALCO.

Monitoring
Liquidity is measured and monitored on a daily basis with monthly reports forming standing items for discussion at both the ALCO and GRCC, with the Board Risk Committee maintaining overall oversight. Any liquidity and funding issues are escalated as required to the ALCO, and then onwards to the GRCC and the Board Risk Committee.

The bank operates a three lines of defence model with Treasury responsible for the measurement and management of the bank's funding and liquidity position and ALM Asset and Liability Management ("ALM") risk providing independent review and challenge. ALCO provides oversight of funding and liquidity and supports the relevant senior managers in discharging their senior management function responsibilities.

Change

Economic uncertainty has continued over the last 12 months, increasing market competitiveness. Despite the challenges this has presented, the bank's ability to fund the loan book has been largely unaffected and it continues to retain access to a wide range of funding sources and products. Similarly, elevated levels of liquidity have continued to be maintained despite market volatility and uncertainty.

The bank successfully issued a new £200 million securitisation transaction in April 2022 and has continued to enhance its current retail product range. For example, this year saw the launch of a new version of our Personal Fixed Rate Bond product which has greatly increased operational efficiencies and allowed us to scale up our level of fixed funding. ISAs continue to feature heavily in our range and represent a key product for growth.
Further commentary on funding and liquidity is provided on pages 7 and 8. Further financial analysis of our funding is shown in note 17 on page 89 of the financial statements.

Market Risk

Market risk is defined as the risk that a change in the value of an underlying market variable will give rise to an adverse movement in the value of the group's assets.

Market volatility impacting equity and fixed income exposures, and/or changes in interest and exchange rates, have the potential to impact the group's performance.

Exposure
The group's non-traded market risk exposure consists of interest rate risk in the banking book ("IRRBB") and foreign exchange risk.

Interest rate risk is predominantly incurred in the bank as a result of the bank's lending and funding activities.

Foreign exchange risk is incurred across the group and arises from:

- Managing the funding requirements of the bank's lending subsidiaries through deposit gathering and wholesale funding and managing the associated FX risks;
- Conducting foreign exchange payment services on behalf of the group; and
- Non-sterling investments

Risk Appetite
The group has a simple and transparent balance sheet and a low appetite for interest rate risk which is limited to that required to operate efficiently. The group's policy is to match repricing characteristics of assets and liabilities naturally where possible or by using interest rate swaps to secure the margin on its loans and advances to customers. The group also has a low appetite for foreign exchange risk, avoiding large open positions and applying individual currency limits to mitigate risk.

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The group does not use financial instruments for speculation although it retains a limited risk appetite to take advantage of profit opportunities that may arise in the normal course of business.

Measurement
The group recognises three main sources of IRRBB which could adversely impact future income or the value of the balance sheet:

- Repricing risk – the risk presented by assets and liabilities that reprice at different times and rates;
- Embedded optionality risk – the risk presented by contract terms embedded into certain assets and liabilities; and
- Basis risk – the risk presented by a mismatch in the interest rate reference rate for assets and liabilities.

IRRBB is assessed and measured by applying key behavioural and modelling assumptions including but not limited to, fixed rate loans subject to prepayment risk, behaviour of non-maturity assets, treatment of own equity and the expectation of interest rate options. This is performed across a range of regulatory prescribed and internal interest rate shocks approved by the bank's ALCO.

Two measures are used for measuring IRRBB, namely Earnings at Risk ("EaR") and Economic Value ("EV")

- EaR measures short term impacts to earnings, including basis risk, highlighting any earnings sensitivity should rates change unexpectedly.
- EV measures longer term earnings sensitivity due to rate changes, highlighting the potential future sensitivity of earnings, and ultimately risk to capital.

The group is exposed to transaction, translation, and structural foreign exchange risk. Transaction risk is measured daily within treasury based on net cash flows and contracted future exposures. Translation risk is monitored within local business units monthly, translating non-UK profits regularly to mitigate fluctuations in foreign exchange rates. Structural risk is assessed at least annually as part of the group's ICAAP and is deemed to be immaterial.

Mitigation
The group maintains a low appetite for interest rate risk with simple hedging strategies in place to mitigate risk. The bank's treasury is responsible for hedging the non-traded interest rate risk. Any residual risk which cannot be naturally matched is hedged utilising vanilla derivative transactions to remain within prescribed risk limits. The ALCO is responsible for approving any changes to hedging strategies before implementation.

Derivative transactions can only be undertaken with approved counterparties and within the respective credit risk limits assigned to those counterparties.

Foreign exchange exposures are generally hedged using foreign exchange forwards or currency swaps with exposures monitored daily against approved limits.

Monitoring
Day to day oversight of market risk is exercised via a combination of daily reporting by bank finance and review and challenge through local RCCs. Further independent oversight is provided via the second line of defence through ALM risk, with monthly reporting into the ALCO.

Local businesses have operational processes and controls in place to monitor their exposure to IRRBB and ensure it remains within approved local risk appetites. Any exceptions are reported to ALM Risk on the same working day. Residual IRRBB that is not transferred into treasury for central management through the bank's funding transference process is monitored by the local business through their RCC.

ALM risk is responsible for maintaining processes and controls to monitor the bank's position and report exposures to ALCO, and subsequently GRCC and Board Risk Committee. An ALM system is deployed as the primary source for IRRBB reporting and risk measurement.

Change

In recent years, the bank's exposure to IRRBB has been driven by embedded optionality with some variable rate lending businesses utilising contracts with floors. With rates now rising, this embedded optionality risk is decreasing with repricing risk now the biggest driver of EaR. The bank currently has positive sensitivity under both up and down rate scenarios for the group's EaR as shown in note 27(d) on page 113 of the financial statements.

Reputational Risk

Reputational risk is defined as the risk of detriment to stakeholder perception of the firm, leading to impairment of the business and its future goals, due to any action or inaction of the company, its employees or associated third parties.

Exposure
Protection and effective stewardship of the group's reputation are fundamental to its long-term success.

Detrimental stakeholder perception could lead to impairment of the group's current business and future goals. The group remains exposed to potential reputational risk in the course of its usual activities, such as through employee, supplier or intermediary conduct, the provision of products and services, crystallisation of another risk type, or as a result of changes outside of its influence.

Risk Appetite
The group has a strong reputation which it has built over many years and considers it a valuable asset, managing it

accordingly through consistent focus on a set of cultural and responsible attributes. The group has no tolerance for behaviours that contradict these attributes in a manner that could harm the organisation, and avoids engaging with third parties, markets or products that would inhibit the firm's adherence to them.

The group seeks to operate in a responsible manner that has client outcomes at the heart of everything that it does. Protection of the group's reputation is firmly embedded in its business-as-usual activities, and the group, as part of its overall strategy, adopts a prudent approach to risk taking. The group also recognises that its reputation is linked to broader responsibilities to help address social, economic and environmental challenges, and maintains appropriate sustainable objectives that the group sets itself as a business

Measurement

The group recognises five core drivers of reputational risk and considers potential impact across seven areas:

Risk identification and subsequent management action are embedded within business as usual activities.

Additionally, the group actively monitors for changes in the business, legal, regulatory and social environment in which it operates to ensure the timely identification, assessment and mitigation of any potential reputation concerns that may arise following changes in the expectations of key stakeholders.

Mitigation

Reputational risk management is embedded throughout the organisation, including via:

- focus on employee conduct, with cultural attributes embedded throughout the group;
- supplier and intermediary conduct management through the relationship lifecycle;
- new product approval and existing product review processes for business products and services;
- a proactive approach to environmental, social and governance matters;
- embedding of reputational risk management within the management frameworks of other risk types; and
- proactive communication and engagement with investors, analysts and other market participants.

In addition, the group maintains policies and standards that serve to protect the group's reputation, most notably those covering anti-bribery, conflicts of interest, dignity at work and high-risk client policies. These are regularly reviewed and updated with staff receiving annual training to reinforce understanding of their obligations.

The Group crisis management team supports management of cases where there is a potential risk of reputational impact on the group on an exceptional basis. Communications plan also forms part of the group's recovery plan, which sets out core principles to ensure fair and transparent communication, to control the risk of misinformation and minimise any negative reaction to the implantation of recovery options.

Monitoring

Reputational risk is considered across all three lines of defence as part of oversight and assurance activities. Adherence to the group's cultural framework is monitored through the culture dashboard, which is reported to the board on a quarterly basis and includes key metrics in relation to culture across the bank. Customer forums are also in place across the firm, reinforcing the organisation's commitment to favourable client outcomes. Regular engagement with our investors also enables open communication with this stakeholder group.

A series of sustainability forums and committees operate at a bank level to ensure that the organisation appropriately addresses its sustainable and responsible priorities and expectations of wider stakeholder groups.

Change

The group's focus on acting responsibly and sustainably enables it to respond and adapt to a range of stakeholder expectations with regard to sustainable practices and address heightened public interest in businesses taking a proactive, responsible approach to their operations, products and services. Internal oversight of matters relating to employees, the environment, wider society and community impact at both an operational and strategic level ensure the group gives due considerations to the reputational impact of its actions.

Note – While Intra Group Risk and Tax Risk are also classified internally as principal risks, none are deemed sufficiently material to impact the group's ability to deliver its strategy.

Emerging Risks and Uncertainties

In addition to day-to-day management of its principal risks, the group utilises an established framework to monitor its portfolio for emerging risks, consider broader market uncertainties, and support its organisational readiness to respond.

This incorporates input and insight from both a top-down and bottom-up perspective:

- Top-down: Identified by directors and executives at a group level via the Group Risk and Compliance Committee and the board.
  Bottom-up: Identified at a business level and escalated, where appropriate, via risk updates into the Group Risk and Compliance Committee.

Additionally, active monitoring of the correlation impacts across emerging risks, uncertainties and principal risks is undertaken

Group-level emerging risks are monitored by the Group Risk and Compliance Committee on an ongoing basis, with agreed actions tracked to ensure the group's preparedness should an emerging risk crystallise.

Emerging risks and uncertainties currently tracked by the group include:

STRATEGIC REPORT

Economic Uncertainty

Mitigating Actions
The group's business model aims to ensure that we are able to trade successfully and support our clients in a wide range of economic conditions. By maintaining a strong financial position we aim to be able to absorb short-term economic downturns, respond to any increase in activity or market demand, and in so doing, build long term relationships by supporting our clients when it really matters.

The group focuses on quality and returns rather than overall growth or market share and continues to invest in the business for the long-term, to support our customers and clients through the cycle.

We test the robustness of our financial position by carrying out regular stress testing on our performance and financial position in the event of adverse economic conditions. The group adopts a prudent and conservative approach and regularly reviews its risk appetite to ensure it remains appropriate in the prevailing economic environment.

Outlook
There remains significant ongoing uncertainty regarding the future economic trajectory in both the UK and across global markets more generally. Notwithstanding the resilience of our model, we are continuing to plan for a range of different economic and business scenarios to ensure we have the resources and capability to continue to perform effectively.

Geopolitical Uncertainty

The group operates predominantly in the UK and Republic of Ireland, with approximately 99% of our loan book exposure to the UK, Republic of Ireland and Channel Islands.

Monitoring is in place to track changes in the geopolitical landscape that could have an impact on the group and its operations, its customers and its supply chain, either directly or indirectly.

The group has a strong financial position and maintains capital and liquidity levels well in excess of regulatory minimums. Further information on the group's financial performance during the year can be found on pages 3 to 8.

Regular stress testing is undertaken on our performance and financial position in the event of various adverse conditions to test the robustness and resilience of the group.

The Correct- small G- reference to CBL and subs adopts a prudent and conservative approach and regularly reviews its risk appetite to ensure it remains appropriate in the prevailing geopolitical and economic environment.

Outlook
The geopolitical environment remains uncertain with conflict in Ukraine, possible Brexit-related changes to the Northern Ireland protocol and the potential for a Scottish independence referendum amongst others.

Going forward, we will continue to closely monitor changes in the geopolitical landscape and regularly test the financial and operational resilience of the group under an evolving range of scenarios.

Financial loss resulting from the physical or transitional impacts of climate change

Mitigating Actions
Since 2019 the group has been working to embed an appropriate and regulatory-compliant climate risk framework, overseen by a Climate Risk Steering Committee and supporting working groups for credit risk, scenarios, disclosures and sustainability.

Regular updates are provided to the Board Risk Committee, which retains oversight responsibility, while senior management responsibility is assigned to the Group chief risk officer.

Monitoring is in place to continually identify and assess climate risks and opportunities, supported by annual climate-related scenario analysis.

Outlook
Climate risk represents an area of continued focus, both within the group and across the industry more broadly. We continue to closely monitor government and regulatory developments as well as emerging best practice.

The short-dated tenor of our lending book and strong business model resilience capabilities mitigate current risk exposure while the continued embedding of our climate framework will enable us to review the evolution of the risk landscape on an ongoing basis.

Outputs from this review will further shape the Group's strategic response and support our planned alignment with the evolving recommendations of the Task Force on Climate-related Financial Disclosures ("TCFD").

For further detail see the firm's inaugural Task Force on Climate-related Financial Disclosures ("TCFD") Report on pages 42 to 57 of the Annual Report of the company's ultimate parent company, CBG.

Legal and Regulatory Change

Mitigating Actions
The group maintains an established horizon scanning and monitoring framework to identify regulatory and legal changes that could materially impact its operations, including legislative and regulatory reform, changes in regulatory practice and case law developments. The group engages regularly with regulators in the jurisdictions in which it operates, including the PRA and FCA in the UK, as well as industry bodies and external advisers to understand relevant changes.

High-level gap and impact analyses are undertaken to assess new compliance requirements and identify any changes required to the group's systems and controls, processes and procedures, with programmes of work initiated to address any identified issues. The extent and nature of this work ranges from simple isolated remedial activity to large multi-year projects, depending on the complexity and scale of the change.

Outlook
A sustained increase in legal and regulatory change has been experienced in recent years and this is expected to continue in the short to medium term, including the possibility of regulatory and legal divergence between the UK and EU. Increasing regulatory focus on consumer and small business customer outcomes is seen from the group's regulators in the UK, the Republic of Ireland and other jurisdictions in which the group operates.

Evolving Working Practices

Mitigating Actions
The group continues to assess the appropriateness of its work patterns on an ongoing basis through consideration of four key principles: customer and client outcomes; risk appetite; culture and collaboration; and employee choice.

Ways of working are risk assessed quarterly, enabling the identification and mitigation of any risks arising.

All roles are assessed to ensure flexibility can be offered where appropriate in response to competitive pressure for talent attraction and retention. Market developments continue to be monitored for further shifts in working patterns which could impact employee and candidate expectations.

We remain focused on maintaining our company culture and ensuring optimisation of the workspace and in-office activities to support collaboration and inclusion.

Outlook
Management continues to monitor market expectations regarding work patterns to ensure levels of flexibility can be offered to compete effectively in a tight labour market.

Technological Change and New Business Models

Mitigating Actions
Technological change and new business models have the potential to impact the group's market position and future profitability.

While regulation remains a barrier to entry for many potential new competitors, consumer expectations continue to evolve, challenging existing capabilities and traditional approaches. Competitors are adapting in response, while new financial technology companies continue to develop alternative business models.

Notwithstanding this, the group prides itself on its deep knowledge of its customers and clients and the industries/sectors in which they operate. Market developments are closely monitored to identify and understand emerging dynamics as well as the evolving preferences of our customers.

Outlook
The group is continuing to invest in strategic data capabilities as part of our business and technology strategies. Data governance remains a key focus as part of this as we look to further manage and exploit our data assets.

Our businesses, particularly within Retail, also continue to prioritise digital channels and messaging to enhance/improve the customer journey and associated experience.
The technology function is actively planning to benefit from cloud arrangements which match the agility and scalability of any potential competitor or new entrant.

The group is also focused on upskilling current staff and strategic third party provider partnerships to support the digital transformation of our businesses.

Supply Chain Risk

Mitigating Actions
The Group's third party management framework ensures a risk-based approach is adopted with regard to the identification, classification and management of the many potential business impacts that can result from failures in the supply chain.

Through the identification of inherent risks at the outset of all third party engagements, appropriate due diligence is completed prior to onboarding, suitably robust contracts are put in place and effective lifecycle management is implemented.

Ongoing reporting of key risk and performance indicators coupled with periodic supplier reviews from our third party monitoring team help to manage supply chain risk. Oversight of all material suppliers is retained via the Group Risk and Compliance Committee while continuity of service is a key focus for all critical relationships through resilience and substitutability planning.

The group is also continuing to build out its understanding of supply chain concentration risk across material third and fourth parties.

Outlook
While Covid-19 continues to impact supply chains globally, this has been further aggravated by the conflict in Ukraine and the general inflationary economic environment in key markets. Direct impacts have thus far proved relatively moderate across the sector and less so for the group given its relatively low level of reliance on offshore service provision although close monitoring and management is ongoing in more sensitive goods and services categories.

Notwithstanding, continued improvement to the group's third party management framework is likely to be required to keep pace with the evolving regulatory landscape over the short to medium term, noting this remains an area of heightened regulatory focus, particularly with respect to material suppliers.

Future Pandemics and Ability to Respond

Mitigating Actions
Capabilities delivered through the group's focus on operational resilience are primary mitigants against plausible and controllable impacts of a future pandemic. The group's ability to respond to pandemic-induced disruption was tested through Covid-19.

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The resilience of the group's workforce, suppliers and systems is tested on a risk-based cycle, considering severe but plausible disruptions. This approach to ongoing testing enables maintenance of suitable readiness should another pandemic emerge in the future.

Outlook

Pandemics of a nature that cause material societal impact are inherently low likelihood, high impact events.

It is unlikely that another pandemic will emerge in any given year, although it is probable that at some future point another one will emerge.

This Strategic Report was approved by the board and signed by order of the board:

H.M. Thorpe
Company Secretary

27 September 2022

DIRECTORS' REPORT

The directors of the company present the audited consolidated accounts for the year ended 31 July 2022.

Strategic Report

The company's Strategic Report can be found on pages 3 to 30 of this Annual Report.

Business activities

The group's business activities, together with a description of future developments (including the factors likely to affect future development and performance) and its summarised financial position, are set out in the Strategic Report. Such information is incorporated by reference and forms part of the Directors' Report.

Results and dividends

The consolidated results for the year are shown on page 47 of the accounts.

In September 2021, the directors recommended a final dividend for the 2021 financial year of £66.0 million. The dividend was paid in November 2021. In March 2022, the board declared an interim dividend of £61.9 million, which was paid in April 2022. In September 2022, the directors recommended a final dividend for the 2022 financial year of £24.5 million.

Directors of the company

The names of the directors of the company at the date of this report, are given on page 2 of this Annual Report. All the directors listed on that page were directors of the company throughout the year and up to the date of signing the accounts, apart from Patricia Halliday, who was appointed as a director on 1st August 2021 and Tracey Graham, who was appointed as a director on the 22nd March 2022.

Details of the directors' remuneration can be found in the Directors' Remuneration note on page 94 of this Annual Report.

Directors' indemnities and insurance

Each of the directors has been granted a deed of indemnity by the parent company, Close Brothers Group plc ("CBG"). The deeds indemnify the directors in respect of liabilities (and associated costs and expenses) incurred in connection with the performance of their duties as a director of the company or any associated company. Qualifying third party indemnity provisions for the purposes of section 234 of the Companies Act 2006 were accordingly in force during the course of the year and remain in force at the date of this report. The company also maintains directors' and officers' liability insurance for its directors and officers.

Company Secretary

The company secretary of Close Brothers Limited is Helen Thorpe and she can be contacted at the company's registered office.

Capital Structure

The company's share capital comprises one class of ordinary share with a nominal value of £1 each. At 31 July 2022, 122,480,000 (2021: 122,480,000) ordinary shares were in issue.

Research and Development Activities

During the normal course of business, the group continues to invest in new technology and systems and to develop new products and services to improve operating efficiency and strengthen its customer proposition.

Post-Balance Sheet Events

There were no material post-balance sheet events.

Branches

The Company has no branches outside the United Kingdom.

Political Donations

No political donations were made during the year (2021: £nil).

Financial Instruments

Details of the group's financial instruments can be found in note 13 to the accounts begins on page 80.

Financial Risk Management

The group has procedures in place to identify, monitor and evaluate the significant risks it faces. The group reviews and adjusts its risk appetite annually as part of the strategy-setting process. This aligns risk-taking with the achievement of strategic objectives. Adherence to appetite is monitored by the Risk committees. The group's principal risks & uncertainties and emerging risks are described on pages 17 to 30 of the Strategic Report, and the risks associated with the group's financial instruments are analysed in note 27 on pages 98 to 116 of the accounts. The group's hedging policy can also be found in significant accounting policies on pages 57 of the accounts.

Business relationships

The company values the strong reputation it has built with customers, clients, partners and other stakeholders, which is critical to the long-term sustainability of the group's business. The company has chosen, in accordance with section 414C(11) of the Companies Act 2006, to include in its Strategic Report, information about how the directors have had regard to the need to foster the company's business relationships with suppliers, customers and others, and the effect of that regard, including on the principal decisions taken by the company during the financial year, that would otherwise be disclosed in this Directors' Report. Further details can be found on page 10 of the Strategic Report. Such information is incorporated by reference and forms part of the Directors' Report.

DIRECTORS' REPORT

Employee engagement

The company acknowledges the importance of engaging with its employees and listening to their views. The board believes that engaged employees are more likely to remain enthusiastic about their work and the organisation and is committed to ensuring that employees feel valued and supported. The company has chosen, in accordance with section 414C(11) of the Companies Act 2006, to include in its Strategic Report, further information about how the directors have engaged with employees, and had regard to employee interests, and the effect of that regard, including on the principal decisions taken by the company during the financial year, that would otherwise be disclosed in this Directors' Report. Further detail can be found on page 10 of the Strategic Report. Such information is incorporated by reference and forms part of the Directors' Report.

The company regularly provides employees with information on matters of concern to them. It consults with them or their representatives on a regular basis, and through a number of methods, in order to take their views into account when making decisions which are likely to affect their interests. During the year, these included the use of employee opinion surveys, team meetings (held both virtually and in person), staff updates, internal communications, training and information sessions, newsletters, performance updates and town halls. Such an approach is important in achieving common awareness on the part of all employees of the financial and economic factors which affect the performance of the company, as well as contributing to a better understanding of the wider activities and strategic aims of the Close Brothers Group (the "Group") and ultimately, the long term success of the company.

The company encourages the involvement of employees in the company's performance through two types of share schemes operated by the Group; a Share-save scheme (Save As You Earn) and a share incentive plan (Buy As You Earn). Both schemes are open to employees who have completed six months' continuous employment with the company.

Further detail on wider employee engagement at Group level can be found in the Strategic Report section of the Annual Report and Financial Statements of CBG.

Employees with Disabilities

We ensure equal opportunities for all, including having a commitment as part of our Dignity at Work Policy to ensure no employee is subject to discrimination. This applies to all work contexts, as well as all employee lifecycle events, for example in recruitment, training, promotion and flexible working requests. We encourage applications from candidates with disabilities and give full and fair consideration to those with a disability and provide adjustments to support them through the recruitment process. We ensure opportunities for training, career development and promotion are available to all.

As part of our Dignity at Work Policy, our colleagues with disabilities, or who become disabled during employment with us, are encouraged to share their condition with us, to ensure any reasonable adjustments can be made. We are also members of the Business Disability Forum to support the hiring, retention, training, career development and promotion of employees with disabilities.

Business Energy Efficiency Reporting

The requirement to include a report on greenhouse gas ("GHG") emissions, energy consumption and energy efficiency action under SECR has been met by the ultimate parent company, CBG, which consolidates these metrics on behalf of the Group. Please refer to the CBG financial statements for further information.

Climate Change

On behalf of Close Brothers Group plc, the Board and Board Risk Committee review and approve the Group's approach to managing the financial risks and opportunities associated with climate change. Close Brothers Limited adopts the Group approach with adaptation as determined by local requirements. The Group's initial Task Force on Climate-Related Financial Disclosures ("TCFD") Report is published as part of the Close Brothers Group plc 2022 Annual Report within the Sustainability Report.

Going Concern

The group's business activities, financial performance, capital levels, liquidity and funding position, along with the principal and emerging risks likely to affect its future performance, are described in the Strategic Report.

The group continues to have a strong, proven and conservative business model supported by a diverse portfolio of businesses, maintaining its consistent track record of delivering profits. The group remains well positioned in each of its core businesses, and is strongly capitalised, soundly funded and has high levels of liquidity.

As part of the directors' consideration of the appropriateness of adopting the going concern basis in preparing the Annual Report, a range of forward-looking scenario analyses have been considered. This has included a central scenario and a plausible downside scenario.

The scenarios modelled are based on a range of economic assumptions, considering the highly uncertain external environment, including the recent impact of increasing geopolitical tensions and rising inflation on our customers and wider financial market conditions. In all modelled scenarios it has been concluded that no significant structural changes to the company or the group will be required.

Under all scenarios the company and group continue to operate with sufficient levels of liquidity and capital for the foreseeable future, with the group's capital ratios and liquidity comfortably in excess of regulatory requirements.

For each of the lending businesses, the directors have considered the impact of the central and downside scenarios on financial performance. These include expected customer demand that underpins loan book growth, impact of rising interest rates and inflationary pressures on our customers and the impact this will have on the bad debt ratio and net interest margin.

The group acknowledges that the risk landscape is constantly evolving and as such continually reviews its principal and emerging risks. As part of this review, risks are assessed with robust oversight exercised at both a local business unit and group level through risk and compliance committees and the board. The group's strong risk assessment framework provides a solid foundation to assess going concern throughout the organisation on a regular and consistent basis.

In making this assessment, the directors have also considered the operational agility and resilience of the company and group, noting that the business has successfully adapted to new ways of working and that operational and system performance have been maintained, and are expected to continue to be.

In conclusion, the directors have determined that they have a reasonable expectation that the company and the group, as a whole, have adequate resources to continue as a going concern for a period of at least 12 months from the date of approval of the accounts .

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

Independent Auditors

PricewaterhouseCoopers LLP ("PwC") has expressed its willingness to continue in office as the company's independent auditors.

Disclosure of Information to the Independent Auditors

Each of the persons who are directors at the date of approval of this Annual Report confirms that:

- so far as the director is aware, there is no relevant audit information of which the company's independent auditors are unaware; and
- they have taken all the steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the company's independent 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 Corporate Governance Arrangements

Approach to Corporate Governance

In accordance with the Large and Medium-sized Companies and Group (Accounts and Reports) Regulations 2008 (as amended by the Companies (Miscellaneous Reporting) Regulations 2018) (the "Regulations"), the directors of the company are required to provide a statement stating which corporate governance code has been followed during the year, including how the company applied the code, and whether it departed from any aspects of the code. For the year ended 31 July 2022, the company has applied the Wates Corporate Governance Principles for Large Private Companies (the "Principles") in its corporate governance arrangements. The following section explains the company's approach to corporate governance, and its application of the Principles.

High standards of governance and effective board oversight play an important role in supporting the company's performance, the successful delivery of its strategy and its long-term sustainable success for the company's shareholder and other stakeholders. The company's own corporate governance arrangements are also key to ensuring that it operates effectively. Whilst the company forms part of the wider Group, it is a separate legal entity and, as such, it has its own board of directors and maintains its own corporate governance arrangements which form part of the broader Group's corporate governance framework. That framework includes a range of different policies, processes and standards which together set out the Group's approach to corporate governance.

At the highest level of the Group, the board of Close Brothers Group plc ("CBG") provides effective leadership for the Group as a whole, including in relation to strategy, purpose, culture, values and risk management. As a company listed on the London Stock Exchange, CBG applies the principles and provisions of the UK Corporate Governance Code (the "Code"). Further detail on its compliance with the Code in the financial year ended 31 July 2022 can be found in the Corporate Governance Report within CBG's 2022 Annual Report and Financial Statements (the "CBG Annual Report"). Among other things, that report also provides information on the role and activities of the CBG board (including its oversight of matters relating to the company) and the Group's overarching corporate governance arrangements.

As at the date of this report, all members of the company's board also serve as directors of CBG. This continues to be an important part of the Group's corporate governance framework and reflects the significant contribution of the company to the wider Group.

As part of the Group's corporate governance arrangements, the CBG board is supported by four board committees: the Audit Committee, the Nomination and Governance Committee, the Remuneration Committee and the Risk Committee, which have oversight of matters across the Group, including relevant items relating to the company. Each committee has written terms of reference setting out its delegated responsibilities. The membership of the CBG board committees comprises individuals with the appropriate skills and experience from among the non-executive directors of CBG. Further information on the role, activities and operation of each of the CBG board committees, including their consideration of matters relating to the company, can be found in their respective reports in the CBG Annual Report.

DIRECTORS' REPORT

Principle One - Purpose and Leadership

An effective board develops and promotes the purpose of a company, and ensures that its values, strategy and culture align with that purpose.

The board's primary role is to provide effective leadership and to ensure that the company is appropriately managed and delivers long-term shareholder value, thereby making a contribution to wider society. The board also supervises the company's operations, with the aim of ensuring that it maintains a framework of prudent and effective controls which enables risks to be properly assessed and appropriately managed.

A key function of the board is to establish, within the wider strategy of the Group, the company's strategic objectives, values, strategy and purpose in alignment with its culture. The board also monitors management's performance against those objectives and provides direction for the company. During the year, a range of activities enabled the board to focus on these areas. These included two strategy sessions held with senior management which covered a broad range of strategic issues, including matters connected with the pandemic, opportunities for individual businesses, and people-related issues, including the results of employee opinion surveys and transition to new, more flexible ways of working post pandemic.

In addition, the board considers strategic issues as part of regular meetings throughout the year. At each meeting, Group and divisional executives provide updates on performance against strategic goals and relevant developments in the wider market, including from a competitor or regulatory perspective. During the year, the board has also held a number of 'deep-dive' strategy sessions, each focused on an individual business.

Consistent with that of the Group, the company's strategic approach focuses on three objectives: to protect, grow and sustain the company's business model. The company's purpose is helping the people and business of Britain thrive over the long term. The company has a long-established, proven business model that is focused on driving sustainable outcomes and business performance, creating value for its stakeholders.

A key responsibility of the board is to define, promote and monitor the company's culture. The board recognises the importance that culture and values play in the long-term success and sustainability of the company, and the role of the board in monitoring and assessing culture. The board also acknowledges the importance of individual directors and the board as a whole acting with integrity, leading by example promoting the desired culture, and setting the "tone from the top".

During the year, the board has spent time monitoring and overseeing the alignment of the company's business to its values, strategy and culture. Examples include the board's consideration of the role and impact of culture as part of individual decisions and its oversight of the company's operations, including in the context of investment planning, the challenges presented by the broader macro-economic outlook, and the transition to new, more flexible ways of working post-pandemic. Considerations relating to culture and values have also formed an important part of the board's discussions on the company's strategy, model and purpose, including in the context of potential M&A opportunities.

The board also ensures effective engagement with, and participation from stakeholders. The company's culture and values are aligned with those of CBG, which are discussed in more detail in the CBG Annual Report.

Principle Two - Board Composition

Effective board composition requires an effective chair and a balance of skills, backgrounds, experience and knowledge, with individual directors having sufficient capacity to make a valuable contribution. The size of a board should be guided by the scale and complexity of the company.

At the date of this report, the board has twelve members: the chairman, two executive directors and nine independent non-executive directors. The board's members come from a range of backgrounds and the board is structured to ensure that no individual or group of individuals is able to dominate the decision-making process and that no undue reliance is placed on any individual. Within the board's overall risk and governance structure, the independent non-executive directors are responsible for contributing sound judgement and objectivity to the board's deliberations and the decision-making process. They also provide constructive challenge and scrutiny of the performance of management and delivery of the company's strategy. Further details of the directors and the changes to the board during the financial year can be found on page 31.

The chairman is primarily responsible for leading the board and ensuring that it is able to operate effectively and efficiently. The chairman's role is to promote effective decision-making, challenge of executive management and constructive debate, including by facilitating contributions and engagement from all members of the board. His other responsibilities include setting the agenda for board meetings, making sure that the directors receive information in an accurate, clear and timely manner, and ensuring that adequate time is available for discussion of relevant items by the board. The chairman is charged with ensuring that the directors continually update their skills and knowledge and that the performance of the board and the individual directors is evaluated on an annual basis.

The CBG Nomination and Governance Committee, which is concerned with the business of the Group including the company, reviews the structure, size and composition of the board and is responsible for identifying and recommending to the board new directors for appointment. The overall size of the board has grown slightly in recent years as new directors have been appointed to bring additional and complementary knowledge, skills and experience, and to ensure continuity of membership and knowledge as other directors approach the end of their terms in the years ahead. The board considers that its current size and structure remain appropriate given the scale and complexity of the company's operations, which include regulated

DIRECTORS' REPORT

activities, and the need to ensure an orderly succession and transition between directors.

Board appointments are made following rigorous consideration by the CBG Nomination and Governance Committee of the balance of skills, experience, knowledge and diversity required for the board to operate effectively as a whole. When considering board composition and appointments, the board and the CBG Nomination and Governance Committee continue to have regard to relevant best practice and the findings of relevant industry reviews. Further detail is set out in the Corporate Governance Report within the CBG Annual Report.

The board acknowledges the importance of diversity in its broadest sense and its membership is made up of individuals from a range of different backgrounds and experiences. At the date of this report, six of the twelve members of the board are women (including a majority of the non-executive directors), and the composition of the board meets the recommendation of the Parker Review that a FTSE 250 board should have at least one director of colour.

The board remains committed to improving further its position on gender, cultural and ethnic diversity when appropriate opportunities arise, whilst continuing to make appointments based on merit, objective and defined criteria, and the particular skills and experience required for individual appointments. External search firms used by the CBG Nomination and Governance Committee will continue to be instructed to consider candidates from a broad range of backgrounds and experiences when preparing long-lists for review by the committee.

As part of its deliberations each year, the CBG Nomination and Governance Committee regularly considers diversity and inclusion matters relevant to the company and its business, including actions to encourage a diverse pipeline as part of discussions around succession planning and talent management throughout the year.

The board undertakes an annual evaluation of its effectiveness. During the year ending 31 July 2022, the board undertook an internal process to review its effectiveness and performance. The review concluded that the board remains strong and effective, and that it has responded well to the challenges arising from the uncertain current economic situation. The evaluation also acknowledged that the board has addressed each of the recommendations made in the external evaluation in 2021. The board welcomes the findings and will work to consider opportunities for incremental improvements during the year ahead.

The chairman also ensures that the performance of individual directors is reviewed regularly. The board recognises these annual reviews as an important opportunity to consider the performance of the board and to identify strengths and opportunities to further enhance effectiveness.

Principle Three - Director Responsibilities

The board and individual directors should have a clear understanding of their accountability and responsibilities. The board's policies and procedures should support effective decision making and independent challenge.

The board's primary role is to provide effective leadership, to ensure that the company is appropriately managed, and delivers long-term shareholder value, thereby making a contribution to wider society. The board as a whole has a clear and effective understanding of its purpose, role and responsibilities. The board maintains a schedule of matters reserved for the board which sets out decisions which can only be made by the board. This schedule enables the board and executive management to operate within a clear governance framework. The schedule of matters reserved for the board is reviewed annually to reflect the requirements of applicable legislation and corporate governance best practice. The matters and decisions specifically reserved for the board include:

- responsibility for the overall direction and strategy of the company;
- oversight of the company's management, including setting the company's values and determining the risks it is willing to take to achieve its strategic objectives;
- significant changes to the company's corporate structure;
- review of performance in the light of the company's strategy, objectives, business plans and budgets;
- approval of the annual operating budgets and any material changes to them;
- the issuance of bonds or debt by the company; and
- approval of the Individual Liquidity Adequacy Assessment Process ("ILAAP").

The board has established formal and robust internal processes to ensure systems and controls are operating effectively, and that the quality and integrity of information provided to it is reliable. Board meetings are structured to ensure that there is sufficient time for consideration and debate of all matters. In addition to scheduled or routine items, the board also considers key issues that impact the company as they arise. The directors receive detailed papers in advance of each board meeting and the board agenda is carefully structured by the chairman in consultation with the chief executive and the company secretary. There is also an annual schedule of rolling agenda items to ensure that all matters are given due consideration and are reviewed at the appropriate point in the financial and regulatory cycle. This schedule includes regular 'deep-dives' into particular areas of importance to the board. A key feature of these 'deep-dives' is an assessment and consideration of relevant issues relating to key stakeholder groups, including the outputs from engagement by the board and senior management.

During the financial year, the continued to adapt promptly in response to Covid-19 , to ensure that it continues to provide effective oversight of the company's operations, together with challenge and support for senior

DIRECTORS' REPORT

management, whilst maintaining its clear focus on stakeholder interests. Directors attended a number of ad hoc meetings remained elevated as the pandemic continued, enabling the company's response. The directors' focus and agenda evolved as the pandemic and its impact on the company moved into different phases. Although the board met predominantly via video-conference during the year, the regular flow of high-quality information to the board has been maintained.
The board has delegated responsibility for certain matters to its committees and is also supported by the board committees of its ultimate parent company, CBG, which consider relevant items relating to the company as part of the wider Group. Further information on the operation of the CBG board committees, including consideration of items relevant to the company, can be found in the Corporate Governance Report within the CBG Annual Report.

The management of committee meetings is consistent with the basis on which meetings of the board are managed, with open debate, and adequate time for members to discuss proposals which are put forward.

Directors are responsible for notifying the chairman and the company secretary of any actual or potential conflicts as soon as they become aware of them. A procedure has been established, whereby actual and potential conflicts of interest are regularly reviewed and appropriate authorisation sought.

The company secretary provides advice and support to the board, through the chairman, on all governance matters and on the discharge of their duties. Directors are able to take independent external professional advice to assist with the performance of their duties at the company's expense.

Individual directors receive training on appointment and on an ongoing basis thereafter, with the aim of keeping their skills, knowledge and familiarity with the company up-to-date, to enable them to fulfil their role on the board and relevant committees. Topics covered during the financial year include climate change, regulatory developments and horizon-scanning, corporate governance changes, accounting updates, people and culture updates, cyber security, changes in remuneration regulation and practice, and the Internal Ratings Based approach for the calculation of regulatory capital requirements for credit risk.

At least annually, the CBG Nomination and Governance Committee considers the training and development needs of the non-executive directors and suggests any particular topics to be covered during the year. The training provided to all directors on joining the board includes an overview of the role, duties and responsibilities of a director and of the company's corporate governance framework.

Principle Four - Opportunity and Risk

A board should promote the long-term sustainable success of the company by identifying opportunities to create and preserve value, and establishing oversight for the identification and mitigation of risks.

Together with the CBG board, the board retains overall responsibility for overseeing the maintenance of a system of internal control which ensures that an effective risk management framework and oversight process is in operation. The risk management framework and associated governance arrangements for the Group are designed to ensure a clear organisational structure with distinct, transparent and consistent lines of responsibility and effective processes to identify, manage, monitor and report the risks to which the Group (including the company) is, or may become, exposed.
Risk management across the Group (including the company) is monitored and overseen by the CBG Risk Committee. The Risk Committee is responsible for reviewing risk appetite, monitoring the Group's risk profile against this, and reviewing the day-to-day effectiveness of the risk management framework. In addition, the Risk Committee oversees the maintenance and development of an appropriate and supportive risk culture and provides risk input into the alignment of remuneration with performance against risk appetite. The company closely monitors its risk profile to ensure that it continues to align with the company's strategic objectives and those of the Group.

The company's risk appetite forms a key component of the Group's risk management framework and is managed through an established framework that facilitates ongoing communication between the board with respect to the group's evolving risk profile. Appetite measures, both qualitative and quantitative, are applied to inform decision making and monitoring and reporting processes. Early warning trigger levels are also employed to drive required correction action before overall tolerance levels are reached. The board undertakes a formal, annual review of the company's risk appetite statements for the year ahead. Adherence is monitored through the Group's risk committees on an ongoing basis, with interim updates to individual risk appetites considered as appropriate through the year. Further information on the Group's risk management framework including risk appetite, controls and governance can be found in the CBG Annual Report.

As the company's response to the Covid-19 pandemic has evolved, additional metrics and reporting have been provided to the board to ensure that it has access to all relevant information to enable it to effectively oversee the company's response and to assess the impact of the pandemic on the company's performance. Examples of additional information provided to the board have included regular reporting and data on customer forbearance and updates on the approach to home working and, subsequently, a gradual and safe return to the workplace.

As described above, the board also oversees the development and implementation of the company's strategy, within the context of the Group's overall strategy set by the CBG board. This includes consideration of strategic opportunities and the development of appropriate objectives.

Principle Five - Remuneration

A board should promote executive remuneration structures aligned to the long-term sustainable success of a company, taking into account pay and conditions elsewhere in the company.

DIRECTORS' REPORT

The Remuneration Committee of the company's ultimate parent company, CBG, assumes responsibility for determining reward practices and the approach to remuneration on a Group-wide basis. This includes reviewing and making recommendations on remuneration policy for the Group, including the remuneration of directors, senior management and other employees across the company.
The Group's wider employee remuneration structure aims to attract, motivate and retain high calibre employees, reward good performance, and promote the achievement of the company's annual plans and its longer-term strategic objectives. It also aligns the interests of employees with those of other key stakeholders – including customers, clients and shareholders – and supports good risk management procedures and a positive client conduct culture.

The linkage between culture, purpose, risk and compensation remains important for the board, and each year the Group's Risk function provides input to the CBG Remuneration Committee to ensure that risk behaviours and the management of operational risk incidents over the course of the financial year are appropriately reflected in decisions taken about performance and reward. As part of the assessment of executive director variable remuneration, executive performance is assessed against a Group-wide balanced scorecard, with variable pay subject to malus and clawback provisions.

Principle Six - Stakeholders

Directors should foster effective stakeholder relationships aligned to the company's purpose. The board is responsible for overseeing meaningful engagement with stakeholders, including the workforce, and having regard to their views when taking decisions.

As mentioned above, the board is responsible for establishing and overseeing the company's values, strategy and purpose, all of which focus on the interests of key stakeholders and other factors set out in section 172(1) of the Companies Act 2006. The directors are conscious of both the effects on the company of changes in its operating environment, but also the impact that their decisions and actions may have on current and future stakeholders, including employees, customers, suppliers, communities and investors. The directors have had regard to these stakeholder considerations and other factors in section 172(1) during the year.

The company has a broad set of stakeholders with differing views and concerns, so it is important that it engages with each group, whether directly or indirectly via management, to understand more fully their priorities and take these into account when making decisions. As part of the wider Group, the company undertakes a comprehensive programme of stakeholder engagement and values the feedback provided, which is considered in the decision-making process both at a board level and throughout the company.

Regular engagement with stakeholders, both directly and indirectly via management, has continued to be an important focus for the board and has ensured that the directors are aware of and have effective regard to the matters set out in section 172(1). During the financial year, the board has met regularly via video-conference and engagement with stakeholders has taken place virtually where appropriate.

As part of the board's regular meetings and in sessions specifically focussing on strategy, the directors have spent considerable time assessing and having regard to the impact of individual decisions and the group's operations on different stakeholder groups. This has included extensive discussion of points arising from engagement with shareholders, customers, employees, regulators and other groups. A key priority for the board this year has been the consideration of the impact of the pandemic on key stakeholder groups, including employees, customers, clients, partners and suppliers, and the directors received regular updates on developments relating to individual stakeholder groups.

In the 2022 financial year, the board spent time considering its broader responsibility to help address the social, economic and environmental challenges facing its business, colleagues and customers. Throughout the year, the board has discussed the connection between the company's responsibility, wider stakeholder considerations and its long-term positioning, including the link to attracting and retaining talent at all levels of its operations, supporting customers, clients and partners, and the Group's continuing efforts towards reducing its impact on the environment.

More information about the company's key stakeholders, why they are important, their key priorities and some of the ways the company has engaged with, and had an impact on, each group can be found in the section 172 statement and statement of engagement with employees and other stakeholders in the Strategic Report section of this Annual Report.

Statement of directors' responsibilities in respect of the financial statements

The directors are responsible for preparing the Annual Report 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 group financial statements in accordance with UK-adopted international accounting standards and the company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law).

In preparing the group financial statements, the directors have also elected to comply with International Financial Reporting Standards issued by the International Accounting Standards Board (IFRSs as issued by IASB).

Under company law, directors must not approve the financial statements unless they are satisfied that they give

DIRECTORS' REPORT

a true and fair view of the state of affairs of the group and company and of the profit or loss of the group 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 UK-adopted international accounting standards and IFRSs issued by IASB have been followed for the group financial statements and United Kingdom Accounting Standards, comprising FRS 101 have been followed for the company financial statements, 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 group and company will continue in business.

The directors are responsible for safeguarding the assets of the group and 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 group's and company's transactions and disclose with reasonable accuracy at any time the financial position of the group and company and enable them to ensure that the financial statements comply with the Companies Act 2006.

By order of the board

H.M. Thorpe
Company Secretary
27 September 2022

Report on the audit of the financial statements

Opinion

In our opinion:

- Close Brothers Limited's group financial statements and company financial statements (the "financial statements") give a true and fair view of the state of the group's and of the company's affairs as at 31 July 2022 and of the group's profit and the group's cash flows for the year then ended;
- the group financial statements have been properly prepared in accordance with UK-adopted international accounting standards;
- the company financial statements 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
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report, which comprise: the consolidated and company balance sheets as at 31 July 2022; the consolidated income statement, the consolidated statement of comprehensive income, the consolidated cash flow statement, and the consolidated and company statements 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 Audit Committee.

Separate opinion in relation to IFRSs as issued by the IASB

As explained in note 1 to the financial statements, the group, in addition to applying UK-adopted international accounting standards, has also applied international financial reporting standards (IFRSs) as issued by the International Accounting Standards Board (IASB).

In our opinion, the group financial statements have been properly prepared in accordance with IFRSs as issued by the IASB.

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 group 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 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.

Other than those disclosed in note 6, we have provided no non-audit services to the company or its controlled undertakings in the period under audit

Our audit approach

Overview
Audit scope

- The scope of our audit and the nature, timing and extent of audit procedures performed were determined by our risk assessment, the financial significance of components and other qualitative factors (including history of misstatement through fraud or error).

- We performed audit procedures over components considered financially significant in the context of the group (full scope audit) or in the context of individual primary statement account balances (audit of specific account balances).
- We performed other procedures including testing relevant controls, information technology general controls and analytical review procedures to mitigate the risk of material misstatement in the residual components.

Key audit matters

- Determination of expected credit loss ('ECL') provisions on loans and advances to customers (Group and company)

Materiality

- Overall group materiality: £11.4m (2021: £10.4m) based on 5% of profit before tax.
- Overall company materiality: £11.5m (2021: £11.6m) based on 5% of profit before tax.
- Performance materiality: £8.55m (2021: £7.8m) (group) and £8.6m (2021: £8.7m) (company).

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 following, which were key audit matters last year, are no longer included because of the following factors:

- The impact of Covid-19 (Group and company) is no longer considered to be a key audit matter because our consideration of the pandemic in the current year is adequately captured by other key audit matters and it does not represent an area of increased audit focus in its own right.
- Application of effective interest rate ("EIR") accounting (Group and company) is no longer considered to be a key audit matter because we do not consider the level of estimation uncertainty associated with EIR to be significant.

Otherwise, the key audit matters below are consistent with last year.

Key audit matter	How our audit addressed the key audit matter
Determination of expected credit loss ('ECL') provisions on loans and advances to customers (Group and company)	
As at 31 July 2022: The Group has gross loans and advances to customers of £9,144.5m, with ECL provisions of £285.6m held against them. The determination of ECL provisions is inherently judgemental and involves setting assumptions using forward looking information reflecting the Group's view of potential future economic events. This can give rise to increased estimation uncertainty.	With the support of our credit risk modelling specialists and economics experts, we performed the following procedures: For collectively assessed provisions: • We understood and critically assessed the appropriateness of the ECL accounting policy and model methodologies used by management. • We tested model performance by replicating key model components and comparing actual outcomes with those previously predicted by the models. We assessed management's

Key audit matter	How our audit addressed the key audit matter
There continues to be uncertainty in the determination of ECL provisions in relation to economic factors, including assessing how a high inflation environment coupled with the cost of energy, supply chain and other economic developments may impact the credit performance of the lending book. Experience continues to develop in relation to the Novitas Loans business which the Group has used to update the determination of the ECL. This remains subjective and the ECL is sensitive to potential outcomes. Models are used to collectively assess and determine expected credit loss allowances on loans and advances which are not classified as being credit impaired at the reporting date, or are individually small. We consider the following elements of the determination of modelled ECL to be significant: ● The application of forward-looking economic assumptions used in the models and the weightings assigned to those scenarios; ● The completeness and appropriateness of post-model adjustments that are recorded to take into account latent risks and known model limitations; and ● The appropriateness of assumptions used in the determination of the probability of case failure and loss given case failure in relation to Novitas. Individually large exposures to counterparties who are in default at the reporting date are estimated on an individual basis. We consider the following elements of the determination of ECL to be significant: ● Estimating the amount and timing of the expected future cash flows related to that loan under multiple, probability weighted, scenarios. Relevant references: ● Note 2, critical accounting estimates and judgements on page 60; ● Note 11, Loans and advances to customers on page 73, and ● note 27(c), financial risk management on page 102.	judgement as to whether the results of these activities indicated whether the models continued to perform appropriately or if any post-model adjustments were required. ● We critically assessed the reasonableness of management's selected economic scenarios and associated scenario weightings, giving specific consideration to current and future economic uncertainty. We assessed their reasonableness against known or likely economic, political and other relevant events including the potential future economic impact of developments in prolonged inflation. ● We compared the severity and magnitude of the assumptions used in the base scenario to external forecasts and historic trends. ● Based on our knowledge and understanding of the limitations in management's models and emerging industry risks, we evaluated the completeness of the post model adjustments proposed by management. ● We tested the valuation of in-scope post model adjustments by critically assessing the methodology and testing the underlying assumptions used in the calculation to supporting evidence. ● We evaluated management's model to derive the Novitas Loans ECL, we critically assessed the assumptions used by management and we performed our own sensitivity analysis using plausible scenarios derived from available experience. From the evidence we obtained we found that the application of forward-looking economic assumptions and the completeness and appropriateness of the post model adjustments as they relate to the ECL provision to be reasonable. *Individually assessed provisions* For a sample of individually assessed loans in default and related ECL allowances, we: ● Evaluated the basis on which the allowances were determined, and the evidence supporting the analysis performed by management; ● Independently challenged whether the key assumptions used, such as the recovery strategies, collateral values and ranges of potential outcomes were appropriate given the borrower's circumstances; ● Re-performed management's provision calculation, critically assessing key inputs including expected future cash flows, discount rates, valuations of collateral held and the weightings applied to scenario outcomes; and

Key audit matter	How our audit addressed the key audit matter
	• Considered the extent to which the exposure is impacted by the economic conditions including high inflation levels and whether these factors had been appropriately reflected in the ECL provision. We tested and have evaluated the reasonableness of the disclosures made in the financial statements. Based on the evidence obtained, we concluded that the methodologies, modelled assumptions, management judgements and collective and individual assessed expected credit losses to be appropriate.

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 group and the company, the accounting processes and controls, and the industry in which they operate.

For the purpose of describing our scoping we refer to the group's organisational units as components. The group is divided into Retail, Commercial and Property segments. The consolidated financial statements are a consolidation of these components.

In establishing the overall approach to the group audit, we determined the type of work that is required to be performed over the components by us, as the group engagement team, or auditors within the PwC network of firms operating under our instruction ('component auditors').

Where the work was performed by component auditors, we determined the level of involvement we needed to have in their audit work to be able to conclude whether sufficient appropriate audit evidence had been obtained as a basis for our opinion on the consolidated financial statements as a whole. This included regular communication with the component auditors throughout the audit, the issuance of instructions and a review of the results of their work on the key audit matters. The components are all overseen by the same team as oversee the group audit.

Any components which were considered individually financially significant in the context of the group's consolidated financial statements (defined as components which represent more than or equal to 5% of the applicable benchmark) were considered full scope audit components. We considered the presence of any significant audit risks and other qualitative factors (including history of misstatements through fraud or error). Any component which was not already included as a full scope audit component but was identified as being individually financially significant in respect of one or more account balances was subject to specific audit procedures over those account balances.

Inconsequential components (defined as components which did not represent a reasonable possibility of a risk of material misstatement either individually or in aggregate) were eliminated from further consideration for specific audit procedures although they were subject to other audit procedures including testing of relevant controls and group and component level analytical review procedures. Certain account balances were audited centrally by the group engagement 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:

	Financial statements - group	Financial statements - company
Overall materiality	£11.4m (2021: £10.4m)	£11.5m (2021: £11.6m)
How we determined it	5% of profit before tax	5% of profit before tax
Rationale for benchmark applied	We believe that profit before tax is the primary measure used by the shareholders in assessing the performance of the entity, and is a generally accepted benchmark for determining audit materiality.	We believe that profit before tax is the primary measure used by the shareholders in assessing the performance of the entity, and is a generally accepted benchmark for determining audit materiality.

For each component in the scope of our group audit, we allocated a materiality that is less than our overall group materiality. The range of materiality allocated across components was £1.8m to £9.3m. Certain components were audited to a local statutory audit materiality that was also less than our overall group materiality.

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% of overall materiality, amounting to £8.55m (2021: £7.8m) for the group financial statements and £8.6m (2021: £8.7m) 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 Audit Committee that we would report to them misstatements identified during our audit above £500,000 (group audit) (2021: £500,000) and £500,000 (company audit) (2021: £500,000) as well as misstatements below those amounts that, in our view, warranted reporting for qualitative reasons.

Conclusions relating to going concern

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

- A detailed risk assessment to identify factors that could impact the going concern basis of accounting, including the cost of living and economic challenges linked to Covid-19;
- Evaluation of management's going concern assessment as well as the ICAAP and ILAAP submissions to the PRA;
- Evaluation of stress testing performed by management and consideration of whether the stresses applied are appropriate for assessing going concern;
- Evaluation of the Groups forecast financial performance, liquidity and capital positions over the going concern period; and
- Consideration of credit rating agency ratings and any actions.

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 group's and 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 group's and 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 group and company and their 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 group's and 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 group or 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 group and industry, we identified that the principal risks of non-compliance with laws and regulations related to breaches of laws and regulations, principally those determined by the Prudential Regulatory Authority ("PRA") and the Financial Conduct Authority ("FCA"), 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 the 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 manual journal entries to manipulate financial performance, management bias through judgements and assumptions in significant accounting estimates and significant one-off or unusual transactions. The group engagement team shared this risk assessment with the component auditors so that they could include appropriate audit procedures in response to such risks in their work. Audit procedures performed by the group engagement team and/or component auditors included:

- Discussions with management and those charged with governance including consideration of known or suspected instances of non-compliance with laws and regulation and fraud;
- Assessment of matters reported on the Group's whistleblowing helpline and the results of management's investigation of such matters;
- Challenging assumptions and judgements made by management in their significant accounting estimates, in particular in relation to the allowance for ECL;
- Identifying and testing journal entries, in particular any manual journal entries posted by unexpected or unusual users, posted with descriptions indicating a higher level of risk, and posted late with a favourable impact on financial performance;
- Performing testing over period end adjustments;
- Incorporating unpredictability into the nature, timing and/or extent of our testing; and
- Reviewing key correspondence with the FCA and PRA.

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 company financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Appointment

Following the recommendation of the Audit Committee, we were appointed by the directors on 17 May 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

27 September 2022

Consolidated Income Statement

for the year ended 31 July 2022

	Note	2022 £ million	2021 £ million
Interest income	4	**689.7**	656.7
Interest expense	4	**(107.4)**	(114.9)
Net interest income		**582.3**	541.8
Fee and commission income	4	**98.1**	88.2
Fee and commission expense	4	**(14.7)**	(13.5)
Other income	4	**101.6**	87.0
Depreciation of operating lease assets and other direct costs	15	**(71.9)**	(69.5)
Non-interest income		**113.1**	92.2
Operating income		**695.4**	634.0
Administrative expenses	4	**(362.6)**	(329.1)
Impairment losses on financial assets	11	**(103.3)**	(90.1)
Total operating expenses before amortisation and impairment of intangible assets on acquisition, goodwill impairment and exceptional item		**(465.9)**	(419.2)
Operating profit before amortisation and impairment of intangible assets on acquisition, goodwill impairment and exceptional item		**229.5**	214.8
Amortisation and impairment of intangible assets on acquisition	14	**(0.1)**	(12.9)
Goodwill impairment	14	**-**	(12.1)
Exceptional item: HMRC VAT refund	7	**-**	19.7
Operating profit before tax		**229.4**	209.5
Tax	8	**(66.3)**	(50.1)
Profit after tax		**163.1**	159.4
Profit attributable to shareholders		**163.1**	159.4

Consolidated Statement of Comprehensive Income

for the year ended 31 July 2022

	2022 £ million	2021 £ million
Profit after tax	**163.1**	159.4
Items that may be reclassified to income statement		
Currency translation losses	**(0.6)**	(1.1)
Gains on cash flow hedging	**30.6**	7.4
(Losses)/gains on financial instruments classified at fair value through other comprehensive income:		
Sovereign and central bank debt	**(1.1)**	0.9
Tax relating to items that may be reclassified	**(7.9)**	(1.2)
Other comprehensive income, net of tax	**21.0**	6.0
Total comprehensive income	**184.1**	165.4
Attributable to		
Shareholders	**184.1**	165.4
	184.1	165.4

Consolidated Balance Sheet

at 31 July 2022

	Note	31 July 2022 £ million	31 July 2021 £ million
Assets			
Cash and balances at central banks		**1,254.7**	1,331.0
Loans and advances to banks	10	**85.6**	66.8
Loans and advances to customers	11	**8,858.9**	8,444.5
Debt securities	12	**600.4**	457.2
Derivative financial instruments	13	**71.1**	18.3
Intangible assets	14	**160.5**	138.7
Property, plant and equipment	15	**279.0**	263.1
Current tax assets		**40.8**	28.7
Deferred tax assets	8	**24.8**	48.0
Prepayments, accrued income and other assets	16	**132.5**	154.6
Total assets		**11,508.3**	10,950.9
Liabilities			
Deposits from banks	17	**160.5**	150.6
Deposits from customers	17	**6,770.4**	6,634.8
Loans and overdrafts from banks	17	**610.8**	506.2
Debt securities in issue	17	**1,810.5**	1,611.8
Derivative financial instruments	13	**89.2**	21.2
Amounts due to group undertakings	18	**356.7**	347.2
Accruals, deferred income and other liabilities	16	**197.7**	184.0
Subordinated loan capital	19	**186.5**	222.7
Total liabilities		**10,182.3**	9,678.5
Equity			
Called up share capital		**122.5**	122.5
Retained earnings		**1,183.2**	1,151.6
Other reserves		**20.3**	(0.7)
Total shareholders' equity		**1,326.0**	1,273.4
Non-controlling interests		**-**	(1.0)
Total equity		**1,326.0**	1,272.4
Total equity and liabilities		**11,508.3**	10,950.9

The consolidated financial statements were approved and authorised for issue by the board of directors on 27 September 2022 and signed on its behalf by:

A J Sainsbury

Adrian J. Sainsbury
Director

MBMorgan

M. B. Morgan
Director

Consolidated Statement of Changes in Equity

for the year ended 31 July 2022

	Called up share capital*	Retained earnings	Capital contribution reserve	Other Reserves: Exchange movements reserve	Other Reserves: FVOCI reserve	Other Reserves: Cash flow hedging reserve	Total attributable to equity holders	Non-controlling interests	Total equity
	£ million	£ million	£ million	£ million	£ million	£ million	£ million	£ million	£ million
At 1 August 2020	122.5	1,083.2	-	(1.2)	0.2	(5.7)	1,199.0	(1.0)	1,198.0
Profit for the year	-	159.4	-	-	-	-	159.4	-	159.4
Other comprehensive income	-	-	-	-	0.6	5.4	6.0	-	6.0
Total comprehensive income for the year	-	159.4	-	-	0.6	5.4	165.4	-	165.4
Other movements	-	0.5	-	-	-	-	0.5	-	0.5
Income tax	-	0.8	-	-	-	-	0.8	-	0.8
Dividends paid (note 9)	-	(92.3)	-	-	-	-	(92.3)	-	(92.3)
Capital contribution – parent equity-settled share-based payments	-	-	1.8	-	-	-	1.8	-	1.8
Return of capital contribution – parent equity-settled share-based payments	-	-	(1.8)	-	-	-	(1.8)	-	(1.8)
At 31 July 2021	122.5	1,151.6	-	(1.2)	0.8	(0.3)	1,273.4	(1.0)	1,272.4
Profit for the year	**-**	**163.1**	**-**	**-**	**-**	**-**	**163.1**	**-**	**163.1**
Other comprehensive (expense)/income	**-**	**-**	**-**	**(0.3)**	**(0.7)**	**22.0**	**21.0**	**-**	**21.0**
Total comprehensive income/(expense) for the year	**-**	**163.1**	**-**	**(0.3)**	**(0.7)**	**22.0**	**184.1**	**-**	**184.1**
Other movements	**-**	**(0.7)**	**-**	**-**	**-**	**-**	**(0.7)**	**1.0**	**0.3**
Income tax	**-**	**(0.7)**	**-**	**-**	**-**	**-**	**(0.7)**	**-**	**(0.7)**
Dividends paid (note 9)	**-**	**(130.1)**	**-**	**-**	**-**	**-**	**(130.1)**	**-**	**(130.1)**
Capital contribution – parent equity-settled share-based payments	**-**	**-**	**1.6**	**-**	**-**	**-**	**1.6**	**-**	**1.6**
Return of capital contribution – parent equity-settled share-based payments	**-**	**-**	**(1.6)**	**-**	**-**	**-**	**(1.6)**	**-**	**(1.6)**
At 31 July 2022	**122.5**	**1,183.2**	**-**	**(1.5)**	**0.1**	**21.7**	**1,326.0**	**-**	**1,326.0**

*Allotted, called-up and fully-paid share capital comprised 122,480,000 (2021: 122,480,000) ordinary shares of £1 each

Consolidated Cash Flow Statement

for the year ended 31 July 2022

	Note	2022 £ million	2021 £ million
Net cash inflow from operating activities	26(a)	**120.8**	89.2
Net cash outflow from investing activities			
Purchase of:			
Property, plant and equipment		**(4.6)**	(3.7)
Intangible assets - software		**(48.8)**	(43.5)
Subsidiaries	26(b)	**(0.1)**	-
		(53.5)	(47.2)
Net cash inflow before financing activities		**67.3**	42.0
Financing activities			
Equity dividends paid		**(127.9)**	(90.0)
Amounts received from group undertakings		**12.8**	19.7
Interest paid on debt financing		**(6.9)**	(6.9)
Payment of lease liabilities		**(9.2)**	(11.0)
Net decrease in cash		**(63.9)**	(46.2)
Cash and cash equivalents at beginning of year		**1,367.1**	1,413.3
Cash and cash equivalents at end of year	26(c)	**1,303.2**	1,367.1

Notes to the Consolidated Accounts

for the year ended 31 July 2022

1. Significant accounting policies

(a) Reporting entity

Close Brothers Limited ("the company"), a limited company incorporated and domiciled in the UK, together with its subsidiaries (collectively, "the group"), operates through three (2021: three) operating segments; Commercial, Retail and Property, and is primarily located within the UK.

The company financial statements ("the company accounts") have been prepared in compliance with United Kingdom Accounting Standards, including Financial Reporting Standard 101 "The Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland ("FRS 101") and the Companies Act 2006, under the provision of the Large and Medium-sized Companies and Groups (Accounts and Financial Instruments: Recognition and Measurement Reports) Regulations 2008 (SI 2008/410).The company has taken advantage of the exemption in Section 408 of the Companies Act 2006 not to present its company income statement and related notes.

The company has taken advantage of the following disclosure exemptions under FRS 101:

- the requirements of paragraphs 45(b) and 46 – 52 of IFRS 2 Share-based payment;
- paragraph 38 of IAS 1 Presentation of Financial Statements, comparative information requirements in respect of paragraph 79(a)(iv) of IAS 1;
- the requirements of paragraphs 10(d), 10(f), 16, 38A, 38B, 38C, 38D, 40A, 40B, 40C, 40D, 111 and 134-136 of IAS 1 Presentation of financial statements;
- the requirements of IAS 7 Statement of Cash Flows;
- the requirements of paragraphs 30 and 31 of IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors;
- the requirements of paragraph 17 of IAS 24 Related Party Disclosures;
- the requirements in IAS 24 Related Party Disclosures to disclose related party transactions entered into between two or more members of a group, provided that any subsidiary which is a party to the transaction is wholly owned by such a member;
- the requirements of paragraphs 134(d) – 134(f) and 135(c) - 135(e) of IAS 36 Impairment of Assets; and
- the requirements of IAS 8 on standards not yet effective

Where relevant the accounting policies of the company are the same as those of the group set out in this note except for (j) Leases. For the company, rental costs under operating leases are charged to the income statement in equal instalments over the period of the lease.

(b) Compliance with International Financial Reporting Standards

The consolidated financial statements ("the consolidated accounts") have been prepared and approved by the directors in accordance with all relevant IFRSs as issued by the International Accounting Standards Board and interpretations issued by the IFRS Interpretations Committee.

Standards adopted during the year

The accounting policies applied this financial year are set out in this note and consistent with those of the previous financial year.

In the year ended 31 July 2021, the group early adopted the IASB's Interest Rate Benchmark Reform Phase 2 amendments, which were effective for accounting periods beginning on or after 1 January 2021. These amendments, which addressed the impact on financial reporting during the reform of an interest rate benchmark, did not have a material impact on the group's financial results.

Future accounting developments

Minor amendments to IFRSs effective for the group from 1 August 2022 have been issued by the IASB. These amendments are expected to have no or an immaterial impact on the group.

Notes to the Consolidated Accounts

for the year ended 31 July 2022

1. Significant accounting policies *continued*

(c) Basis of preparation

The consolidated and company accounts have been prepared under the historical cost convention, except for the revaluation of financial assets and liabilities held at fair value through profit or loss, financial assets held at fair value through other comprehensive income and all derivative financial instruments ("derivatives").

The consolidated accounts have been prepared in accordance with UK-adopted international accounting standards.

The financial statements are prepared on a going concern basis as disclosed in the Directors' Report.

(d) Consolidation and investment in subsidiary

Subsidiaries

Subsidiaries are all entities over which the group has control. The group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Such power generally accompanies a shareholding of more than one half of the voting rights. Subsidiaries are fully consolidated from the date on which the group effectively obtains control. They are de-consolidated from the date that control ceases.

The acquisition method of accounting is used to account for the acquisition of subsidiaries. Under the acquisition method of accounting, with some limited exceptions, the assets, liabilities and contingent liabilities of a subsidiary are measured at their fair values at the date of acquisition. Any non-controlling interest is measured either at fair value or at the non-controlling interest's proportion of the net assets acquired. Acquisition related costs are accounted for as expenses when incurred, unless directly related to the issue of debt or equity securities. Any excess of the cost of acquisition over net assets is capitalised as goodwill. All intra-group balances, transactions, income and expenses are eliminated.

The company's investment in its subsidiary is valued at cost less any accumulated impairment losses.

(e) Foreign currency translation

For the company and those subsidiaries whose balance sheets are denominated in sterling, which is the company's functional and presentation currency, monetary assets and liabilities denominated in foreign currencies are translated into sterling at the closing rates of exchange at the balance sheet date. Foreign currency transactions are translated into sterling at the average rates of exchange at the date of the transaction and exchange differences arising are taken to the consolidated income statement.

The balance sheets of subsidiaries denominated in foreign currencies are translated into sterling at the closing rates. The income statements for these subsidiaries are translated at the average rates and exchange differences arising are taken to equity. Such exchange differences are reclassified to the consolidated income statement in the period in which the subsidiary is disposed of.

(f) Revenue recognition

Interest income

Interest on loans and advances made by the group, and fee income and expense and other direct costs relating to loan origination, restructuring or commitments are recognised in the consolidated income statement using the effective interest rate method.

The effective interest rate method applies a rate that discounts estimated future cash payments or receipts relating to a financial instrument to its net carrying amount. The cash flows take into account all contractual terms of the financial instrument including transaction costs and all other premiums or discounts but not future credit losses.

Fees and commissions

Where fees that have not been included within the effective interest rate method are earned on the execution of a significant act, such as fees arising from negotiating or arranging a transaction for a third party, they are recognised as revenue when that act has been completed. Fees and corresponding expenses in respect of other services are recognised in the consolidated income statement as the right to consideration or payment accrues through performance of services. To the extent that fees and commissions are recognised in advance of billing they are included as accrued income or expense.

Dividends

Dividend income is recognised when the right to receive payment is established.

Notes to the Consolidated Accounts

for the year ended 31 July 2022

1. Significant accounting policies *continued*

(g) Adjusted measures

Adjusted measures exclude amortisation and impairment of intangible assets on acquisition, goodwill impairment and exceptional items. Amortisation and impairment of intangible assets on acquisition and goodwill impairment are excluded to present the performance of the group's acquired businesses consistent with its other businesses. Exceptional items are income and expense items that are material by size and/or nature and are non-recurring. The separate reporting of these items helps give an indication of the group's underlying performance.

(h) Financial assets and liabilities (excluding derivatives)

Classification and measurement

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 classification categories are amortised cost, fair value through other comprehensive income ("FVOCI") and fair value through profit or loss ("FVTPL").

Financial assets that 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.

Financial assets that are held to collect contractual cash flows and for subsequent sale, where the assets' cash flows represent solely payments of principal and interest, are classified at FVOCI. Directly attributable transaction costs are added to the initial fair value. Gains and losses are recognised in other comprehensive income, except for impairment gains and losses, until the financial asset is either sold or matures, at which time the cumulative gain or loss is recognised in the income statement. Impairment gains and losses are recognised in the income statement.

Financial assets are classified at FVTPL where they do not meet the criteria to be measured at amortised cost or FVOCI or where they are designated at FVTPL to reduce an accounting mismatch. Financial assets at FVTPL are recognised at fair value. Transaction costs are not added to or deducted from the initial fair value, they are immediately recognised in profit or loss on initial recognition. Gains and losses that subsequently arise on changes in fair value are recognised in the income statement.

Financial liabilities are classified at initial recognition at amortised cost except for the following which are classified at FVTPL: derivatives; financial liabilities held for trading; and financial liabilities designated at FVTPL to eliminate an accounting mismatch.

Financial liabilities at amortised cost are measured at fair value less directly attributable transaction costs on initial recognition. Interest expense is accounted for using the effective interest rate method. Financial liabilities at FVTPL are measured at fair value on initial recognition. Transaction costs are not added to or deducted from the initial fair value, they are immediately recognised in profit or loss on initial recognition. Subsequent changes in fair value are recognised in the income statement except for financial liabilities designated at FVTPL; changes in fair value attributable to changes in credit risk are recognised in other comprehensive income.

The fair values of quoted financial assets or financial liabilities in active markets are based on bid or offer prices. If the market for a financial asset or financial liability is not active, or they relate to unlisted securities, the group establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, discounted cash flow analysis and other valuation techniques commonly used by market participants.

Derecognition

Financial assets are derecognised when the contractual rights to receive cash flows from the financial assets have expired or where the group has transferred the contractual rights to receive cash flows and 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 group's continuing involvement. Financial liabilities are derecognised when they are extinguished.

Notes to the Consolidated Accounts

for the year ended 31 July 2022

1. Significant accounting policies *continued*

Modifications

The terms or cash flows of a financial asset or liability may be modified due to renegotiation or otherwise. If the terms or cash flows are substantially different to the original, then the financial asset or liability is derecognised and a new financial asset or liability is recognised at fair value. If the terms or cash flows are not substantially different to the original, then the financial asset or liability carrying value is adjusted to reflect the present value of modified cash flows discounted at the original EIR. The adjustment is recognised within income on the income statement.

(i) Impairment of financial assets

Expected credit losses

In accordance with IFRS 9, expected credit losses ("ECL") are recognised for loans and advances to customers and banks, other financial assets held at amortised cost, financial assets measured at FVOCI, loan commitments and financial guarantee contracts. The impairment charge in the income statement includes the change in expected credit losses and fraud costs.

At initial recognition, financial assets are considered to be in Stage 1 and a provision is recognised for 12 months of expected credit losses. If a significant increase in credit risk since initial recognition occurs, these financial assets are considered to be in Stage 2 and a provision is made for the lifetime expected credit losses. 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 and it can be returned to Stage 1 or until it deteriorates such that it meets the criteria to move to Stage 3.

Where a financial asset no longer represents a significant increase in credit risk since origination it can move from Stage 2 back to Stage 1. As 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.

Cure definitions are in operation where financial assets in Stage 3 can move back to Stage 2, subject to Stage 3 indicators no longer being in effect, and meeting the appropriate cure period.

In all circumstances loans and advances to customers are written off against the related provisions when there are no reasonable expectations of further recovery. This is typically 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.

The calculation of expected credit losses for loans and advances to customers, either on a 12-month or lifetime basis, is based on the probability of default ("PD"), the exposure at default ("EAD") and the loss given default ("LGD"), and includes forward-looking macroeconomic information where appropriate.

PD, EAD and LGD parameters are projected over the remaining life of each exposure. ECL is calculated for each future quarter by multiplying the three parameters and is then discounted back to the reporting date and summed. The discount rate used in the ECL calculation is the effective interest rate.

IFRS 9 risk parameters are estimated using historical data wherever possible, and in the absence of sufficient loss history, an expert judgment approach is considered for some parameters.

Probability of Default

PD estimates represent the likelihood of a borrower defaulting on its financial obligation. Bespoke model-based approaches to estimate PDs are employed across Commercial, Retail and Property. The framework applied typically includes an economic response model to quantify the impact of macroeconomic forecasts and a risk ranking mechanism (e.g. a scorecard) to quantify obligor level likelihood of default. Risk characteristics that feed into the PD model framework include current and past information related to borrowers, transaction and payment profiles, and future economic forecasts. Statistical techniques, based on evidence observed in historical data, and business knowledge are used to determine which characteristics are predictive of default behaviour.

Notes to the Consolidated Accounts

for the year ended 31 July 2022

1. Significant accounting policies *continued*

Exposure at Default
EAD represents the amounts expected to be owed at the time of default and is estimated using an amortising schedule for the large majority of exposures, or a credit conversion factor, depending on the nature of lending.

Loss Given Default
LGD represents an expectation of the extent of loss on a defaulted exposure after taking into account cash recoveries, including the value of collateral held and other credit risk mitigants. LGD methodologies vary by the nature of assets financed and can include estimates for the likelihood of collateral recovery and a separate calculation for the likely loss on recovery. For some businesses LGDs are estimated using liquidation curves based on historical cashflows. Recoveries are adjusted to account for the impact of discounting using the effective interest rate.

The calculation of expected credit losses for some loan portfolios, receivables relating to operating lease assets and settlement balances is based on a simplified lifetime only expected credit loss approach. Under the simplified approach, stage classification represents management's internal assessment of credit risk.

Expected credit losses are assessed against actual loss experience via a series of provision adequacy reviews. These reviews also incorporate management judgement to ensure that our ECL coverage ratios remain appropriate.

During the year, a number of enhancements were made to the IFRS 9 models used for the calculation of expected credit losses in the Leasing business. The enhancements were made to address known model limitations and to ensure modelled provisions better reflect future loss emergence. The impact of model changes to the expected credit loss provision are disclosed in note 11(d).

(j) Leases

Lessor
A finance lease is a lease or hire purchase contract that transfers substantially all the risks and rewards incidental to ownership of an asset to the lessee. Finance leases are recognised as loans at an amount equal to the gross investment in the lease, which comprises the lease payments receivable and any unguaranteed residual value, discounted at its implicit interest rate. Finance charges on finance leases are taken to income in proportion to the net funds invested.

An operating lease is a lease that does not transfer substantially all the risks and rewards incidental to ownership of an asset to the lessee. Rental income from operating leases is recognised in equal instalments over the period of the leases and included in other income in the consolidated income statement.

Lessee
A lease liability and right of use asset are recognised on the balance sheet at the lease commencement date. The lease liability is measured at the present value of future lease payments. The discount rate is the rate implicit in the lease, or if that cannot be determined, the group's incremental borrowing rate appropriate for the right of use asset. The right of use asset is measured at cost, comprising the initial lease liability, payments made at or before the commencement date less lease incentives received, initial direct costs, and estimated costs of restoring the underlying asset to the condition required by the lease.

Lease payments are allocated between the liability and finance cost. The finance cost relating to the lease liability is charged to the consolidated income statement over the lease term. The right of use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

Notes to the Consolidated Accounts

for the year ended 31 July 2022

1. Significant accounting policies *continued*

(k) Sale and repurchase agreements and other secured lending and borrowings

Securities may be sold subject to a commitment to repurchase them. Such securities are retained on the consolidated balance sheet when substantially all the risks and rewards of ownership remain with the group. The transactions are treated as collateralised borrowing and the counterparty liability is included within loans and overdrafts from banks. Similar secured borrowing transactions, including securities lending transactions and collateralised short-term notes, are treated and presented in the same way. These secured financing transactions are initially recognised at fair value, and subsequently valued at amortised cost, using the effective interest rate method.

(l) Securitisation transactions

The group securitises its own financial assets via the sale of these assets to special purpose entities, which in turn issue securities to investors. All financial assets continue to be held on the group's consolidated balance sheet together with debt securities in issue recognised for the funding – see derecognition policy (h).

(m) Offsetting financial instruments

Financial assets and financial liabilities are offset and the net amount presented on the consolidated balance sheet if, and only if, there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or to realise an asset and settle the liability simultaneously.

(n) Derivatives and hedge accounting

On adoption of IFRS 9 Financial Instruments in 2018, the group elected to continue applying hedge accounting under IAS 39 Financial Instruments: Recognition and Measurement.

In general, derivatives are used to minimise the impact of interest, currency rate and equity price changes to the group's financial instruments. They are carried on the consolidated balance sheet at fair value which is obtained from quoted market prices in active markets, including recent market transactions and discounted cash flow models.

On acquisition, certain derivatives are designated as a hedge and the group formally documents the relationship between these derivatives and the hedged item. The group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivative is highly effective in offsetting changes in fair values or cash flows of hedged items. If a hedge was deemed partially ineffective but continues to qualify for hedge accounting, the amount of the ineffectiveness, taking into account the timing of the expected cash flows where relevant, would be recorded in the consolidated income statement. If the hedge is not, or has ceased to be, highly effective, the group discontinues hedge accounting.

For fair value hedges, changes in the fair value are recognised in the consolidated income statement, together with changes in the fair value of the hedged item. For cash flow hedges, the fair value gain or loss associated with the effective proportion of the cash flow hedge is recognised initially directly in equity and recycled to the consolidated income statement in the period when the hedged item affects income.

Notes to the Consolidated Accounts

for the year ended 31 July 2022

1. Significant accounting policies *continued*

(o) Intangible assets

Computer software (acquired and costs associated with development) and intangible assets on acquisition (excluding goodwill) are stated at cost less accumulated amortisation and provisions for impairment which are reviewed at least annually. Amortisation is calculated to write off their cost on a straight-line basis over the estimated useful lives as follows:

Computer software	3 to 5 years
Intangible assets on acquisition	8 to 20 years

Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill is assessed annually for impairment and carried at cost less any accumulated impairment.

(p) Property, plant and equipment

Property, plant and equipment is stated at cost less accumulated depreciation and provisions for impairment which are reviewed at least annually. Depreciation is calculated to write off their cost on a straight-line basis over their estimated useful lives as follows:

Long leasehold property	40 years
Short leasehold property	Over the length of the lease
Fixtures, fittings and equipment	3 to 5 years
Assets held under operating leases	1 to 20 years
Motor vehicles	1 to 5 years

(q) Share capital

Share issue costs

Incremental costs directly attributable to the issue of new shares or options, including those issued on the acquisition of a business, are shown in equity as a deduction, net of tax, from the proceeds.

Dividends on ordinary shares

Dividends on ordinary shares are recognised in equity in the period in which they are paid or, if earlier, approved by shareholders.

(r) Employee benefits

Close Brothers Group plc ("CBG"), the ultimate parent company, operates defined contribution pension schemes for eligible employees as well as a defined benefit pension scheme which is closed to new members and further accrual.

Under the defined contribution scheme the group pays fixed contributions into a fund separate from CBG's assets. Contributions are charged in the consolidated income statement when they become payable.

The expected cost of providing pensions within the funded defined benefit scheme, determined on the basis of annual valuations using the projected unit method, is charged to the consolidated income statement. Actuarial gains and losses are recognised in full in the period in which they occur and recognised in other comprehensive income.

The retirement benefit obligation recognised in the balance sheet represents the present value of the defined benefit obligation, as adjusted for unrecognised past service cost, and as reduced by the fair value of scheme assets at the balance sheet date. Both the return on investment expected in the period and the expected financing cost of the liability, as estimated at the beginning of the period, are recognised in the results for the period. Any variances against these estimates in the year form part of the actuarial gain or loss. The assets of the scheme are held separately from those of CBG in an independently managed fund.

Notes to the Consolidated Accounts

for the year ended 31 July 2022

1. Significant accounting policies *continued*

(s) Share-based awards

CBG operates share based award schemes in which group employees have participated. These are the Deferred Share Awards (“DSA”) scheme, Long Term Incentive Plan ("LTIP"), and HMRC approved Save As You Earn (“SAYE”) scheme.

The cost of the awards granted under the DSA scheme are based on the salary of the individual at the time the award is made. The value of the share award at the grant date is charged to the group’s consolidated income statement in the year to which the award relates.

The costs of LTIP and SAYE are based on the fair value of awards on the date of grant. Fair values of share-based awards are determined using the Black-Scholes pricing model, with the exception of fair values for market-based performance conditions, which are determined using Monte Carlo simulation. Both models take into account the exercise price of the option, the current share price, the risk-free interest rate, the expected volatility of the CBG’s share price over the life of the option award and other relevant factors. For non-market-based performance conditions, vesting conditions are not taken into account when measuring fair value, but are reflected by adjusting the number of shares in each award such that the amount recognised reflects the number that are expected to, and then actually do, vest. CBG expense the fair value of the awards, including recharges to subsidiary companies where applicable, in their income statement on a straight-line basis over the vesting period, with a corresponding credit to the share-based payments reserve. At the end of the vesting period, or upon exercise, lapse or forfeit if earlier, this credit is transferred to retained earnings. In subsidiary companies, the share-based awards charge is recognised as a capital contribution, which is subsequently reversed when the fair value of the awards is recharged by CBG. Further information on the group’s schemes is provided in note 24.

(t) Provisions and contingent liabilities

Provisions are recognised in respect of present obligations arising from past events where it is probable that outflows of resources will be required to settle the obligations and they can be reliably estimated.

Contingent liabilities are possible obligations whose existence depends on the outcome of uncertain future events or those present obligations where the outflows of resources are uncertain or cannot be measured reliably. Contingent liabilities are not recognised in the financial statements but are disclosed unless they are deemed remote.

(u) Taxes, including deferred taxes

Current tax is the expected tax payable on the taxable profit for the year. Taxable profit differs from net profit as reported in the consolidated income statement because it excludes items of income and expense that are taxable or deductible in other years and items that are never taxable or deductible. The group’s liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

To enable the tax charge to be based on the profit for the year, deferred tax is provided in full on temporary timing differences, at the rates of tax expected to apply when these differences crystallise. Deferred tax assets are recognised only to the extent that it is probable that sufficient taxable profits will be available against which temporary differences can be set. Deferred tax liabilities are offset against deferred tax assets when there is both a legal right to set off and an intention to settle on a net basis.

(v) Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprises cash and demand deposits with banks, together with short-term highly liquid investments that are readily convertible to known amounts of cash.

(w) Segmental reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the Executive Committee, which is considered the group’s chief operating decision maker. All transactions between business segments are conducted on an arm’s length basis, with intra-segment revenue and costs being eliminated on consolidation. Income and expenses directly associated with each segment are included in determining business segment performance.

(x) Investment in subsidiaries (Company only)

Investments in subsidiaries are stated at cost less provision for impairment.

Notes to the Consolidated Accounts

for the year ended 31 July 2022

2. Critical accounting estimates and judgements

The reported results of the group 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 group's financial statements, to select suitable accounting policies, apply them consistently and make judgements, estimates and assumptions that are reasonable. The group's estimates and assumptions are based on historical experience and reasonable expectations of future events and are reviewed on an ongoing basis. There are no critical accounting judgements or key sources of estimation uncertainty relating to the company.

While the impact of climate change represents a source of uncertainty, the group does not consider climate related risks to be a critical accounting judgement or estimate.

Critical accounting judgements

In the application of the group's accounting policies, which are described in note 1, judgements that are considered by the board to have the most significant effect on the amounts in the financial statements are as follows.

Expected credit losses

At 31 July 2022 the group's expected credit loss provision was £285.6 million (31 July 2021: £280.4 million). The calculation of the group's expected credit loss provision under IFRS 9 requires the group to make a number of judgements, assumptions and estimates. The most significant are set out below.

Significant increase in credit risk

Assets are transferred from Stage 1 to Stage 2 when there has been a significant increase in credit risk since initial recognition. The assessment, which requires judgement, is probability weighted and uses historical, current and forward-looking information.

Typically, the group assesses whether a significant increase in credit risk has occurred based on a quantitative and qualitative assessment, with a 30 days past due backstop. Due to the diverse nature of the group's lending businesses, the specific indicators of a significant increase in credit risk vary by business and may include some or all of the following factors.

- Quantitative assessment: the lifetime PD has increased by more than an agreed threshold relative to the equivalent at origination. Thresholds are based on a fixed number of risk grade movements which are bespoke to the business to ensure that the increased risk since origination is appropriately captured;
- Qualitative assessment: events or observed behaviour indicate credit deterioration. This includes a wide range of information that is reasonably available including individual credit assessments of the financial performance of borrowers as appropriate during routine reviews, plus forbearance and watch list information; or
- Backstop criteria: the 30 days past due backstop is met.

Definition of default

The definition of default is an important building block for expected credit loss models and is considered a key judgement. A default is considered to have occurred if any unlikeliness to pay criteria is met or when a financial asset meets a 90 days past due backstop. While some criteria are factual (e.g. administration, insolvency, or bankruptcy), others require a judgmental assessment of whether the borrower has financial difficulties which are expected to have a detrimental impact on their ability to meet contractual obligations. A change in the definition of default may have a material impact on the expected credit loss provision.

Notes to the Consolidated Accounts

for the year ended 31 July 2022

2. Critical accounting estimates and judgements *continued*

Key sources of estimation uncertainty

At the balance sheet date, the directors consider that expected credit loss provisions are a key source of estimation uncertainty which, depending on a wide range of factors, could result in a material adjustment to the carrying amounts of assets and liabilities in the next financial year.

The accuracy of expected credit loss provisions can be impacted by unpredictable effects or unanticipated changes to model estimates. In addition, forecasting errors could also occur due to macroeconomic scenarios or weightings differing from actual outcomes observed. Regular model monitoring, validations and provision adequacy reviews are key mechanisms to manage estimation uncertainty across model estimates.

We continue to monitor and evaluate the impact of climate risk on our expected credit loss provisions. As at 31 July 2022 we do not consider climate risk to have a material impact on our credit losses.

A representation of the core drivers of the macroeconomic scenarios that are deployed in our models are outlined on page 63. In some instances, our underlying business expected credit loss models use a range of other macroeconomic metrics and assumptions which are linked to the underlying characteristics of the business.

Model estimates

Across the group, expected credit loss provisions are outputs of models which are based on a number of assumptions. The assumptions applied involve judgement and as a result are regularly assessed.

The two assumptions requiring the most significant judgement relate to case failure rates and recovery rates in Novitas.

Novitas provides funding via intermediaries to individuals who wish to pursue legal cases. Over the course of this financial year, experience of credit performance has required the group to update a number of assumptions in the calculation of the expected credit loss provision for Novitas. A significant portion of the expected credit loss provision reported in Commercial relates to the Novitas loan book.

The majority of the Novitas portfolio, and therefore provision, relates to civil litigation cases. To help protect customers in the event that their case fails, a standard loan condition is that an individual purchases an insurance policy which covers loan capital and varying levels of interest. Across the portfolio there are insurance policies from a number of well-rated insurers.

The key sources of estimation uncertainty for the portfolio's expected credit loss provision are case failure rates and recovery rates. Case failure rates represent a forward-looking probability assessment of successful case outcomes, where a claimant is awarded settlement either prior to or following a court process, informed by actual case failure rates, where a claim is unsuccessful and expected to be repaid with proceeds from an insurance policy. Further, when a case fails or is placed on hold it is immediately considered to be in Stage 2. Recovery rates represent the level of interest and capital that is covered by an insurance policy and expected to be recoverable once a case fails. In addition, an assessment is also undertaken reflecting potential insurer insolvency risk with resultant expected credit losses held for this. All uninsured cases and financial assets which are due for more than 90 days are classified as Stage 3.

Assumptions are informed by experience of credit performance, with management judgement applied to reflect expected outcomes and uncertainties. In addition, the provision is informed by sensitivity analysis to reflect the level of uncertainty. More detailed credit performance data continues to develop as the portfolio matures, which over time will reduce the level of estimation uncertainty.

Based on this methodology, and using the latest information available, there has been an uplift in the expected credit loss provision in Novitas, reflecting the latest assumptions on case failure and recovery rates. Further details on provisions are included in note 11.

Given these assumptions represent sources of estimation uncertainty, management has assessed and completed sensitivity analysis when compared to the expected credit loss provision for Novitas of £113.3 million (31 July 2021: £89.3 million). At 31 July 2022, a 5% absolute improvement in case failure rates would decrease the ECL provision by £5.8 million (31 July 2021: £8.2 million), while a 5% absolute deterioration would increase it by £4.7 million (31 July 2021: £8.2 million). Separately, a 10% absolute deterioration or improvement in recovery rates would increase or decrease the ECL provision by £13.7 million (31 July 2021: £8.4 million).

Notes to the Consolidated Accounts

for the year ended 31 July 2022

2. Critical accounting estimates and judgements *continued*

Forward-looking information

Determining expected credit losses under IFRS 9 requires the incorporation of forward-looking macroeconomic information that is reasonable, supportable and includes assumptions linked to economic variables that impact losses in each portfolio. The introduction of macroeconomic information introduces additional volatility to provisions.

In order to calculate forward-looking provisions, economic scenarios are sourced from Moody's Analytics, which are then used to project potential credit conditions for each portfolio. An overview of these scenarios using key macroeconomic indicators is provided on page 63. Benchmarking to other economic providers is carried out to provide management comfort on Moody's Analytics scenario paths.

Five different projected economic scenarios are currently considered to cover a range of possible outcomes. These include a baseline scenario, which reflects the best view of future economic events. In addition, one upside scenario and three downside scenario paths are defined relative to the baseline. Management assigns the scenarios a probability weighting to reflect the likelihood of specific scenarios and therefore loss outcomes materialising, using a combination of quantitative analysis and expert judgement.

The impact of forward-looking information varies across the group's lending businesses because of the differing sensitivity of each portfolio to specific macroeconomic variables. The modelled impact of macroeconomic scenarios and their respective weightings is reviewed by business experts in relation to stage allocation and coverage ratios at the individual and portfolio level, incorporating management's experience and knowledge of customers, the sectors in which they operate, and the assets financed.

The Credit Risk Management Committee ("CRMC") including the Group finance director and Group chief risk officer meets monthly, to review and, if appropriate, agree changes to the economic scenarios and probability weightings assigned thereto. The decision is subsequently noted at the Group Risk and Compliance Committee ("GRCC"), which includes the aforementioned roles in addition to the Group chief executive officer.

Economic forecasts have evolved over the course of 2022. At 31 July 2021, the scenario weightings reflected the continued economic challenges and uncertainty associated with the pandemic, with 40% allocated to the baseline scenario, 20% to the upside scenario and 40% across the three downside scenarios. The level of economic uncertainty associated with the pandemic reduced up to 31 January 2022 and 10% weight was moved from the 3 downside scenarios to the upside scenario. In the second half of 2022, 7.5% weight has moved from the baseline scenario to the 3 downside scenarios, resulting in final weights that are considered consistent with the economic uncertainty at 31 July 2022, as follows: 30% strong upside, 32.5% baseline, 20% mild downside, 10.5% moderate downside and 7% severe downside.

Scenario forecasts deployed in IFRS 9 macroeconomic models are updated on a monthly basis. As at 31 July 2022, the latest baseline scenario forecasts GDP growth of 3.4% in calendar year 2022 and an average Base Rate of 1.1% across calendar year 2022. CPI is forecast to be 10.7% in calendar year 2022 in the baseline scenario, with 17.1% forecast in the protracted downside scenario over the same period.

Given the current economic uncertainty, we have undertaken further analysis to assess the appropriateness of the five scenarios used. This included benchmarking these scenarios to consensus economic views, as well as consideration of an additional forecast related to stagflation, which could be considered as an alternative downside scenario. When compared to the three downside scenarios, the stagflation scenario included a smaller initial reduction in GDP, coupled with higher interest rates and economic contraction over a more sustained period. Given the short tenor of our credit portfolio, using this forecast instead of the moderate or protracted downside scenario would result in lower expected credit losses.

The final scenarios deployed reflect the UK economic outlook deteriorating following Russia's invasion of Ukraine and the resulting increase in energy and food commodity prices, as well as the exacerbation of global supply-chain disruptions after the pandemic. The forecasts include a subdued rate of growth for the remainder of the year. Under the baseline scenario, UK headline CPI inflation continues to increase in 2022 owing to higher energy, food and manufactured goods prices. Higher wages and strong demand for services continue to add to the price pressures, ensuring inflation remains well above the Bank of England target throughout 2022. To prevent inflation pressures becoming embedded in the economy, the Bank of England continues to tighten monetary policy.

The forecasts represent an economic view as at 31 July 2022, after which the economic uncertainty has continued. These trends, including the risk of further interest rate rises, and their impact on scenarios and weightings are subject to ongoing monitoring by management.

Notes to the Consolidated Accounts

for the year ended 31 July 2022

2. Critical accounting estimates and judgements *continued*

The table below shows economic assumptions within each scenario, and the weighting applied to each at 31 July 2022. The metrics below are key UK economic indicators, chosen to describe the economic scenarios. These are the main metrics used to set scenario paths which then influence a wide range of additional metrics that are used in expected credit loss models. The first tables show the forecasts of the key metrics for the scenarios utilised for calendar years 2022 and 2023. The subsequent tables show averages and peak to trough ranges for the same key metrics over the five-year period from 2022 to 2026.

These periods have been included as they demonstrate the short, medium and long-term outlook for the key macroeconomic indicators which form the basis of the scenario forecasts. The portfolio has an average residual maturity of 17 months, with c.98% of loan value having a maturity of five years or less.

FY22 and FY21 scenario forecasts and weights

	Baseline		**Upside (strong)**		**Downside (mild)**		**Downside (moderate)**		**Downside (protracted)**	
	2022	**2023**	**2022**	**2023**	**2022**	**2023**	**2022**	**2023**	**2022**	**2023**
At 31 July 2022										
UK GDP Growth	3.4%	0.8%	4.1%	2.9%	2.7%	(1.8%)	2.4%	(4.4%)	2.1%	(5.9%)
UK Unemployment	3.8%	4.1%	3.6%	3.6%	4.0%	4.6%	4.1%	6.2%	4.2%	7.4%
UK HPI Growth	4.3%	2.6%	10.9%	12.7%	1.1%	(3.1%)	(0.5%)	(9.1%)	(2.4%)	(15.9%)
BoE Base Rate	1.1%	1.8%	1.1%	1.7%	1.3%	1.0%	1.4%	1.1%	1.5%	1.2%
Consumer Price Index	10.7%	2.8%	10.3%	2.8%	12.3%	0.4%	14.2%	0.2%	17.1%	(2.2%)
Weighting	**32.5%**		**30%**		**20%**		**10.5%**		**7%**	

	Baseline		Upside (strong)		Downside (mild)		Downside (moderate)		Downside (protracted)	
	2021	2022	2021	2022	2021	2022	2021	2022	2021	2022
At 31 July 2021										
UK GDP Growth[1]	6.1%	6.3%	7.3%	8.7%	5.2%	4.0%	4.5%	2.0%	4.1%	0.8%
UK Unemployment[1]	5.6%	6.3%	5.5%	5.4%	5.8%	7.3%	5.8%	8.0%	5.9%	8.9%
UK HPI Growth[1]	(1.4%)	3.1%	3.8%	10.2%	(2.5%)	(1.6%)	(5.3%)	(9.0%)	(8.2%)	(14.2%)
BoE Base Rate	0.1%	0.2%	0.1%	0.3%	0.1%	0.1%	0.1%	0.1%	0.0%	(0.1%)
Consumer Price Index	2.7%	2.9%	2.8%	3.0%	2.6%	1.1%	2.5%	0.0%	2.4%	(0.5%)
Weighting	40%		20%		15%		15%		10%	

Notes:
UK GDP Growth: National Accounts Annual Real Gross Domestic Product, Seasonally Adjusted - YoY change (%)
UK Unemployment: ONS Labour Force Survey, Seasonally Adjusted - Average (%)
UK HPI Growth: Average nominal house price, Land Registry, Seasonally Adjusted - Q4 to Q4 change (%)
BoE Base Rate: Bank of England Base Rate - Average (%)
Consumer Price Index: ONS, EU Harmonised, Annual Inflation - Q4 to Q4 change (%).

	Five-year average (calendar year 2022 - 2026)				
	Baseline	**Upside (Strong)**	**Downside (mild)**	**Downside (moderate)**	**Downside (protracted)**
At 31 July 2022					
UK GDP Growth	1.2%	1.7%	0.8%	0.2%	(0.1%)
UK Unemployment	4.4%	3.8%	4.6%	6.4%	7.2%
UK HPI Growth	0.1%	1.8%	(1.3%)	(2.5%)	(4.6%)
BoE Base Rate	2.0%	2.0%	1.5%	0.9%	0.6%
Consumer Price Index	3.8%	3.8%	3.7%	3.6%	3.4%
Weighting	**32.5%**	**30%**	**20%**	**10.5%**	**7%**

Notes to the Consolidated Accounts

for the year ended 31 July 2022

2. Critical accounting estimates and judgements *continued*

	Five-year average (calendar year 2021 - 2025)				
	Baseline	Upside (Strong)	Downside (mild)	Downside (moderate)	Downside (protracted)
At 31 July 2021					
UK GDP Growth[1]	3.2%	3.6%	3.0%	2.8%	2.4%
UK Unemployment	5.5%	4.8%	6.3%	7.1%	7.7%
UK HPI Growth[1]	1.6%	3.0%	0.8%	(1.2%)	(2.6%)
BoE Base Rate	0.6%	0.8%	0.2%	0.1%	0.0%
Consumer Price Index	2.6%	3.2%	1.9%	1.3%	0.8%
Weighting	40%	20%	15%	15%	10%

Notes:
UK GDP Growth: National Accounts Annual Real Gross Domestic Product, Seasonally Adjusted - CAGR (%)
UK Unemployment: ONS Labour Force Survey, Seasonally Adjusted - Average (%)
UK HPI Growth: Average nominal house price, Land Registry, Seasonally Adjusted - CAGR (%)
BoE Base Rate: Bank of England Base Rate - Average (%)
Consumer Price Index: ONS, EU Harmonised, Annual Inflation - CAGR (%)

The tables below provide a summary for the five-year period (calendar year 2022 – 2026) of the peak to trough range of values of the key UK economic variables used within the economic scenarios at 31 July 2022 and 31 July 2021:

	Five-year average (calendar year 2022 - 2026)									
	Baseline		**Upside (strong)**		**Downside (mild)**		**Downside (moderate)**		**Downside (protracted)**	
	Peak	**Trough**	**Peak**	**Trough**	**Peak**	**Trough**	**Peak**	**Trough**	**Peak**	**Trough**
At 31 July 2022										
UK GDP Growth	6.3%	0.4%	9.0%	0.4%	4.1%	(2.6%)	1.0%	(5.1%)	0.8%	(6.9%)
UK Unemployment	4.8%	3.7%	4.2%	3.5%	4.8%	3.7%	7.4%	3.7%	8.4%	3.7%
UK HPI Growth	2.0%	(5.0%)	16.7%	(1.1%)	2.0%	(11.7%)	2.0%	(17.9%)	2.0%	(26.0%)
BoE Base Rate	2.5%	0.5%	2.5%	0.5%	2.5%	0.1%	2.4%	0.1%	2.6%	0.1%
Consumer Price Index	10.7%	2.0%	10.3%	2.0%	12.3%	0.4%	14.2%	0.1%	17.1%	(2.2%)
Weighting	**32.5%**		**30%**		**20%**		**10.5%**		**7%**	

	Five-year average (calendar year 2021 - 2025)									
	Baseline		Upside (strong)		Downside (mild)		Downside (moderate)		Downside (protracted)	
	Peak	Trough	Peak	Trough	Peak	Trough	Peak	Trough	Peak	Trough
At 31 July 2021										
UK GDP Growth[1]	17.0%	(1.6%)	19.4%	(1.6%)	15.7%	(1.6%)	14.7%	(1.6%)	12.4%	(1.6%)
UK Unemployment[1]	6.6%	4.8%	6.3%	4.2%	7.5%	4.8%	8.2%	4.8%	9.1%	4.8%
UK HPI Growth[1]	8.0%	(4.1%)	15.7%	0.5%	4.1%	(6.9%)	1.9%	(15.3%)	1.9%	(22.1%)
BoE Base Rate[1]	1.6%	0.1%	1.9%	0.1%	0.5%	0.1%	0.1%	0.1%	0.1%	(0.1%)
Consumer Price Index	3.2%	0.6%	3.9%	0.6%	2.6%	0.6%	2.5%	0.0%	2.4%	(0.9%)
Weighting	40%		20%		15%		15%		10%	

Notes:
UK GDP Growth: Maximum and minimum quarterly GDP as a percentage change from start of period (%)
UK Unemployment: Maximum and minimum unemployment rate (%)
UK HPI Growth: Maximum and minimum average nominal house price as a percentage change from start of period (%)
BoE Base Rate: Maximum and minimum BoE base rate (%)
Consumer Price Index Inflation: Maximum and minimum over the 5-year period (%)

Notes to the Consolidated Accounts

for the year ended 31 July 2022

2. Critical accounting estimates and judgements *continued*

[1] Note that the presentation of the macroeconomic outlook above has been amended from the FY21 ARA, with the FY22 figures presented on the same basis. This has been undertaken to enhance presentation to the users of the financial statements by ensuring the macroeconomic variables are displayed in line with common practice. This amendment has no impact on ECL. These changes impact the way GDP and HPI are presented for the annual forecast, the five-year forecast and the peak to trough values. The annual forecast was previously presented as the average of the growth in each of the last four quarters and is now presented as the growth in the calendar year. The five-year forecast is now presented as the compound annual growth rate instead of the average annual growth rate used previously. Lastly, the presentation of the peak to trough values now uses the start of the macroeconomic forecast as a reference point, rather than peaks and troughs in annual growth rates over the period. In addition, we have also made a presentational change for unemployment and base rate peaks and troughs from the FY21 ARA, which are now based on quarterly forecasts over calendar years 2021-2025, rather than monthly forecasts over financial years 2021-2025.

The expected credit loss provision is sensitive to judgement and estimations made with regard to the selection and weighting of multiple economic scenarios. As a result, management has assessed and considered the sensitivity of the provision as follows:

- For the majority of our portfolios, the modelled expected credit loss provision has been recalculated under the upside strong and downside protracted scenarios described above, applying a 100% weighting to each scenario in turn. The change in provision requirement is driven by the movement in risk metrics under each scenario and resulting impact on stage allocation.
- Expected credit losses based on a simplified approach, which do not utilise a macroeconomic model and require expert judgement, are excluded from the sensitivity analysis.

In addition to the above, key considerations for the sensitivity analysis are set out below, by segment:

- In Commercial, the sensitivity analysis excludes Novitas, which is subject to a separate approach, as it is deemed more sensitive to credit factors than macroeconomic factors.
- In Retail:
  - The sensitivity analysis excludes expected credit loss provisions on loans and advances to customers in Stage 3, because the measurement of expected credit losses is considered more sensitive to credit factors specific to the borrower than macroeconomic scenarios.
  - For some loans, a specific sensitivity approach has been adopted to assess short tenor loans' response to modelled economic forecasts. For these short-tenor loans, PD has been extrapolated from emerging default rates and then proportionally scaled to reflect a sharp recovery in the upside scenario and a slower recovery in a downside scenario.
- In Property, the sensitivity analysis excludes individually assessed provisions, and certain sub portfolios which are deemed more sensitive to credit factors than the macroeconomic scenarios.

Based on the above analysis, at 31 July 2022, application of 100% weighting to the upside strong scenario would decrease the expected credit loss by £15.4 million whilst application to the downside protracted scenario would increase the expected credit loss by £31.8 million driven by the aforementioned changes in risk metrics and stage allocation of the portfolios.

When performing sensitivity analysis there is a high degree of estimation uncertainty. On this basis, 100% weighted expected credit loss provisions presented for the upside and downside scenarios should not be taken to represent the lower or upper range of possible and actual expected credit loss outcomes. The recalculated expected credit loss provision for each of the scenarios should be read in the context of the sensitivity analysis as a whole and in conjunction with the narrative disclosures provided in note 11. The modelled impact presented is based on gross loans and advances to customers at 31 July 2022; it does not incorporate future changes relating to performance, growth or credit risk. In addition, given the change in the macroeconomic conditions, underlying modelled provisions and methodology, and refined approach to adjustments, comparison between the sensitivity results at 31 July 2022 and 31 July 2021 is not appropriate.

The economic environment remains uncertain and future impairment charges may be subject to further volatility, including from changes to macroeconomic variable forecasts impacted by geopolitical tensions and rising inflation.

Notes to the Consolidated Accounts

for the year ended 31 July 2022

3. Segmental analysis

The directors manage the group by class of business and present the segmental analysis on that basis. The group's activities are presented in three (2021: three) operating segments: Commercial, Retail and Property.

Divisions continue to charge market prices for the limited services rendered to other parts of the group. Funding charges between segments take into account commercial demands. More than 90% of all the group's activities, revenue and assets are located in the UK.

	Retail £ million	Commercial £ million	Property £ million	Total £ million
Summary income statement for the year ended 31 July 2022				
Net interest income	211.6	258.2	112.5	582.3
Non-interest income	26.2	86.3	0.6	113.1
Operating income	237.8	344.5	113.1	695.4
Administrative expenses	(131.3)	(158.3)	(27.0)	(316.6)
Depreciation and amortisation	(20.3)	(21.7)	(4.0)	(46.0)
Impairment losses on financial assets	(24.4)	(72.4)	(6.5)	(103.3)
Total operating expenses before amortisation and impairment of intangible assets on acquisition, goodwill impairment and exceptional item	(176.0)	(252.4)	(37.5)	(465.9)
Adjusted operating profit[1]	61.8	92.1	75.6	229.5
Amortisation and impairment of intangible assets on acquisition	-	(0.1)	-	(0.1)
Operating profit before tax	61.8	92.0	75.6	229.4
External operating income	268.3	391.7	129.4	789.4
Inter segment operating expense	(30.5)	(47.2)	(16.3)	(94.0)
Segment operating income	237.8	344.5	113.1	695.4

[1] Adjusted operating profit is stated before amortisation and impairment of intangible assets on acquisition, goodwill impairment, exceptional item and tax.

The Commercial operating segment above includes the group's Novitas business. Novitas ceased lending to new customers in July 2021 following a strategic review. In the year ended 31 July 2022, Novitas recorded impairment losses of £60.7 million (2021: £73.2 million).

Notes to the Consolidated Accounts

for the year ended 31 July 2022

3. Segmental analysis *continued*

	Retail £ million	Commercial £ million	Property £ million	Total £ million
Summary balance sheet information at 31 July 2022				
Loan book and operating lease assets[1]	**3,064.0**	**4,561.4**	**1,473.5**	**9,098.9**

[1] The Commercial operating segment includes the net loan book of Novitas of £159.4 million.

	Retail	Commercial	Property	Total
Other segmental information for the year ended 31 July 2022				
Employees (average number)[1]	**1,153**	**1,348**	**190**	**2,691**

[1] Segments are inclusive of central function headcount allocation.

	Retail £ million	Commercial £ million	Property £ million	Total £ million
Summary income statement for the year ended 31 July 2021				
Net interest income	199.6	219.2	123.0	541.8
Non-interest income	21.0	70.8	0.4	92.2
Operating income	220.6	290.0	123.4	634.0
Administrative expenses	(118.5)	(139.1)	(29.1)	(286.7)
Depreciation and amortisation	(19.5)	(19.1)	(3.8)	(42.4)
Impairment losses on financial assets	(9.9)	(77.9)	(2.3)	(90.1)
Total operating expenses before amortisation and impairment of intangible assets on acquisition, goodwill impairment and exceptional item	(147.9)	(236.1)	(35.2)	(419.2)
Adjusted operating profit[1]	72.7	53.9	88.2	214.8
Amortisation and impairment of intangible assets on acquisition	(0.7)	(12.2)	-	(12.9)
Goodwill impairment	-	(12.1)	-	(12.1)
Exceptional item: HMRC VAT refund	12.3	7.4	-	19.7
Operating profit before tax	84.3	37.0	88.2	209.5
External operating income	258.7	343.1	142.3	744.1
Inter segment operating expense	(38.1)	(53.1)	(18.9)	(110.1)
Segment operating income	220.6	290.0	123.4	634.0

[1] Adjusted operating profit is stated before amortisation of intangible assets on acquisition, goodwill impairment, exceptional item and tax.

Notes to the Consolidated Accounts

for the year ended 31 July 2022

3. Segmental analysis *continued*

	Retail £ million	Commercial £ million	Property £ million	Total £ million
Summary balance sheet information at 31 July 2021				
Loan book and operating lease assets[1]	2,974.3	4,191.0	1,502.1	8,667.4

[1] The Commercial operating segment includes the net loan book of Novitas of £181.5 million.

	Retail	Commercial	Property	Total
Other segmental information for the year ended 31 July 2021				
Employees (average number)[1]	1,163	1,276	187	2,626

[1] Segments are inclusive of central function headcount allocation.

4. Operating profit before tax

	2022 £ million	2021 £ million
Interest income[1]		
Cash and balances at central banks	**5.9**	1.6
Loans and advances to banks	**0.2**	-
Loans and advances to customers	**680.4**	652.9
Other interest income	**3.2**	2.2
	689.7	656.7
Interest expense		
Deposits from banks	**(0.1)**	-
Deposits from customers	**(64.1)**	(66.3)
Borrowings	**(32.6)**	(38.6)
Interest expense from group undertakings	**(9.9)**	(15.7)
Other interest expense	**(0.7)**	5.7
	(107.4)	(114.9)
Net interest income	**582.3**	541.8

[1] Interest income calculated using the effective interest method.

	2022 £ million	2021 £ million
Fee and commission income	**98.1**	88.2
Fee and commission expense	**(14.7)**	(13.5)
	83.4	74.7

Notes to the Consolidated Accounts

for the year ended 31 July 2022

4. Operating profit before tax *continued*

Fee and commission income and expense (other than amounts calculated using the effective interest rate method) on financial instruments that are not at fair value through profit and loss were £98.1 million (2021: £88.2 million) and £14.7 million (2021: £13.5 million) respectively.

	2022 £ million	2021 £ million
Other income		
Operating lease assets rental income	**85.4**	75.4
Other	**16.2**	11.6
	101.6	87.0

	2022 £ million	2021 £ million
Administrative expenses		
Staff costs:		
Wages and salaries	**164.8**	147.5
Social security costs	**22.8**	23.0
Share-based payments	**1.8**	2.3
Pension costs	**10.0**	9.3
	199.4	182.1
Depreciation and amortisation	**46.0**	42.2
Other administrative expenses	**117.2**	104.8
Total administrative expenses	**362.6**	329.1

5. Information regarding directors

11 directors are remunerated by other group companies and provide their services to the company on a free basis, it being impractical to allocate their remuneration. One director is remunerated by the company under a contract of employment. It being impractical to allocate his remuneration distinguishing between his qualifying services and his employment services, the figures shown are in respect of his employment services.

Directors' fees were £nil (2021: nil) and directors' emoluments, excluding pension contributions, were £1,100,000 (2021: £1,263,772).

The highest paid director received emoluments of £1,100,000 (2021: £1,026,272) and pension contributions of £nil (2021: £nil).

Contributions paid to money purchase pension schemes, of which no directors (2021: nil) were members, amounted to £nil (2021: £nil). No director (2021: nil) was a member of a defined benefits pension scheme, and the company paid £nil (2021: £nil) to the scheme on their behalf.

No directors received any awards (2021: nil) under long-term incentive schemes operated by another group company. No (2021: nil) director exercised options under a long-term incentive scheme, with a gain of £nil (2021: £nil) from these exercises.

Notes to the Consolidated Accounts

for the year ended 31 July 2022

6. Information regarding the auditor

	2022[1] £ million	2021 £ million
Fees payable		
Audit of the company's annual accounts	**0.8**	0.7
Audit of the company's subsidiaries pursuant to legislation	**1.0**	1.1
Audit related services	**0.1**	0.1
	1.9	1.9

[1]During the year, an additional audit fee of £0.2m was paid to the auditors in relation to scope changes in the 2021 audit, which is not included above.

The auditor of the group was PricewaterhouseCoopers LLP (2021: PricewaterhouseCoopers LLP).

7. Exceptional item

In the prior year ended 31 July 2021, the group recorded an exceptional gain of £19.7 million, reflecting a VAT refund from HMRC in relation to hire purchase agreements in the Motor Finance and Asset Finance businesses. This followed HMRC's policy in Revenue and Customs Brief 8 (2020) published in June 2020. The Brief advised businesses who supply goods by way of hire purchase agreements of HMRC's suggested method for apportionment of VAT incurred on overheads (and so the reclaimable portion of such VAT). This followed the Court of Justice of the European Union's judgement regarding Volkswagen Financial Services (UK) Ltd.

The group submitted refund claims in respect of the period from 2009 to 2020. HMRC agreed the claims and repayment was made to the group in June 2021. In line with the group's accounting policy set out in note 1, this was presented as an exceptional item as it was material by size and nature and non-recurring.

Notes to the Consolidated Accounts

for the year ended 31 July 2022

8. Taxation

	2022 £ million	2021 £ million
Tax charged/(credited) to the income statement		
Current tax:		
UK corporation tax	**52.5**	57.9
Foreign tax	**1.9**	1.5
Adjustments in respect of previous years	**(2.7)**	(3.2)
	51.7	56.2
Deferred tax:		
Deferred tax charge/(credit) for the current year	**12.0**	(9.3)
Adjustments in respect of previous years	**2.6**	3.2
	14.6	(6.1)
Tax charge	**66.3**	50.1
Tax on items not charged/(credited) to the income statement		
Deferred tax relating to:		
Cash flow hedging	**8.6**	2.0
Financial instruments classified as fair value through other comprehensive income	**(0.4)**	0.3
Share-based payments	**0.7**	(0.8)
Currency translation losses	**(0.3)**	(1.1)
	8.6	0.4
Reconciliation to tax expense		
UK corporation tax for the year at 19% (2021: 19%) on operating profit before tax	**43.6**	39.8
Disallowable items and other permanent differences	**0.9**	2.8
Effect of different tax rates in other jurisdictions	**(0.3)**	(0.3)
Deferred tax impact of increased tax rates	**7.2**	(8.6)
Banking surcharge	**15.0**	16.4
Prior year tax provision	**(0.1)**	-
	66.3	50.1

The standard UK corporation tax rate for the financial year is 19.0% (2021: 19.0%). However, an additional 8% surcharge applies to banking company profits as defined in legislation. The effective tax rate of 28.9% (2021: 23.9%) is above the UK corporation tax rate primarily due to the surcharge applying to most of the group's profits and to a write-down in deferred tax assets reflecting a reduction in the banking surcharge applying from April 2023 from 8% to 3% passed into law in the year.

On 23 September 2022, the Chancellor of the Exchequer announced as part of his Growth Plan that the corporation tax rate increase from 19% to 25% from April 2023 will be cancelled, and that the banking surcharge rate will remain at 8%. The relevant legislation is expected to be enacted in the year ending 31 July 2023 and is a non-adjusting post balance sheet event. Had this change been enacted before 31 July 2022, the group's deferred tax asset balance at 31 July 2022 would have decreased by approximately £1.0 million, with a corresponding tax charge recognised in the income statement, net of a smaller credit to other comprehensive income.

Notes to the Consolidated Accounts

for the year ended 31 July 2022

8. Taxation *continued*

Movements in deferred tax assets and liabilities were as follows:

	Capital allowance £ million	Share-based payments and deferred compensation £ million	Other £ million	Cash flow hedging £ million	Intangible assets £ million	Impairment losses £ million	Total £ million
At 1 August 2020	30.3	2.5	(0.1)	2.1	(2.3)	9.8	42.3
Credit/(charge) to the income statement	3.8	0.7	-	-	2.3	(0.7)	6.1
Credit/(charge) to other comprehensive income	1.1	-	(0.3)	(2.0)	-	-	(1.2)
Credit to equity	-	0.8	-	-	-	-	0.8
At 31 July 2021	35.2	4.0	(0.4)	0.1	-	9.1	48.0
Charge to the income statement	**(11.1)**	**(0.5)**	**-**	**-**	**-**	**(3.0)**	**(14.6)**
Credit/(charge) to other comprehensive income	**0.3**	**-**	**0.4**	**(8.6)**	**-**	**-**	**(7.9)**
Charge to equity	**-**	**(0.7)**	**-**	**-**	**-**	**-**	**(0.7)**
At 31 July 2022	**24.4**	**2.8**	**0.0**	**(8.5)**	**-**	**6.1**	**24.8**

As the group has been and is expected to continue to be consistently profitable, the full deferred tax assets have been recognised.

9. Dividends

	2022 £ million	2021 £ million
For each ordinary share		
Final dividend for previous financial year paid in November 2021: 54p (November 2020: 41p)	**66.0**	50.0
Interim dividend for current financial year paid in April 2022: 51p (April 2021: 33p)	**61.9**	40.0
Deemed distribution	**2.2**	2.3
	130.1	92.3

A final dividend relating to the year ended 31 July 2022 of 20p, amounting to an estimated £24.5 million, is proposed. This final dividend, which is due to be paid on 7 November 2022 to shareholders, is not reflected in these financial statements.

10. Loans and advances to banks

	On demand £ million	Within three months £ million	Between three months and one year £ million	Between one and two years £ million	Between two and five years £ million	Total £ million
At 31 July 2022	**67.2**	**1.9**	**10.0**	**2.4**	**4.1**	**85.6**
At 31 July 2021	52.4	1.0	2.2	10.5	0.7	66.8

Notes to the Consolidated Accounts

for the year ended 31 July 2022

11. Loans and advances to customers

a) Maturity analysis of loans and advances to customers

The following table sets out a maturity analysis of loans and advances to customers. At 31 July 2022, loans and advances to customers with a maturity of two years or less was £6,733.0million (31 July 2021: £6,326.6 million) representing 73.6% (31 July 2021: 72.5%) of total gross loans and advances to customers:

	On demand £ million	Within three months £ million	Between three months and one year £ million	Between one and two years £ million	Between two and five years £ million	After more than five years £ million	Total gross loans and advances to customers £ million	Impairment provisions £ million	Total net loans and advances to customers £ million
At 31 July 2022	**141.3**	**2,354.2**	**2,369.0**	**1,868.5**	**2,235.0**	**176.5**	**9,144.5**	**(285.6)**	**8,858.9**
At 31 July 2021	71.8	2,276.6	2,289.1	1,689.1	2,242.8	155.5	8,724.9	(280.4)	8,444.5

b) Loans and advances to customers and impairment provisions by stage

Gross loans and advances to customers by stage and the corresponding impairment provisions and provision coverage ratios are set out below:

		Stage 2				
	Stage 1 £ million	Less than 30 days past due £ million	Greater than or equal to 30 days past due £ million	Total £ million	Stage 3 £ million	Total £ million
At 31 July 2022						
Gross loans and advances to customers						
Commercial	**3,433.1**	**778.8**	**119.4**	**898.2**	**169.1**	**4,500.4**
Of which: Novitas	**101.3**	**2.2**	**93.8**	**96.0**	**75.4**	**272.7**
Retail	**2,937.6**	**121.4**	**9.4**	**130.8**	**65.5**	**3,133.9**
Property	**1,256.3**	**83.8**	**46.1**	**129.9**	**124.0**	**1,510.2**
Total	**7,627.0**	**984.0**	**174.9**	**1,158.9**	**358.6**	**9,144.5**
Impairment provisions						
Commercial	**25.6**	**14.3**	**52.0**	**66.3**	**87.1**	**179.0**
Of which: Novitas	**8.8**	**1.0**	**49.5**	**50.5**	**54.0**	**113.3**
Retail	**22.1**	**4.9**	**1.7**	**6.6**	**41.2**	**69.9**
Property	**2.6**	**4.2**	**1.2**	**5.4**	**28.7**	**36.7**
Total	**50.3**	**23.4**	**54.9**	**78.3**	**157.0**	**285.6**
Provision coverage ratio						
Commercial	**0.7%**	**1.8%**	**43.6%**	**7.4%**	**51.5%**	**4.0%**
Of which: Novitas	**8.7%**	**45.5%**	**52.8%**	**52.6%**	**71.6%**	**41.5%**
Retail	**0.8%**	**4.0%**	**18.1%**	**5.0%**	**62.9%**	**2.2%**
Property	**0.2%**	**5.0%**	**2.6%**	**4.2%**	**23.1%**	**2.4%**
Total	**0.7%**	**2.4%**	**31.4%**	**6.8%**	**43.8%**	**3.1%**

Notes to the Consolidated Accounts

for the year ended 31 July 2022

11. Loans and advances to customers *continued*

b) Loans and advances to customers and impairment provisions by stage *continued*

		Stage 2				
	Stage 1 £ million	Less than 30 days past due £ million	Greater than or equal to 30 days past due £ million	Total £ million	Stage 3 £ million	Total £ million
At 31 July 2021						
Gross loans and advances to customers						
Commercial	3,417.2	549.4	74.0	623.4	99.9	4,140.5
Of which: Novitas	185.8	3.6	55.8	59.4	25.6	270.8
Retail	2,817.0	175.3	6.4	181.7	43.2	3,041.9
Property	1,200.1	100.5	54.6	155.1	187.3	1,542.5
Total	7,434.3	825.2	135.0	960.2	330.4	8,724.9
Impairment provisions						
Commercial	55.6	30.3	33.6	63.9	52.9	172.4
Of which: Novitas	31.4	2.1	30.6	32.7	25.2	89.3
Retail	22.1	13.3	1.9	15.2	30.3	67.6
Property	2.3	5.0	0.1	5.1	33.0	40.4
Total	80.0	48.6	35.6	84.2	116.2	280.4
Provision coverage ratio						
Commercial	1.6%	5.5%	45.4%	10.3%	53.0%	4.2%
Of which: Novitas	16.9%	58.3%	54.8%	55.1%	98.4%	33.0%
Retail	0.8%	7.6%	29.7%	8.4%	70.1%	2.2%
Property	0.2%	5.0%	0.2%	3.3%	17.6%	2.6%
Total	1.1%	5.9%	26.4%	8.8%	35.2%	3.2%

Stage allocation of loans and advances to customers has been applied in line with the definitions set out on page 108.

During the year the staging profile of loans and advances to customers has remained broadly stable. At 31 July 2022, 83.4% (31 July 2021: 85.2%) of gross loans and advances to customers were Stage 1. Stage 2 loans and advances to customers increased slightly to 12.7% (31 July 2021: 11.0%) as falling Covid-19 forborne exposure has been more than offset by migrations into Stage 2 associated with a significant increase in credit risk. The remaining 3.9% (31 July 2021: 3.8%) of loans and advances to customers was deemed to be credit impaired and classified as Stage 3.

Overall impairment provisions increased to £285.6 million (31 July 2021: £280.4 million), following regular reviews of staging and provision coverage for individual loans and portfolios. The movement in impairment provisions is driven by Novitas, which reflects the case failure and recovery rate assumptions used. The increase was partially offset by reducing impairment provisions across the remainder of the Bank, following a reduction in adjustments driven by the encouraging performance of our forborne book.

As a result, there has been a marginal decrease in provision coverage to 3.1% (31 July 2021: 3.2%).

Notes to the Consolidated Accounts

for the year ended 31 July 2022

11. Loans and advances to customers *continued*

c) Adjustments

Provision Coverage Analysis by Business
In Commercial, the impairment coverage ratio decreased to 4.0% (31 July 2021: 4.2%) reflecting strong new business volumes and positive performance of the Covid-19 forborne loan book. Excluding Novitas, the Commercial impairment coverage ratio decreased to 1.6% (31 July 2021: 2.1%) following the release of Covid-19 related adjustments. The significant increase in credit provisions against the Novitas loan book reflects the latest assumptions on case failure and recovery rates.

In Retail, the impairment coverage ratio was unchanged at 2.2% (31 July 2021: 2.2%) reflecting the performance of the forborne loan book and strong new business volumes.

In Property the impairment coverage ratio reduced to 2.4% (31 July 2021: 2.6%) reflecting the write off of a well provided individually assessed case, partially offset by deteriorating macroeconomic forecasts.

By their nature, limitations in the group's expected credit loss 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 or quantitative back-testing to ensure expected credit loss provisions adequately reflect all known information. These adjustments are generally determined by considering the attributes or risks of a financial asset which are not captured by existing expected credit loss model outputs. Management adjustments are actively monitored, reviewed, and incorporated into future model developments where applicable.

As the UK economy has emerged from pandemic related restrictions, and the government support measures being unwound, the use of adjustments has also evolved. In particular, previous adjustments to reflect the guarantee under government lending schemes have now been incorporated into modelled LGD estimates. The remaining adjustments reflect the application of expert management judgement to incorporate management's experience and knowledge of customers, the sectors in which they operate, and the assets financed.

We will continue to monitor the need for adjustments as new information emerges which might not be recognised in our existing models.

At 31 July 2022, £(2.8) million of the expected credit loss provision was attributable to adjustments (31 July 2021: £38.9 million). The reduction in this value is driven by incorporation of a number of adjustments into model calculations, as well as the lower volume of Covid-19 forborne exposures and reduced macroeconomic uncertainty related to the pandemic. The remaining value is driven by a small number of adjustments primarily made to ensure models are reflective of economic conditions.

d) Reconciliation of loans and advances to customers and impairment provisions

Reconciliations of gross loans and advances to customers and associated impairment provisions are set out below.

New financial assets originate in Stage 1 only, and the amount presented represents the value at origination.

Subsequently, a loan may transfer between stages, and the presentation of such transfers is based on a comparison of the loan at the beginning of the year (or at origination if this occurred during the year) and the end of the year (or just prior to final repayment or write off).

Repayments relating to loans which transferred between stages during the year are presented within the transfers between stages lines. Such transfers do not represent overnight reclassification from one stage to another. All other repayments are presented in a separate line.

ECL model methodologies may be updated or enhanced from time to time and the impacts of such changes are presented on a separate line. Enhancements to our model suite during the course of the financial year are a contributory factor to ECL movements and such factors have been taken into consideration when assessing any required adjustments to modelled output and ensuring appropriate provision coverage levels.

A loan is written off when there is no reasonable expectation of further recovery following realisation of all associated collateral and available recovery actions against the customer.

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for the year ended 31 July 2022

11. Loans and advances to customers *continued*

d) Reconciliation of loans and advances to customers and impairment provisions *continued*

	Stage 1 £ million	Stage 2 £ million	Stage 3 £ million	Total £ million
Gross loans and advances to customers				
At 1 August 2021	**7,434.3**	**960.2**	**330.4**	**8,724.9**
New financial assets originated	**6,537.4**	**-**	**-**	**6,537.4**
Transfers to Stage 1	**196.2**	**(278.6)**	**(5.3)**	**(87.7)**
Transfers to Stage 2	**(1,056.3)**	**959.9**	**(21.4)**	**(117.8)**
Transfers to Stage 3	**(206.9)**	**(137.5)**	**278.6**	**(65.8)**
Net transfers between stages and repayments[1]	**(1,067.0)**	**543.8**	**251.9**	**(271.3)**
Repayments while stage remained unchanged and final repayments	**(5,241.7)**	**(354.2)**	**(157.8)**	**(5,753.7)**
Changes to model methodologies	**(33.3)**	**31.6**	**1.8**	**0.1**
Write offs	**(2.7)**	**(22.5)**	**(67.7)**	**(92.9)**
At 31 July 2022	**7,627.0**	**1,158.9**	**358.6**	**9,144.5**

	Stage 1 £ million	Stage 2 £ million	Stage 3 £ million	Total £ million
Gross loans and advances to customers				
At 1 August 2020	5,906.6	1,574.2	374.6	7,855.4
New financial assets originated	6,980.2	-	-	6,980.2
Transfers to Stage 1	640.0	(639.6)	(11.2)	(10.8)
Transfers to Stage 2	(1,054.5)	912.4	(15.0)	(157.1)
Transfers to Stage 3	(133.3)	(113.4)	178.6	(68.1)
Net transfers between stages and repayments[1]	(547.8)	159.4	152.4	(236.0)
Repayments while stage remained unchanged and final repayments	(4,907.6)	(781.4)	(106.5)	(5,795.5)
Changes to model methodologies	6.3	9.8	(16.0)	0.1
Write offs	(3.4)	(1.8)	(74.1)	(79.3)
At 31 July 2021	7,434.3	960.2	330.4	8,724.9

1 Repayments relate only to financial assets which transferred between stages during the year. Other repayments are shown in the line below.

The gross carrying amount before modification of loans and advances to customers which were modified during the year while in Stage 2 or 3 was £288.3 million (2021: £293.9 million). No gain or loss (2021: £0.8 million loss) was recognised as a result of these modifications. The gross carrying amount at 31 July 2022 of modified loans and advances to customers which transferred from Stage 2 or 3 to Stage 1 during the year was £110.2 million (31 July 2021: £237.9 million).

Notes to the Consolidated Accounts

for the year ended 31 July 2022

11. Loans and advances to customers *continued*

d) Reconciliation of loans and advances to customers and impairment provisions *continued*

	Stage 1 £ million	Stage 2 £ million	Stage 3 £ million	Total £ million
Impairment provisions on loans and advances to customers				
At 1 August 2021	**80.0**	**84.2**	**116.2**	**280.4**
New financial assets originated	**37.7**	**-**	**-**	**37.7**
Transfers to Stage 1	**1.3**	**(12.2)**	**(1.7)**	**(12.6)**
Transfers to Stage 2	**(17.1)**	**59.4**	**(9.9)**	**32.4**
Transfers to Stage 3	**(9.0)**	**(28.8)**	**123.2**	**85.4**
Net remeasurement of expected credit losses arising from transfers between stages and repayments[1]	**(24.8)**	**18.4**	**111.6**	**105.2**
Repayments and ECL movements while stage remained unchanged and final repayments	**(37.6)**	**(0.7)**	**(9.8)**	**(48.1)**
Changes to model methodologies	**(2.2)**	**(1.1)**	**1.9**	**(1.4)**
Charge to the income statement	**(26.9)**	**16.6**	**103.7**	**93.4**
Write offs	**(2.8)**	**(22.5)**	**(62.9)**	**(88.2)**
At 31 July 2022	**50.3**	**78.3**	**157.0**	**285.6**

	Stage 1 £ million	Stage 2 £ million	Stage 3 £ million	Total £ million
Impairment provisions on loans and advances to customers				
At 1 August 2020	57.6	87.3	93.8	238.7
New financial assets originated	45.0	-	-	45.0
Transfers to Stage 1	4.0	(15.7)	(1.0)	(12.7)
Transfers to Stage 2	(15.7)	63.4	(2.4)	45.3
Transfers to Stage 3	(2.2)	(13.3)	67.6	52.1
Net remeasurement of expected credit losses arising from transfers between stages and repayments[1]	(13.9)	34.4	64.2	84.7
Repayments and ECL movements while stage remained unchanged and final repayments	(9.0)	(35.9)	(5.0)	(49.9)
Changes to model methodologies	0.9	(0.2)	(2.8)	(2.1)
Charge to the income statement	23.0	(1.7)	56.4	77.7
Write offs	(0.6)	(1.4)	(34.0)	(36.0)
At 31 July 2021	80.0	84.2	116.2	280.4

1 Repayments relate only to financial assets which transferred between stages during the year. Other repayments are shown in the line below.

Notes to the Consolidated Accounts

for the year ended 31 July 2022

11. Loans and advances to customers *continued*

d) Reconciliation of loans and advances to customers and impairment provisions *continued*

	2022 £ million	2021 £ million
Impairment losses relating to loans and advances to customers		
Charge to income statement arising from movement in impairment provisions	**93.4**	77.7
Amounts written off directly to income statement, net of recoveries and other costs	**8.5**	10.2
	101.9	87.9
Impairment losses relating to other financial assets	**1.4**	2.2
Impairment losses on financial assets recognised in the income statement	**103.3**	90.1

Impairment losses on financial assets of £103.3 million (2021: £90.1 million) include £60.7 million in relation to Novitas (2021: £73.2 million).

The contractual amount outstanding at 31 July 2022 on financial assets that were written off during the period and are still subject to recovery activity is £17.3 million (31 July 2021: £19.0 million).

e) Finance lease and hire purchase agreement receivables

	31 July 2022 £ million	31 July 2021 £ million
Loans and advances to customers comprise		
Hire purchase agreement receivables	**3,725.1**	3,554.6
Finance lease receivables	**694.4**	567.1
Other loans and advances	**4,439.4**	4,322.8
At 31 July	**8,858.9**	8,444.5

Notes to the Consolidated Accounts

for the year ended 31 July 2022

11. Loans and advances to customers *continued*

e) Finance lease and hire purchase agreement receivables *continued*

The following table shows a reconciliation between gross investment in finance lease and hire purchase agreement receivables included in the table above to present value of minimum lease and hire purchase payments:

	31 July 2022 £ million	31 July 2021 £ million
Gross investment in finance leases and hire purchase agreement receivables due:		
One year or within one year	**1,740.2**	1,632.6
>One to two years	**1,927.1**	1,772.0
>Two to three years	**943.9**	865.8
>Three to four years	**475.1**	427.2
>Four to five years	**123.7**	175.9
More than five years	**36.2**	48.9
	5,246.2	4,922.4
Unearned finance income	**(731.4)**	(682.6)
	4,514.8	4,239.8
Present value of minimum lease and hire purchase agreement payments:		
Of which due:		
One year or within one year	**1,496.9**	1,405.5
>One to two years	**1,654.4**	1,527.3
>Two to three years	**815.7**	747.2
>Three to four years	**410.0**	368.1
>Four to five years	**106.6**	149.7
More than five years	**31.2**	42.0
	4,514.8	4,239.8

The aggregate cost of assets acquired for the purpose of letting under finance leases and hire purchase agreements was £7,443.8 million (2021: £6,775.3 million). The average effective interest rate on finance leases approximates to 9.9% (2021: 9.8%). The present value of minimum lease and hire purchase agreement payments reflects the fair value of finance lease and hire purchase agreement receivables before deduction of impairment provisions.

12. Debt securities

	Fair value through other comprehensive income £ million	**Amortised cost £ million**	**Total £ million**
Certificates of deposit	**-**	**185.0**	**185.0**
Sovereign and central bank debt	**415.4**	**-**	**415.4**
At 31 July 2022	**415.4**	**185.0**	**600.4**

	Fair value through other comprehensive income £ million	Amortised cost £ million	Total £ million
Certificates of deposit	-	264.7	264.7
Sovereign and central bank debt	192.5	-	192.5
At 31 July 2021	192.5	264.7	457.2

Notes to the Consolidated Accounts

for the year ended 31 July 2022

12. Debt securities *continued*

Movements on the book value of sovereign and central bank debt comprise:

	2022 **£ million**	2021 £ million
Sovereign and central bank debt at 1 August	**192.5**	72.2
Additions	**335.3**	313.7
Redemptions	**(80.0)**	**(191.0)**
Currency translation differences	**(1.2)**	(5.2)
Movement in value	**(31.2)**	2.8
Sovereign and central bank debt at 31 July	**415.4**	192.5

13. Derivative financial instruments

The group enters into derivative contracts with a number of financial institutions to minimise the impact of interest and currency rate changes to its financial instruments. The group's total derivative asset and liability position as reported on the consolidated balance sheet is as follows:

	31 July 2022			31 July 2021		
	Notional value £ million	**Assets £ million**	**Liabilities £ million**	Notional value £ million	Assets £ million	Liabilities £ million
Exchange rate contracts	**65.3**	**0.6**	**0.2**	62.0	0.2	0.1
Interest rate contracts	**4,408.2**	**70.5**	**89.0**	3,267.3	18.1	21.1
	4,473.5	**71.1**	**89.2**	3,329.3	18.3	21.2

Notional amounts of interest rate contracts totalling £3,828.8 million (31 July 2021: £2,849.6 million) have a residual maturity of more than one year.

Included in the derivatives above are the following cash flow and fair value hedges:

	31 July 2022			31 July 2021		
	Notional value £ million	**Assets £ million**	**Liabilities £ million**	Notional value £ million	Assets £ million	Liabilities £ million
Cash flow hedges						
Interest rate contracts	**1,552.0**	**33.2**	**1.6**	780.7	2.2	1.2
Fair value hedges						
Interest rate contracts	**1,475.4**	**28.3**	**82.3**	1,483.5	14.7	17.8

The group generally enters into fair value hedges and cash flow hedges with changes in the relevant benchmark interest rate risk being the predominant hedged risk.

The fair value hedges seek to hedge the exposure to changes in the fair value of recognised assets and liabilities or firm commitments attributable to interest rate risk. Changes in interest rate risk are considered the largest component of the overall change in fair value. Other risks such as credit risk are managed but excluded from the hedge accounting relationship. The interest rate risk component is the change in fair value of the fixed rate hedging items arising solely from changes in the benchmark interest rate.

Notes to the Consolidated Accounts

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13. Derivative financial instruments *continued*

Cash flow hedges seek to hedge the exposure to variability in future cash flows due to movements in the relevant benchmark interest rate with interest rate swaps. These future cash flows relate to future interest payments or receipts on recognised financial instruments and on forecast transactions for periods of up to six (2021: five) years. The group applies portfolio cash flow hedging for interest rate risk exposures on a portfolio of actual and forecast variable interest rate cash flows arising from variable rate borrowings.

Certain items which are economically hedged may be ineligible for hedge accounting in accordance with IAS 39. Therefore, a portfolio of floating rate liabilities have been designated as eligible hedged items in the cash flow hedge portfolio. The amounts and timing of future cash flows are projected on the basis of their contractual and forecast terms and other relevant factors. The exposure from this portfolio frequently changes due to new facilities being originated, contractual repayments and new interest rate swaps added to the portfolio.

To assess hedge effectiveness the change in fair value or cash flows of the hedging instruments is compared with the change in fair value or cash flows of the hedged item attributable to the hedged risk. A hedge is considered highly effective if the results are within a ratio of 80%-125%.

The main sources of hedge ineffectiveness can include, but are not limited to cash flow timing differences between the hedged item and the hedging instrument.

The maturity profile for the notional amounts of the group's fair value hedges is set out below.

	On demand	Within three months	Between three and six months	Between six months and one year	Between one and five years	After more than five years	Total
	£ million	£ million	£ million	£ million	£ million	£ million	£ million
Fair value hedges							
Interest rate risk							
31 July 2022	**-**	**0.7**	**0.4**	**141.3**	**680.3**	**652.7**	**1,475.4**
31 July 2021	-	70.8	41.3	1.0	482.9	887.5	1,483.5

Fair value hedges are an average fixed rate of 1.9% (31 July 2021: 1.9%).

Details of the hedging instruments for the group's hedge ineffectiveness assessment are set out below.

	Changes in fair value of hedging instrument used for calculating hedge ineffectiveness 2022	**Hedge ineffectiveness recognised in income statement 2022**	Changes in fair value of hedging instrument used for calculating hedge ineffectiveness 2021	Hedge ineffectiveness recognised in income statement 2021
	£ million	**£ million**	£ million	£ million
Cash flow hedges				
Interest rate risk	**29.6**	**0.1**	8.9	0.1
Fair value hedges				
Interest rate risk	**(50.4)**	**(0.1)**	(29.0)	(0.1)

The carrying amount of hedging interest rate swaps is held within derivative financial instruments and the hedge ineffectiveness is held within other income.

Notes to the Consolidated Accounts

for the year ended 31 July 2022

13. Derivative financial instruments *continued*

Details of the hedged exposures covered by the group's hedging strategies are set out below.

	Carrying amount of hedged item £ million	Accumulated amount of fair value adjustments on the hedged item £ million	Changes in fair value of hedged item used for calculating hedge ineffectiveness £ million
At 31 July 2022			
Fair value hedges			
Assets			
Debt securities	**211.1**	**(24.0)**	**(28.5)**
Loans and advances to customers and undrawn commitments	**107.4**	**(4.8)**	**(6.7)**
	318.5	**(28.8)**	**(35.2)**
Liabilities			
Deposits by customers	**-**	**-**	**(0.1)**
Debt securities in issue	**683.6**	**(71.1)**	**(68.0)**
Amounts due on group undertakings	**139.6**	**(1.1)**	**(3.6)**
Subordinated loan capital	**186.5**	**(13.0)**	**(13.8)**
	1,009.7	**(85.2)**	**(85.5)**

	Carrying amount of hedged item £ million	Accumulated amount of fair value adjustments on the hedged item £ million	Changes in fair value of hedged item used for calculating hedge ineffectiveness £ million
At 31 July 2021			
Fair value hedges			
Assets			
Debt securities	192.5	4.5	1.2
Loans and advances to customers and undrawn commitments	88.5	1.8	(2.5)
	281.0	6.3	(1.3)
Liabilities			
Deposits by customers	21.2	(0.1)	1.5
Debt securities in issue	699.7	3.1	25.2
Amounts due on group undertakings	142.9	(2.6)	2.4
Subordinated loan capital	222.7	(0.8)	1.1
	1,086.5	(0.4)	30.2

Notes to the Consolidated Accounts

for the year ended 31 July 2022

13. Derivative financial instruments *continued*

Details of the impact of hedging relationships on the income statement and other comprehensive income are set out below.

	Changes in fair value of hedged item used for calculating hedge ineffectiveness	Losses on discontinued hedges	Gains from changes in value of hedging instrument recognised in other comprehensive income	Amounts reclassified from reserves to income statement[1]
	£ million	£ million	£ million	£ million
Cash flow hedges				
Interest rate risk				
At 31 July 2022	**(29.5)**	**(0.4)**	**29.6**	**(1.0)**
At 31 July 2021	(8.8)	(1.5)	8.9	(0.3)

[1] Amounts have been reclassified to other income since hedged cash flows will no longer occur.

Notes to the Consolidated Accounts

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14. Intangibles assets

	Goodwill £ million	Software £ million	Intangible assets on acquisition £ million	Total £ million
Cost				
At 1 August 2020	28.0	207.7	23.8	259.5
Additions	-	41.7	-	41.7
Disposals	(12.1)	(6.5)	(20.8)	(39.4)
At 31 July 2021	15.9	242.9	3.0	261.8
Additions	**-**	**53.4**	**-**	**53.4**
Disposals	**-**	**(24.9)**	**-**	**(24.9)**
At 31 July 2022	**15.9**	**271.4**	**3.0**	**290.3**
Accumulated amortisation				
At 1 August 2020	-	94.6	10.8	105.4
Amortisation charge for the year	-	27.9	2.0	29.9
Impairment charge for the year	12.1	-	10.9	23.0
Disposals	(12.1)	(2.4)	(20.7)	(35.2)
At 31 July 2021	-	120.1	3.0	123.1
Amortisation charge for the year	**-**	**32.0**	**0.1**	**32.1**
Disposals	**-**	**(25.3)**	**(0.1)**	**(25.4)**
At 31 July 2022	**-**	**126.8**	**3.0**	**129.8**
Net book value at 31 July 2022	**15.9**	**144.6**	**-**	**160.5**
Net book value at 31 July 2021	15.9	122.8	-	138.7
Net book value at 1 August 2020	28.0	113.1	13.0	154.1

Software includes assets under development of £69.7 million (31 July 2021: £58.3 million).

Intangible assets on acquisition relate to broker and customer relationships and are amortised over a period of 8 to 20 years.

In the 2022 financial year, £0.1 million (2021: £2.0 million) of the amortisation charge is included in amortisation of intangible assets on acquisition and £32.0 million (2021: £27.9 million) of the amortisation charge is included in administrative expenses shown in the consolidated income statement. In the prior financial year, an impairment charge of £10.9 million relating to intangible assets on acquisition was excluded from administrative expenses shown in the consolidated income statement.

Notes to the Consolidated Accounts

for the year ended 31 July 2022

14. Intangibles assets *continued*

Impairment tests for goodwill

At 31 July 2022, goodwill has been allocated to six (31 July 2021: six) individual Capital Generating Units ("CGUs"). Two are within Commercial, two within Retail and two within Property. The number of CGUs with goodwill decreased by one in the prior year ended 31 July 2021 following the full impairment of the goodwill allocated to the Novitas CGU (further detail at the end of this note). Goodwill impairment reviews are carried out annually by assessing the recoverable amount of the group's CGUs, which is the higher of fair value less costs to sell and value in use. The recoverable amounts for all CGUs were measured based on value in use.

A value in use calculation uses discounted cash flow projections based on the most recent three year plans to determine the recoverable amount of each CGU. These three year plans include the expected impact of Covid-19. The key assumptions underlying management's three year plans, which are based on past experience and forecast market conditions, are expected loan book growth rates and net return on loan book.

For cash flows beyond the group's three year planning horizon, a terminal value was calculated using a prudent annual growth rate of 0% (2021: 0%). The cash flows are discounted using a pre-tax estimated weighted average cost of capital that reflects current market rates appropriate to the CGU as set out in the following table.

At 31 July 2022, the results of the review indicate there is no goodwill impairment. The inputs used in the value in use calculations are sensitive primarily to changes in the assumptions for future cash flows, discount rates and long-term growth rates. Having performed stress tested value in use calculations, the group believes that any reasonably possible change in the key assumptions which have been used would not lead to the carrying value of any CGU to exceed its recoverable amount.

Details of the CGUs in which the goodwill carrying amount is significant in comparison with total goodwill, together with the pre-tax discount rate used in determining value in use, are disclosed separately in the table below:

	31 July 2022		31 July 2021	
	Goodwill	**Pre-tax discount rate**	Goodwill	Pre-tax discount rate
Cash generating unit	**£ million**	**%**	£ million	%
Asset Finance	**8.2**	**17.1**	8.2	10.0
Commercial Acceptances	**3.5**	**15.4**	3.5	9.3
Other	**4.2**	**15.4-17.1**	4.2	9.3-10.3
	15.9		15.9	

Impairment of goodwill and intangible assets on acquisition

In the prior year ended 31 July 2021, the group recorded an impairment charge of £12.1 million relating to the full impairment of goodwill allocated to Novitas, a CGU within the group's Commercial segment. In addition, a total impairment charge of £10.9 million was recorded relating to intangible assets on acquisition, of which £10.1 million related to Novitas.

These impairments reflected the value in use of the Novitas CGU and intangible assets on acquisition falling below carrying value, driven by lower expected future cash flows following strategic decisions made by management. At 31 July 2021, the value in use of the CGU and intangible assets on acquisition was £192.4 million and £3.1 million respectively, and the pre-tax discount rate used in the impairment calculations was 9%.

Notes to the Consolidated Accounts

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15. Property, plant and equipment

	Short leasehold property £ million	Fixtures, fittings and equipment £ million	Assets held under operating lease £ million	Motor vehicles £ million	Right of use assets[1] £ million	Total £ million
Cost						
At 1 August 2020	15.5	41.6	341.4	0.1	29.6	428.2
Additions	0.5	6.0	60.6	0.2	8.5	75.8
Disposals	-	(1.2)	(41.3)	-	(1.9)	(44.4)
At 31 July 2021	16.0	46.4	360.7	0.3	36.2	459.6
Additions	**0.7**	**1.8**	**67.8**	**-**	**10.1**	**80.4**
Disposals	**(1.1)**	**(13.7)**	**(30.3)**	**-**	**(4.1)**	**(49.2)**
At 31 July 2022	**15.6**	**34.5**	**398.2**	**0.3**	**42.2**	**490.8**
Accumulated depreciation						
At 1 August 2020	7.9	32.1	119.5	0.1	6.7	166.3
Depreciation and impairment charges for the year	1.7	4.2	44.8	-	8.5	59.2
Disposals	-	(1.3)	(26.5)	-	(1.2)	(29.0)
At 31 July 2021	9.6	35.0	137.8	0.1	14.0	196.5
Depreciation and impairment charges for the year	**1.7**	**3.8**	**40.6**	**0.1**	**8.5**	**54.7**
Disposals	**(1.1)**	**(15.4)**	**(20.2)**	**-**	**(2.7)**	**(39.4)**
At 31 July 2022	**10.2**	**23.4**	**158.2**	**0.2**	**19.8**	**211.8**
Net book value at 31 July 2022	**5.4**	**11.1**	**240.0**	**0.1**	**22.4**	**279.0**
Net book value at 31 July 2021	6.4	11.4	222.9	0.2	22.2	263.1
Net book value at 1 August 2020	7.6	9.5	221.9	-	22.9	261.9

[1] Right of use assets primarily relate to the group's leasehold properties.

Notes to the Consolidated Accounts

for the year ended 31 July 2022

15. Property, plant and equipment *continued*

There was a gain of £3.2 million from the sale of assets held under operating leases for the year ended 31 July 2022 (2021: £2.6 million).

	31 July 2022 £ million	31 July 2021 £ million
Future minimum lease rentals receivable under non-cancellable operating leases		
One year or within one year	**49.2**	44.3
>One to two years	**28.2**	28.5
>Two to three years	**13.5**	14.6
>Three to four years	**5.6**	4.0
>Four to five years	**2.9**	1.9
More than five years	**0.6**	1.2
	100.0	94.5

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16. Other assets and other liabilities

	31 July 2022 £ million	31 July 2021 £ million
Prepayments, accrued income and other assets		
Prepayments and accrued income	**109.3**	129.2
Trade and other receivables	**19.6**	19.8
Amounts owed by parent undertaking	**3.6**	5.6
	132.5	154.6
Accruals, deferred income and other liabilities		
Accruals and deferred income	**101.5**	103.2
Trade and other payables	**81.1**	67.8
Provisions	**15.1**	13.0
	197.7	184.0

Provisions movements in the year:

	Claims £ million	**Property £ million**	**Other £ million**	**Total £ million**
Movements during the year:				
At 1 August 2020	-	3.7	6.5	10.2
Additions	6.2	0.4	2.0	8.6
Utilised	(0.4)	(0.1)	(1.8)	(2.3)
Released	-	-	(3.5)	(3.5)
At 31 July 2021	5.8	4.0	3.2	13.0
Additions	5.8	0.8	0.9	7.5
Utilised	(1.3)	(0.2)	(1.4)	(2.9)
Released	(1.3)	(0.3)	(0.9)	(2.5)
At 31 July 2022	**9.0**	**4.3**	**1.8**	**15.1**

Provisions are made for claims and other items which arise in the normal course of business. Claims relate to legal and regulatory cases, while other items largely relate to property dilapidations and employee benefits. For such matters, a provision is recognised where it is determined that there is a present obligation arising from a past event, payment is probable, and the amount can be estimated reliably. The timing and/or outcome of these claims and other items are uncertain.

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17. Financial liabilities

	On demand £ million	Within three months £ million	Between three months and one year £ million	Between one and two years £ million	Between two and five years £ million	After more than five years £ million	Total £ million
At 31 July 2022							
Deposits by banks	**6.1**	**52.0**	**102.4**	**-**	**-**	**-**	**160.5**
Deposits by customers	**120.9**	**1,645.2**	**3,615.6**	**1,058.8**	**329.9**	**-**	**6,770.4**
Loans and overdrafts from banks	**10.3**	**0.6**	**-**	**228.0**	**371.9**	**-**	**610.8**
Debt securities in issue	**-**	**26.0**	**605.6**	**249.4**	**567.0**	**362.5**	**1,810.5**
	137.3	**1,723.8**	**4,323.6**	**1,536.2**	**1,268.8**	**362.5**	**9,352.2**

	On demand £ million	Within three months £ million	Between three months and one year £ million	Between one and two years £ million	Between two and five years £ million	After more than five years £ million	Total £ million
At 31 July 2021							
Deposits by banks	2.1	37.7	110.8	-	-	-	150.6
Deposits by customers	576.3	1,547.9	3,343.6	729.8	437.2	-	6,634.8
Loans and overdrafts from banks	16.2	-	-	-	490.0	-	506.2
Debt securities in issue[1]	(3.1)	55.2	161.2	655.2	78.1	665.2	1,611.8
	591.5	1,640.8	3,615.6	1,385.0	1,005.3	665.2	8,903.4

[1] Debt securities in issue of £(3.1) million due on demand include an adjustment relating to the group's fair value hedges. See note 13 for further information.

As discussed in note 27(c) at 31 July 2022 the group accessed £600.0 million cash under the Bank of England's Term Funding Scheme with Additional Incentives for SMEs (31 July 2021: £490.0 million). Cash from the schemes and repurchase agreements is included within loans and overdrafts from banks. Residual maturities of the schemes and repurchase agreements are as follows:

	On demand £ million	Within three months £ million	Between three months and one year £ million	Between one and two years £ million	Between two and five years £ million	After more than five years £ million	Total £ million
At 31 July 2022	**-**	**0.6**	**-**	**228.0**	**372.0**	**-**	**600.6**
At 31 July 2021	-	-	-	-	490.0	-	490.0

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18. Amounts due to group undertakings

	31 July 2022 £ million	31 July 2021 £ million
Amounts due to ultimate parent undertaking	**330.5**	347.2
Amounts due to other group undertakings	**26.2**	-
	356.7	347.2

19. Subordinated loan capital

	Prepayment date	Initial interest rate	31 July 2022 £ million	31 July 2021 £ million
Final maturity date				
2027	2022	4.25%	**-**	23.5
2031	2026	2.00%	**186.5**	199.2
			186.5	222.7

20. Capital - unaudited

The group's policy is to be well capitalised and its approach to capital management is driven by strategic and organisational requirements, while also taking into account the regulatory and commercial environments in which it operates.

The Prudential Regulation Authority ("PRA") supervises Close Brothers Limited on an individual consolidated basis as permitted under CRR article 9. The individual consolidation group does not include all subsidiary undertakings and therefore differs to the accounting consolidation group under IFRS. Further information on the consolidation basis can be found in the Close Brothers Group's Pillar 3 disclosures, which are unaudited, can be found on the group's website www.closebrothers.com/investor-relations/investor-information/results-reports-and-presentations.

The aim of the capital adequacy regime is to promote safety and soundness in the financial system. It is structured around three "pillars": Pillar 1 on minimum capital requirements; Pillar 2 on the supervisory review process; and Pillar 3 on market discipline. The group's Pillar 1 information is presented in the following table. Under Pillar 2, the group completes an annual self-assessment of risks known as the Internal Capital Adequacy Assessment Process ("ICAAP"). The ICAAP is reviewed by the PRA which culminates in the PRA setting a Total Capital Requirement ("TCR") that the group and its regulated subsidiaries are required to hold at all times. Pillar 3 requires firms to publish a set of disclosures which allow market participants to assess information on that firm's capital, risk exposures and risk assessment process.

The group maintains a strong capital base to support the development of the business and to ensure the group meets the TCR and additional regulatory buffers at all times. As a result, the group maintains capital adequacy ratios comfortably above minimum regulatory requirements. The group complied with all of the externally imposed capital requirements to which they are subject for the years ended 31 July 2022 and 2021.

A full analysis of the composition of regulatory capital and Pillar 1 risk weighted assets ("RWAs"), and a reconciliation between equity and CET1 capital after deductions are shown below.

At 31 July 2022, the group's common equity tier 1 capital ratio decreased to 13.5% (31 July 2021: 14.6%).

Common equity tier 1 capital decreased to £1,194.4 million (31 July 2021: £1,224.9 million) primarily due to regulatory changes to the treatment of software assets, which are now fully deducted from capital, and a decrease in IFRS 9 transitional arrangements.

Risk weighted assets increased to £8,847.6 million (31 July 2021: £8,387.4 million) driven by growth in the commercial division loan book and in derivative exposures increasing counterparty credit risk and credit valuation adjustments.

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20. Capital - unaudited *continued*

	31 July 2022 £ million	31 July 2021 £ million
Common equity tier 1 ("CET1") capital		
Called up share capital	**122.5**	122.5
Retained earnings	**1,173.7**	1,142.3
Other reserves recognised for common equity tier 1 capital	**(2.0)**	(2.0)
Deductions from common equity tier 1 capital		
Intangible assets, net of associated deferred tax liabilities[1]	**(158.0)**	(89.6)
Foreseeable dividend[2]	**(24.5)**	(66.0)
Prudent valuation adjustment	**(0.4)**	(0.2)
Insufficient coverage for non-performing exposures[3]	**-**	-
IFRS 9 transitional arrangements[4]	**83.1**	117.9
CET1 capital[5]	**1,194.4**	1,224.9
Tier 2 capital - subordinated debt[6]	**200.0**	223.4
Total regulatory capital[5]	**1,394.4**	1,448.3
Risk weighted assets (notional)[7]		
Credit and counterparty risk	**8,263.0**	7,840.9
Operational risk[7]	**561.1**	533.0
Market risk[7]	**23.5**	13.5
	8,847.6	8,387.4
CET1 capital ratio[5]	**13.5%**	14.6%
Total capital ratio[5]	**15.8%**	17.3%

[1] In line with CRR, effective on 1 January 2022, the CET1 capital ratio no longer includes the benefit related to software assets which were previously exempt from the deduction requirement for intangible assets from CET1.

[2] Under the Regulatory Technical Standard on own funds, a deduction has been recognised at 31 July 2022 for a foreseeable dividend being the proposed final dividend as set out in note 9.

[3] In line with CRR, effective on 1 January 2022, the CET1 capital includes a regulatory deduction where there is insufficient coverage for non-performing exposures, amounting to £0.03 million at 31 July 2022.

[4] The group has elected to apply IFRS 9 transitional arrangements for 31 July 2022, which allow the capital impact of expected credit losses to be phased in over the transitional period.

[5] Shown after applying the IFRS 9 transitional arrangements and CRR transitional and qualifying own funds arrangements in force at the time. Without their application, at 31 July 2022 the CET1 capital ratio would be 12.7% and total capital ratio 14.9% (31 July 2021: CET1 capital ratio 13.2% and total capital ratio 15.9%, which includes benefit related to the previous treatment of software assets).

[6] Tier 2 capital decrease represents the redemption on call date of a prior Tier 2 security, most of which had previously been redeemed as part of a tender offer.

[7] Operational and market risk include a notional adjustment at 8% in order to determine notional risk weighted assets.

Notes to the Consolidated Accounts

for the year ended 31 July 2022

20. Capital - unaudited *continued*

The following table shows a reconciliation between the equity and CET1 capital after deductions:

	31 July 2022 £ million	31 July 2021 £ million
Equity	**1,325.9**	1,272.4
Difference in equity under regulatory individual consolidation basis	**(10.0)**	(10.9)
Regulatory deductions from equity:		
Foreseeable dividend[1]	**(24.5)**	(66.0)
IFRS 9 transitional arrangements[2]	**83.1**	117.9
Intangible assets, net of associated deferred tax liabilities	**(158.0)**	(89.6)
Prudent valuation adjustment	**(0.4)**	(0.2)
Insufficient coverage for non-performing exposures[3]	**-**	-
Other reserves not recognised for common equity tier 1 capital:		
Cash flow hedging reserve	**(21.7)**	0.3
Non-controlling interests	**-**	1.0
CET1 capital	**1,194.4**	1,224.9

[1] Under the Regulatory Technical Standard on own funds, a deduction has been recognised at 31 July 2022 for a foreseeable dividend being the proposed final dividend as set out in note 9.
[2] The group has elected to apply IFRS 9 transitional arrangements for 31 July 2022, which allow the capital impact of expected credit losses to be phased in over the transitional period.
[3] In line with CRR, effective on 1 January 2022, the CET1 capital includes a regulatory deduction where there is insufficient coverage for non-performing exposures, amounting to £0.03 million at 31 July 2022.

Notes to the Consolidated Accounts

for the year ended 31 July 2022

21. Guarantees and commitments

Guarantees

	31 July 2022 £ million	31 July 2021 £ million
Earliest period in which guarantee could be called		
Within one year	**3.3**	5.5
More than one year	**3.3**	-
	6.6	5.5

Where the group undertakes to make a payment on behalf of its subsidiaries for guarantees issued, such as bank facilities or property leases or as irrevocable letters of credit for which an obligation to make a payment to a third party has not arisen at the reporting date, they are included in these consolidated financial statements as contingent liabilities.

Commitments

Undrawn facilities, credit lines and other commitments to lend

	31 July 2022 £ million	31 July 2021 £ million
Within one year[1]	**1,248.4**	1,335.3

[1] Includes both revocable and irrevocable commitments.

Other commitments

The group had contracted capital and other financial commitments of £114.9 million (2021: £85.1 million)

Notes to the Consolidated Accounts

for the year ended 31 July 2022

22. Related party transactions

Transactions with key management

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of an entity; the group's key management are the members of the group's Board, which includes all executive directors, together with its non-executive directors.

The table below details, on an aggregated basis, key management personnel emoluments:

	2022 £ million	2021 £ million
Emoluments		
Salaries and fees	**1.1**	**1.0**
Benefits and allowances	**0.1**	**0.1**
Performance related awards in respect of the current year:		
Cash	**1.1**	**1.0**
Deferred	**0.2**	**0.5**
	2.5	**2.6**
Share-based awards	**0.5**	**0.7**
	3.0	**3.3**

Gains upon exercise of options by key management personnel, expensed to the income statement in previous years, totalled £0.9 million (2021: £1.3 million).

Key management have banking relationships with the company which are entered into in the normal course of business. Amounts included in deposits by customers at 31 July 2022 attributable, in aggregate, to key management were £0.2 million (31 July 2021: £0.2 million).

At 31 July 2022, amounts due to group undertakings of £356.7 million (31 July 2021: £347.2 million) largely related to the group providing banking services to the parent undertaking in its normal capacity as a deposit taker.

23. Pensions

CBG as well as a defined benefit pension scheme which is closed to new members and further accrual. Assets of all schemes are held separately from those of CBG. For more detailed information refer to the CBG Annual Report.

Defined contribution schemes
During the year the charge to the consolidated income statement for the group's defined contribution pension schemes was £10.0 million (2021: £9.3 million) representing contributions payable by the group and is included in administrative expenses.

Defined benefit pension scheme
CBG's only defined benefit pension scheme ("the scheme") is a final salary scheme which operates under trust law. The scheme is managed and administered in accordance with the scheme's Trust Deed and Rules and all relevant legislation by a trustee board made up of trustees nominated by both the company and the members.

The scheme was closed to new entrants in August 1996 and closed to further accrual during 2012. At 31 July 2022, this scheme had 26 (31 July 2021: 28) deferred members and 54 (31 July 2021: 53) pensioners and dependants.

Notes to the Consolidated Accounts

for the year ended 31 July 2022

24. Share-based awards

Share-based awards have been granted under the following Close Brothers Group plc share schemes: Save As You Earn ("SAYE"), Long Term Incentive Plan ("LTIP"), and Deferred Share Awards ("DSA").

The table below shows the weighted average market price at the date of exercise:

	2022	2021
SAYE	**1,331.7p**	1,435.9p
LTIP	**1,452.2p**	1,079.9p
DSA	**1,340.0p**	1,228.8p

The range of exercise prices and weighted average remaining contractual life of awards and options outstanding are as follows:

	Options outstanding 2022		Options outstanding 2021	
Exercise price range	**Number outstanding**	**Weighted average remaining contractual life (years)**	Number outstanding	Weighted average remaining contractual life (years)
SAYE				
Between £7 and £8	**404,126**	**2.4**	462,049	3.3
Between £8 and £9	**276,945**	**1.6**	320,671	2.6
Between £9 and £10	**142,147**	**3.7**	57,336	2.1
Between £10 and £11	**51,695**	**1.2**	-	-
Between £11 and £12	**37,141**	**0.9**	56,403	1.7
Between £12 and £13	**48,845**	**2.9**	34,319	1.2
Between £13 and £14	**33,319**	**2.7**	48,955	3.7
LTIP				
Nil	**289,980**	**2.6**	329,757	2.7
DSA				
Nil	**157,764**	**1.5**	240,537	1.5
Total	**1,441,962**	**2.6**	1,550,027	2.6

Notes to the Consolidated Accounts

for the year ended 31 July 2022

24. Share-based awards *continued*

The following summary information relates to the current policy only. Please refer to CBG's Annual Report 2022 for full details of the schemes.

SAYE is open to all eligible employees on the same terms and options are granted for a fixed contract period of three or five years, at an exercise price at a discount of 20% to the mid-market price at the date of invitation to participate.

LTIP awards are made in the form of nil cost options. Awards vest after three years subject to performance conditions. On vesting, participants receive an amount in cash equal to the dividends which would have been paid on the vested shares during the period from the beginning of the performance period to the time that the participant calls for the award.

DSA is predominantly a mandatory deferral of a portion of the performance related annual bonus. The deferral is in the form of nil cost options and vests either fully after two years or one third per year over three years.

Performance related annual bonus in excess of 100% of salary is usually deferred.

When the options are called for, the employee is entitled to an amount in cash equal to the dividends which would have been paid on the vested shares over the period of deferral.

25. Ultimate parent undertaking

The parent undertaking of the largest and smallest group of undertakings for which the group is a member is Close Brothers Group plc, the ultimate parent undertaking and controlling party which is a listed company incorporated in the United Kingdom and registered in England and Wales. The immediate parent undertaking is Close Brothers Holdings Limited, which is registered in England and Wales.

The consolidated financial statements of Close Brothers Group plc are available at 10 Crown Place, London EC2A 4FT.

Notes to the Consolidated Accounts

for the year ended 31 July 2022

26. Consolidated cash flow statement reconciliation

	2022 £ million	2021[1] £ million
(a) Reconciliation of operating profit before tax to net cash inflow from operating activities		
Operating profit before tax	**229.4**	209.5
Tax paid	**(60.8)**	(42.4)
Depreciation, amortisation and impairment	**86.6**	112.1
Impairment losses on financial assets	**103.3**	89.8
Decrease in interest receivable and prepaid expenses	**19.9**	6.4
Decrease in interest payable and accrued expenses	**(1.7)**	(0.6)
Net cash inflow from trading activities	**376.7**	374.8
Decrease/(increase) in:		
Loans and advances to banks not repayable on demand	**(5.9)**	9.8
Loans and advances to customers	**(515.0)**	(951.2)
Assets let under operating leases	**(54.5)**	(43.9)
Certificates of deposit	**79.7**	21.2
Sovereign and central bank debt	**(255.3)**	(120.3)
Other assets less other liabilities	**(7.6)**	12.0
Increase in:		
Deposits by banks	**11.8**	3.9
Deposits by customers	**142.7**	745.1
Loans and overdrafts from banks	**104.6**	12.2
Net issuance of debt securities	**243.6**	25.6
Net cash inflow from operating activities	**120.8**	89.2
(b) Analysis of net cash outflow in respect of subsidiary purchases		
Cash consideration paid	**(0.1)**	-
(c) Analysis of cash and cash equivalents[2]		
Cash and balances at central banks	**1,236.0**	1,314.7
Loans and advances to banks	**67.2**	52.4
At 31 July	**1,303.2**	1,367.1

[1] Comparatives have been updated to present impairment losses on financial assets in a separate line with no impact on the net cash inflow from operating activities figure.
[2] Excludes £37.1million (2021: £30.7 million) of Bank of England and other cash reserve accounts.

During the year ended 31 July 2022, the non-cash changes on debt financing amounted to £3.6 million (2021: £4.8 million) arising largely from interest accretion and fair value hedging movements.

Notes to the Consolidated Accounts

for the year ended 31 July 2022

27. Financial risk management

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

The group's financial risk management objectives are summarised in the Strategic Report. Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised, in respect of each class of financial asset, financial liability and equity instrument are disclosed in note 1.

(a) Classification

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

	Derivatives designated as hedging instruments £ million	Fair value through profit or loss £ million	Fair value through other comprehensive income £ million	Amortised cost £ million	Total £ million
At 31 July 2022					
Assets					
Cash and balances at central banks	-	-	-	1,254.7	1,254.7
Loans and advances to banks	-	-	-	85.6	85.6
Loans and advances to customers	-	-	-	8,858.9	8,858.9
Debt securities	-	-	415.4	185.0	600.4
Derivative financial instruments	61.5	9.6	-	-	71.1
Other financial assets	-	-	-	10.6	10.6
	61.5	9.6	415.4	10,394.8	10,881.3
Liabilities					
Deposits by banks	-	-	-	160.5	160.5
Deposits by customers	-	-	-	6,770.4	6,770.4
Loans and overdrafts from banks	-	-	-	610.8	610.8
Debt securities in issue	-	-	-	1,810.5	1,810.5
Derivative financial instruments	83.9	5.3	-	-	89.2
Amounts due to group undertakings	-	-	-	356.7	356.7
Subordinated loan capital	-	-	-	186.5	186.5
Other financial liabilities	-	-	-	100.8	100.8
	83.9	5.3	-	9,996.2	10,085.4

Notes to the Consolidated Accounts

for the year ended 31 July 2022

27. Financial risk management *continued*

(a) Classification *continued*

	Derivatives designated as hedging instruments £ million	Fair value through profit or loss £ million	Fair value through other comprehensive income £ million	Amortised cost £ million	Total £ million
At 31 July 2021					
Assets					
Cash and balances at central banks	-	-	-	1,331.0	1,331.0
Loans and advances to banks	-	-	-	66.8	66.8
Loans and advances to customers	-	-	-	8,444.5	8,444.5
Debt securities	-	-	192.5	264.7	457.2
Derivative financial instruments	16.9	1.4	-	-	18.3
Other financial assets	-	-	-	10.4	10.4
	16.9	1.4	192.5	10,117.4	10,328.2
Liabilities					
Deposits by banks	-	-	-	150.6	150.6
Deposits by customers	-	-	-	6,634.8	6,634.8
Loans and overdrafts from banks	-	-	-	506.2	506.2
Debt securities in issue	-	-	-	1,611.8	1,611.8
Derivative financial instruments	19.0	2.2	-	-	21.2
Amounts due to group undertakings	-	-	-	347.2	347.2
Subordinated loan capital	-	-	-	222.7	222.7
Other financial liabilities	-	-	-	103.4	103.4
	19.0	2.2	-	9,576.7	9,597.9

(b) Valuation

The fair values of the group's financial assets and liabilities are not materially different from their carrying values. The main differences are as follows:

	31 July 2022		31 July 2021	
	Fair Value £ million	**Carrying Value £ million**	Fair Value £ million	Carrying Value £ million
Subordinated loan capital	**180.0**	**186.5**	226.5	222.7
Debt securities in issue	**1,821.4**	**1,810.5**	1,648.4	1,611.8

Notes to the Consolidated Accounts

for the year ended 31 July 2022

27. Financial risk management *continued*

(b) Valuation *continued*

Valuation hierarchy

The group holds financial instruments that are measured at fair value subsequent to initial recognition. Each instrument has been categorised within one of three levels using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. These levels are based on the degree to which the fair value is observable and are defined as follows:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities where prices are readily available and represent actual and regularly occurring market transactions on an arm's length basis. An active market is one in which transactions occur with sufficient frequency to provide ongoing pricing information;
- Level 2 fair value measurements are those derived from quoted prices in less active markets for identical assets or liabilities or those derived from inputs other than quoted prices that are observable for the asset or liability, either directly as prices or indirectly derived from prices; and
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data ("unobservable inputs").

Instruments classified as Level 1 predominantly comprise sovereign and central bank debt and liquid listed equity shares. The fair value of these instruments is derived from quoted prices in active markets.

Instruments classified as Level 2 predominantly comprise less liquid listed equity shares, investment grade corporate bonds and over-the-counter derivatives. The fair value of equity shares and bonds are derived from quoted prices in less active markets in comparison to level 1. Over-the-counter derivatives largely relate to interest rate and exchange rate contracts (see note 13 for further information). The valuation of such derivatives includes the use of discounted future cash flow models, with the most significant input into these models being interest rate yield curves developed from quoted rates.

Instruments classified as Level 3 predominantly comprise contingent consideration payable and receivable in relation to the acquisitions and the disposal of subsidiaries.

The fair value of contingent consideration is determined on a discounted expected cash flow basis. The group believes that there is no reasonably possible change to the inputs used in the valuation of these positions which would have a material effect on the group's consolidated income statement.

There were no significant transfers between Level 1, 2 and 3 in 2022 and 2021.

Notes to the Consolidated Accounts

for the year ended 31 July 2022

27. Financial risk management *continued*

(b) Valuation *continued*

The tables below show the classification of financial instruments held at fair value into the valuation hierarchy.

	Level 1 £ million	Level 2 £ million	Level 3 £ million	Total £ million
At 31 July 2022				
Assets				
Sovereign and central bank debt	**415.4**	**-**	**-**	**415.4**
Derivative financial instruments	**-**	**71.1**	**-**	**71.1**
	415.4	**71.1**	**-**	**486.5**
Liabilities				
Derivative financial instruments	**-**	**89.2**	**-**	**89.2**
Contingent consideration	**-**	**-**	**0.4**	**0.4**
	-	**89.2**	**0.4**	**89.6**

	Level 1 £ million	Level 2 £ million	Level 3 £ million	Total £ million
At 31 July 2021				
Assets				
Sovereign and central bank debt	192.5	-	-	192.5
Derivative financial instruments	-	18.3	-	18.3
	192.5	18.3	-	210.8
Liabilities				
Derivative financial instruments	-	21.2	-	21.2
Contingent consideration	-	-	0.6	0.6
	-	21.2	0.6	21.8

Notes to the Consolidated Accounts

for the year ended 31 July 2022

27. Financial risk management *continued*

(b) Valuation *continued*

Movements in financial instruments categorised as Level 3 were:

	Contingent Consideration £ million
At 1 August 2020	(3.5)
Total gains recognised in the consolidated income statement	2.9
At 31 July 2021	(0.6)
Total gains recognised in the consolidated income statement	**0.1**
Settlements	**0.1**
At 31 July 2022	**(0.4)**

The gains recognised in the consolidated income statement relating to instruments held at the year end amounted to £0.1 million (2021: £0.2 million gains).

(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 group has contracted, to meet its obligations as they fall due. Credit risk mainly arises through the lending and treasury activities of the group.

The group applies consistent and prudent lending criteria to mitigate credit risk. Its lending activities are predominantly secured across a diverse range of asset classes. Details of average tenor and loan size by business can be found in the strategic report. This ensures concentration risk is controlled in both the loan book and associated collateral. Currently credit risk appetites are set around unsecured lending to ensure the secured lending position is under regular review. As at 31 July 2022, secured lending accounts for 89.6% of the loan book, in line with the prior year (31 July 2021: 89.2%).

The group has established limits for all counterparties with whom it places deposits, enters into derivative contracts or whose debt securities are held, and the credit quality of the counterparties is monitored. While these amounts may be material, the counterparties are all regulated institutions with investment grade credit ratings assigned by international credit rating agencies and fall within the large exposure limits set by regulatory requirements.

Maximum exposure to credit risk

The table below presents the group’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. For off balance sheet instruments, the maximum exposure to credit risk represents the contractual nominal amounts.

Notes to the Consolidated Accounts

for the year ended 31 July 2022

27. Financial risk management *continued*

(c) Credit risk *continued*

	31 July 2022 £ million	31 July 2021 £ million
On balance sheet		
Cash and balances at central banks	**1,254.7**	1,331.0
Loans and advances to banks	**85.6**	66.8
Loans and advances to customers	**8,858.9**	8,444.5
Debt securities	**600.4**	457.2
Derivative financial instruments	**71.1**	18.3
Other financial assets[1]	**10.6**	10.4
	10,881.3	10,328.2
Off balance sheet		
Irrevocable undrawn commitments	**302.8**	264.6
Total maximum exposure to credit risk	**11,184.1**	10,592.8

[1] The prior year comparative has been restated.

Assets pledged and received as collateral

The group pledges assets for repurchase agreements and securities borrowing agreements which are generally conducted under terms that are customary to standard borrowing contracts.

The group is a participant of the Bank of England's Term Funding Scheme with Additional Incentives for SMEs ("TFSME").

Under these schemes, asset finance loan receivables of £626.1 million (31 July 2021: £571.3 million), UK gilts with a market value of £72.6 million (31 July 2021: £90.2 million), UK T-Bills with a market value of £144.3 million (31 July 2021: £nil) and retained notes relating to Motor Finance loan receivables of £24.3 million (31 July 2021: £72.1 million) were positioned as collateral with the Bank of England, against which £600.0 million (31 July 2021: £490.0 million) of cash was drawn.

The term of these transactions is four years from the date of each drawdown but the group may choose to repay earlier at its discretion. The risks and rewards of the loan receivables remain with the group and continue to be recognised in loans and advances to customers on the consolidated balance sheet.

The group has securitised without recourse and restrictions £1,626.8 million (31 July 2021: £1,386.0 million) of its insurance premium and motor loan receivables in return for cash and asset-backed securities in issue of £1,022.4 million (31 July 2021: £915.7 million). This includes the £24.3 million (31 July 2021: £72.1 million) retained notes positioned as collateral with the Bank of England. As the group has retained exposure to substantially all the credit risk and rewards of the residual benefit of the underlying assets it continues to recognise these assets in loans and advances to customers in its consolidated balance sheet.

The majority of loans and advances to customers are secured against specific assets. For more information on collateral held see page 110. Consistent and prudent lending criteria are applied across the whole loan book with emphasis on the quality of the security provided.

Notes to the Consolidated Accounts

for the year ended 31 July 2022

27. Financial risk management *continued*

(c) Credit risk *continued*

Financial assets: Loans and advances to customers

Credit risk management and monitoring

Overall credit risk appetite is set by the group board. The monitoring of credit policy is the responsibility of the group's Risk and Compliance committees. Large loans are subject to approval by a credit committee.

Credit underwriting and in-life monitoring is undertaken either centrally or through regional office networks, appropriate to the diverse and specialised nature of the businesses and the size and complexity of the transaction. Underwriting authority is ultimately delegated from the Board Risk Committee and cascaded accordingly, with lending businesses approving lower risk exposures locally subject to compliance with credit policy and risk appetite.

This model is supported by central oversight and control. An independent central credit risk function provides ongoing monitoring of material credit risks through regular review of appetites and policy. This team reports through the chief credit risk officer to the group chief risk officer and provides monthly reporting to the CRMC and GRCC. The group has a dual approach to mitigating credit risk by:

- Lending on a predominantly secured basis with emphasis on both the customer's ability to repay and the quality of the underlying security to minimise any loss should the customer not be able to repay; and
- Applying greater scrutiny where the asset securing a loan is less tangible, or in cases of higher loan to value ("LTV").

Collections and recoveries processes are designed to provide a fair, consistent and effective operation for arrears management with a focus on good customer outcomes. We seek to engage in early communication with borrowers experiencing difficulty in meeting their repayments and provide forbearance where appropriate. Capacity in collections and recoveries teams is closely monitored with clear plans in place to deal with increases in arrears.

Government lending schemes

In addition to the Covid-19 specific forbearance measures covered below, following accreditation, customers facilities were offered under the UK government-introduced Coronavirus Business Interruption Loan Scheme ("CBILS"), the Coronavirus Large Business Interruption Loan Scheme ("CLBILS") and the Bounce Back Loan Scheme ("BBLS"), thereby enabling us to maximise our support to small businesses. As at 31 July 2022, 5,445 facilities were drawn, with a residual balance of £747.5 million (31 July 2021: £983.9 million) following commencement of repayments across our Property, Asset Finance & Leasing and Invoice Finance businesses.

We have also received accreditation to offer products under the Recovery Loan Scheme, and schemes in the Republic of Ireland. As at 31 July 2022, there are 633 live and approved loans, with limits of £181.6million.

Forbearance

Forbearance occurs when a customer is experiencing difficulty in meeting their financial commitments and a concession is granted, by changing the terms of the financial arrangement, which would not otherwise be considered. This arrangement can be temporary or permanent depending on the customer's circumstances.

The group reports on forborne exposures as either performing or non-performing in line with regulatory requirements. A forbearance policy is maintained to ensure the necessary processes are in place to enable consistently fair treatment of each customer and that they are managed based on their individual circumstances. The arrangements agreed with customers will aim to create a sustainable and affordable financial position, thereby reducing the likelihood of suffering a credit loss. The forbearance policy is periodically reviewed to ensure it remains effective.

Covid-19 approach

As the global pandemic has evolved, the impact on customers and their ongoing performance and requirements have been monitored, including the uptake of concessions, payment performance, the resumption of normal payment terms and the requirement for further concessions. Appropriate cure periods associated with these concessions have been determined based on in-depth knowledge of portfolios and sub-portfolios.

Notes to the Consolidated Accounts

for the year ended 31 July 2022

27. Financial risk management *continued*
(c) Credit risk *continued*

The Central Credit Risk function continues to report on Covid-19 related concessions to the CRMC. Additional reporting tracks the trajectory of Covid-19 related concessions across the businesses and examines sector and asset concentrations.

The number of customers supported via concessions offered has fallen to 770 from 17,674 at the end of the prior financial year.

A loan will be treated as forborne until a cure period has been met. The cure periods of Covid-19 related forborne exposures are subject to expert judgement and are underpinned by carefully considered assumptions. These are subject to regular review and varies per business and ranges from instant cure when concession ends (subject to confirmation of no adverse performance) to a cure period of between 3 and 12 months, commencing upon resumption of full repayments in instances where partial repayments had been agreed for a period of time.

BAU forbearance
The Banking division has historically offered a range of concessions to support customers which vary depending on the product and the customer's status. Such concessions include an extension outside terms (for example a higher loan to value or overpayments) and refinancing, which may incorporate an extension of the loan tenor and capitalisation of arrears. Furthermore, other forms of forbearance such as moratorium, covenant waivers, and rate concessions are also offered.

Loans are classified as forborne at the time a customer in financial difficulty is granted a concession and the loan will remain treated and recorded as forborne until the following exit conditions are met:

1. The loan is considered as performing and there is no past-due amount according to the amended contractual terms;
2. A minimum two-year probation period has passed from the date the forborne exposure was considered as performing, during which time regular and timely payments have been made;
3. None of the customer's exposures with Close Brothers are more than 30 days past due at the end of the probation period

Forbearance analysis
At 31 July 2022 the gross carrying amount of exposures with forbearance measures was £208.9 million (31 July 2021: £615.0 million). The key driver of this decrease has been repayment and curing of Covid-19 related forbearance, the total of which amounts to £40.8 million at 31 July 2022 (31 July 2021: £454.8 million).

Notes to the Consolidated Accounts

for the year ended 31 July 2022

27. Financial risk management *continued*

(c) Credit risk *continued*

An analysis of forborne loans as at 31 July 2022 is shown in the table below:

	Gross loans and advances to customers £ million	Forborne loans £ million	Forborne loans as a percentage of gross loans and advances to customers %	Provision on forborne loans £ million	Number of customers supported
31 July 2022	**9,144.5**				
Covid-19 forbearance		**40.8**	**0.4%**	**1.4**	**770**
Non-Covid-19 forbearance		**168.1**	**1.8%**	**42.9**	**10,273**
	9,144.5	**208.9**	**2.3%**	**44.3**	**11,043**
31 July 2021	8,724.9				
Covid-19 forbearance		454.8	5.2%	47.3	17,674
Non-Covid-19 forbearance		160.2	1.8%	35.5	12,679
	8,724.9	615.0	7.0%	82.8	30,353

The following is a breakdown of forborne loans by segment split by those driven by Covid-19 compared to concessions that have arisen in the normal course of business:

	31 July 2022			31 July 2021		
	Covid-19 £ million	**Non Covid-19 £ million**	**Total forborne loans £ million**	Covid-19 £ million	Non Covid-19 £ million	Total forborne loans £ million
Property	**4.8**	**118.8**	**123.6**	118.2	131.2	249.4
Commercial	**34.2**	**28.1**	**62.3**	287.4	19.8	307.2
Retail	**1.8**	**21.2**	**23.0**	49.2	9.2	58.4
Total	**40.8**	**168.1**	**208.9**	454.8	160.2	615.0

Notes to the Consolidated Accounts

for the year ended 31 July 2022

27. Financial risk management *continued*

(c) Credit risk *continued*

The following is a breakdown of the number of customers supported by segment:

	31 July 2022			31 July 2021		
	Number of customers supported			Number of customers supported		
	Covid-19	Non-Covid-19	Total	Covid-19	Non-Covid-19	Total
Property	1	57	58	50	58	108
Commercial	404	114	518	2,291	136	2,427
Retail	365	10,102	10,467	15,333	12,485	27,818
Total	770	10,273	11,043	17,674	12,679	30,353

The following is a breakdown of forborne loans by concession type split by those driven by Covid-19 compared to concessions that have arisen in the normal course of business:

	31 July 2022			31 July 2021		
	Covid-19	Non Covid-19	Forborne loans	Covid-19	Non Covid-19	Forborne loans
	£ million	£ million	£ million	£ million	£ million	£ million
Extension outside terms	5.4	107.6	113.0	123.5	121.9	245.4
Refinancing	-	3.0	3.0	1.2	5.3	6.5
Moratorium	35.4	34.5	69.9	329.7	16.1	345.8
Other modifications	-	23.0	23.0	0.4	16.9	17.3
Total	40.8	168.1	208.9	454.8	160.2	615.0

Segmental credit risk

Commercial is a combination of several specialist, predominantly secured, lending businesses. The nature of assets financed varies across the businesses. The majority of the loan book is comprised of loans less than £2.5 million. Credit quality is predominantly assessed on an individual loan-by-loan basis. During and post the pandemic, Commercial has provided additional support to customers using the CBILS, CLBILS and RLS products which benefit from British Business Bank guarantee support. Collection and recovery activity is executed promptly by experts with experience in the specialised assets. This approach allows remedial action to be implemented at the appropriate time to minimise potential loss.

Retail is predominantly high volume secured, refundable or structurally protected lending. The majority of the loan book is comprised of loans less than £20,000 and includes both regulated and unregulated agreements. Credit issues are identified via largely automated monitoring and tracking processes. Collections processes and actions (focused on good and fair customer outcomes) are designed and implemented to support and restore customers to a performing status, with recovery methods applied to minimise potential loss.

Property is a low volume, specialised lending portfolio with credit quality assessed on an individual loan by loan basis. The majority of the loan book is comprised of Residential Development loans of less than £10 million. All loans are regularly reviewed to ensure that they are performing satisfactorily, with Residential Development facilities monitored, broadly, on a monthly basis by independent Close Brothers appointed Project Monitoring Surveyors (“PMS”) to certify build payments and the residual cost-to-complete. This ensures the thorough supervision of all live developments and facilitates the monthly checking of on-site progress against original build plan.

In Commercial and Property, performing loans with elevated levels of credit risk may be placed on watch lists depending on the perceived severity of the credit risk.

Notes to the Consolidated Accounts

for the year ended 31 July 2022

27. Financial risk management *continued*
(c) Credit risk *continued*

Credit risk reporting
The following table sets out loans and advances to customers, trade receivables and undrawn facilities by the group's internal credit risk grading and illustrates the allocation of these per IFRS 9 staging category for comparative purposes. The analysis of lending has been prepared based on the following risk categories:

Low risk: The credit risk profile of the borrower is considered acceptable with the borrower considered likely to meet obligations as they fall due. Standard monitoring in place.

Medium risk: Evidence of deterioration in the credit risk profile of the borrower exists which requires increased monitoring. Potential concerns on ability to meet obligations as they fall due may exist.

High risk: Evidence of significant deterioration in the credit risk profile of the borrower exists which requires enhanced management. Full repayment may not be achieved with potential for loss identified.

Notes to the Consolidated Accounts

for the year ended 31 July 2022

27. Financial risk management *continued*

(c) Credit risk *continued*

	Stage 1 £ million	Stage 2 £ million	Stage 3 £ million	Total £ million
At 31 July 2022				
Gross loans and advances to customers				
Low risk	**7,356.7**	**706.9**	**21.4**	**8,085.0**
Medium risk	**259.3**	**401.9**	**47.3**	**708.5**
High risk	**11.0**	**50.1**	**289.9**	**351.0**
Ungraded	**-**	**-**	**-**	**-**
	7,627.0	**1,158.9**	**358.6**	**9,144.5**
Undrawn facilities				
Low risk	**1,230.9**	**10.7**	**-**	**1,241.6**
Medium risk	**0.4**	**3.8**	**-**	**4.2**
High risk	**-**	**2.4**	**0.2**	**2.6**
	1,231.3	**16.9**	**0.2**	**1,248.4**
Trade receivables[1]				
Low risk	**8.5**	**-**	**-**	**8.5**
Medium risk	**-**	**0.4**	**-**	**0.4**
High risk	**-**	**-**	**0.8**	**0.8**
	8.5	**0.4**	**0.8**	**9.7**

	Stage 1 £ million	Stage 2 £ million	Stage 3 £ million	Total £ million
At 31 July 2021				
Gross loans and advances to customers				
Low risk	7,217.8	328.4	10.8	7,557.0
Medium risk	210.5	616.5	31.5	858.5
High risk	0.5	13.6	283.0	297.1
Ungraded	5.5	1.7	5.1	12.3
	7,434.3	960.2	330.4	8,724.9
Undrawn facilities				
Low risk	1,274.2	5.6	-	1,279.8
Medium risk	51.1	3.0	-	54.1
High risk	-	-	1.4	1.4
	1,325.3	8.6	1.4	1,335.3
Trade receivables				
Low risk	8.1	-	-	8.1
Medium risk	-	1.0	-	1.0
High risk	-	-	0.5	0.5
	8.1	1.0	0.5	9.6

[1] Lifetime expected credit losses are recognised for all trade receivables under the IFRS 9 simplified approach. The figures presented are on a net basis after deducting for expected credit losses of £3.2 million (31 July 2021: £3.4 million) relating to predominantly Stage 3 receivables.

Notes to the Consolidated Accounts

for the year ended 31 July 2022

27. Financial risk management *continued*

(c) Credit risk *continued*

Low risk loans and advances to customers represent 93% of the overall portfolio (31 July 2021: 87%), reflective of our prudent and consistent approach to credit risk management. 84% (31 July 2021: 83%) of total advances are classified as low risk Stage 1, driven by the strong quality of the portfolio. Low risk Stage 2 represents 8% (31 July 2021: 4%) of loans and advances to customers, largely comprising early arrears cases, or agreements which have triggered a significant increase in credit risk indicator, or the 30 days past due backstop. The increase is primarily driven by deteriorating macroeconomic forecasts. Low risk Stage 3 loans and advances to customers primarily relate to agreements which have triggered the 90 days past due backstop but where full repayment is expected.

Medium risk loans account for 8% (31 July 2021: 10%) of total loans and advances to customers, of which the majority is in Stage 2. Medium risk Stage 1 has increased to 3% (31 July 2021: 2%) as certain parts of the Novitas loan book have been moved to medium risk, reflecting the latest case failure rates. Medium risk Stage 2 represents 5% (31 July 2021: 7%), reflecting the reduction in Covid-19 forbearance. Loans and advances to customers reflected as medium risk Stage 3 primarily relate to agreements that have triggered the 90 days past due backstop in addition to other significant increase in credit risk triggers.

High risk loans account for 4% (31 July 2021: 3%) of total loans and advances to customers with the majority corresponding to Stage 3.

Collateral held

The group mitigates credit risk through holding collateral against loans and advances to customers. The group has internal policies on the acceptability of specific collateral types, the requirements for ensuring effective enforceability and monitoring of collateral in-life. Internal policies define, amongst other things, legal documentation requirements, the nature of assets accepted, loan to value and age at origination, and exposure maturity and in-life inspection requirements. An asset valuation is undertaken as part of the loan origination process.

The principal types of collateral held by the group against loans and advances to customers in the Property and Commercial businesses include residential and commercial property and charges over business assets such as equipment, inventory and accounts receivable. Within Retail the group holds collateral primarily in the form of vehicles in Motor Finance and refundable insurance premiums in Premium Finance, where an additional layer of protection may exist through broker recourse.

The group’s collateral policies have not materially changed during the reporting period and there has been no significant change in the overall quality of the collateral held by the group since the prior period.

Notes to the Consolidated Accounts

for the year ended 31 July 2022

27. Financial risk management *continued*
(c) Credit risk *continued*

Analysis of gross loans and advances to customers by LTV ratio is provided below. The value of collateral used in determining the LTV ratio is based upon data captured at loan origination, or where available, a more recent updated valuation.

	Retail £ million	**Commercial £ million**	**Property £ million**	**Total £ million**
LTV[1]				
60% or lower	**179.5**	**1,238.2**	**1,011.4**	**2,429.1**
>60% to 70%	**179.5**	**471.6**	**367.3**	**1,018.4**
>70% to 80%	**374.9**	**375.5**	**49.8**	**800.2**
>80% to 90%	**1,108.0**	**692.7**	**4.5**	**1,805.2**
>90% to 100%	**477.6**	**1,052.6**	**-**	**1,530.2**
Greater than 100%	**318.9**	**213.3**	**77.2**	**609.4**
Structurally protected[2]	**452.8**	**291.7**	**-**	**744.5**
Unsecured	**42.7**	**164.8**	**-**	**207.5**
At 31 July 2022	**3,133.9**	**4,500.4**	**1,510.2**	**9,144.5**

1 Government lending scheme facilities totalling £913.5 million (31 July 2021: £983.9 million), are allocated to a low LTV category reflecting the nature of the government guarantee and resultant level of lending risk.
2 Exposures are considered structurally protected when, in management's judgement, they have characteristics which mitigate the credit risk of the exposure to a significant extent, in spite of not representing tangible security.

	Retail £ million	Commercial £ million	Property[3] £ million	Total £ million
LTV[1]				
60% or lower	171.5	1,301.7	1,082.1	2,555.3
>60% to 70%	172.3	203.9	323.8	700.0
>70% to 80%	363.3	333.5	35.2	732.0
>80% to 90%	1,154.9	494.2	6.0	1,655.1
>90% to 100%	461.7	1,103.4	7.3	1,572.4
Greater than 100%	240.4	237.2	88.1	565.7
Structurally protected[2]	437.5	330.5	-	768.0
Unsecured	40.3	136.1	-	176.4
At 31 July 2021	3,041.9	4,140.5	1,542.5	8,724.9

1 Government lending scheme facilities totalling £983.9 million (31 July 2020: £193.8 million), are allocated to a low LTV category reflecting the nature of the government guarantee and resultant level of lending risk.
2 Exposures are considered structurally protected when, in management's judgement, they have characteristics which mitigate the credit risk of the exposure to a significant extent, in spite of not representing tangible security.
3 Gross loans and advances to customers by LTV ratio in Property has been updated, with no impact on the total balance, to ensure the basis of presentation is consistent with the current year.

Notes to the Consolidated Accounts

for the year ended 31 July 2022

27. Financial risk management *continued*

(c) Credit risk *continued*

Gross loans and advances to customers which are credit-impaired split by LTV ratio:

	Retail £ million	**Commercial £ million**	**Property £ million**	**Total £ million**
LTV				
60% or lower	**1.7**	**42.5**	**9.2**	**53.4**
>60% to 70%	**2.4**	**0.7**	**14.2**	**17.3**
>70% to 80%	**7.0**	**2.7**	**19.1**	**28.8**
>80% to 90%	**17.9**	**16.4**	**4.4**	**38.7**
>90% to 100%	**19.1**	**10.1**	**-**	**29.2**
Greater than 100%	**11.9**	**4.8**	**77.1**	**93.8**
Structurally protected	**4.1**	**56.5**	**-**	**60.6**
Unsecured	**1.4**	**35.4**	**-**	**36.8**
At 31 July 2022	**65.5**	**169.1**	**124.0**	**358.6**

	Retail £ million	Commercial £ million	Property[1] £ million	Total £ million
LTV				
60% or lower	2.8	19.8	10.1	32.7
>60% to 70%	2.8	2.0	57.6	62.4
>70% to 80%	6.3	6.4	18.2	30.9
>80% to 90%	12.9	12.8	6.0	31.7
>90% to 100%	9.0	15.2	7.3	31.5
Greater than 100%	5.1	14.0	88.1	107.2
Structurally protected	3.0	13.0	-	16.0
Unsecured	1.3	16.7	-	18.0
At 31 July 2021	43.2	99.9	187.3	330.4

1 Gross loans and advances to customers by LTV ratio in Property has been updated, with no impact on the total balance, to ensure the basis of presentation is consistent with the current year.

Financial assets: Treasury assets

The credit risk presented by the group's treasury assets is low. Immaterial impairment provisions are recognised for cash and balances at central banks, certificates of deposit and sovereign and central bank debt. These financial assets are investment grade and in Stage 1.

Notes to the Consolidated Accounts

for the year ended 31 July 2022

27. Financial risk management *continued*

(d) Market risk

Interest rate risk

The group has a simple and transparent balance sheet and a low appetite for interest rate risk which is limited to that required to operate efficiently. The group's policy is to match repricing characteristics of assets and liabilities naturally where possible or by using interest rate swaps to secure the margin on its loans and advances to customers. These interest rate swaps are disclosed in note 13.

The Asset and Liability Committee ("ALCO") monitors the interest rate risk exposure across the balance sheet. There are three main sources of interest rate risk recognised, which could adversely impact future income or the value of the balance sheet:

- repricing risk occurs when assets and liabilities reprice at different times;
- embedded optionality risk occurs as a result of special conditions attached to contract terms embedded in some assets and liabilities; and
- basis risk occurs where there is a mismatch in the interest rate reference rate for assets and liabilities.

Interest rate risk within the banking book ("IRRBB") is assessed by applying key behavioural and modelling assumptions including but not limited to fixed rate loans subject to prepayment risk, behaviour of non-maturity assets, treatment of own equity and the expectation of interest rate options. This is performed across a range of regulatory prescribed and internal interest rate shocks approved by ALCO.

Two measures are used for measuring IRRBB, namely Earnings at Risk ("EaR") and Economic Value ("EV"):

- EaR measures one year impacts to earnings, including basis risk, highlighting any earnings sensitivity should rates change unexpectedly; and
- EV measures longer term earnings capacity due to rate changes, it highlights potential future sensitivity of earnings, and ultimately risk to capital

The table below sets out the assessed impact on our EaR due to a parallel shift in interest rates at 31 July:

	2022 **£ million**	2021 £ million
0.5% increase	**2.1**	(11.6)
0.5% decrease	**(1.9)**	8.3

The table below sets out the assessed impact on our base case EV due to a shift in interest rates at 31 July:

	2022 **£ million**	2021 £ million
0.5% increase	**1.1**	(4.2)
0.5% decrease	**(0.8)**	4.3

The impact above is on a comparable 0.5% increase and decrease basis. The Bank of England Base Rate had increased base rate to 1.25% by 31 July 2022, from 0.1% at 31 July 2021. This has resulted in a reduction in embedded optionality risk as floors embedded in some variable rate loans are no longer generating additional earnings. The reduction in embedded optionality risk is responsible for most of the movement in the EaR and EV metrics in the year. The major driver for EaR and EV is now Repricing Risk with increasing rates driving positive EaR and EV and modest rate reductions resulting in negative EV and EaR.

Notes to the Consolidated Accounts

for the year ended 31 July 2022

27. Financial risk management *continued*

(d) Market risk *continued*

Interest rate benchmark reform

During the year, the group completed the transition away from the use of LIBOR to alternative benchmark rates in loan documentation, treasury transactions and other forms of contract. At 31 July 2021, loans and advances to customers amounting to £995.5 million and derivatives with a notional value of £84.7 million were yet to transition to an alternative benchmark rate. The transition was subsequently completed by 31 December 2021 in compliance with the requirements set by the Prudential Regulation Authority and Financial Conduct Authority. There are no significant changes to the nature of the risks arising from financial instruments to which the group is exposed as a result of the transition.

Foreign exchange risk

A change in the euro exchange rate would decrease the group's equity by the following amounts:

	2022 **£ million**	2021 £ million
20% strengthening of sterling against the euro	**(1.7)**	(1.2)

The group has additional material currency assets and liabilities primarily as a result of treasury operations. These assets and liabilities are matched by currency, using exchange rate derivative contracts where necessary. Details of these contracts are disclosed in note 13. Other potential group exposures arise from share trading settled in foreign currency in the Securities division, and foreign currency equity investments. The group has policies and processes in place to manage foreign currency risk, and as such the impact of any reasonably expected exchange rate fluctuations would not be material.

Non-trading financial instruments

Net gains and losses on non-trading financial instruments are disclosed in note 12.

Notes to the Consolidated Accounts

for the year ended 31 July 2022

27. Financial risk management *continued*

(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 group has a prudent liquidity position with total available funding at 31 July 2022 of £11.6 billion (31 July 2021: £11.1 billion). This funding is significantly in excess of its loans and advances to customers at 31 July 2022 of £8.9 billion (31 July 2021: £8.4 billion). The group has a large portfolio of high quality liquid assets principally including cash placed on deposit with the Bank of England. The group measures liquidity risk with a variety of measures including regular stress testing and cash flow monitoring, and reporting to both the group and divisional boards.

The following table analyses the contractual maturities of the group's on balance sheet financial liabilities on an undiscounted cash flow basis.

	On demand £ million	In less than three months £ million	In more than three months but not more than six months £ million	In more than six months but not more than one year £ million	In more than one year but not more than five years £ million	In more than five years £ million	Total £ million
At 31 July 2022							
Financial liabilities							
Deposits by banks	**6.0**	**51.9**	**98.8**	**4.1**	**-**	**-**	**160.8**
Deposits by customers	**120.9**	**1,645.1**	**2,046.5**	**1,600.1**	**1,427.2**	**-**	**6,839.8**
Loans and overdrafts from banks	**10.2**	**1.9**	**1.9**	**3.7**	**610.5**	**-**	**628.2**
Debt securities in issue	**-**	**30.3**	**252.8**	**366.4**	**890.7**	**444.2**	**1,984.4**
Derivative financial instruments	**-**	**6.3**	**9.0**	**16.0**	**89.0**	**55.6**	**175.9**
Subordinated loan capital	**-**	**2.0**	**-**	**2.0**	**15.0**	**218.0**	**237.0**
Lease liabilities	**0.2**	**2.4**	**2.3**	**4.5**	**14.7**	**0.9**	**25.0**
Other financial liabilities	**15.4**	**56.0**	**0.9**	**2.4**	**2.2**	**0.1**	**77.0**
Total	**152.7**	**1,795.9**	**2,412.2**	**1,999.2**	**3,049.3**	**718.8**	**10,128.1**
At 31 July 2021							
Financial liabilities							
Deposits by banks	2.1	37.7	105.8	5.0	-	-	150.6
Deposits by customers	576.1	1,549.4	1,985.0	1,372.0	1,202.0	-	6,684.5
Loans and overdrafts from banks	16.2	0.1	0.1	0.2	491.1	-	507.7
Debt securities in issue	-	58.3	72.1	103.2	792.5	705.0	1,731.1
Derivative financial instruments	-	5.2	3.7	8.7	67.8	43.5	128.9
Subordinated loan capital	-	1.0	1.0	2.0	21.0	243.9	268.9
Lease liabilities	0.2	2.7	2.1	4.0	15.9	0.2	25.1
Other financial liabilities	17.5	53.1	1.8	3.6	3.3	-	79.3
Total	612.1	1,707.5	2,171.6	1,498.7	2,593.6	992.6	9,576.1

Notes to the Consolidated Accounts

for the year ended 31 July 2022

27. Financial risk management *continued*

(e) Liquidity risk *continued*

Derivative financial instruments in the table above includes net currency swaps. The following table shows the currency swaps on a gross basis:

	On demand £ million	In less than three months £ million	In more than three months but not more than six months £ million	In more than six months but not more than one year £ million	In more than one year but not more than five years £ million	In more than five years £ million	Total £ million
At 31 July 2022	**1.7**	**69.8**	**9.0**	**16.0**	**88.9**	**55.6**	**241.0**
At 31 July 2021	-	68.0	4.0	9.0	67.8	43.5	192.3

(f) Offsetting

The following table shows the impact on derivative financial assets and liabilities which have not been offset but for which the group has enforceable master netting arrangements in place with counterparties. The net amounts show the exposure to counterparty credit risk after offsetting benefits and collateral, and are not intended to represent the group's actual exposure to credit risk.

Master netting arrangements allow outstanding transactions with the same counterparty to be offset and settled net, either unconditionally or following a default or other predetermined event. Financial collateral on derivative financial instruments consists of cash settled, typically daily, to mitigate the mark to market exposures.

	Gross amounts recognised £ million	Master netting arrangements £ million	Financial Collateral £ million	Net amounts after offsetting under IFRS 7 £ million
At 31 July 2022				
Derivative financial assets	**71.1**	**(69.1)**	**(0.5)**	**1.5**
Derivative financial liabilities	**89.2**	**(69.1)**	**(26.9)**	**(6.8)**

	Gross amounts recognised £ million	Master netting arrangements £ million	Financial Collateral £ million	Net amounts after offsetting under IFRS 7 £ million
At 31 July 2021				
Derivative financial assets	18.3	(16.0)	(2.0)	0.3
Derivative financial liabilities	21.2	(16.0)	(16.9)	(11.7)

Company Balance Sheet
at 31 July 2022

	Note	31 July 2022 £ million	31 July 2021 £ million
Assets			
Cash and balances at central banks		**1,254.7**	1,331.0
Loans and advances to banks	29	**45.7**	30.8
Loans and advances to customers	30	**6,194.8**	6,040.1
Amounts due from group undertakings		**2,895.7**	2,611.9
Debt securities	31	**600.4**	457.2
Derivative financial instruments	32	**69.6**	18.3
Investments in subsidiaries	33	**80.1**	82.7
Intangible assets	34	**141.2**	119.2
Property, plant and equipment	35	**29.9**	32.8
Current tax assets		**39.7**	26.2
Deferred tax assets	28	**23.5**	44.5
Prepayments, accrued income and other assets	36	**110.3**	130.6
Total assets		**11,485.6**	10,925.3
Liabilities			
Deposits from banks	37	**160.5**	150.5
Deposits form customers	37	**6,716.9**	6,574.5
Loans and overdrafts from banks	37	**604.7**	493.3
Derivative financial instruments	32	**89.2**	20.5
Amounts due to group undertakings	37	**2,187.7**	1,992.9
Subordinated loan capital	38	**186.5**	222.7
Accruals, deferred income and other liabilities	36	**155.4**	146.5
Total liabilities		**10,100.9**	9,600.9
Equity			
Called up share capital		**122.5**	122.5
Retained earnings		**1,242.4**	1,203.3
Other reserves		**19.8**	(1.4)
Total equity		**1,384.7**	1,324.4
Total equity and liabilities		**11,485.6**	10,925.3

The company reported a profit for the financial year ended 31 July 2022 of £169.5 million (2021: £180.9 million).

The company financial statements were approved and authorised for issue by the board of directors on 27 September 2022 and signed on its behalf by:

A J Sainsbury

A. Sainsbury
Director

M B Morgan

M. B. Morgan
Director

Company Statement of Changes in Equity

for the year ended 31 July 2022

	Called-up share capital*	Retained Earnings	Capital contribution reserve	Other reserves: Exchange movements reserve	Other reserves: FVOCI reserve	Other reserves: Cash flow hedging reserve	Total attributable to owners of the Company
	£ million	£ million	£ million	£ million	£ million	£ million	£ million
At 1 August 2020	122.5	1,113.6	-	(2.6)	0.2	(5.8)	1,227.9
Profit for the year	-	180.9	-	-	-	-	180.9
Other comprehensive income	-	-	-	0.7	0.6	5.5	6.8
Total comprehensive income for the year	-	180.9	-	0.7	0.6	5.5	187.7
Dividends paid	-	(92.3)	-	-	-	-	(92.3)
Other movements	-	0.5	-	-	-	-	0.5
Income tax	-	0.6	-	-	-	-	0.6
Capital contribution – parent equity-settled share-based payments	-	-	1.4	-	-	-	1.4
Return of capital contribution – parent-equity settled share-based payments	-	-	(1.4)	-	-	-	(1.4)
At 31 July 2021	122.5	1,203.3	-	(1.9)	0.8	(0.3)	1,324.4
Profit for the year	**-**	**169.5**	**-**	**-**	**-**	**-**	**169.5**
Other comprehensive (expense)/income	**-**	**-**	**-**	**(0.1)**	**(0.7)**	**22.0**	**21.2**
Total comprehensive income/(expense) for the year	**-**	**169.5**	**-**	**(0.1)**	**(0.7)**	**22.0**	**190.7**
Dividends paid	**-**	**(130.1)**	**-**	**-**	**-**	**-**	**(130.1)**
Other movements	**-**	**0.3**	**-**	**-**	**-**	**-**	**0.3**
Income tax	**-**	**(0.6)**	**-**	**-**	**-**	**-**	**(0.6)**
Capital contribution – parent equity-settled share-based payments	**-**	**-**	**1.3**	**-**	**-**	**-**	**1.3**
Return of capital contribution – parent-equity settled share-based payments	**-**	**-**	**(1.3)**	**-**	**-**	**-**	**(1.3)**
At 31 July 2022	**122.5**	**1,242.4**	**-**	**(2.0)**	**0.1**	**21.7**	**1,384.7**

*Allotted, called-up and fully-paid capital comprised 122,480,000 ordinary shares of £1 each (2021: 122,480,000 ordinary shares of £1 each). The company has one class of ordinary shares which carry no right to fixed income. In the event of liquidation, assets would be distributed among the holders of ordinary shares in proportion to the amounts paid up on the ordinary shares.

The Notes to The Company Accounts

for the year ended 31 July 2022

28. Deferred taxation

Movements in deferred tax assets and liabilities were as follows:

	Capital allowances £ million	Share-based payments and deferred compensation £ million	Other £ million	Cash flow hedging £ million	Impairment losses £ million	Total £ million
At 1 August 2020	30.9	2.1	(0.1)	2.1	7.3	42.3
Credit/(Charge) to the income statement	3.2	0.5	-	-	(0.9)	2.8
Credit/(charge) to other comprehensive income	1.1	-	(0.3)	(2.0)	-	(1.2)
Credit to equity	**-**	**0.6**	**-**	**-**	**-**	**0.6**
At 31 July 2021	35.2	3.2	(0.4)	0.1	6.4	44.5
Charge to the income statement	**(10.3)**	**(0.5)**	**-**	**-**	**(1.7)**	**(12.5)**
Credit/(charge) to other comprehensive income	**0.3**	**-**	**0.4**	**(8.6)**	**-**	**(7.9)**
Charge to equity	**-**	**(0.6)**	**-**	**-**	**-**	**(0.6)**
At 31 July 2022	**25.2**	**2.1**	**0.0**	**(8.5)**	**4.7**	**23.5**

On 23 September 2022, the Chancellor of the Exchequer announced as part of his Growth Plan that the corporation tax rate increase from 19% to 25% from April 2023 will be cancelled, and that the banking surcharge rate will remain at 8%. The relevant legislation is expected to be enacted in the year ending 31 July 2023 and is a non-adjusting post balance sheet event. Had this change been enacted before 31 July 2022, the company's deferred tax asset balance at 31 July 2022 would have decreased by approximately £1.0 million, with a corresponding tax charge recognised in the income statement, net of a smaller credit to other comprehensive income.

29. Loans and advances to banks

	On demand £ million	Within three months £ million	Between three months and one year £ million	Between one and two years £ million	Between two and five years £ million	Total £ million
At 31 July 2022	**45.7**	**-**	**-**	**-**	**-**	**45.7**
At 31 July 2021	30.8	-	-	-	-	30.8

30. Loans and advances to customers

a) Maturity analysis of loans and advances to customers

	On demand £ million	Within three months £ million	Between three months and one year £ million	Between one and two years £ million	Between two and five years £ million	After more than five years £ million	Total gross loans and advances to customers £ million	Impairment provisions £ million	Total net loans and advances to customers £ million
At 31 July 2022	**66.1**	**1,256.2**	**1,826.4**	**1,440.8**	**1,692.0**	**47.1**	**6,328.6**	**(133.8)**	**6,194.8**
At 31 July 2021	63.1	1,342.5	1,743.5	1,276.7	1,710.5	57.9	6,194.2	(154.1)	6,040.1

The Notes to The Company Accounts

for the year ended 31 July 2022

30. Loans and advances to customers *continued*

b) Loans and advances to customers and impairment provisions by stage

Gross loans and advances to customers by stage and the corresponding impairment provisions and provision coverage ratios are set out below:

		Stage 2				
	Stage 1 £ million	Less than 30 days past due £ million	Greater than or equal to 30 days past due £ million	Total £ million	Stage 3 £ million	Total £ million
At 31 July 2022						
Gross loans and advances to customers						
Commercial	1,976.9	125.3	25.0	150.3	58.1	2,185.3
Retail	2,821.5	118.1	9.2	127.3	63.6	3,012.4
Property	941.9	79.6	27.0	106.6	82.4	1,130.9
Total	5,740.3	323.0	61.2	384.2	204.1	6,328.6
Impairment provisions						
Commercial	12.6	3.5	2.4	5.9	14.1	32.6
Retail	21.2	4.8	1.7	6.5	39.8	67.5
Property	1.9	4.0	1.2	5.2	26.6	33.7
Total	35.7	12.3	5.3	17.6	80.5	133.8
Provision coverage ratio						
Commercial	0.6%	2.8%	9.6%	3.9%	24.3%	1.5%
Retail	0.8%	4.1%	18.5%	5.1%	62.6%	2.2%
Property	0.2%	5.0%	4.4%	4.9%	32.3%	3.0%
Total	0.6%	3.8%	8.7%	4.6%	39.4%	2.1%

The Notes to The Company Accounts

for the year ended 31 July 2022

30. Loans and advances to customers *continued*

b) Loans and advances to customers and impairment provisions by stage *continued*

		Stage 2				
	Stage 1 £ million	Less than 30 days past due £ million	Greater than or equal to 30 days past due £ million	Total £ million	Stage 3 £ million	Total £ million
At 31 July 2021						
Gross loans and advances to customers						
Commercial	1,772.2	242.7	17.4	260.1	55.4	2,087.7
Retail	2,699.2	172.0	6.0	178.0	41.9	2,919.1
Property	907.0	93.3	44.7	138.0	142.4	1,187.4
Total	5,378.4	508.0	68.1	576.1	239.7	6,194.2
Impairment provisions						
Commercial	13.3	15.2	3.0	18.2	19.5	51.0
Retail	21.2	13.2	1.9	15.1	29.2	65.5
Property	1.7	4.9	0.1	5.0	30.9	37.6
Total	36.2	33.3	5.0	38.3	79.6	154.1
Provision coverage ratio						
Commercial	0.8%	6.3%	17.2%	7.0%	35.2%	2.4%
Retail	0.8%	7.7%	31.7%	8.5%	69.7%	2.2%
Property	0.2%	5.3%	0.2%	3.6%	21.7%	3.2%
Total	0.7%	6.6%	7.3%	6.6%	33.2%	2.5%

c) Adjustments

By their nature, limitations in the company's expected credit loss 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 or quantitative back-testing to ensure expected credit loss provisions adequately reflect all known information. These adjustments are generally determined by considering the attributes or risks of a financial asset which are not captured by existing expected credit loss model outputs. Management adjustments are actively monitored, reviewed, and incorporated into future model development where applicable.

As the UK economy has emerged from all pandemic related restrictions, and government support measures have unwound, the use of adjustments has also evolved. In particular, previous adjustments to reflect the guarantee under government lending schemes have now been incorporated into modelled LGD estimates. The remaining adjustments reflect the application of expert management judgement to incorporate management's experience and knowledge of customers, the sectors in which they operate, and the assets financed.

We will continue to monitor the need for adjustments as new information emerges.

At 31 July 2022, £(2.9) million of the expected credit loss provision was attributable to adjustments (31 July 2021: £24.9 million). The reduction in this value is driven by incorporation of a number of adjustments into model calculations, as well as the lower volume of Covid-19 forborne exposures and reduced macroeconomic uncertainty related to the pandemic. The remaining value is driven by a small number of adjustments primarily made to ensure models are reflective of economic conditions.

The Notes to The Company Accounts

for the year ended 31 July 2022

30. Loans and advances to customers *continued*

d) Reconciliation of loans and advances to customers and impairment provisions

Reconciliations of gross loans and advances to customers and associated impairment provisions are set out below.

New financial assets originate in Stage 1 only, and the amount presented represents the value at origination.

Subsequently, a loan may transfer between stages, and the presentation of such transfers is based on a comparison of the loan at the beginning of the year (or at origination if this occurred during the year) and the end of the year (or just prior to final repayment or write off).

Repayments relating to loans which transferred between stages during the year are presented within the transfers between stages lines. Such transfers do not represent overnight reclassification from one stage to another. All other repayments are presented in a separate line.

ECL model methodologies may be updated or enhanced from time to time and the impacts of such changes are presented on a separate line. Enhancements to our model suite during the course of the financial year are a contributory factor to ECL movements and such factors have been taken into consideration when assessing any required adjustments to modelled output and ensuring appropriate provision coverage levels.

A loan is written off when there is no reasonable expectation of further recovery following realisation of all associated collateral and available recovery actions against the customer.

	Stage 1 £ million	Stage 2 £ million	Stage 3 £ million	Total £ million
Gross loans and advances to customers				
At 1 August 2021	**5,378.4**	**576.1**	**239.7**	**6,194.2**
New financial assets originated	**5,045.3**	**-**	**-**	**5,045.3**
Transfers to Stage 1	**159.6**	**(238.8)**	**(4.4)**	**(83.6)**
Transfers to Stage 2	**(486.2)**	**384.9**	**(12.9)**	**(114.2)**
Transfers to Stage 3	**(127.6)**	**(62.3)**	**140.7**	**(49.2)**
Net transfers between stages and repayments[1]	**(454.2)**	**83.8**	**123.4**	**(247.0)**
Repayments while stage remained unchanged and final repayments	**(4,228.7)**	**(275.6)**	**(119.0)**	**(4,623.3)**
Write offs	**(0.5)**	**(0.1)**	**(40.0)**	**(40.6)**
At 31 July 2022	**5,740.3**	**384.2**	**204.1**	**6,328.6**

The Notes to The Company Accounts

for the year ended 31 July 2022

30. Loans and advances to customers *continued*

d) Reconciliation of loans and advances to customers and impairment provisions *continued*

	Stage 1 £ million	Stage 2 £ million	Stage 3 £ million	Total £ million
Gross loans and advances to customers				
At 1 August 2020	4,387.2	1,137.2	290.8	5,815.2
New financial assets originated	5,529.8	-	-	5,529.8
Transfers to Stage 1	322.6	(403.6)	(1.4)	(82.4)
Transfers to Stage 2	(713.6)	583.1	(12.2)	(142.7)
Transfers to Stage 3	(98.2)	(77.0)	130.4	(44.8)
Net transfers between stages and repayments1	(489.2)	102.5	116.8	(269.9)
Repayments while stage remained unchanged and final repayments	(4,087.2)	(641.1)	(85.6)	(4,813.9)
Changes to model methodologies	38.4	(21.7)	(16.7)	-
Write offs	(0.6)	(0.8)	(65.6)	(67.0)
At 31 July 2021	5,378.4	576.1	239.7	6,194.2

1 Repayments relate only to financial assets which transferred between stages during the year. Other repayments are shown in the line below.

	Stage 1 £ million	Stage 2 £ million	Stage 3 £ million	Total £ million
Impairment provisions on loans and advances to customers				
At 1 August 2021	**36.2**	**38.3**	**79.6**	**154.1**
New financial assets originated	**31.8**	**-**	**-**	**31.8**
Transfers to Stage 1	**1.0**	**(9.7)**	**(1.5)**	**(10.2)**
Transfers to Stage 2	**(3.9)**	**13.5**	**(3.4)**	**6.2**
Transfers to Stage 3	**(2.0)**	**(9.1)**	**52.5**	**41.4**
Net remeasurement of expected credit losses arising from transfer between stages and repayments[1]	**(4.9)**	**(5.3)**	**47.6**	**37.4**
Repayments and ECL movements while stage remained unchanged and final repayments	**(26.9)**	**(15.3)**	**(10.1)**	**(52.3)**
Charge to the income statement	**-**	**(20.6)**	**37.5**	**16.9**
Write offs	**(0.5)**	**(0.1)**	**(36.6)**	**(37.2)**
At 31 July 2022	**35.7**	**17.6**	**80.5**	**133.8**

The Notes to The Company Accounts

for the year ended 31 July 2022

30. Loans and advances to customers *continued*

d) Reconciliation of loans and advances to customers and impairment provisions *continued*

	Stage 1 £ million	Stage 2 £ million	Stage 3 £ million	Total £ million
Impairment provisions on loans and advances to customers				
At 1 August 2020	41.9	62.8	70.8	175.5
New financial assets originated	39.2	-	-	39.2
Transfers to Stage 1	3.0	(12.5)	(0.4)	(9.9)
Transfers to Stage 2	(11.1)	26.9	(2.2)	13.6
Transfers to Stage 3	(1.7)	(8.6)	46.4	36.1
Net remeasurement of expected credit losses arising from transfer between stages and repayments[1]	(9.8)	5.8	43.8	39.8
Repayments and ECL movements while stage remained unchanged and final repayments	(35.3)	(27.9)	(4.6)	(67.8)
Changes to model methodologies	0.3	(1.5)	(2.9)	(4.1)
Charge to the income statement	(5.6)	(23.6)	36.3	7.1
Write offs	(0.1)	(0.9)	(27.5)	(28.5)
At 31 July 2021	36.2	38.3	79.6	154.1

1 Repayments relate only to financial assets which transferred between stages during the year. Other repayments are shown in the line below.

	2022 £ million	2021 £ million
Impairment losses relating to loans and advances to customers		
Charge to income statement arising from movement in impairment provision	**16.9**	7.1
Amounts written off directly to income statement, net of recoveries and other costs	**2.0**	6.7
	18.9	13.8
Impairment losses relating to other financial assets	**(0.1)**	0.2
Impairment losses on financial assets recognised in income statement	**18.8**	14.0

e) Finance lease and hire purchase agreement receivables

	31 July 2022 £ million	31 July 2021 £ million
Loans and advances to customers comprise		
Hire purchase agreement receivables	**3,431.7**	3,226.4
Finance lease receivables	**285.2**	247.5
Other loans and advances	**2,477.9**	2,566.2
At 31 July	**6,194.8**	6,040.1

The Notes to The Company Accounts

for the year ended 31 July 2022

30. Loans and advances to customers *continued*

e) Finance lease and hire purchase agreement receivables *continued*

The following table shows a reconciliation between gross investment in finance lease and hire purchase agreement receivables included in the table above to present value of minimum lease and hire purchase payments:

	31 July 2022 £ million	31 July 2021 £ million
Gross investment in finance leases and hire purchase agreement receivables due:		
One year or within one year	**1,444.5**	1,361.2
>One to two years	**1,721.5**	1,569.0
>Two to three years	**776.1**	724.1
>Three to four years	**381.3**	354.1
>Four to five years	**111.8**	134.5
More than five years	**29.9**	42.8
	4,465.1	4,185.7
Unearned finance income	**(659.2)**	(611.0)
	3,805.9	3,574.7
Present value of minimum lease and hire purchase agreement payments:		
Of which due:		
One year or within one year	**1,227.8**	1,159.5
>One to two years	**1,467.3**	1,343.3
>Two to three years	**663.1**	618.9
>Three to four years	**326.3**	302.2
>Four to five years	**95.8**	114.4
More than five years	**25.6**	36.4
	3,805.9	3,574.7

The aggregate cost of assets acquired for the purpose of letting under finance leases and hire purchase agreements was £6,400.7 million (2021: £5,920.6 million). The average effective interest rate on finance leases approximates to 10.4% (2021: 10.3%). The present value of minimum lease and hire purchase agreement payments reflects the fair value of finance lease and hire purchase agreement receivables before deduction of impairment provisions.

The Notes to The Company Accounts

for the year ended 31 July 2022

31. Debt securities

	Fair value through other comprehensive income £ million	Amortised cost £ million	Total £ million
At 31 July 2022			
Certificates of deposit	**-**	**185.0**	**185.0**
Sovereign and central bank debt	**415.4**	**-**	**415.4**
	415.4	**185.0**	**600.4**
At 31 July 2021			
Certificates of deposit	-	264.7	264.7
Sovereign and central bank debt	192.5	-	192.5
	192.5	264.7	457.2

32. Derivative financial instruments

The company enters into derivative contracts with a number of financial institutions to minimise the impact of interest and currency rate changes to its financial instruments. The company's total derivative asset and liability position as reported on the consolidated balance sheet is as follows:

	31 July 2022			31 July 2021		
	Notional value £ million	**Assets £ million**	**Liabilities £ million**	Notional value £ million	Assets £ million	Liabilities £ million
Exchange rate contracts	**65.3**	**0.6**	**0.2**	62.0	0.2	0.1
Interest rate contracts	**4,001.6**	**69.0**	**89.0**	3,051.1	18.1	20.4
	4,066.9	**69.6**	**89.2**	3,113.1	18.3	20.5

Notional amounts of interest rate contracts totalling £3,392.5 million (2021: £2,633.3 million) have a residual maturity of more than one year.

Included in the derivatives above are the following cash flow and fair value hedges:

	31 July 2022			31 July 2021		
	Notional value £ million	**Assets £ million**	**Liabilities £ million**	Notional value £ million	Assets £ million	Liabilities £ million
Cash flow hedges						
Interest rate contracts	**1,552.0**	**33.2**	**1.6**	780.7	2.2	1.2
Fair value hedges						
Interest rate contracts	**1,475.4**	**28.4**	**82.3**	1,483.5	14.7	17.7

The Notes to The Company Accounts

for the year ended 31 July 2022

32. Derivative financial instruments *continued*

The company generally enters into fair value hedges and cash flow hedges with changes in the relevant benchmark interest rate risk being the predominant hedged risk.

The fair value hedges seek to hedge the exposure to changes in the fair value of recognised assets and liabilities or firm commitments attributable to interest rate risk. Changes in interest rate risk are considered the largest component of the overall change in fair value. Other risks such as credit risk are managed but excluded from the hedge accounting relationship. The interest rate risk component is the change in fair value of the fixed rate hedging items arising solely from changes in the benchmark interest rate.

Cash flow hedges seek to hedge the exposure to variability in future cash flows due to movements in the relevant benchmark interest rate with interest rate swaps. These future cash flows relate to future interest payments or receipts on recognised financial instruments and on forecast transactions for periods of up to six (2021: five) years. The company applies portfolio cash flow hedging for interest rate risk exposures on a portfolio of actual and forecast variable interest rate cash flows arising from variable rate borrowings.

Certain items which are economically hedged may be ineligible for hedge accounting in accordance with IAS 39. Therefore, a portfolio of floating rate liabilities have been designated as eligible hedged items in the cash flow hedge portfolio. The amounts and timing of future cash flows are projected on the basis of their contractual and forecast terms and other relevant factors. The exposure from this portfolio frequently changes due to new facilities being originated, contractual repayments and new interest rate swaps added to the portfolio.

To assess hedge effectiveness the change in fair value or cash flows of the hedging instruments is compared with the change in fair value or cash flows of the hedged item attributable to the hedged risk. A hedge is considered highly effective if the results are within a ratio of 80%-125%.

The main sources of hedge ineffectiveness can include, but are not limited to, cash flow timing differences between the hedged item and the hedging instrument.

33. Investments in subsidiaries

	£ million
Cost	
at 1 August 2021	141.3
Additions	1.7
at 31 July 2022	**143.0**
Less: amounts written off	
at 1 August 2021	58.6
Movement during the year	4.3
at 31 July 2022	**62.9**
Carrying value	
At 31 July 2022	**80.1**
At 31 July 2021	82.7

Impairment of Investment in subsidiaries

During the year, the group recorded an impairment charge of £2.1m relating to the write down of Close Brothers Asset Finance GmbH (Germany) and £2.2m relating to Close Asset Solutions Limited.

The Notes to The Company Accounts

for the year ended 31 July 2022

34. Intangible assets

	Goodwill £ million	Software £ million	Total £ million
Cost			
At 1 August 2021	4.3	230.0	234.3
Additions	-	52.0	52.0
Disposals	-	(24.8)	(24.8)
At 31 July 2022	**4.3**	**257.2**	**261.5**
Accumulated amortisation			
At 1 August 2021	-	115.1	115.1
Amortisation charge for the year	-	30.1	30.1
Disposals	-	(24.9)	(24.9)
At 31 July 2022	**-**	**120.3**	**120.3**
Net book value at 31 July 2022	**4.3**	**136.9**	**141.2**
Net book value at 31 July 2021	4.3	114.9	119.2

At 31 July 2022, goodwill has been allocated to one single CGU. The company's policy for testing goodwill for impairment is referred to in note 14 of the consolidated accounts.

At 31 July 2022, the results of the review indicate there is no goodwill impairment.

	31 July 2022		31 July 2021	
Cash Generating Unit	**Goodwill £ million**	**Pre-tax discount rate %**	Goodwill £ million	Pre-tax discount rate %
Bank	**4.3**	**15.4**	4.3	9.3

The Notes to The Company Accounts

for the year ended 31 July 2022

35. Property, plant and equipment

	Short leasehold property £ million	Fixtures, fittings and equipment £ million	Right of use assets[1] £ million	Total £ million
Cost				
At 1 August 2021	14.2	36.2	30.7	81.1
Additions	0.2	3.1	6.1	9.4
Disposals	(1.0)	(13.3)	(3.2)	(17.5)
At 31 July 2022	**13.4**	**26.0**	**33.6**	**73.0**
Accumulated depreciation				
At 1 August 2021	8.4	27.4	12.5	48.3
Depreciation and impairment charges for the year	1.7	2.8	6.3	10.8
Disposals	(1.0)	(13.2)	(1.8)	(16.0)
At 31 July 2022	**9.1**	**17.0**	**17.0**	**43.1**
Net book value at 31 July 2022	**4.3**	**9.0**	**16.6**	**29.9**
Net book value at 31 July 2021	5.8	8.8	18.2	32.8

[1] Right of use assets primarily relate to the group's leasehold properties.

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for the year ended 31 July 2022

36. Other assets and liabilities

	31 July 2022 £ million	31 July 2021 £ million
Prepayments, accrued income and other assets		
Prepayments and accrued income	**104.4**	123.9
Trade and other receivables	**5.9**	6.7
	110.3	130.6
Accruals, deferred income and other liabilities		
Accruals and deferred income	**80.5**	81.3
Trade and other payables	**67.1**	58.0
Provisions	**7.8**	7.2
	155.4	146.5

Provisions movements in the year:

	Claims £ million	Property £ million	Other £ million	Total £ million
Movements during the year				
At 1 August 2021	0.8	2.8	3.6	7.2
Additions	2.9	0.7	0.3	3.9
Utilised	(0.6)	(0.1)	(1.3)	(2.0)
Released	-	(0.3)	(1.0)	(1.3)
At 31 July 2022	**3.1**	**3.1**	**1.6**	**7.8**

Provisions are made for claims and other items which arise in the normal course of business. Claims relate to legal and regulatory cases, while other items largely relate to property dilapidations and employee benefits. For such matters, a provision is recognised where it is determined that there is a present obligation arising from a past event, payment is probable, and the amount can be estimated reliably. The timing and/or outcome of these claims and other items are uncertain.

37. Financial liabilities

	On demand £ million	Within three months £ million	Between three months and one year £ million	Between one and two years £ million	Between two and five years £ million	After more than five years £ million	Total £ million
At 31 July 2022							
Deposits by banks	**6.1**	**52.0**	**102.4**	**-**	**-**	**-**	**160.5**
Deposits by customers	**67.4**	**1,645.2**	**3,615.6**	**1,058.8**	**329.9**	**-**	**6,716.9**
Loans and overdrafts from banks	**4.1**	**0.6**	**-**	**228.0**	**372.0**	**-**	**604.7**
Amounts due to group undertakings	**86.7**	**26.0**	**756.5**	**389.0**	**567.0**	**362.5**	**2,187.7**
	164.3	**1,723.8**	**4,474.5**	**1,675.8**	**1,268.9**	**362.5**	**9,669.8**

The Notes to The Company Accounts

for the year ended 31 July 2022

37. Financial liabilities *continued*

	On demand £ million	Within three months £ million	Between three months and one year £ million	Between one and two years £ million	Between two and five years £ million	After more than five years £ million	Total £ million
At 31 July 2021							
Deposits by banks	2.0	37.7	110.8	-	-	-	150.5
Deposits by customers	516.0	1,547.9	3,343.6	729.8	437.2	-	6,574.5
Loans and overdrafts from banks	3.3	-	-	-	490.0	-	493.3
Amounts due to group undertakings	126.9	55.2	272.0	655.1	218.5	665.2	1,992.9
	648.2	1,640.8	3,726.4	1,384.9	1,145.7	665.2	9,211.2

As discussed in note 27(c) at 31 July 2022 the group accessed £600.0 million cash under the Bank of England's Term Funding Scheme with Additional Incentives for SMEs (31 July 2021: £490.0 million). Cash from the schemes and repurchase agreements is included within loans and overdrafts from banks. Residual maturities of the schemes and repurchase agreements are as follows:

	On demand £ million	**Within three months £ million**	**Between three months and one year £ million**	**Between one and two years £ million**	**Between two and five years £ million**	**After more than five years £ million**	**Total £ million**
31 July 2022	**-**	**0.6**	**-**	**228.0**	**372.0**	**-**	**600.6**
31 July 2021	-	-	-	-	490.0	-	490.0

38. Subordinated loan capital

	Prepayment date at company's option	Initial interest rate (%)	**31 July 2022 £ million**	31 July 2021 £ million
Final maturity date				
2027	2022	4.25%	**-**	23.5
2031	2026	2.00%	**186.5**	199.2
			186.5	222.7

The Notes to The Company Accounts

for the year ended 31 July 2022

39. Guarantees and commitments

Guarantees

	31 July 2022 £ million	31 July 2021 £ million
Guarantees and irrevocable letters of credit	**3.3**	3.3

Where the company undertakes to make a payment on behalf of its subsidiaries for guarantees issued, such as bank facilities or property leases or as irrevocable letters of credit for which an obligation to make a payment to a third party has not arisen at the reporting date, they are included in these financial statements as contingent liabilities.

Commitments

Undrawn facilities, credit lines, other commitments to lend

	31 July 2022 £ million	31 July 2021 £ million
Within one year[1]	**1,040.6**	1,106.6
Total commitments	**1,040.6**	1,106.6

[1] Includes both recoverable and irrecoverable commitments.

Other commitments

The company had contracted capital commitments relating to capital expenditure of £4.5 million (2021: £27.9 million)

The Notes to The Company Accounts

for the year ended 31 July 2022

40. Capital

The company's policy is to be well capitalised and its approach to capital management is driven by strategic and organisational requirements, while also taking into account the regulatory and commercial environments in which it operates.

The PRA supervises the company for prudential purposes and receives information on the capital adequacy of, and sets capital requirements for, the group as a whole.

The capital position for the group is disclosed in note 20 to the consolidated accounts. Further information on capital, risk exposures and the risk assessment process are disclosed in the Close Brothers Group plc's Pillar 3 disclosures which can be found on the group's website.

41. Financial instruments

As a financial services company, financial instruments are central to the company's activities. The risks associated with financial instruments represent a significant component of the risks faced by the company and are analysed in more detail below.

The company's financial risk management objectives are summarised in the Strategic Report. Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised, in respect of each class of financial asset, financial liability and equity instrument are disclosed in note 1.

(a) Classification

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

	Derivatives designated as hedging instruments £ million	Fair value through profit or loss £ million	Fair value through other comprehensive income £ million	Amortised cost £ million	Total £ million
As at 31 July 2022					
Assets					
Cash and balances at central banks	-	-	-	1,254.7	1,254.7
Loans and advances to banks	-	-	-	45.7	45.7
Loans and advances to customers	-	-	-	6,194.8	6,194.8
Amounts due from group undertakings	-	-	-	2,895.7	2,895.7
Debt securities	-	-	415.4	185.0	600.4
Derivative financial instruments	61.6	8.0	-	-	69.6
	61.6	8.0	415.4	10,575.9	11,060.9
Liabilities					
Deposits by banks	-	-	-	160.5	160.5
Deposits by customers	-	-	-	6,716.9	6,716.9
Loans and overdrafts from banks	-	-	-	604.7	604.7
Derivative financial instruments	83.9	5.3	-	-	89.2
Amounts due to group undertakings	-	-	-	2,187.7	2,187.7
Subordinated loan capital	-	-	-	186.5	186.5
Other financial liabilities	-	-	-	76.9	76.9
	83.9	5.3	-	9,933.2	10,022.4

The Notes to The Company Accounts

for the year ended 31 July 2022

41. Financial instruments *continued*

(a) Classification *continued*

	Derivatives designated as hedging instruments £ million	Fair value through profit or loss £ million	Fair value through other comprehensive income £ million	Amortised cost £ million	Total £ million
As at 31 July 2021					
Assets					
Cash and balances at central banks	-	-	-	1,331.0	1,331.0
Loans and advances to banks	-	-	-	30.8	30.8
Loans and advances to customers	-	-	-	6,040.1	6,040.1
Amounts due from group undertakings	-	-	-	2,611.9	2,611.9
Debt securities	-	-	192.5	264.7	457.2
Derivative financial instruments	16.9	1.4	-	-	18.3
Other financial assets	-	-	-	0.3	0.3
	16.9	1.4	192.5	10,278.8	10,489.6
Liabilities					
Deposits by banks	-	-	-	150.5	150.5
Deposits by customers	-	-	-	6,574.5	6,574.5
Loans and overdrafts from banks	-	-	-	493.3	493.3
Derivative financial instruments	18.9	1.6	-	-	20.5
Amounts due to group undertakings	-	-	-	1,992.9	1,992.9
Subordinated loan capital	-	-	-	222.7	222.7
Other financial liabilities	-	-	-	80.1	80.1
	18.9	1.6	-	9,514.0	9,534.5

The Notes to The Company Accounts

for the year ended 31 July 2022

41. Financial instruments *continued*

(b) Valuation

The fair values of the company's financial assets and liabilities are not materially different from their carrying values, with the exception of subordinated loan capital.

	31 July 2022		31 July 2021	
	Fair Value £ million	**Carrying Value £ million**	Fair Value £ million	Carrying Value £ million
Subordinated loan capital	**180.0**	**186.5**	226.5	222.7

Note 27(b) to the consolidated accounts outlines the valuation hierarchy into which financial instruments measured at fair value are categorised.

The tables below show the classification of financial instruments held at fair value in accordance with the valuation hierarchy. There were no significant transfers between Level 1, 2 and 3 in 2022 and 2021.

	Level 1 £ million	**Level 2 £ million**	**Level 3 £ million**	**Total £ million**
As at 31 July 2022				
Assets				
Sovereign and central bank debt	**415.4**	**-**	**-**	**415.4**
Derivative financial instruments	**-**	**69.6**	**-**	**69.6**
	415.4	**69.6**	**-**	**485.0**
Liabilities				
Derivative financial instruments	**-**	**89.2**	**-**	**89.2**
Contingent Consideration	**-**	**-**	**0.4**	**0.4**
	-	**89.2**	**0.4**	**89.6**
As at 31 July 2021				
Assets				
Sovereign and central bank debt	192.5	-	-	192.5
Derivative financial instruments	-	18.3	-	18.3
	192.5	18.3	-	210.8
Liabilities				
Derivative financial instruments	-	20.5	-	20.5
Contingent Consideration	-	-	0.6	0.6
	-	20.5	0.6	21.1

The Notes to The Company Accounts

for the year ended 31 July 2022

41. Financial instruments *continued*

(b) Valuation *continued*

Movements in financial instruments categorised as Level 3 were:

	Contingent Consideration £ million
At 1 August 2020	(3.5)
Total gains recognised in the consolidated income statement	2.9
At 31 July 2021	(0.6)
Total gains recognised in the consolidated income statement	**0.1**
Settlements	**0.1**
At 31 July 2022	**(0.4)**

The gains recognised in the consolidated income statement relating to instruments held at the year end amounted to £0.1 million (2021: £0.2 million gains).

The Notes to The Company Accounts

for the year ended 31 July 2022

41. Financial instruments *continued*

(c) Credit risk

Note 27(c) to the consolidated accounts outlines the forbearance measures.

The table below presents the group'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. For off balance sheet instruments, the maximum exposure to credit risk represents the contractual nominal amounts.

	31 July 2022 £ million	31 July 2021 £ million
On balance sheet		
Cash and balances at central banks	**1,254.7**	1,331.0
Loans and advances to banks	**45.7**	30.8
Loans and advances to customers	**6,194.8**	6,040.1
Amounts due from group undertakings	**2,895.7**	2,611.9
Debt securities	**600.4**	457.2
Derivative financial instruments	**69.6**	18.3
Other financial assets	**-**	0.3
	11,060.9	10,489.6
Off balance sheet		
Irrevocable undrawn commitments	**152.8**	109.2
	152.8	109.2
Total maximum exposure to credit risk	**11,213.7**	10,598.8

The Notes to The Company Accounts

for the year ended 31 July 2022

41. Financial instruments *continued*

(c) Credit risk *continued*

An analysis of forborne loans as at 31 July 2022 is shown in the table below:

	Gross loans and advances to customers £ million	Forborne loans £ million	Forborne loans as a percentage of gross loans and advances to customers %	Provision on forborne loans £ million	Number of customers supported
31 July 2022	**6,328.6**				
Covid-19 forbearance		**31.4**	**0.5%**	**0.9**	**716**
Non-Covid-19 forbearance		**125.0**	**2.0%**	**40.3**	**10,131**
	6,328.6	**156.4**	**2.5%**	**41.2**	**10,847**
31 July 2021	6,194.2				
Covid-19 forbearance		378.8	6.1%	40.5	17,407
Non-Covid-19 forbearance		123.9	2.0%	33.8	12,548
	6,194.2	502.7	8.1%	74.3	29,955

The following is a breakdown of forborne loans by segment split by those driven by Covid-19 compared to concessions that have arisen in the normal course of business:

	31 July 2022			31 July 2021		
	Covid-19 £ million	**Non Covid-19 £ million**	**Total forborne loans £ million**	Covid-19 £ million	Non Covid-19 £ million	Total forborne loans £ million
Property	**4.7**	**92.2**	**96.9**	112.0	102.9	214.9
Commercial	**24.9**	**12.2**	**37.1**	217.9	11.8	229.7
Retail	**1.8**	**20.6**	**22.4**	48.9	9.2	58.1
Total	**31.4**	**125.0**	**156.4**	378.8	123.9	502.7

The following is a breakdown of the number of customers supported by segment:

	31 July 2022			31 July 2021		
	Number of customers supported					
	Covid-19	**Non-Covid-19**	**Total**	Covid-19	Non-Covid-19	Total
Property	**1**	**21**	**22**	44	20	64
Commercial	**351**	**76**	**427**	2,152	113	2,265
Retail	**364**	**10,034**	**10,398**	15,211	12,415	27,626
Total	**716**	**10,131**	**10,847**	17,407	12,548	29,955

The Notes to The Company Accounts

for the year ended 31 July 2022

41. Financial instruments *continued*

(c) Credit risk *continued*

The following is a breakdown of forborne loans by concession type split by those driven by Covid-19 compared to concessions that have arisen in the normal course of business:

	31 July 2022			31 July 2021		
	Covid-19 related £ million	**Non Covid-19 related £ million**	**Total forborne loans £ million**	Covid-19 related £ million	Non Covid-19 related £ million	Total forborne loans £ million
Extension outside terms	**4.9**	**84.7**	**89.6**	114.5	103.3	217.8
Refinancing	**-**	**2.6**	**2.6**	1.2	5.3	6.5
Moratorium	**26.5**	**30.4**	**56.9**	263.1	13.2	276.3
Other modifications	**-**	**7.3**	**7.3**	-	2.1	2.1
Total	**31.4**	**125.0**	**156.4**	378.8	123.9	502.7

The following table sets out loans and advances to customers, trade receivables and undrawn facilities by the company's internal credit risk grading and illustrates the allocation of these per IFRS 9 staging category for comparative purposes.

	Stage 1 £ million	**Stage 2 £ million**	**Stage 3 £ million**	**Total £ million**
31 July 2022				
Gross loans and advances to customers		-		
Low risk	**5,567.9**	**178.6**	**20.3**	**5,766.8**
Medium risk	**161.4**	**166.9**	**17.0**	**345.3**
High risk	**11.0**	**38.7**	**166.8**	**216.5**
	5,740.3	**384.2**	**204.1**	**6,328.6**
Undrawn facilities				
Low risk	**1,027.5**	**7.5**	**-**	**1,035.0**
Medium risk	**-**	**3.6**	**-**	**3.6**
High risk	**-**	**2.0**	**-**	**2.0**
	1,027.5	**13.1**	**-**	**1,040.6**
Trade receivables[1]				
High risk	**-**	**-**	**-**	**-**
	0.0	**0.0**	**-**	**0.0**

The Notes to The Company Accounts

for the year ended 31 July 2022

41. Financial instruments *continued*

(c) Credit risk *continued*

	Stage 1 £ million	Stage 2 £ million	Stage 3 £ million	Total £ million
31 July 2021				
Gross loans and advances to customers				
Low risk	5,351.1	180.6	7.1	5,538.8
Medium risk	26.9	381.9	20.7	429.5
High risk	0.4	13.6	206.8	220.8
Ungraded	-	-	5.1	5.1
	5,378.4	576.1	239.7	6,194.2
Undrawn facilities				
Low risk	1,099.2	5.1	-	1,104.3
Medium risk	-	2.0	-	2.0
High risk	-	-	0.3	0.3
	1,099.2	7.1	0.3	1,106.6
Trade receivables[1]				
Low risk	0.3	-	-	0.3
	0.3	-	-	0.3

[1] Lifetime expected credit losses are recognised for all trade receivables under the IFRS 9 simplified approach. The figures presented are on a net basis after deducting for expected credit losses of £0.2 million (31 July 2021: £0.2 million) relating to predominantly Stage 3 receivables.

The Notes to The Company Accounts

for the year ended 31 July 2022

41. Financial instruments *continued*

(c) Credit risk *continued*

Analysis of gross loans and advances to customers by LTV ratio is provided below.

	Retail £ million	Commercial £ million	Property £ million	Total £ million
LTV[1]				
60% or lower	**175.8**	**804.8**	**845.3**	**1,825.9**
>60% to 70%	**175.8**	**71.4**	**199.8**	**447.0**
>70% to 80%	**365.5**	**187.4**	**7.3**	**560.2**
>80% to 90%	**1,079.1**	**320.6**	**2.6**	**1,402.3**
>90% to 100%	**465.2**	**543.1**	**-**	**1,008.3**
Greater than 100%	**310.1**	**179.1**	**75.9**	**565.1**
Structurally protected[2]	**433.2**	**-**	**-**	**433.2**
Unsecured	**7.7**	**78.9**	**-**	**86.6**
At 31 July 2022	**3,012.4**	**2,185.3**	**1,130.9**	**6,328.6**

1 Government lending scheme facilities are allocated to a low LTV category reflecting the nature of the government guarantee and resultant level of lending risk.
2 Exposures are considered structurally protected when, in management's judgement, they have characteristics which mitigate the credit risk of the exposure to a significant extent, in spite of not representing tangible security.

	Retail £ million	Commercial £ million	Property[1] £ million	Total £ million
LTV				
60% or lower	167.3	915.1	897.1	1,979.5
>60% to 70%	168.1	66.7	182.0	416.8
>70% to 80%	351.4	145.9	12.1	509.4
>80% to 90%	1,121.8	288.5	4.9	1,415.2
>90% to 100%	447.5	434.0	3.2	884.7
Greater than 100%	232.3	170.4	88.1	490.8
Structurally protected2	421.6	-	-	421.6
Unsecured	9.1	67.1	-	76.2
At 31 July 2021	2,919.1	2,087.7	1,187.4	6,194.2

1 Gross loans and advances to customers by LTV ratio in Property has been updated, with no impact on the total balance, to ensure the basis of presentation is consistent with the current year.

The Notes to The Company Accounts

for the year ended 31 July 2022

41. Financial instruments *continued*

(c) Credit risk *continued*

Gross loans and advances to customers which are credit-impaired split by LTV ratio:

	Retail £ million	Commercial £ million	Property £ million	Total £ million
LTV				
60% or lower	**1.7**	**32.7**	**2.3**	**36.7**
>60% to 70%	**2.3**	**0.7**	**1.5**	**4.5**
>70% to 80%	**7.0**	**2.7**	**-**	**9.7**
>80% to 90%	**17.9**	**7.9**	**2.6**	**28.4**
>90% to 100%	**18.9**	**8.3**	**-**	**27.2**
Greater than 100%	**11.9**	**4.6**	**75.9**	**92.4**
Structurally protected	**4.0**	**-**	**-**	**4.0**
Unsecured	**-**	**1.2**	**-**	**1.2**
At 31 July 2022	**63.7**	**58.1**	**82.3**	**204.1**

	Retail £ million	Commercial £ million	Property £ million	Total £ million
LTV				
60% or lower	2.8	13.7	4.7	21.2
>60% to 70%	2.8	1.6	37.0	41.4
>70% to 80%	6.3	4.4	4.6	15.3
>80% to 90%	12.9	12.4	4.9	30.2
>90% to 100%	8.9	10.4	3.2	22.5
Greater than 100%	5.0	10.5	88.1	103.6
Structurally protected	3.0	-	-	3.0
Unsecured	0.2	2.3	-	2.5
At 31 July 2021	41.9	55.3	142.5	239.7

The Notes to The Company Accounts

for the year ended 31 July 2022

41. Financial instruments *continued*

(d) Market risk

The interest rate risk policy and foreign currency risk policy for the company is explained in note 27(d) to the consolidated accounts.

(e) Liquidity risk

The company's liquidity risk management policy is explained in note 27(e) to the consolidated accounts.

The following table analyses the contractual maturities of the company's on balance sheet financial liabilities on an undiscounted cash flow basis.

	On demand £ million	Less than three months £ million	More than three months but not more than six months £ million	More than six months but not more than one year £ million	More than one year but not more than five years £ million	More than five years £ million	Total £ million
At 31 July 2022							
Financial liabilities							
Deposits by banks	**6.0**	**51.9**	**98.8**	**4.1**	**-**	**-**	**160.8**
Deposits by customers	**67.3**	**1,645.1**	**2,046.6**	**1,600.2**	**1,427.3**	**-**	**6,786.5**
Loans and overdrafts from banks	**4.1**	**1.9**	**1.9**	**3.7**	**610.5**	**-**	**622.1**
Derivative financial instruments	**-**	**5.9**	**9.0**	**16.0**	**88.9**	**55.6**	**175.4**
Subordinated loan capital	**-**	**2.0**	**-**	**2.0**	**15.0**	**218.0**	**237.0**
Lease liabilities	**0.1**	**1.8**	**1.7**	**3.5**	**10.7**	**0.4**	**18.2**
Other financial liabilities	**7.9**	**48.5**	**0.1**	**1.6**	**1.2**	**-**	**59.3**
	85.4	**1,757.1**	**2,158.1**	**1,631.1**	**2,153.6**	**274.0**	**8,059.3**
At 31 July 2021							
Financial liabilities							
Deposits by banks	2.0	37.7	105.8	5.0	-	-	150.5
Deposits by customers	515.8	1,549.4	1,985.0	1,372.0	1,202.0	-	6,624.2
Loans and overdrafts from banks	3.3	0.1	0.1	0.2	491.1	-	494.8
Derivative financial instruments	-	5.4	3.9	8.9	67.8	43.5	129.5
Subordinated loan capital	-	1.0	1.0	2.0	21.0	243.9	268.9
Lease liabilities	0.1	2.0	1.7	3.3	13.4	-	20.5
Other financial liabilities	11.0	43.4	1.0	2.5	2.5	-	60.4
	532.2	1,639.0	2,098.5	1,393.9	1,797.8	287.4	7,748.8

The Notes to The Company Accounts

for the year ended 31 July 2022

41. Financial instruments *continued*

(f) Offsetting

The following table shows the impact on derivative financial assets and liabilities which have not been offset but for which the company has enforceable master netting arrangements in place with counterparties. The net amounts show the exposure to counterparty credit risk after offsetting benefits and collateral, and are not intended to represent the company's actual exposure to credit risk.

Master netting arrangements allow outstanding transactions with the same counterparty to be offset and settled net, either unconditionally or following a default or other predetermined event. Financial collateral on derivative financial instruments consists of cash settled, typically daily, to mitigate the mark to market exposures.

	Gross amounts recognised	**Master netting arrangements**	**Financial Collateral**	**Net amounts after offsetting under IFRS 7**
	£ million	**£ million**	**£ million**	**£ million**
At 31 July 2022				
Derivative financial assets	**69.6**	**(69.1)**	**(0.5)**	**-**
Derivative financial liabilities	**89.2**	**(69.1)**	**(26.9)**	**(6.8)**

	Gross amounts recognised	Master netting arrangements	Financial Collateral	Net amounts after offsetting under IFRS 7
	£ million	£ million	£ million	£ million
At 31 July 2021				
Derivative financial assets	18.3	(16.0)	(2.0)	0.3
Derivative financial liabilities	20.5	(16.0)	(16.3)	(11.8)

The Notes to The Company Accounts

for the year ended 31 July 2022

42. Post balance sheet events

There were no significant events after the reporting year affecting the group or company.

43. Investment in subsidiaries

In accordance with section 409 of the Companies Act 2006, the following is a list of the group's subsidiaries at 31 July 2022, which are all wholly owned and incorporated in the UK unless otherwise stated.

Air and General Finance Limited[2]
Armed Services Finance Limited[3]
Arrow Audit Services Limited[1]
Brook Funding (No.1) Limited[7,13]
Capital Lease Solutions Limited[1]
CBM Holdings Limited[1]
Close Asset Finance Limited[2]
Close Brewery Rentals Limited[4]
Close Brothers DAC[12]
Close Brothers Asset Finance GmbH (Germany)[10]
Close Brothers Factoring GmbH (Germany)[10]
Close Brothers Finance plc[1]
Close Brothers Military Services Limited[3]
Close Brothers Premium DAC (Ireland)[12]
Close Brothers Technology Services Limited[1]
Close Brothers Vehicle Hire Limited[9]
Close Business Finance Limited[2]
Close Credit Management (Holdings) Limited[1]
Close Finance (CI) Limited (Jersey)[11]
Close Invoice Finance Limited[1]
Close Leasing Limited[8]
Close Motor Finance Limited[3]
Close PF Funding I Limited[6,13]
Commercial Acceptances Limited[5]
Commercial Finance Credit Limited[2]
Corporate Asset Solutions Limited[1]
Finance For Industry Limited[1]
Finance For Industry Services Limited[1]
Kingston Asset Finance Limited[2]
Kingston Asset Leasing Limited[2]
Metropolitan Factors Limited[1]
Micgate Holdings (UK) Limited[1]
Novitas Loans Limited[2]
Novitas (Salisbury) Limited[2]
Orbita Funding 2017-1 plc[7,13]
Orbita Funding 2020-1 plc[7,13]
Orbita Funding 2022-1 plc[6,13]
Orbita Holdings Limited[7,13]
Orbita Holdings No.2 Limited[6,13]
Surrey Asset Finance Limited[2]

Registered offices:
1 10 Crown Place, London EC2A 4FT, United Kingdom.
2 Wimbledon Bridge House, Hartfield Road, Wimbledon, London SW19 3RU, United Kingdom.
3 Roman House, Roman Road, Doncaster, South Yorkshire DN4 5EZ, United Kingdom.
4 Unit 1, Kingfisher Park, Headlands Business Park, Ringwood, Hampshire BH24 3NX, United Kingdom.
5 101 Wigmore Street, London, W1U 1QU, United Kingdom.
6 10th Floor, 5 Churchill Place, London E14 5HU, United Kingdom.
7 1 Bartholomew Lane, London EC2N 2AX, United Kingdom.
8 Olympic Court Third Avenue, Trafford Park Village, Manchester M17 1AP, United Kingdom.
9 Lows Lane, Stanton-By-Dale, Ilkeston, Derbyshire DE7 4QU, United Kingdom.
10 Grosse Bleiche 35-39, 55116, Mainz, Germany.
11 Conway House, Conway Street, St Helier JE4 5SR, Jersey.
12 Swift Square, Building 1, Santry Demesne, Northwood, Dublin 9, DO9 AOE4, Ireland.

Subsidiaries by virtue of control:
13 The related undertakings are included in the consolidated financial statements as they are controlled by the group.

CAUTIONARY STATEMENT

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