Close Brothers

Close Brothers Limited
Annual Report 2018

COMPANY NUMBER: 195626

PROFILE

Close Brothers Limited is a member of Close Brothers Group plc ("CBG" or "the Group"), a specialist financial services group providing financial support and advice to small businesses and individuals in the UK.

Close Brothers Limited ("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 Finance, which provides intermediated finance, principally to individuals, through motor dealers and insurance brokers; Commercial Finance, which focuses on providing specialist, secured lending to the SME market; and Property Finance, 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

	2018 £ million	2017 £ million
Operating profit before amortisation of intangible assets on acquisition and discontinued operations	**252.4**	253.3
Statutory profit on ordinary activities before taxation	**250.5**	252.4
Loans and advances to customers	**7,297.5**	6,884.7
Deposits by customers	**5,497.2**	5,113.1
Shareholders' funds	**1,117.3**	954.9
Total assets	**9,395.5**	8,449.5

COMPANY INFORMATION

Directors

M. N. Biggs*	Chairman
P. Prebensen*	Chief Executive Officer
J. A. G. Howell*	Director
M.B. Morgan	Director
A.J. Sainsbury	Director
O.R.P. Corbett*	Director
G.M.T. Howe*	Director
M.L. Jones*	Director
E.A. Lee*	Director
B.A. Macaskill*	Director

* Director of Close Brothers Group plc

Company Secretary
J.E. Hudspith

Independent Auditors
PricewaterhouseCoopers LLP

Registered Office
10 Crown Place
London EC2A 4FT
Telephone: +44 (0) 333 321 6100
Website: www.closebrothers.com

Registered Number
195626

STRATEGIC REPORT

Business Review[1]

This has been another good year for the group, as we have continued to deliver strong returns, while maintaining high levels of service for our customers and partners and strong engagement and commitment from our employees. The group continued to prioritise margins and underwriting over growth and maintain the investment through the cycle and for the long term. This disciplined approach resulted in a solid year's performance with adjusted operating profit broadly in line with the prior year.

Adjusted operating profit for the year was £252.4 million (2017: £253.3 million), as good loan book growth was offset by a marginal reduction in the net interest margin, increased investment and the non-recurrence of credit provision releases in the prior year. Since the financial year end, the group has announced the sale of its consumer point of sale finance business, which has been treated as a discontinued operation in the income statement for 2018 and in the comparable year, and as an asset held for sale on the balance sheet at 31 July 2018. The business generated a loss from discontinued operations of £2.2 million (2017: £2.8 million) net of tax. Statutory operating profit from continuing operations was £250.5 million (2017: £252.4 million).

The loan book grew 6.0% (2017: 7.0%), with underlying growth of 6.6%, excluding the consumer point of sale finance portfolio. This growth reflects our strong customer proposition and the diversification benefits of our loan portfolio, with growth in most of our core businesses, as well as an increasing contribution from some of our newer initiatives. The return on net loan book remained strong at 3.5% (2017: 3.7%).

Operating income was up 4.4% at £581.6 million (2017: £557.0 million), supported by loan book growth at strong margins across the lending businesses.

The net interest margin remained strong at 8.0% (2017: 8.2%), albeit with slightly lower yield compared to the prior year. Our strong margins and service led customer relationships position us well to respond to any change in market conditions.

Adjusted operating expenses increased 6.7% to £282.5 million (2017: £264.7 million) predominantly due to higher staff costs, which represent the majority of the cost base, and associated increases in property and IT spend, reflecting continued growth in both front office and support functions. We also continue to invest in a number of new business initiatives and strategic projects, including a new multi-year investment programme in Motor Finance and the future transition to Internal Ratings Based ("IRB") approach, which will optimise our capital position and better reflect the risk profile of our lending portfolio longer term. The expense/income ratio was marginally up at 49% (2017: 48%), and the compensation ratio also marginally increased on prior year to 29% (2017: 28%).

The disciplined management of costs is essential to our ability to maintain profitability and invest through the cycle, and we have recently initiated a review of the cost base. While still in its early stages, we expect this review to identify potential operating efficiencies and free up additional resource for investment longer term.

We have seen no change in credit performance and the bad debt ratio remained low at 0.6% (2017: 0.6%), although slightly higher on the prior year, which benefited from £7.5 million of one-off provision releases. The credit environment remained benign overall, and we continue to see low levels of arrears across the businesses.

Return on opening equity remained strong at 20% (2017: 24%), reflecting continued profitability of the business, partly offset by continued strong growth in the equity base.

Key Financials[1]

	2018 £ million	2017 £ million
Operating income	**581.6**	557.0
Adjusted operating expenses	**(282.5)**	(264.7)
Impairment losses on loans and advances	**(46.7)**	(39.0)
Adjusted operating profit	**252.4**	253.3

Key Performance Indicators[2]

	2018 %	2017 %
Net interest margin[3]	**8.0%**	8.2%
Expense/income ratio[4]	**49%**	48%
Compensation ratio[5]	**29%**	28%
Bad debt ratio[6]	**0.6%**	0.6%
Return on net loan book[7]	**3.5%**	3.7%
Return on opening equity[8]	**20%**	24%
Average loan book and operating lease assets (£ million)	**7,261.1**	6,795.6

1 Results from continuing operations exclude the consumer point of sale finance business, which has been classified as a discontinued operation in the income statement for the 2017 and 2018 financial years.
2 The calculation of the key performance indicators excludes the consumer point of sale finance loan book from both the opening and closing loan book. This does not result in any change to the ratios previously published for the 2017 financial year.
3 Net income generated by lending activities, including net interest income, net fees and commissions and net operating lease income (deducting depreciation).
4 Total adjusted operating expenses on adjusted operating income.
5 Total adjusted staff costs on adjusted operating income.
6 Impairment losses on average net loans and advances to customers and operating lease assets.
7 Adjusted operating profit from lending activities on average net loans and advances to customers and operating lease assets.
8 Adjusted operating profit after tax and non-controlling interests on opening equity, excluding non-controlling interests.

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Loan Book

Loan book growth has always been an output of our business model, and we continue to prioritise margin and credit quality over growth. Our portfolio is diverse, which ensures that our business remains resilient through the cycle. Loan book growth was 6.0% in the year to £7.3 billion (31 July 2017: £6.9 billion), with underlying growth of 6.6% excluding the consumer point of sale finance loan book, which was classified as held for sale at the balance sheet date.

We achieved particularly good growth in Property, which has remained resilient to competitive pressure as well as Invoice Finance, with growth in both the core business and from new initiatives. Both Asset and Premium Finance also delivered good growth in the year, while Motor Finance remained broadly flat, as we prioritise our strict lending criteria in the face of continued competition.

The Republic of Ireland, where we provide Motor, Premium, Asset and Invoice Finance, represents c.10% of the overall Banking loan book. The Irish portfolio also grew in the period, although we now see growth moderating in this market.

Loan Book Analysis

	2018 £ million	2017 £ million
Retail Finance	**2,686.4**	2,702.8
Motor Finance	1,736.3	1,761.9
Premium Finance	950.1	940.9
Commercial Finance	**2,783.6**	2,552.6
Asset Finance	2,071.2	2,017.0
Invoice Finance	712.4	535.6
Property Finance	**1,827.5**	1,629.3
Closing Loan Book	**7,297.5**	6,884.7

1 The loan book at 31 July 2018 excludes the consumer point of sale finance loan book of £66.2 million, which was classified as held for sale at the balance sheet date. The loan book at 31 July 2017 includes £36.7 million in relation to this business.

Retail Finance

The Retail segment provides intermediated finance, principally to individuals, through motor dealers and insurance brokers and incorporates our Premium and Motor Finance businesses.

The Retail loan book was broadly flat overall at £2.7 billion (31 July 2017: £2.7 billion), as good underlying loan book growth in Premium Finance was offset by a slight decline in the Motor Finance book and the sale of the consumer point of sale finance business.

Premium Finance delivered good underlying growth of 5% driven by volumes from recent broker wins. The Premium Finance business continues to be well positioned competitively, benefiting from the ongoing multi-year investment programme in its infrastructure aimed at improving both broker and end customer experience.

The Motor Finance loan book reduced 1% to £1.7 billion (31 July 2017: £1.8 billion). The UK book saw a small contraction in the period, as we continue to prioritise margin and credit quality in a highly competitive market. This was partly offset by continued modest growth in the Republic of Ireland, which accounts for 27% of the Motor Finance loan book, where we operate through a local partner, First Auto Finance ("FAF"), who provide the distribution and dealer relationships. In both the UK and Ireland, our core product remains hire-purchase contracts for second hand vehicles, with Personal Contract Plans ("PCP") accounting for 13% of the Motor Finance loan book at 31 July 2018.

Overall, adjusted operating profit for the Retail segment of £81.3 million (2017: £85.0 million) was down on the prior year, and statutory operating profit from continuing operations was down to £81.0 million (2017: £84.6 million). This was due to ongoing investment in both Premium and Motor Finance as well as lower income in the Motor business.

Operating income was up 2% year on year at £225.7 million (2017: £220.4 million) with the net interest margin slightly down at 8.4% (2017: 8.6%).

Adjusted operating expenses increased 8%, to £119.2 million (2017: £110.8 million), as our multi-year investment in both Premium and, more recently, the Motor Finance businesses continues. The investment programme in our Motor Finance business is still in its early stage and is aimed at improving the service proposition, streamlining operational processes and increasing sales effectiveness. As a result, the expense/ income ratio increased to 53% (2017: 50%).

Credit performance remains in line with our expectations at this stage of the cycle, with the bad debt ratio at 0.9% (2017: 1.0%), reflecting continued commitment to our strict lending criteria.

Commercial Finance

The Commercial segment focuses on specialist, secured lending principally to the SME market and includes Asset and Invoice Finance, including smaller specialist businesses such as Novitas Loans, a specialist provider of finance to clients of the legal profession acquired in 2017, and Brewery Rentals, which provides service and finance solutions for brewery equipment and containers in the UK and Germany.

The overall Commercial loan book increased 9% to £2.8 billion (31 July 2017: £2.6 billion), with growth across all businesses, but particularly in the core Invoice Finance business, Novitas Loans and Brewery Rentals. The Asset Finance loan book was also up 3% in the year, notwithstanding active competition from both new and existing lenders in this market.

Adjusted operating profit of £76.3 million (2017: £75.0 million) was up 2%, driven by good income growth and continued low bad debt. Statutory operating profit were broadly flat at £74.7 million (2017: £74.5 million).

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Operating income of £225.7 million (2017: £215.7 million) was 5% higher than the prior year, reflecting growth in the loan book. Despite ongoing pricing pressure in the asset finance market, we have maintained a strong net interest margin of 7.9% (2017: 8.1%), which remains ahead of the industry.

Costs grew by 6% to £132.2 million (2017: £125.2 million), driven by ongoing investment in new initiatives. These include our Technology Services business, where we offer financing solutions for IT infrastructure, the expansion of our Asset Finance offering into Germany, and post-acquisition integration of Novitas Loans. Despite this ongoing investment, the expense/income ratio remained broadly stable at 59% (2017: 58%).

The bad debt ratio remained in line with the prior year at 0.6% (2017: 0.6%), with good overall credit performance.

Property Finance
The Property segment is focused on specialist residential development finance to established professional developers in the UK. We do not lend to the buy-to-let sector or provide residential or commercial mortgages.

Property delivered another year of strong loan book growth at 12%, to £1.8 billion (31 July 2017: £1.6 billion). We continue to see strong structural demand in our core market of property development finance for new build family housing with an average unit price of £500,000. London and the South East, represent c.70% of the portfolio, however growth also remains strong in regional locations around major commuting hubs such as Manchester and Bristol. Our long track record, expertise and quality of service ensure the business remains resilient to competitive pressures and continues to generate high levels of repeat business.

The business delivered an operating profit of £94.8 million (2017: £93.3 million), up 2% on the prior year. The net interest margin reduced slightly to 7.5% (2017: 7.8%), reflecting higher cost of funds and mix of new business in the period. The bad debt ratio was low at 0.2% (2017: -0.1%), with the net recovery in the prior year reflecting one-off provision releases.

Operating expenses of £31.1 million (2017: £28.7 million) were up 8%, and the expense/income ratio remained at 24% (2017: 24%), reflecting the lower operational requirements of the business with larger transaction sizes at lower volumes.

Well positioned to lend through the cycle
Overall, we remain well positioned for the future and we remain confident in our ability to lend in a wide range of market conditions. Although some of our businesses continue to operate in highly competitive environments, the overall portfolio benefits from diversity of the businesses and their differing growth profiles through the cycle. Our focus remains on protecting our margins, maintaining our prudent underwriting, and investing to improve and extend the model in new and existing markets.

Funding
The primary purpose of our treasury function is to manage funding and liquidity to support the lending businesses. We maintain a conservative approach, with diverse funding sources and a prudent maturity profile, which increases resilience and helps to manage changes in the cost of funding.

Overall, the funding environment remained favourable during the year. Total funding increased to £9.3 billion (31 July 2017: £8.4 billion) and accounted for 128% (31 July 2017: 122%) of the loan book at the balance sheet date. Our average cost of funding of 1.6% (2017: 1.7%) was marginally below the prior year, reflecting new lower cost funding, including the Motor securitisation issued in November 2017.

The loan book growth in the year was primarily funded by an increase in customer deposits and unsecured funding. Deposits increased 8% to £5.5 billion (31 July 2017: £5.1 billion) with rises in both retail and corporate deposits. The latter represents around two thirds of the deposit base. Unsecured funding increased to £1.3 billion (31 July 2017: £1.0 billion).

Our range of secured funding facilities include securitisations of our Premium and Motor finance loan books. We have made limited use of the Term Funding Scheme, which accounted for 5% of our total funding at the year end.

We have maintained a prudent maturity profile. Term funding, with a residual maturity over one year, increased to £4.5 billion (31 July 2017: £4.4 billion) and now covers 61% (31 July 2017: 64%) of the loan book. The average maturity of funding allocated to the loan book increased to 23 months (31 July 2017: 22 months), while the average loan book maturity remained at 14 months (31 July 2017: 14 months).

During the year we invested in a new deposit platform, which will allow us to offer a wider range of savings products and to add online capability to our channels of distribution. The programme will enable us to further diversify our funding as well as improve the customer experience. We anticipate the new platform to be rolled out during the 2019 financial year.

Our strong credit ratings have been reaffirmed by both Moody's Investors Services ("Moody's") and Fitch Ratings ("Fitch"). Moody's rates Close Brothers Limited ("CBL") Aa3/P1, with stable outlook and Fitch rates CBL A/F1 with stable outlook.

The group maintains a strong liquidity position, ensuring it is comfortably ahead of both internal risk appetite and regulatory requirements. The majority of our liquidity requirements and surplus funding are held in the form of high quality liquid assets.

We regularly assess, and stress test our liquidity requirements and continue to comfortably meet the liquidity coverage ratio requirements under CRD IV. Treasury assets increased to £1.4 billion (31 July 2017: £1.0 billion) and were predominantly held on deposit with the Bank of

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England, giving us continued good headroom to both internal and external liquidity requirements.

Group Funding[1]

	2018 £ million	2017 £ million
Deposits	**5,497.2**	5,113.1
Secured funding2	**1,360.4**	1,297.3
Unsecured funding3	**1,081.0**	1,030.3
Intercompany	**250.0**	-
Equity	**1,116.6**	954.4
Total available funding	**9,305.2**	8,395.1
Of which term funding (>1 year)	**4,526.5**	4,434.6
Total funding % loan book	**128%**	122%
Term funding % loan book	**61%**	64%
Average maturity term funding (months)	**39**	39

1 Numbers relate to core funding and exclude working capital facilities at the business level.
2 Includes £nil million (2017: £97.5 million) of Treasury Bills drawn under the Funding for Lending Scheme but not currently in repurchase agreements.
3 Unsecured funding excludes £3.5 million (2017: £9.5 million) of non-facility overdrafts included in borrowings and includes £205 million (2017: £205.0 million) of undrawn facilities.

Liquidity

	2018 £ million	2017 £ million
Bank of England deposits	1,140.4	805.1
Sovereign and central bank debt	44.5	43.6
High quality liquid assets[1]	1,184.9	848.7
Certificates of deposit	250.5	180.3
Treasury assets	1,435.4	1,029.0

1 In addition to and not included in the above, at 31 July 2017 the group held £97.5 million of Treasury Bills drawn

IFRS 9

The provisions of IFRS 9 Financial Instruments apply to the group from 1 August 2018. Under IFRS 9, impairment losses are recognised in the group's financial statements on a forward looking basis, taking into account both the risk profile of the loan book and the macroeconomic outlook at the balance sheet date. This will result in earlier recognition of bad debts in the group's financial statements, and consequently a higher balance of bad debt provisions on the balance sheet, compared to the incurred loss approach under IAS 39.

The implementation of IFRS 9 is expected to increase bad debt provisions on the balance sheet by £58.8 million at 1 August 2018, resulting in a £44.7 million reduction in shareholders' equity and a £14.1 million increase in deferred tax assets.

This increase principally reflects the additional forward looking provision on performing and underperforming loans, as well as a broader definition of default compared to IAS 39 and the addition of a macroeconomic overlay.

The Group will be publishing an IFRS 9 transition document with further details on the implementation of IFRS 9 in early November.

RISK AND CONTROL FRAMEWORK

Principal Risks and Uncertainties

The group faces a number of risks in the normal course of business providing a range of financial services to small businesses and individuals. The management of the risks we face is central to everything we do. The key elements to the way the group manages risks are as follows:

- 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 specific metrics within set limits.

We believe the key risks facing the group include; the current economic uncertainty, especially the impact of the UK's departure from the EU and how that may impact our customers; the regulatory landscape and how it may impact some or all of our businesses; the competitive environment; and maintaining operational resilience in the face of growing cyber threats.

The following pages set out the principal risks and uncertainties which may impact the group's ability to deliver its strategy, how we seek to mitigate these risks and the change in the perceived level of risk over the year. While we constantly monitor emerging risks, the group's activities are unchanged. As a result, the principal risks and uncertainties which the group faces and our approach to mitigating them remain broadly consistent with prior years. This consistency in approach has underpinned the group's track record of trading successfully and supporting our clients over many years.

This summary should not be regarded as a complete and comprehensive statement of all potential risks and uncertainties faced by the group but rather those which the group currently believes may have a significant impact on the group's performance and future prospects.

Credit losses

As a lender to small 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 2018, the group had loans and advances to customers amounting to £7.3 billion.

The group also has exposure to counterparties with which it places deposits or trades, and also has a small number of derivative contracts to hedge interest rate and foreign exchange exposures.

We seek to minimise our exposure to credit losses from our lending by:

- Applying strict lending criteria when testing the credit quality and covenant of the borrower;
- Maintaining consistent and conservative loan to value ratios with low average loan size and short-term tenor;
- Lending on a predominantly secured basis against identifiable and accessible assets;
- Maintaining rigorous and timely collections and arrears management processes; and
- Operating strong control and governance both within our lending businesses and with oversight by a central credit risk team.

Our exposures to counterparties are mitigated by:

- Conservative management of our liquidity requirements and surplus funding with £1.1 billion placed with the Bank of England; and
- Continuous monitoring of credit quality of our counterparties within approved set limits.

Bad debts have again remained low during the year to 31 July 2018 while other counterparty exposures are broadly unchanged with the majority of our liquidity requirements and surplus funding placed with the Bank of England.

We continue to monitor closely the uncertainty over Brexit combined with rising consumer debt levels and potential increases in interest rates. This uncertainty, combined with the low level of current credit losses, could increase the risk of higher credit losses in the future.

Economic environment

Any downturn in economic conditions could impact the group's performance through:

- Lower demand for the group's products and services;
- Lower investor risk appetite as a result of financial markets instability;
- Higher credit losses as a result of customers inability to service debt and lower asset values on which loans are secured; and
- Increased volatility in funding markets.

The group's business model aims to ensure that we are able to trade successfully and support our clients in all economic conditions. By maintaining a strong financial position, we aim to be able to absorb short term economic downturns, continuing to lend when others pull back and in doing so build long-term relationships by supporting our clients when it really matters.

We test the robustness of our financial position by carrying out regular stress testing on our performance and financial positions in the event of adverse economic conditions.

Economic uncertainty remains elevated in our view. While UK economic performance has remained resilient in the last year, the current period of uncertainty is likely to continue reflecting both ongoing Brexit negotiations and wider global events.

Legal and regulatory change

Failure to comply with existing legal, regulatory or tax requirements, or to react to changes to these requirements, may have negative consequences for the group.

Failing to treat customers fairly, to safeguard client assets or to provide advice and products which are in clients' best interests has the potential to damage our reputation and may lead to legal or regulatory sanctions including litigation and customer redress. This applies to current, past and future business.

RISK AND CONTROL FRAMEWORK

Similarly changes to regulation and taxation can impact our financial performance, capital and liquidity and the markets in which we operate.

The group seeks to manage these risks by:

- Providing straightforward and transparent products and services to our clients;
- Governance and control processes to review and approve new products and services;
- Maintaining a prudent capital position with headroom to minimum capital requirements;
- The implementation of appropriate policies, standards and procedures and the use of risk based monitoring programmes to test adherence;
- The provision of clear advice on legal and regulatory requirements, including in relation to the scope of regulatory permissions;
- Responding in an appropriate, risk based and proportionate manner to any changes to the legal and regulatory environment and those driven by any strategic initiatives
- Investing in training for all staff including anti-money laundering, bribery and corruption, conduct risk, data protection and information security.
- Additional tailored training for relevant employees is provided in key areas such as complaint handling;
- Maintaining constructive and positive relationships and dialogue with regulatory bodies and tax authorities.
- Providing straightforward and transparent products and services to our clients;
- Reviewing and approving new products and services through a clear governance and approval process;
- Maintaining a prudent capital position with headroom above minimum capital requirements.

Financial services businesses remain the subject of significant regulatory scrutiny. Minimum capital requirements are increasing as regulatory buffers are phased in and remain subject to change by regulators. In addition to the regulatory uncertainties associated with Brexit there has been growing regulatory focus on consumer borrowing, particularly within motor finance.

Competition
The group operates in competitive markets and experiences high levels of competition from both traditional and new players. Currently we are experiencing particularly high levels of competition within the motor finance business and the intermediated part of the asset finance market.

Elevated levels of competition may impact the group's ability to write loans at its desired risk and return criteria, resulting in lower new business volumes and loss of market share.
The group's long track record of successful trading is supported by a consistent and disciplined approach to pricing and credit quality, even in competitive markets. This allows us to lend profitably and continue to support our customers at all stages in the financial cycle.

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

- Speed and flexibility of service;
- Local presence and personal approach;
- Experience and expertise; and
- Tailored, client driven product offerings.

This differentiated approach and the consistency of our lending results in strong customer relationships and high levels of repeat business.

We are further protected by the diversity of our loan book and product portfolio, which provides resilience against competitive pressure in any one part of our markets.

Despite high levels of competition across each of our businesses, our approach remains unchanged as we focus on supporting our clients, maintaining underwriting standards and investing in our business.

Technology and operational resilience
Providing robust, contemporary and secure IT services is fundamental to enabling the group to:

- Provide a high quality customer experience across our businesses;
- Respond and adapt to emerging opportunities and risks,
- Protect client and company data; and
- Counter the evolving cyber threat.

Failure to keep up with changing customer expectations or provide reliable, secure IT solutions has the potential to impact group performance.

The group continues to invest in its technology with investment projects underway across a number of businesses in order to enhance our customer offering.

The group has strong governance in place to oversee its major projects.

We continue to strengthen our cyber capabilities through further investment in tools and technical expertise as well as specific activities designed to mitigate cyber security risk. In the last year these have included a company-wide awareness campaign, phishing exercises and crisis management simulations.

We have in place, and regularly test, operational resilience capabilities, including crisis management, business continuity and disaster recovery plans.

Industry, market and regulatory focus on operational resilience has increased during the year. Recent incidences of operational disruption to financial services firms and corresponding customer impact have demonstrated the heightened importance of operational resilience.

This remains a key area of focus for the group, particularly as the rate of technology-driven disruption, including the impact and severity of cyber attacks continues to increase. We continue to invest in and upgrade our IT infrastructure and operating practices. This will continue to improve our customer proposition, simplify our technology architecture and enhance resilience to cyber attacks.

Employees

The quality and expertise of employees is critical to the success of the group. The loss of key individuals or teams may have an adverse impact on the group's operations and ability to deliver its strategy.

The group seeks to retain and develop staff by:

- Operating remuneration structures which are competitive and recognise and reward performance;
- Creating an inclusive environment that nurtures development;
- Implementing succession planning for key roles;
- Improving our talent pipeline via our graduate and school leavers programmes, and training academy in asset finance;
- Investing in training and development for all staff; and
- Delivering leadership development programmes that identify current and future leaders for the group.

Our highly skilled people are likely to be targeted by competitors, but we are confident we are able to retain key employees.

Funding and liquidity

Access to funding remains key to support our lending activities and the liquidity requirements of the group.

Our funding approach is conservative based on the principle of "borrow long and lend short". The average maturity of funding allocated to the loan book was 23 months at 31 July 2018. This compares to our weighted average loan maturity of 14 months.

Our funding is well diversified both by source and channel and by type and tenor. Liquidity is assessed on a daily basis to ensure adequate liquidity is held and remains readily accessible in stressed conditions.

At 31 July 2018 the group's funding position was strong with total available funding equal to 128% of the loan book. This provides a prudent level of liquidity to support our lending activities.

While economic uncertainty always has the potential to impact funding markets, the group remains conservatively funded and continues to have access to a wide range of funding sources and products.

We have further diversified our funding during the year through the completion of our second public Motor securitisation, and greater differentiation across our customer deposits. This diversity of funding combined with relatively long tenor when compared to the average duration of our lending means we are well placed to meet any future market challenges or constraints.

Market risk

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.

Our policy is to minimise interest rate risk by matching fixed and variable interest rate assets and liabilities and using swaps where appropriate. The capital and reserves of the group do not have interest rate liabilities and as such are not hedged.

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

The group's approach and the underlying risks are unchanged. Further detail on the group's exposure to market risk is outlined in note 22 on pages 56 to 67 of the Financial Statements.

The sensitivity analysis on interest rate exposures shown in note 22 on page 64 demonstrates the limited level of exposure to interest rate and foreign exchange movements.

By order of the board

J.E. Hudspith

Company Secretary
Date 24 September 2018

DIRECTORS' REPORT

The directors, whose names are listed under the Company Information, 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 are required to prepare the group financial statements in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union and Article 4 of the IAS Regulation. The directors have elected to prepare the parent company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law), including FRS 101 "The Financial Reporting Standard applicable in the UK and Republic of Ireland". Under company law the directors must not approve the accounts unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period.

In preparing the company financial statements, the directors are required to:

- Select suitable accounting policies and then apply them consistently;
- Make judgements and accounting estimates that are reasonable and prudent;
- State whether applicable IFRSs as adopted by the European Union have been followed for the group financial statements and United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law), have been followed, for the parent company financial statements, subject to any material departures disclosed and explained in the group and parent company financial statements; and
- Prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Directors' indemnity
The company has granted a deed of indemnity to each of its directors on terms consistent with the applicable statutory provisions. 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.

Employees
The contribution of our people is critical to the on-going success of our business. We strive to create an environment where our employees are supported and motivated towards realising their fullest potential, and continually monitor our means to engage, reward and develop our staff to ensure Close Brothers remains an attractive employer.

We believe that engaged employees are more likely to remain enthusiastic about their work and their organisation, and are committed to ensuring they feel valued and supported to perform better and stay with us longer. We engage with our staff through a regular externally run groupwide Employee Opinion Survey.

This comprehensive Employee Opinion Survey runs on a two-year cycle, which gives our businesses the opportunity to analyse the results in detail and formulate meaningful and effective action plans to take forward. Our aim is to maintain those areas of strength that our employees value the highest alongside enhancing those areas we could continue to improve.

In order to provide up-to-date insights on employee engagement and action plan progression, in March 2018 all employees were sent a brief 'pulse' employee engagement survey. Employee engagement is a measure of the extent to which staff are enthusiastic about their jobs, their level of commitment to the company, and how motivated they are to put effort into their work. The results showed the Group-wide engagement scores remained high, with an overall score of 89% consistent with the previous survey. We had a strong overall response rate of 82% which lends credibility to these results.

Diversity and equality
We are committed to creating an environment that allows all our employees to feel proud to work for us, regardless of their gender, age, race, ethnicity, disability, sexual orientation or background. We are pleased that our employees feel we are inclusive, with the Group's latest employee opinion survey indicating that 89% of our people believe that Close Brothers treats employees fairly.

Our broad ambitions around inclusion mean we have been focusing on improving diversity at all levels through a number of initiatives. We have recently joined Stonewall, a leading LGBTQ+ rights charity, and the Employers Network for Equality and Inclusion ("ENEI") to help shape our thinking and activities.

This year the Group announced they had signed up to the Women in Finance Charter pledge to improve gender balance across financial services. As part of our pledge, we aim to have 30% female senior management individuals by 2020, which aligns with our continued membership of the 30% Club, an institution focused on promoting good gender balance within companies at all levels. The Group's workforce remains diverse, with 46% female employees. We also have a broad age range of employees with 25% of our employees being under 30 years old and 15% over 50.

We are supportive of social mobility and creating an organisation with equal opportunities for all, regardless of background. This year we have begun working with the charity UpReach to launch an internship programme for undergraduates from less advantaged backgrounds. We embrace flexible working wherever possible throughout all our businesses, and aim to promote the advantages of everyday flexibility to enable all our employees to balance their work and home lives effectively. We offer enhanced parental leave to all new parents, and provide emergency backup care for employees with caring responsibilities.

Inclusion is now a regular agenda item at executive committee meetings to ensure we are delivering on our commitments. We have also developed a dashboard of key diversity statistics which are provided to business leaders on a monthly basis. We run workshops aimed at raising awareness about unconscious bias, and our recruitment system allows us to monitor the diversity of job applicants to ensure we are attracting potential candidates from a variety of backgrounds.

Our Equal Opportunity and Dignity at Work policy is in place to ensure equal and respectful treatment for all our employees. This includes additional support to disabled employees and their needs, and reflects our strong commitment to creating and promoting a diverse workforce, with focus on supporting all individuals irrespective of their gender, race, age, disability, sexual orientation or religion. We apply this approach across all our people related activities, including compensation review, talent and succession planning, leadership programmes, the development of our benefits package, recruitment, and training and development.

Developing our people
During the year we continued to deliver and implement a number of initiatives promoting development across the group, as well as building our pipeline of programmes to continue to attract and retain talent.

All our employees have access to our learning portal, which offers a wide range of practical tools, workshops and e-learning on a range of topics. The average number of training hours across the Group has remained broadly consistent with the prior year at 8.6 hours per employee.

Our established programmes for school leavers and graduates continue to develop our new talent pipeline, providing on-the-job learning and supporting study towards professional qualifications. Internal career mobility continues to be a focus of our leadership teams, with regular talent forums built into our performance management and succession planning processes. Over the past year we have also piloted new talent development programmes throughout the group to identify and support up and coming talent through a series of structured learning opportunities and exposure to different teams and networks.

Our Sales Academy in Asset Finance, launched in 2015, continues to demonstrate our commitment to developing entry level sales talent with a new cohort starting in September 2018 comprising a mix of internal and external candidates.

Our Emerging Leaders programme is now in its sixth cohort and we have commenced a Group Leadership programme, focusing on individual leadership development, management and coaching skills to develop our pool of future leaders. Over 100 individuals have completed the programme so far, with the majority progressing throughout the organisation.

Anti-money laundering regulations
We have implemented policies and procedures in accordance with anti-money laundering regulations and have dedicated money laundering reporting officers where required.

Whistle-blowing policy
We encourage our employees to report any activity that may constitute a violation of laws, regulations or internal policy and reporting channels are provided to staff for this purpose within the framework of a whistleblowing policy.

Our comprehensive whistle-blowing procedures comply with the new rules that came into effect in September 2016. We have enhanced the existing policies by an appointment of a whistle-blowers' champion and a confidential telephone whistle-blowing service, operated by a third party provider.

Anti-bribery and corruption policy
We operate a zero tolerance approach to bribery and corruption, ensuring full compliance with all applicable anti-bribery and corruption laws and regulations, including the UK Bribery Act 2010.

Complaints handling
We strive to ensure that our complaints handling process is as fair as possible, and we continuously review and improve internal processes, to deliver fast and satisfactory outcomes for our customers. We take all complaints seriously, with each division monitoring customer complaints separately, to ensure those are dealt with efficiently and promptly, and that actions are taken to address issues at their root cause.

Going concern
The group has a strong, proven and conservative business model and has traded profitably during the year. It is well positioned in each of its core businesses, well capitalised, soundly funded and has adequate access to liquidity.

After making enquiries, the directors have a reasonable expectation that the company and the group have adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the Annual Report.

DIRECTORS' REPORT

Capital structure
The group's share capital comprises one class of ordinary share with a nominal value of £1 each. At 31 July 2018, 122,480,000 (2017: 122,480,000) ordinary shares were in issue.

Rights attaching to shares
The shares have full voting, dividend and capital distribution rights. The shares carry no rights to fixed income. No person has any special rights of control over the company's share capital and all shares are fully paid.

Political donations
No political donations were made during the year (2017: £nil).

Auditors
PricewaterhouseCoopers LLP ("PwC") has expressed its willingness to continue in office as the company's external auditors. Resolutions to re-appoint PwC and to give the directors the authority to determine the auditors' remuneration will be proposed at the forthcoming AGM. The full text of the relevant resolutions will be set out in the Notice of AGM sent to the company's shareholders.

Disclosure of information to 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 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 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.

Responsibility statement
Each of the directors confirms that to the best of their knowledge:

- The financial statements, prepared in accordance with the relevat financial reporting frameworks, give a true and fair view of the assets, liabilities, financial position and profit or loss of the group;
- The Strategic Report, together with the Directors' Report, include a fair review of the development and performance of the business and the position of the group and parent company, together with a description of the principal risks and uncertainties that they face; and
- The Annual Report and financial statements, taken as a whole, are fair, balanced and understandable and provide the information necessary for shareholders to assess the group's position, performance, business model and strategy.

By order of the board

J.E. Hudspith

Company Secretary
Date 24 September 2018

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF CLOSE BROTHERS LIMITED

For the year ended 31 July 2018

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 2018 and of the group's profit and cash flows for the year then ended;
- the group financial statements have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union;
- 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 balance sheet as at 31 July 2018; the consolidated income statement and consolidated statement of comprehensive income, the consolidated cash flow statement, and the consolidated statement in 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 Close Brothers Group plc Audit Committee.

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 to the group or the company.

Other than those disclosed in note 5 to the financial statements, we have provided no non-audit services to the group or the company in the period from 1 August 2017 to 31 July 2018.

Our audit approach

Overview

- Overall group materiality: £12.2 million, based on 5% of profit before tax.
- Overall company materiality: £11.3 million based on 5% of profit before tax.
- 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 entity level controls, information technology general controls and analytical review procedures to mitigate the risk of material misstatement in the residual components.

The key audit matters were:

- Impairment of loans and advances to customers;
- Risk of material misstatement in revenue due to error in applying the effective interest rate (EIR) method; and
- The adoption of IFRS 9.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF CLOSE BROTHERS LIMITED

For the year ended 31 July 2018

Context

Prior to the commencement of the current financial year and our formal appointment in November 2017, PricewaterhouseCoopers LLP ('PwC') had to become independent of the group. This involved PwC ceasing non-permissible commercial and personal financial and business relationships for the firm, partners and staff. During this time, we met with management across the group to understand the business and to gather information which we needed to plan our first audit effectively. We met with the former auditors and attended the Close Brothers Group plc (Close Brothers Ltd.'s ultimate parent) Board Audit Committee meetings throughout the 2017 audit cycle to understand the key audit matters as and when they arose. We also reviewed the audit working papers of the former auditors to gain sufficient comfort over the 2018 opening balance sheet and comparative financial information. Our review also focused on how they had responded to the key management judgements used in preparing the financial statements and work performed over key business processes across the group.

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. In particular, we looked at where the directors made subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain.

We gained an understanding of the legal and regulatory framework applicable to the group and the industry in which it operates, and considered the risk of acts by the group which were contrary to applicable laws and regulations, including fraud. We designed audit procedures at group and significant component level to respond to the risk, recognising that 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. We focused on laws and regulations that could give rise to a material misstatement in the group and company financial statements, including, but not limited to, the Companies Act 2006 and UK tax legislation. Our tests included, but were not limited to, review of correspondence with and reports to the regulators, review of correspondence with legal advisors, enquiries of management, and review of internal audit reports in so far as they related to the financial statements. There are inherent limitations in the audit procedures described above and the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely we would become aware of it.

We did not identify any key audit matters relating to irregularities, including fraud. As in all of our audits we also addressed the risk of management override of internal controls, including testing journals and evaluating whether there was evidence of bias by the directors that represented a risk of material misstatement due to fraud.

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.

Overall group materiality: £12.2 million, based on 5% of profit before tax.

Overall company materiality: £11.3 million based on 5% of profit before tax.

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 entity level controls, information technology general controls and analytical review procedures to mitigate the risk of material misstatement in the residual components.

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.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF CLOSE BROTHERS LIMITED

For the year ended 31 July 2018

Key audit matter	How our audit addressed the key audit matter
Impairment of loans and advances to customers (group and company) The group loan impairment provisions of £39.1 million represented approximately 0.54% of loans and advances to customers. The income statement charge for the year was £46.7 million. Management exercises significant judgement in order to determine the timing of recognition and quantum of provisions in respect of loss events which have occurred at the balance sheet date. The principal judgements are: • Selection of the measurement technique which is most appropriate to each type of loan; • The use of historical experience to inform future outcomes and the modification of such experience to reflect conditions at the balance sheet date through the use of overlays; • The estimation of timing and quantum of realising collateral in respect of impaired loans together with other future cashflows; and • The quantum of provisions in respect of losses incurred but not identified at the balance sheet date. Management applies an individual assessment to individually significant loans which includes estimation of expected future cashflows including the ultimate realisation of available collateral. Loans which are smaller in size and comprise homogeneous portfolios are evaluated on a collective basis using models which incorporate assumptions including probability of default and loss given default. Relevant references: • Note 1, accounting policies on pages 25 & 26; and • Note 1, critical accounting estimates and judgements on page 33.	We performed walkthroughs to understand management's processes and tested key controls around the determination of impairment provision, including: • The identification of impairment events; • The measurement of provisions for individually significant loans; • The assessment to ensure that the collective impairment models are appropriately calibrated; and • The assessment of the outputs of the group's impairment models. We found that these key controls were designed, implemented and operated effectively, and therefore determined that we could place reliance on them for the purposes of our audit. In addition we performed the following substantive procedures: **Collective impairments** We understood and critically assessed the appropriateness of model assumptions used. This included challenging whether the portfolios were appropriately segmented and whether historical experience was representative of current circumstances. We also used our credit modelling experts in assessing elements of the modelling methodologies. We performed testing over the completeness and accuracy of data from underlying loan systems. We also assessed whether customer forbearance plans had been appropriately reflected in the impairment models. Based on the evidence obtained, we found that the methodologies, modelled assumptions, data used within the models to modelled outputs to be appropriate. **Specific impairments** We critically assessed the criteria for determining whether an impairment event had occurred and therefore whether there was a requirement to calculate an individual impairment provision. We tested a sample of performing loans, including loans with characteristics that might imply an impairment indicator existed, to assess whether these loans had any impairment indicators that management had not identified. For a sample of impaired loans, we understood the latest developments in relation to each case and the key judgements relevant to determining the provision. We re-performed management's impairment calculation, tested key inputs including the expected future cash flows, discount rates and the valuation of collateral held. Based on the evidence obtained, we found the provisions for individually assessed loans to be materially appropriate.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF CLOSE BROTHERS LIMITED

For the year ended 31 July 2018

Key audit matter	How our audit addressed the key audit matter
Risk of material misstatement in revenue due to error in applying the effective interest rate (EIR) method (group and company)	
The group's net interest income was £487.2 million. Interest income on loans and advances made by the group is recognised using the effective interest rate method and any fees, commissions or transaction costs that form an integral part of the financial instrument, are included in the effective interest rate. Judgement is required to determine whether applicable fees and costs should be included in the effective interest rate, or whether immediate revenue recognition should be applied. The spreading of fees and costs uses both manual and automated processes. The judgement and manual nature applied across different businesses throughout the bank results in a higher risk of material misstatement due to error or fraud. Relevant references: • Note 1, accounting policies on page 28; • Note 1, critical accounting estimates and judgements on page 28.	We have understood management's process and tested key controls around revenue recognition, including: • Walkthroughs for the main lending products to understand the processes and key controls for the identification, recognition and calculation of fees, commissions and costs under the effective interest rate method; and • The reconciliations between the models used to calculate the effective interest rate adjustments for the fees and the general ledger. We found that these key controls were designed, implemented and operated effectively, and therefore determined that we could place reliance on these key controls for the purposes of our audit. In addition we have performed the following substantive procedures: • We tested the effective interest rate models by assessing their design, critically challenging relevant assumptions, and testing the accuracy of model computations by re-performing a sample of effective interest rate calculations; and • We agreed a sample of loan agreements and cash receipts to the inputs used within the effective interest rate models, and assessed whether the appropriate fees and costs had been reflected in the effective interest rate. Based on the evidence obtained, we found that the assumptions, models and data used were materially appropriate.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF CLOSE BROTHERS LIMITED

For the year ended 31 July 2018

Key audit matter	How our audit addressed the key audit matter
Adoption of IFRS 9 (group and company)	
On 1 August 2018, the group transitioned to IFRS 9: Financial Instruments (IFRS 9) which replaced IAS 39. The estimated transition impact is disclosed in Note 1 to the Financial Statements in accordance with IAS 8. Disclosures in 2018 are intended to provide users with an understanding of the estimated impact of the new standard, and as a result are more limited than the disclosure to be included in the 2019 financial statements. The new standard measures impairment using an expected credit loss ("ECL") approach and applies a different approach to measurement and classification of financial instruments. The application of the new standard requires management to exercise judgement in a number of key areas: • Model design and configuration; • The approach to incorporating future economic conditions; and • The determination of significant changes in credit risk. We have deemed the disclosure of the impact of IFRS 9 an area of focus because of the significant changes introduced by the standard. Relevant references: • Note 1, accounting policies on page 25 & 26.	We understood management's process and tested key controls supporting management's estimate of the transition adjustment focusing on: • Model development, validation and approval to ensure compliance with IFRS 9 requirements; • Review and approval of key assumptions, judgements and forward looking information prior to use in the models; • The integrity of data used as inputs to the models including the transfer of data between source systems and the impairment models; and • Review and approval of the output of IFRS 9 models. We noted the key controls were designed and operated effectively and therefore determined that we could place reliance on these key controls for the purposes of our audit. We understood and critically assessed the ECL models developed by the group. This included using our credit modelling specialists in our assessment of judgements and assumptions supporting the ECL requirements of the standard. We re-performed certain model calculations to confirm the risk parameter inputs. We tested the code used for a sample of ECL models. We assessed the reasonableness of forward looking information incorporated into the impairment calculations considering the multiple economic scenarios chosen and the weighting applied to each. We tested the underlying disclosures related to the transition impact and reconciled the disclosed impact to underlying accounting records. Based on the evidence obtained, we found that the methodologies, modelled assumptions, data used within the models and resulting outputs and disclosures are materially appropriate.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF CLOSE BROTHERS LIMITED

For the year ended 31 July 2018

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:

	Group financial statements	Company financial statements
Overall materiality	£12.2 million	£11.3 million
How we determined it	5% of profit before tax.	5% of profit before tax.
Rationale for benchmark applied	Based on the benchmarks used in the annual report, profit before tax is the primary measure used by the shareholders in assessing the performance of the group, and is a generally accepted auditing benchmark.	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 auditing benchmark.

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 between £460,000 and £11.0 million. Components and subsidiary entities were audited to a statutory materiality level that never exceeded that of the group.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £500,000 (group audit) and £500,000 (company audit) as well as misstatements below those amounts that, in our view, warranted reporting for qualitative reasons.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which ISAs (UK) require us to report to you when:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the group's and company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

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

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 the responsibilities described above and our work undertaken in the course of the audit, ISAs (UK) require us also to report certain opinions and matters as described below.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF CLOSE BROTHERS LIMITED

For the year ended 31 July 2018

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 2018 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 Directors' Responsibilities Statement set out on page 12, 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.

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 received 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 members on 7 November 2018 to audit the financial statements for the year ended 31 July 2018 and subsequent financial periods. This is therefore our first year of uninterrupted engagement.

Mark Hannam (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
24 September 2018

CONSOLIDATED INCOME STATEMENT

For the year ended 31 July 2018

	Note	2018 £ million	2017[1] £ million
Interest income	3	**600.4**	579.6
Interest expense	3	**(113.2)**	(115.8)
Net interest income		**487.2**	463.8
Fee and commission income	3	**87.8**	89.8
Fee and commission expense	3	**(11.5)**	(14.0)
Other income	3	**63.2**	54.7
Depreciation of operating lease assets and other direct costs	14	**(45.1)**	(37.3)
Non-interest income		**94.4**	93.2
Operating income		**581.6**	557.0
Administrative expenses	3	**(282.5)**	(264.7)
Impairment losses on loans and advances	10	**(46.7)**	(39.0)
Total operating expenses before amortisation of intangible assets on acquisition		**(329.2)**	(303.7)
Operating profit before amortisation of intangible assets on acquisition		**252.4**	253.3
Amortisation of intangible assets on acquisition	13	**(1.9)**	(0.9)
Operating profit before tax		**250.5**	252.4
Tax	6	**(61.8)**	(66.0)
Profit after tax on continuing operations		**188.7**	186.4
Loss from discontinued operations, net of tax		**(2.2)**	(2.8)
Profit after tax		**186.5**	**183.6**
Loss attributable to non-controlling interests from continuing operations		**(0.3)**	(0.3)
Profit attributable to shareholders		**186.8**	183.9

[1] Restated see notes 3 and 7

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 July 2018

	2018 £ million	2017 £ million
Profit after tax	**186.5**	183.6
Other comprehensive income/(expense) that may be reclassified to income statement from continuing operations		
Currency translation gains	**0.4**	0.6
Gains on cash flow hedging	**4.3**	4.7
Gains on financial instruments classified as available for sale	**0.4**	0.6
Tax relating to items which may be reclassified	**(1.1)**	(2.2)
Other comprehensive income/(expense) net of tax from continuing operations	**4.0**	3.7
Total comprehensive income	**190.5**	187.3
Attributable to		
Non-controlling interests	**(0.3)**	(0.3)
Shareholders	**190.8**	187.6
	190.5	187.3

CONSOLIDATED BALANCE SHEET

At 31 July 2018

	Note	2018 £ million	2017 £ million
Assets			
Cash and balances at central banks		**1,140.4**	805.1
Loans and advances to banks	9	**74.4**	55.6
Loans and advances to customers	10	**7,297.5**	6,884.7
Debt securities	11	**295.0**	223.9
Derivative financial instruments	12	**16.6**	26.9
Intangible assets	13	**110.4**	95.0
Property, plant and equipment	14	**220.0**	195.7
Deferred taxation	6	**38.8**	44.1
Prepayments, accrued income and other assets	15	**134.9**	118.5
Assets classified as held for sale	7	**67.5**	-
Total assets		**9,395.5**	8,449.5
Liabilities			
Deposits by banks	16	**55.2**	72.0
Deposits by customers	16	**5,497.2**	5,113.1
Loans and overdrafts from banks	16	**498.7**	324.3
Debt securities in issue	16	**1,523.4**	1,489.6
Derivative financial instruments	12	**15.7**	11.4
Amounts due to group undertakings	17	**317.1**	111.1
Current tax liabilities		**14.3**	19.2
Accruals, deferred income and other liabilities	15	**138.8**	133.7
Subordinated loan capital	18	**217.9**	220.7
Liabilities classified as held for sale	7	**0.6**	-
Total liabilities		**8,278.9**	7,495.1
Equity			
Called up share capital		**122.5**	122.5
Retained earnings		**995.1**	836.7
Other reserves		**(0.3)**	(4.3)
Total shareholders' equity		**1,117.3**	954.9
Non-controlling interests		**(0.7)**	(0.5)
Total equity		**1,116.6**	954.4
Total liabilities and equity		**9,395.5**	8,449.5

The financial statements of Close Brothers Limited, registration number 195626, were approved and authorised for issue by the Board of Directors on 24 September 2018 and signed on its behalf by:

P. Prebensen
Chief Executive Officer

M. B. Morgan
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

At 31 July 2018

			Other Reserves					
	Called up share capital* £ million	Retained earnings £ million	Exchange movements reserve £ million	Available for sale reserve £ million	Hedging reserve £ million	Total attributable to equity holders £ million	Non-controlling interests £ million	Total equity £ million
At 1 August 2016	82.5	696.2	(1.4)	-	(6.6)	770.7	(0.2)	**770.5**
Profit/(loss) for the year	-	183.9	-	-	-	183.9	(0.3)	**183.6**
Other comprehensive income/(expense)	-	-	(0.2)	0.4	3.5	3.7	-	**3.7**
Total comprehensive income/(expense) for the year	-	183.9	(0.2)	0.4	3.5	187.6	(0.3)	**187.3**
Other movements	-	1.7	-	-	-	1.7	-	**1.7**
Shares issued	40.0	-	-	-	-	40.0	-	**40.0**
Income tax	-	0.8	-	-	-	0.8	-	**0.8**
Dividends paid	-	(45.9)	-	-	-	(45.9)	-	**(45.9)**
At 31 July 2017	122.5	836.7	(1.6)	0.4	(3.1)	954.9	(0.5)	**954.4**
Profit/(loss) for the year	-	186.8	-	-	-	186.8	(0.3)	**186.5**
Other comprehensive income	-	-	0.4	0.4	3.2	4.0	-	**4.0**
Total comprehensive income/(expense) for the year	-	186.8	0.4	0.4	3.2	190.8	(0.3)	**190.5**
Other movements	-	2.3	-	-	-	2.3	0.1	**2.4**
Shares issued	-	-	-	-	-	-	-	**-**
Income tax	-	0.4	-	-	-	0.4	-	**0.4**
Dividends paid	-	(31.1)	-	-	-	(31.1)	-	**(31.1)**
At 31 July 2018	**122.5**	**995.1**	**(1.2)**	**0.8**	**0.1**	**1,117.3**	**(0.7)**	**1,116.6**

*Allotted, called-up and fully-paid share capital comprised 122,480,000 (2017: 122,480,000) ordinary shares of £1 each.

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 July 2018

	Note	2018 £ million	2017 £ million
Net cash inflow from operating activities	26(a)	**237.4**	251.3
Net cash outflow from investing activities			
Purchase of:			
Property, plant and equipment		**(9.9)**	(4.9)
Intangible assets - software		**(32.0)**	(30.7)
Subsidiaries and non-controlling interests		**-**	(24.5)
		(41.9)	(60.1)
Net cash inflow before financing activities		**195.5**	191.2
Financing activities			
Issue of ordinary share capital, net of transaction costs		**-**	40.0
Equity dividends paid		**(30.0)**	(45.9)
Amounts received/(paid) from/to group undertakings		**206.0**	(240.0)
Interest paid on subordinated loan capital and debt financing		**(10.8)**	(6.7)
Net increase/(decrease) in cash		**360.7**	(61.4)
Cash and cash equivalents at beginning of year		**825.8**	887.2
Cash and cash equivalents at end of year	26(b)	**1,186.5**	825.8

NOTES TO THE CONSOLIDATED ACCOUNTS

For the year ended 31 July 2018

1. 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 operating segments; Commercial Finance, Retail Finance and Property Finance 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 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;
- the requirements of IFRS 7 Financial Instruments: Disclosures;
- the requirements of paragraphs 91 – 99 of IFRS 13 Fair Value Measurement;
- 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; and
- the requirements of paragraphs 134(d) – 134(f) and 135(c) - 135(e) of IAS 36 Impairment of Assets.
- The requirements of IAS 8 on standards not yet effective

(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 International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board and interpretations issued by the IFRS Interpretations Committee endorsed by the EU.

Standards adopted during the year

There were no new standards adopted during the year ended 31 July 2018. The accounting policies adopted are consistent with those of the previous financial year.

Standards issued with effective dates, subject to EU endorsement, which do not impact on these financial statements

IFRS 9 Financial Instruments

IFRS 9 Financial Instruments replaces IAS 39 Financial Instruments: Recognition and Measurement and is effective for the group from 1 August 2018. IFRS 9 will lead to significant changes in the accounting for financial instruments, particularly with regards to impairment.

Impairment

IFRS 9 replaces the incurred loss impairment approach under IAS 39 with an Expected Credit Loss ("ECL") approach. This will result in impairment provisions being recognised earlier, as it is no longer necessary for a loss event to be incurred before a provision is recognised.

IFRS 9 will be applicable to all financial assets at amortised cost, debt financial assets at fair value through other comprehensive income, loan commitments and financial guarantees and lease receivables.

Under IFRS 9, expected credit losses are the unbiased probability weighted average credit losses determined by evaluating a range of possible outcomes and future economic conditions. The ECL model has three stages:

NOTES TO THE CONSOLIDATED ACCOUNTS

For the year ended 31 July 2018

1. **Accounting policies** *continued*

(b) Compliance with International Financial Reporting Standards *continued*

Stage 1: when a significant increase in credit risk since initial recognition has not occurred, 12 month expected credit losses are recognised for all stage 1 financial assets. This requirement does not exist under IAS 39 and will result in higher provisions as an ECL will be recognised for performing loans.

Stage 2: when a significant increase in credit risk since initial recognition has occurred, lifetime expected credit losses are recognised. This concept does not exist under IAS 39 and therefore it will result in an increased ECL provision as a result of recognising a lifetime ECL for loans that are not considered to be credit impaired.

Stage 3: when objective evidence exists that an asset is credit-impaired, lifetime expected credit losses are recognised. This is similar to the incurred loss approach under IAS 39; however, the definition is extended to include a 90 days past due backstop.

IFRS 9 impairment models

The measurement of expected credit losses will involve increased complexity and judgement. The group has developed new models to meet the requirements of IFRS 9 and will use three key input parameters for the calculation of expected credit loss: probability of default ("PD"), loss given default ("LGD") and exposure at default ("EAD"). As required by the standard, discounting will be applied using the original effective interest rate.

In assessing whether a significant increase in credit risk has occurred the group will apply a multifactor approach using quantitative measures (e.g. changes in PD or credit score since origination) and qualitative factors (e.g. watch list processes). As a backstop, all financial assets that are 30 days past due will be considered to have experienced a significant increase in credit risk.

A financial asset will only be considered credit impaired if there is objective evidence of impairment. This will include financial assets that are defaulted or 90 days past due.

IFRS 9 requires the incorporation of forward looking macroeconomic information that is reasonable and supportable. The group will consider six forward looking economic scenarios on a probability-weighted basis to ensure the overall ECL represents a range of economic outcomes.

A jointly led Risk and Finance committee has implemented the necessary changes to models and credit and finance processes.

Classification and measurement

Under IFRS 9, financial assets are required to be classified based on the business model within which they are managed and their contractual cash flow characteristics. These factors determine whether the financial assets are measured at amortised cost, fair value through other comprehensive income or fair value through profit or loss. The requirements for the classification of financial liabilities, as they currently apply to the group, remain unchanged.

The adoption of IFRS 9, from 1 August 2018, will not result in any material change to the measurement basis of financial assets. The majority of the group's financial assets are loans and advances to customers currently classified under IAS 39 as loans held at amortised cost. Under IFRS 9 they will continue to be measured at amortised cost.

Impact on 1 August 2018

The group will not restate comparatives on initial application of IFRS 9. Instead the classification and measurement and impairment requirements will be applied retrospectively by adjusting the opening balance sheet on 1 August 2018. The group estimates the transition to IFRS 9 will reduce shareholders' equity by £44.7 million reflecting an increase in impairment provisions of £58.8 million offset by a deferred tax asset of £14.1 million.

Hedge accounting

IFRS 9 contains revised requirements which aim to simplify hedge accounting. The standard does not yet address macro hedge accounting strategies, which are being considered in a separate project. IFRS 9 includes an accounting policy choice between applying the hedge accounting requirements of IFRS 9 to continue to apply the existing hedge accounting requirements in IAS 39 for all hedge accounting because it had not yet completed its project on the accounting for macro hedging. During this time the group will continue to apply IAS 39, although it will implement the amended IFRS 7 hedge accounting disclosure requirements from 1 August 2018.

NOTES TO THE CONSOLIDATED ACCOUNTS

For the year ended 31 July 2018

1. Accounting policies *continued*

(b) Compliance with International Financial Reporting Standards *continued*

IFRS 15 Revenue from Contracts with Customers

Effective for the group from 1 August 2018, this standard replaces IAS 18 and IAS 11 and does not apply to financial instruments, lease contracts or insurance contracts which fall under the scope of other IFRSs. The standard introduces a new revenue recognition model which features a contract-based five-step analysis of transactions to determine whether, how much, and when revenue is recognised. The group has assessed the impact of IFRS 15 and the adoption of the standard is not anticipated to have a material impact on the group's financial statements.

IFRS 16 Leases

Effective for the group from 1 August 2019, the standard replaces IAS 17 and introduces a new recognition model that recognises all leases on a lessee's balance sheet (subject to certain exemptions). Lessor accounting is largely unchanged. The standard is not anticipated to have a material impact on the group's financial statements.

(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, available for sale financial assets and all derivative financial instruments ("derivatives").

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

(d) Consolidation

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.

(e) Discontinued operations

The results of discontinued operations are shown as a single amount on the face of the consolidated income statement comprising the post-tax profit or loss of discontinued operations and the post-tax gain or loss recognised either on measurement to fair value less costs to sell or on the disposal of the discontinued operation. A discontinued operation is a cash generating units ("CGU") or a group of CGUs that either has been disposed of, or is classified as held for sale, and represents a separate major line of business or geographical area of operations, is part of a single coordinated plan to dispose of a separate major line of business or geographical area of operations or is a subsidiary acquired exclusively with a view to resale.

(f) 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 over the year 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.

NOTES TO THE CONSOLIDATED ACCOUNTS

For the year ended 31 July 2018

1. **Accounting policies** *continued*

(g) 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.

Dividends

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

(h) Adjusted items

The consolidated income statement is presented on both a statutory and adjusted basis. The adjusted basis excludes exceptional items and amortisation of intangible assets on acquisition. 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. Amortisation of intangible assets on acquisition is excluded to present the performance of the group's acquired businesses consistent with its other businesses.

(i) Financial assets and liabilities (excluding derivatives)

Classification

The group classifies its financial assets into the following measurement categories: (i) financial assets held at fair value through profit or loss; (ii) loans and receivables; and (iii) available for sale. Financial liabilities are classified as either held at fair value through profit or loss, or at amortised cost using the effective interest method. Management determines the classification of its financial assets and liabilities at initial recognition.

Financial assets and liabilities held at fair value through profit or loss

This category has two sub-categories: financial assets and liabilities held for trading, and those designated at fair value through profit or loss at inception.

Financial asset and liability are classified as held for trading either if acquired principally for the purpose of selling in the short term, or are derivatives (not in qualifying hedge relationships).

Financial assets and liabilities may be designated at fair value through profit or loss when:

- the designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring assets or liabilities on a different basis;
- a group of financial assets and/or liabilities is managed and its performance evaluated on a fair value basis; or
- the assets or liabilities include embedded derivatives and such derivatives are required to be recognised separately.

Financial assets and liabilities held at fair value through profit or loss are subsequently carried at fair value, with gains and losses arising from changes in fair value taken directly to the consolidated income statement.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and it is expected that substantially all of the initial investment will be recovered, other than because of credit deterioration. Loans and receivables are subsequently carried at amortised cost using the effective interest method and recorded net of provisions for impairment losses.

NOTES TO THE CONSOLIDATED ACCOUNTS

For the year ended 31 July 2018

1. Accounting policies *continued*

(i) Financial assets and liabilities (excluding derivatives) *continued*

Available for sale
Available for sale assets are those non-derivative financial assets intended to be held for an indefinite period of time, which may be sold in response to liquidity requirements or changes in interest rates, exchange rates or equity prices. Available for sale financial assets are subsequently carried at fair value, with gains and losses arising from changes in fair value taken to a separate component of equity until the asset is sold, or is impaired, when the cumulative gain or loss is transferred to the consolidated income statement.

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

(j) Impairment of financial assets
The group assesses at each balance sheet date whether there is any objective evidence that a financial asset or group of financial assets classified as available for sale or loans and receivables is impaired. A financial asset or group of financial assets is impaired and an impairment loss incurred if there is objective evidence that an event or events since initial recognition of the asset have adversely affected the amount or timing of future cash flows from the asset.

Financial assets at amortised cost
If there is objective evidence that an impairment loss on a financial asset or group of financial assets classified as loans and receivables has been incurred, the group measures the amount of the loss as the difference between the carrying amount of the asset or group of assets and the present value of estimated future cash flows from the asset or group of assets discounted at the effective interest rate of the instrument at initial recognition. Impairment losses are assessed individually for financial assets that are individually significant and individually or collectively for assets that are not individually significant. Individually assessed financial assets which are not considered impaired may also be included in collective assessment. In making collective assessment of impairment, financial assets are grouped into portfolios on the basis of similar risk characteristics.

For loans and receivables, the amount of the loss is measured as the difference between the loan's carrying amount and the present value of estimated future cash flows, excluding future credit losses that have not been incurred, discounted at the original effective interest rate. As the loan amortises over its life, the impairment loss may amortise. All impairment losses are reviewed at least at each reporting date. If subsequently the amount of the loss decreases as a result of a new event, the relevant element of the outstanding impairment loss is reversed. Interest on impaired financial assets is recognised at the original effective interest rate applied to the carrying amount as reduced by an allowance for impairment.

For loans that are not considered individually significant, the group adopts a formulaic approach which allocates a loss rate dependent on the overdue period. Loss rates are based on the discounted expected future cash flows and are regularly benchmarked against actual outcomes to ensure they remain appropriate.

Financial assets carried at fair value
When a decline in the fair value of a financial asset classified as available for sale has been recognised directly in equity and there is objective evidence that the asset is impaired, the cumulative loss is removed from equity and recognised in the consolidated income statement. The loss is measured as the difference between the amortised cost of the financial asset and its current fair value. Impairment losses on available for sale equity instruments are not reversed through the consolidated income statement, but those on available for sale debt instruments are reversed if there is an increase in fair value that is objectively related to a subsequent event.

NOTES TO THE CONSOLIDATED ACCOUNTS

For the year ended 31 July 2018

1. Accounting policies *continued*

(k) Finance leases, operating leases and hire purchase

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 discounted at its implicit interest rate. Finance charges on finance leases are taken to income in proportion to the net funds invested.

Rental costs under operating leases and hire purchase contracts are charged to the consolidated income statement in equal instalments over the period of the leases. 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.

(l) 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 leading 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.

(m) 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 (i).

(n) 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.

(o) Derivatives and hedge accounting

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.

(p) 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.

NOTES TO THE CONSOLIDATED ACCOUNTS

For the year ended 31 July 2018

1. **Accounting policies** *continued*

(q) 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	5 years

(r) 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.

Treasury shares

Where the company or any member of the group purchases the company's share capital, the consideration paid is deducted from shareholders' equity as treasury shares until they are cancelled. Where such shares are subsequently sold or reissued, any consideration received is included in shareholders' equity.

(s) 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.

(t) Share-based payments to employees

At 31 July 2018, Close Brothers Group plc ("CBG"), the ultimate parent company, operates long term incentive arrangements in which group employees have participated. These include the Deferred Share Awards ("DSA") scheme, Long Term Incentive Plan ("LTIP"), Share Matching Plan ("SMP") and HMRC approved Save As You Earn ("SAYE") scheme.

The cost of most awards granted under the DSA scheme is 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 income statement in the year to which the award relates.

The cost of LTIP, SMP and SAYE is based on the fair value of awards on the date of grant. Fair values for market based performance conditions are determined using a stochastic (Monte Carlo simulation) pricing model for LTIP and SMP and the Black-Scholes pricing model for other schemes. 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 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. Further information on the group's schemes is provided in note 25.

NOTES TO THE CONSOLIDATED ACCOUNTS

For the year ended 31 July 2018

1. Accounting policies *continued*

(u) 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.

(v) 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.

(w) 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.

(x) 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.

(y) 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 2018

1. **Accounting policies** *continued*

(z) 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 and estimates that are reasonable and prudent. The group's estimates and assumptions are based on historical experience and expectation of future events and are reviewed on an ongoing basis. The group's estimates and assumptions are based on historical experience and expectations of future events are reviewed in an ongoing basis.

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.

Revenue recognition

Interest income is recognised using the effective interest rate method, which applies a rate that discounts estimated future cash payments or receipts relating to a financial instrument to their net carrying amount. The estimated future cash flows take into account all contractual terms and expected behavioural life of the financial instrument including transaction fees and costs and all other premiums or discounts but not future credit losses. Other fees and commissions are recognised as services are provided or on completion of the execution of a significant act.

Judgement is required in determining the fees and costs which are integral to the yield and should be recognised as interest income, in the estimate of the expected behavioural life of financial assets, and in determining the period over which to recognise non-interest income.

Loan impairment provisions

Loan impairment provisions are made if there is objective evidence of impairment as a result of one or more subsequent events regarding a significant loan or a portfolio of loans. Determining whether such objective evidence has arisen requires judgement.

Key sources of estimation uncertainty

Loan impairment provisions

As at the balance sheet date, the directors consider that loan impairment provisions are a key source of estimation uncertainty which, depending on a range of factors such as changes in the economic environment in the UK, could result in a material adjustment to the carrying amounts of assets and liabilities in the next financial year.

Loan impairment provisions represent management's estimate of the losses incurred in the loan portfolios at the balance sheet date. Individual impairment losses are determined as the difference between the carrying value and the present value of estimated future cash flows, discounted at the loans' original effective interest rate. Impairment losses determined on a portfolio basis are calculated using a formulaic approach which allocates a loss rate dependent on the overdue period. Loss rates are based on the discounted expected future cash flows and are regularly benchmarked against actual outcomes to ensure they remain appropriate. Estimating the amount and timing of future recoveries involves significant judgement, and considers the level of arrears as well as the assessment of matters such as future economic conditions and the value of collateral. As at 31 July 2018, gross impaired loans were £131.0 million (31 July 2017: £135.8 million) against which a £39.1 million (31 July 2017: £52.4 million) provision was recorded. A 10% increase or decrease in expected future recoveries in respect of these impaired loans would decrease or increase provisions respectively by c£9.2 million (31 July 2017: £8.3 million).

NOTES TO THE CONSOLIDATED ACCOUNTS

For the year ended 31 July 2018

2. Segmental Analysis

The executive directors manage the group by class of business and we present the segmental analysis on that basis. The group's activities are presented in three operating segments:

- Retail Finance provides intermediated finance, principally to individuals, through motor dealers and insurance brokers
- Commercial Finance, which focuses on providing specialist, secured lending to the SME market
- Property Finance is primarily focused on providing specialist residential development finance to well established professional developers in the UK

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 2018				
Net interest income	196.1	161.1	130.0	487.2
Non-interest income	29.6	64.6	0.2	94.4
Operating income	225.7	225.7	130.2	581.6
Administrative expenses	(109.5)	(124.2)	(27.2)	(260.9)
Depreciation and amortisation	(9.7)	(8.0)	(3.9)	(21.6)
Impairment losses on loans and advances	(25.2)	(17.2)	(4.3)	(46.7)
Total operating expenses	(144.4)	(149.4)	(35.4)	(329.2)
Adjusted operating profit[1]	**81.3**	**76.3**	**94.8**	**252.4**
Amortisation of intangible assets on acquisition	(0.3)	(1.6)	-	(1.9)
Operating profit before tax from continuing operations	**81.0**	**74.7**	**94.8**	**250.5**
Operating loss before tax from discontinued operations	(3.0)	-	-	(3.0)
Operating profit before tax	**78.0**	**74.7**	**94.8**	**247.5**
External operating income	265.3	270.7	154.4	690.4
Inter segment operating expense	(39.6)	(45.0)	(24.2)	(108.8)
Segment operating income	225.7	225.7	130.2	581.6

[1] Adjusted operating profit is stated before amortisation of intangible assets on acquisition, loss on discontinued operations and tax.

	Retail £ million	Commercial £ million	Property £ million	Total £ million
Balance Sheet information at 31 July 2018				
Loan book and operating lease assets	2,686.4	2,982.4	1,827.5	7,496.3

NOTES TO THE CONSOLIDATED ACCOUNTS

For the year ended 31 July 2018

2. **Segmental Analysis** *continued*

	Retail £ million	Commercial £ million	Property £ million	Total £ million
Other segment information for the year ended 31 July 2018				
Employees (average number)[1]	1,079	1,046	146	2,271

[1] Banking 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 2017[1]				
Net interest income	194.0	148.7	121.1	463.8
Non-interest income	26.4	67.0	(0.2)	93.2
Operating income	220.4	215.7	120.9	557.0
Administrative expenses	(99.8)	(117.4)	(24.9)	(242.1)
Depreciation and amortisation	(11.0)	(7.8)	(3.8)	(22.6)
Impairment losses on loans and advances	(24.6)	(15.5)	1.1	(39.0)
Total operating expenses	(135.4)	(140.7)	(27.6)	(303.7)
Adjusted operating profit[2]	**85.0**	**75.0**	**93.3**	**253.3**
Amortisation of intangible assets on acquisition	(0.4)	(0.5)	-	(0.9)
Operating profit before tax from continuing operations	**84.6**	**74.5**	**93.3**	**252.4**
Operating loss before tax from discontinued operations	(3.9)	-	-	(3.9)
Operating profit before tax	**80.7**	**74.5**	**93.3**	**248.5**
External operating income	262.0	260.9	141.8	664.7
Inter segment operating expense	(41.6)	(45.2)	(20.9)	(107.7)
Segment operating income	220.4	215.7	120.9	557.0

[1] Restated see note 7
[2] Adjusted operating profit is stated before amortisation of intangible assets on acquisition, loss on discontinued operations and tax.

	Retail £ million	Commercial £ million	Property £ million	Total £ million
Balance Sheet information at 31 July 2017				
Loan book and operating lease assets	2,702.8	2,730.4	1,629.3	7,062.5

NOTES TO THE CONSOLIDATED ACCOUNTS

For the year ended 31 July 2018

2. Segmental Analysis *continued*

	Retail £ million	Commercial £ million	Property £ million	Total £ million
Other segment information for the year ended 31 July 2017				
Employees (average number)[1]	1,055	1,013	139	2,207

[1] Banking segments are inclusive of central function headcount allocation

3. Operating profit before tax

	2018 £ million	2017[1] £ million
Interest income		
Cash and balances at central banks	**4.0**	2.0
Loans and advances to customers	**594.4**	569.9
Income from group undertakings	**-**	5.9
Other interest income	**2.0**	1.8
	600.4	579.6
Interest expense		
Deposits by banks	**0.2**	0.4
Deposits by customers	**67.8**	69.7
Borrowings	**41.5**	41.0
Interest expense from group undertakings	**9.2**	11.3
Other interest expense[2]	**(5.5)**	(6.6)
	113.2	115.8
Net interest income	**487.2**	463.8

[1] Restated see note 7

[2] Includes (gains)/ losses on derivate financial instruments

	2018 £ million	2017[1] £ million
Fee and commission income	**87.8**	89.8
Fee and commission expense[2]	**(11.5)**	(14.0)
	76.3	75.8

[1] Restated see note 7

[2] Prior year fee and commission expense restated to exclude other direct costs of £12.3 million, which are now presented alongside depreciation of operating lease assets on the consolidated income statement.

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 £87.8 million (2017: £89.8 million) and £11.5 million (2017: £14.0 million) respectively.

NOTES TO THE CONSOLIDATED ACCOUNTS

For the year ended 31 July 2018

3. **Operating profit before tax** *continued*

	2018 £ million	2017 £ million
Other income		
Operating lease assets rental income	**56.3**	50.0
Other	**6.9**	4.7
	63.2	54.7

The profit on ordinary activities before taxation is stated after charging:

	2018 £ million	2017[1] £ million
Administrative expenses		
Staff costs:		
Wages and salaries	**136.9**	130.4
Social security costs	**20.8**	19.5
Share-based payments	**2.5**	2.5
Other pension costs	**6.0**	5.5
	166.2	157.9
Depreciation of property, plant and equipment	**6.3**	6.6
Amortisation of intangible assets	**15.3**	16.9
Other administrative expenses	**94.7**	83.3
Total administrative expenses	**282.5**	264.7

[1] Restated see note 7

4. **Information regarding directors**

Seven 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. Three directors are remunerated by the company under contracts of employment. It being impractical to allocate their remuneration distinguishing between their qualifying services and their employment services, the figures shown are in respect of their employment services.

Directors' fees were £nil (2017: nil) and directors' emoluments, excluding pension contributions, were £3,193,398 (2017: £7,103,096).

The highest paid director received emoluments of £1,425,000 (2017: £1,424,884), pension contributions of £nil (2017: £nil).

Contributions paid to money purchase pension schemes, of which no directors (2017: two) were members, amounted to £nil (2017: £15,762). No director (2017: nil) was a member of a defined benefits pension scheme, and the company paid £nil (2017: £nil) to the scheme on their behalf.

Two (2017: six) directors received £1,175,000 (2017: £1,215,000) under long-term incentive schemes operated by another group company. Two (2017: six) directors exercised options under a long-term incentive scheme; the gains from these exercises amounted to £271,123 (2017: £1,547,641).

NOTES TO THE CONSOLIDATED ACCOUNTS

For the year ended 31 July 2018

5. Information regarding the auditor

	2018 £ million	2017 £ million
Fees payable		
Audit of the company's annual accounts	**0.7**	0.7
Audit of the company's subsidiaries pursuant to legislation	**0.5**	0.1
Other services	-	0.3
	1.2	1.1

The auditor of the group was PricewaterhouseCoopers LLP (2017: Deloitte LLP).

6. Tax

	2018 £ million	2017[1] £ million
Tax charged/(credited) to the income statement		
Current tax:		
UK corporation tax	58.3	61.8
Foreign tax	**1.6**	2.1
Adjustments in respect of previous tax years	**(2.2)**	(0.4)
	57.7	63.5
Deferred tax:		
Deferred tax charge for the current year	**2.4**	1.5
Adjustments in respect of previous years	**1.7**	1.0
	4.1	2.5
Tax charge	**61.8**	66.0
Tax **on items not charged/(credited) to the income statement**		
Current tax relating to:		
Financial instruments classified as available for sale	-	0.2
Share-based payments	(0.2)	(0.5)
Deferred tax relating to:		
Cash flow hedging	**1.1**	1.2
Financial instruments classified as available for sale	**0.3**	-
Share-based payments	**(0.2)**	(0.3)
Currency translation losses	-	0.8
Other	-	2.9
	1.0	4.3
Reconciliation to tax expense		
UK **corporation tax for** the year at 19.0% (2017: 19.7%) on operating profit	**47.6**	49.6
Disallowable items and other permanent differences	**1.0**	1.2
Effect of different tax rates in other jurisdictions	**(0.2)**	(0.4)
Deferred tax impact of (increase)/decrease in UK corporation tax rate	**(0.2)**	1.6
Banking surcharge	**14.1**	13.4
Prior year tax provision	**(0.5)**	0.6
	61.8	66.0

[1] Restated see note 7

NOTES TO THE CONSOLIDATED ACCOUNTS

For the year ended 31 July 2018

6. **Tax** *continued*

The standard UK corporation tax rate for the financial year is 19.0% (2017: 19.7%). However, an additional 8% surcharge applies to banking company profits as defined in legislation. The effective tax rate of 24.6% (2017: 26.1%) is above the UK corporation tax rate primarily due to the surcharge applying to most of the group's profits.

Movements in deferred tax assets and liabilities were as follows:

	Capital allowance £ million	Share-based payments and deferred compensation £ million	Available for sale assets £ million	Cash flow hedging £ million	Intangible assets £ million	Other £ million	Total £ million
At 1 August 2016	43.7	3.9	-	2.3	-	1.3	51.2
(Charge)/credit to the income statement	(1.5)	(0.5)	-	-	0.1	(0.6)	(2.5)
Charge to other comprehensive income	(0.8)	-	-	(1.2)	-	-	(2.0)
Credit to equity	-	0.3	-	-	-	-	0.3
Acquisition	-	-	-	-	(2.9)	-	(2.9)
At 31 July 2017	41.4	3.7	-	1.1	(2.8)	0.7	44.1
(Charge)/credit to the income statement	(4.1)	(0.2)	-	-	0.3	(0.1)	(4.1)
Charge to other comprehensive income	-	-	(0.3)	(1.1)	-	-	(1.4)
Credit to equity	-	0.2	-	-	-	-	0.2
Acquisition	-	-	-	-	-	-	-
At 31 July 2018	37.3	3.7	(0.3)	(0.0)	(2.5)	0.6	38.8

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

NOTES TO THE CONSOLIDATED ACCOUNTS

For the year ended 31 July 2018

7. Discontinued operations and non-current assets held for sale

On 14 September 2018, the group announced the sale of Close Brothers Retail Finance, which provides unsecured retail point of sale finance to consumers, to Klarna Bank AB.

At the balance sheet date, the business fulfilled the requirements of IFRS 5 to be classified as "discontinued operations" in the consolidated income statement. Additionally, the assets that have not yet been sold are presented as "held for sale" in the 31 July 2018 consolidated balance sheet.

Results of discontinued operations

	2018 £ million	2017 £ million
Operating income	**6.6**	4.2
Operating expenses	**(7.2)**	(6.9)
Impairment losses on loans and advances	**(2.3)**	(1.2)
Operating (loss) before tax	**(2.9)**	(3.9)
Tax	**0.8**	1.1
Impairment of plant, property and equipment and intangible assets	(0.1)	-
Loss after tax	**(2.2)**	(2.8)

Assets and liabilities held for sale

The major classes of assets and liabilities classified as held for sale are as follows:

	2018 £ million
Balance Sheet	
Intangible assets	**0.9**
Loans and advances to customers	**66.2**
Other assets	**0.4**
Total assets classified as held for sale	**67.5**
Other liabilities	**0.6**
Total liabilities classified as held for sale	**0.6**

Cash flow from discontinued operations

	2018 £ million	2017 £ million
Net cash flow from operating activities	**(31.9)**	(14.4)
Net cash flow from investing activities	**(0.4)**	(0.3)
Net cash flow from financing activities	-	-

NOTES TO THE CONSOLIDATED ACCOUNTS

For the year ended 31 July 2018

8. Dividends

	2018 £ million	2017 £ million
For each ordinary share the company paid		
Interim dividend for current financial year paid in January 2018: 24p (2017: 20p)	**30.0**	25.0
Final dividend for current financial year paid in July 2018: £nil (2017: 12p)	**-**	15.0
Deemed distribution	**1.1**	5.9
	31.1	45.9

A final dividend relating to the year ended 31 July 2018 of 28p, amounting to an estimated £34.1 million, is proposed. This final dividend, which is due to be paid on 26 September 2018 to shareholders, is not reflected in these financial statements.

9. 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 2018	**59.7**	**0.5**	**9.2**	**2.5**	**2.5**	**74.4**
At 31 July 2017	27.6	8.8	1.7	8.7	8.8	55.6

10. 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	Impairment provisions £ million	Total £ million
At 31 July 2018	**77.3**	**2,135.8**	**2,301.1**	**1,324.3**	**1,402.3**	**95.8**	**(39.1)**	**7,297.5**
At 31 July 2017	59.3	1,914.3	2,115.2	1,340.7	1,431.6	76.0	(52.4)	6,884.7

NOTES TO THE CONSOLIDATED ACCOUNTS

For the year ended 31 July 2018

10. Loans and advances to customers *continued*

	2018 £ million	2017 £ million
Impairment provisions on loans and advances to customers		
At 1 August 2017	**52.4**	59.7
Charge for the year	**46.7**	40.2
Amounts written off net of recoveries	**(60.0)**	(47.5)
At 31 July 2018	**39.1**	52.4
Loans and advances to customers comprise		
Hire purchase agreement receivables	**2,852.4**	2,842.9
Finance lease receivables	**447.6**	418.9
Other loans and advances	**3,997.5**	3,622.9
At 31 July 2018	**7,297.5**	6,884.7

At 31 July 2018, gross impaired loans were £131.0 million (31 July 2017: £135.8 million) and equate to 1.8% (31 July 2017: 2.0%) of the gross loan book before impairment provisions. The majority of the group's lending is secured and therefore the gross impaired loans quoted do not reflect the expected loss.

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

	2018 £ million	2017 £ million
Gross investment in finance leases and hire purchase agreement receivables due:		
Within one year	**1,387.5**	1,356.1
Between one and five years	**2,372.1**	2,396.8
After more than five years	**66.0**	26.1
	3,825.6	3,779.0
Unearned finance income	**(513.3)**	(501.6)
	3,312.3	3,277.4
Present value of minimum lease and hire purchase agreement payments:		
Of which due:		
Within one year	**1,202.1**	1,174.2
Between one and five years	**2,058.1**	2,080.8
After more than five years	**52.1**	22.4
	3,312.3	3,277.4

The aggregate cost of assets acquired by the group for the purpose of letting under finance leases and hire purchase agreements was £5,978.8 million (2017: £5,738.6 million). The average effective interest rate on finance leases approximates to 9.6% (2017: 10.0%). 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 impaired provisions.

NOTES TO THE CONSOLIDATED ACCOUNTS

For the year ended 31 July 2018

11. Debt securities

	Available for sale £ million	Loans and receivables £ million	Total £ million
At 31 July 2018			
Certificates of deposit	-	250.5	250.5
Sovereign and central bank debt	44.5	-	44.5
	44.5	**250.5**	**295.0**
At 31 July 2017			
Certificates of deposit	-	180.3	180.3
Sovereign and central bank debt	43.6	-	43.6
	43.6	180.3	223.9

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

	Available for sale £ million
Sovereign and central bank debt	
At 1 August 2016	-
Additions	41.6
Currency translation differences	1.7
Other movements	0.1
Movement in fair value	0.2
At 31 July 2017	43.6
Additions	-
Currency translation differences	-
Other movements	0.2
Movement in fair value	0.7
At 31 July 2018	**44.5**

NOTES TO THE CONSOLIDATED ACCOUNTS

For the year ended 31 July 2018

12. 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:

	2018			2017		
	Notional £ million	**Assets £ million**	**Liabilities £ million**	Notional £ million	Assets £ million	Liabilities £ million
Exchange rate contracts	**100.5**	**0.1**	**0.7**	89.3	-	0.6
Interest rate contracts	**3,530.3**	**16.5**	**15.0**	3,660.3	26.9	10.8
	3,630.8	**16.6**	**15.7**	3,749.6	26.9	11.4

Notional amounts of interest rate contracts totalling £2,781.4 million (2017: £2,513.1 million) and exchange rate contracts totalling £nil (2017: £nil) have a residual maturity of more than one year.

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

	2018			2017		
	Notional £ million	**Assets £ million**	**Liabilities £ million**	Notional £ million	Assets £ million	Liabilities £ million
Cash flow hedges						
Interest rate contracts	**719.9**	**1.4**	**1.3**	781.7	0.5	4.7
Fair value hedges						
Interest rate contracts	**1,202.3**	**14.1**	**12.1**	1,225.1	24.6	4.1

The cash flow hedges relate to exposure to future interest payments or receipts on recognised financial instruments and on forecast transactions for periods of up to eight years (2017: seven); there was immaterial ineffectiveness. The cash flow hedge amounts that were removed from equity and included in the consolidated income statement for the year ended 31 July 2018 and 2017 were immaterial. The gain recognised in equity for cash flow hedges during the year was £3.3 million (2017: £3.5 million loss).

The fair value hedges seek to mitigate the interest rate risk in recognised financial instruments; the gain on the hedged item was £18.9 million (2017: £19.1 million) which was offset by a loss of £18.9 million (2017: £19.5 million loss) on the hedging instrument.

NOTES TO THE CONSOLIDATED ACCOUNTS

For the year ended 31 July 2018

13. Intangibles assets

	Goodwill £ million	Software £ million	Intangible assets on acquisition £ million	Total £ million
Cost				
At 1 August 2016	13.3	84.6	7.3	105.2
Additions	12.1	28.7	15.9	56.7
Disposals	-	(3.9)	-	(3.9)
At 31 July 2017	25.4	109.4	23.2	158.0
Additions	-	**35.3**	-	**35.3**
Disposals	-	**(7.1)**	-	**(7.1)**
At 31 July 2018	**25.4**	**137.6**	**23.2**	**186.2**
Accumulated amortisation				
At 1 August 2016	-	42.4	4.1	46.5
Charge for the year	-	16.0	0.9	16.9
Disposals	-	(0.4)	-	(0.4)
At 31 July 2017	-	58.0	5.0	63.0
Charge for the year	-	**15.3**	**1.9**	**17.2**
Disposals	-	**(4.4)**	-	**(4.4)**
At 31 July 2018	-	**68.9**	**6.9**	**75.8**
Net book value at 31 July 2018	**25.4**	**68.7**	**16.3**	**110.4**
Net book value at 31 July 2017	25.4	51.4	18.2	95.0
Net book value at 1 August 2016	13.3	42.2	3.2	58.7

Additions in goodwill in 2017 of £12.1 million and intangible assets on acquisition of £15.9 million relate to the 100% acquisition of Novitas Loans Limited ("Novitas"). Novitas is a specialist provider of secured finance to law firms and their clients. This acquisition is not regarded as material in the context of the group's financial statements and therefore information required for material acquisitions by IFRS 3 has not been disclosed.

NOTES TO THE CONSOLIDATED ACCOUNTS

For the year ended 31 July 2018

13. Intangibles assets *continued*

Impairment tests for goodwill
At 31 July 2018, goodwill has been allocated to seven individual cash generating units ("CGU") of which three are within the Commercial division, two within the Retail division and two within the Property division. 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 board approved budgets and three year plans to determine the recoverable amount of each CGU. 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% (2017: 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 table below.

At 31 July 2018, the results of the review indicate there is no goodwill impairment. The inputs used in the value in use calculations are sensitive, primarily to the impact of 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 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:

	2018		2017	
Cash generating unit	**Goodwill £ million**	**Pre-tax discount rate %**	Goodwill £ million	Pre-tax discount rate %
Asset Finance	**5.4**	**11.3**	5.4	12.3
Commercial Acceptances	**3.5**	**10.2**	3.5	11.1
Novitas	**12.1**	**10.2**	12.1	11.1
Other	**4.4**	**10.2-11.3**	4.4	11.1-12.3
	25.4		25.4	

NOTES TO THE CONSOLIDATED ACCOUNTS

For the year ended 31 July 2018

14. Property, plant and equipment

	Short leasehold property £ million	Fixtures, fittings and equipment £ million	Assets held under operating lease £ million	Motor vehicles £ million	Total £ million
Cost					
At 1 August 2016	12.1	25.0	201.4	0.4	238.9
Additions	0.4	4.4	56.2	-	61.0
Disposals	(0.7)	(0.3)	(26.8)	(0.1)	(27.9)
At 31 July 2017	11.8	29.1	230.8	0.3	272.0
Additions	**0.2**	**9.9**	**79.6**	**-**	**89.7**
Disposals	**(0.3)**	**(0.5)**	**(41.5)**	**(0.2)**	**(42.5)**
At 31 July 2018	**11.7**	**38.5**	**268.9**	**0.1**	**319.2**
Accumulated depreciation					
At 1 August 2016	3.5	15.0	41.6	0.3	60.4
Charge for the year	1.2	5.4	25.0	-	31.6
Disposals	(0.6)	(1.3)	(13.7)	(0.1)	(15.7)
At 31 July 2017	4.1	19.1	52.9	0.2	76.3
Charge for the year	**1.4**	**4.9**	**31.3**	**-**	**37.6**
Disposals	**(0.3)**	**(0.2)**	**(14.1)**	**(0.1)**	**(14.7)**
At 31 July 2018	**5.2**	**23.8**	**70.1**	**0.1**	**99.2**
Net book value at 31 July 2018	**6.5**	**14.7**	**198.8**	**-**	**220.0**
Net book value at 31 July 2017	7.7	10.0	177.9	0.1	195.7
Net book value at 1 August 2016	8.6	10.0	159.8	0.1	178.5

The gain from the sale of assets held under operating leases for the year ended 31 July 2018 was £0.1 million (2017: £0.1 million loss). Other direct costs in respect of operating lease assets amounted to £13.8 million (2017: £12.3 million).

	2018 £ million	2017 £ million
Future minimum lease rentals receivable under non-cancellable operating leases		
Within one year	**38.0**	37.6
Between one and five years	**58.3**	80.6
After more than five years	**0.8**	0.9
	97.1	119.1

NOTES TO THE CONSOLIDATED ACCOUNTS

For the year ended 31 July 2018

15. Other assets and liabilities

	2018 £ million	2017 £ million
Prepayments, accrued income and other assets		
Prepayments and accrued income	**119.0**	103.9
Trade and other receivables	**15.2**	14.6
Amounts owed by parent undertaking	**0.7**	-
	134.9	118.5
Accruals, deferred income and other liabilities		
Accruals and deferred income	**87.0**	83.0
Trade and other payables	**42.9**	41.5
Provisions	**8.9**	9.2
	138.8	133.7

Provisions movements in the year:

	Property £ million	Other £ million	Total £ million
Movements during the year:			
At 1 August 2016	3.6	1.7	5.3
Additions	0.2	4.6	4.8
Utilised	(0.2)	(0.5)	(0.7)
Released	-	(0.2)	(0.2)
At 31 July 2017	3.6	5.6	9.2
Additions	**0.4**	**0.4**	**0.8**
Utilised	-	**(0.3)**	**(0.3)**
Released	**(0.1)**	**(0.7)**	**(0.8)**
At 31 July 2018	**3.9**	**5.0**	**8.9**

Claims and other items for which provisions are made arise in the normal course of business and include those related to employee benefits. The timing and outcome of these claims and other items are uncertain. Property provisions are in respect of leaseholds where rents payable exceed the value to the group, potential dilapidations and onerous leases. These property provisions will be utilised and released over the remaining lives of the leases which range from one to nine years.

NOTES TO THE CONSOLIDATED ACCOUNTS

For the year ended 31 July 2018

16. 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 2018							
Deposits by banks	**7.9**	**16.1**	**31.2**	**-**	**-**	**-**	**55.2**
Deposits by customers	**86.5**	**1,275.0**	**2,570.6**	**1,142.6**	**422.5**	**-**	**5,497.2**
Bank loans and overdrafts	**3.5**	**0.2**	**-**	**-**	**495.0**	**-**	**498.7**
Debt securities in issue	**0.3**	**21.3**	**561.3**	**190.3**	**462.0**	**288.2**	**1,523.4**
	98.2	**1,312.6**	**3,163.1**	**1,332.9**	**1,379.5**	**288.2**	**7,574.5**

	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 2017							
Deposits by banks	18.4	15.4	37.5	0.7	-	-	72.0
Deposits by customers	123.4	956.6	2,528.2	991.3	513.6	-	5,113.1
Bank loans and overdrafts	10.7	69.9	-	20.5	223.2	-	324.3
Debt securities in issue	13.6	22.8	108.4	516.0	540.9	287.9	1,489.6
	166.1	1,064.7	2,674.1	1,528.5	1,277.7	287.9	6,999.0

As discussed in note 22(c) the group has accessed £495.0 million (2017: £224.4 million) cash under the Bank of England's Term Funding Scheme and £nil (2017: £197.5 million) UK Treasury Bills under the Funding for Lending Scheme. At 31 July 2017, £100.0 million of the £197.5 million UK Treasury Bills drawn under the Funding for Lending Scheme were lent in exchange for cash. The UK Treasury Bills were not recorded on the group's consolidated balance sheet as ownership remains with the Bank of England. Cash from the Term Funding Scheme and repurchase agreements is included within bank loans and overdrafts. Residual maturities of the Term Funding Scheme 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 2018	**-**	**0.2**	**-**	**-**	**495.0**	**-**	**495.2**
31 July 2017	1.2	69.9	-	20.5	223.2	-	314.8

NOTES TO THE CONSOLIDATED ACCOUNTS

For the year ended 31 July 2018

17. Amounts due to group undertakings

	2018 £ million	2017 £ million
Amounts due to ultimate parent undertaking	**317.1**	111.1

18. Subordinated loan capital

	Prepayment date at company's option	Initial interest rate (%)	2018 £million	2017 £million
Final maturity date				
2026	2021	7.42	**15.5**	15.5
2026	2021	7.62	**30.9**	30.9
2027	2022	4.25	**171.5**	174.3
			217.9	220.7

NOTES TO THE CONSOLIDATED ACCOUNTS

For the year ended 31 July 2018

19. Share-based awards

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

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

	2018	2017
SAYE	1,434.4p	1,477.1p
LTIP	1,446.4p	1,387.7p
DSA	1,469.2p	1,412.3p
SMP	1,448.4p	1,392.6p

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

	Options outstanding 2018		Options outstanding 2017	
Exercise price range	**Number outstanding**	**Weighted average remaining contractual life (years)**	Number outstanding	Weighted average remaining contractual life (years)
SAYE				
Between £6 and £7	-	-	10,264	0.8
Between £9 and £10	**17,167**	**0.8**	23,611	1.8
Between £11 and £12	**486,634**	**1.9**	406,011	2.2
Between £12 and £13	**100,818**	**3.0**	119,864	3.5
LTIP				
Nil	**508,171**	**1.5**	572,589	2.2
DSA[1]				
Nil	**493,048**	**0.8**	423,151	1.8
SMP				
Nil	**145,318**	**2.2**	256,514	2.0
Total	**1,751,156**	**1.5**	1,812,004	2.2

NOTES TO THE CONSOLIDATED ACCOUNTS

For the year ended 31 July 2018

19. Share-based awards *continued*

Following a review of the Remuneration Policy ("Policy") last year, a new Policy was approved by shareholders at the Annual General Meeting in November 2017. Under this new Policy, DSA and LTIP were updated and SMP was discontinued while SAYE remained unchanged. The following summary information relates to the current Policy only. Please refer to CBG's Annual Report 2018 for full details of the schemes.

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 vested shares over the period of deferral.

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 vested shares during the period from the beginning of the performance period to the time that the participant calls for the award.

SMP was discontinued following shareholder approval. SMP awards made in previous years will vest in accordance with the terms in the previous Policy. Under this legacy scheme, participants could choose to invest up to a maximum value of 100% of base salary from their bonus into Close Brothers Group plc shares ("Invested Shares") for three years. Invested Shares, released in full on vesting, are matched with free shares ("Matching Shares"), which are subject to performance conditions. On vesting, participants receive an amount in cash equal to the dividends which would have been paid on vested shares during the period from the beginning of the performance period to the time that the participant calls for the award.

NOTES TO THE CONSOLIDATED ACCOUNTS

For the year ended 31 July 2018

20. Contingent liabilities, guarantees and commitments

Contingent liabilities

Financial Services Compensation Scheme ("FSCS")

The group, by virtue of being a regulated deposit taker, contributes to the FSCS which provides compensation to customers of financial institutions in the event that an institution is unable, or is likely to be unable, to pay claims against it.

Compensation has previously been paid out by the FSCS funded by loan facilities provided by HM Treasury to FSCS in support of the FSCS's obligations to the depositors of banks declared in default. The facilities are expected to be repaid wholly from recoveries from the failed deposit-takers. In the event of a shortfall, the FSCS will recover the shortfall by raising levies on the industry. The amount of future levies payable by the group depends on a number of factors including the potential recoveries of assets by the FSCS, the group's participation in the deposit-taking market at 31 December, the level of protected deposits and the population of FSCS members.

Guarantees

	2018 £ million	2017 £ million
Guarantees and irrevocable letters of credit	**3.1**	7.8

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 financial statements as contingent liabilities.

Commitments

Undrawn facilities, credit lines, other commitments to lend

	2018 £ million	2017 £ million
Within one year	**1,091.7**	1,088.9
After more than one year	**135.7**	102.7
Total commitments	**1,227.4**	1,191.6

Operating lease commitments

Minimum operating lease payments recognised in the consolidated income statement amounted to £5.1 million (2017 £4.8 million).

The group had outstanding commitments for future minimum lease rentals payable under non-cancellable operating leases, which fall due as follows:

	2018		2017	
	Premises £ million	**Other** £ million	Premises £ million	Other £ million
Within one year	**8.7**	**2.5**	8.0	2.5
Between one and five years	**23.0**	**3.8**	23.8	4.2
More than five years	**6.6**	**-**	9.7	-
Total commitments	**38.3**	**6.3**	41.5	6.7

Other commitments

The group had contracted capital commitments relating to capital expenditure of £12.1 million (2017: £17.7 million)

NOTES TO THE CONSOLIDATED ACCOUNTS

For the year ended 31 July 2018

21. Capital

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 a solo consolidated basis as permitted under CRR article 9. The solo 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 plc's Pillar 3 disclosures available on the group's website www.closebrothers.com/investor-relations/investor-information/results-reports-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 below. 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 Capital Requirements Directive buffers at all times. As a result, the group maintains capital adequacy ratios above minimum regulatory requirements. The group's individual regulated entities and the group complied with all of the externally imposed capital requirements to which they are subject for the years ended 31 July 2018 and 2017.

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. All RWAs and capital ratios shown are unaudited.

At 31 July 2018, the group's common equity tier 1 capital ratio remained broadly stable at 12.0% (31 July 2017: 11.9%).

Common equity tier 1 capital increased to £968.5 million (31 July 2017: £888.2 million) primarily due to retained profit.

Risk weighted assets, calculated using standardised approaches, increased to £8,070.9 million (31 July 2017: £7,490.8 million) as a result of growth in credit and counterparty risk associated with the loan book. Notional risk weighted assets for operational risk also increased reflecting increased revenues and loan book growth over recent years.

NOTES TO THE CONSOLIDATED ACCOUNTS

For the year ended 31 July 2018

21. Capital *continued*

The RWAs and capital ratios above are unaudited as noted in the following table.

	2018 £ million	2017 £ million
CET1 capital		
Called up share capital	**122.5**	122.5
Retained earnings	**988.2**	833.0
Other reserves recognised for CET1 capital	**(1.8)**	(2.5)
Deductions from CET1 capital		
Foreseeable dividend[1]	**(34.1)**	-
Intangible assets, net of associated deferred tax liabilities	**(106.2)**	(64.7)
Prudent valuation adjustment	**(0.1)**	(0.1)
CET1 capital	**968.5**	888.2
Tier 2 capital - Subordinated debt[2]	**205.0**	212.5
Total regulatory capital	**1,173.5**	1,100.7
RWAs (notional) - unaudited		
Credit and counterparty risk	**7,584.0**	7,044.6
Operational risk[3]	**466.9**	437.7
Market risk[3]	**20.0**	8.5
	8,070.9	7,490.8
CET1 capital ratio (unaudited)	**12.0%**	11.9%
Total capital ratio (unaudited)	**14.5%**	14.7%

[1] Under the Regulatory Technical Standard on own funds, a deduction has been recognised at 31 July 2018 for a foreseeable dividend being the proposed final dividend as set out in note 8.
[2] Shown after applying the Capital Requirements Regulation's transitional and qualifying own funds arrangements.
[3] Operational and market risk include a notional adjustment at 8% in order to determine notional risk weighted assets.

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

	2018 £ million	2017 £ million
Equity	**1,116.6**	954.4
Difference in equity under regulatory solo consolidation basis	**(8.3)**	(4.5)
Regulatory deductions from equity:		
Foreseeable dividend[1]	**(34.1)**	-
Intangible assets, net of associated deferred tax liabilities	**(106.2)**	(64.7)
Prudent valuation adjustment	**(0.1)**	(0.1)
Other reserves not recognised for CET1 capital:		
Cash flow hedging reserve	**(0.1)**	3.1
Non-controlling interests	**0.7**	-
CET1 capital	**968.5**	888.2

[1] Under the Regulatory Technical Standard on own funds, a deduction has been recognised at 31 July 2018 for a foreseeable dividend being the proposed final dividend as set out in note 8.

NOTES TO THE CONSOLIDATED ACCOUNTS

For the year ended 31 July 2018

22. Financial risk management

As a financial services group, financial instruments are central to the group's activities. The risks associated with financial instruments represent a significant component of the risks faced by the group and are 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 IAS 39.

	Held for trading £ million	Available for sale £ million	Loans and receivables £ million	Held at amortised cost £ million	Derivatives held for hedging £ million	Total £ million
At 31 July 2018						
Assets						
Cash and balances at central banks	-	-	1,140.4	-	-	1,140.4
Loans and advances to banks	-	-	74.4	-	-	74.4
Loans and advances to customers	-	-	7,297.5	-	-	7,297.5
Debt securities	-	44.5	250.5	-	-	295.0
Derivative financial instruments	1.1	-	-	-	15.5	16.6
Other financial assets	-	-	11.2	-	-	11.2
	1.1	44.5	8,774.0	-	15.5	8,835.1
Liabilities						
Deposits by banks	-	-	-	55.2	-	55.2
Deposits by customers	-	-	-	5,497.2	-	5,497.2
Loans and overdrafts from banks	-	-	-	498.7	-	498.7
Debt securities in issue	-	-	-	1,523.4	-	1,523.4
Derivative financial instruments	2.3	-	-	-	13.4	15.7
Amounts due to group undertakings	-	-	-	317.1	-	317.1
Subordinated loan capital	-	-	-	217.9	-	217.9
Other financial liabilities	-	-	-	67.4	-	67.4
	2.3	-	-	8,176.9	13.4	8,192.6

NOTES TO THE CONSOLIDATED ACCOUNTS

For the year ended 31 July 2018

22. Financial risk management *continued*

(a) Classification *continued*

	Held for trading £ million	Available for sale £ million	Loans and receivables £ million	Held at amortised cost £ million	Derivatives held for hedging £ million	Total £ million
At 31 July 2017						
Assets						
Cash and balances at central banks	-	-	805.1	-	-	805.1
Loans and advances to banks	-	-	55.6	-	-	55.6
Loans and advances to customers	-	-	6,884.7	-	-	6,884.7
Debt securities	-	43.6	180.3	-	-	223.9
Derivative financial instruments	1.8	-	-	-	25.1	26.9
Other financial assets	-	-	13.7	-	-	13.7
	1.8	43.6	7,939.4	-	25.1	8,009.9
Liabilities						
Deposits by banks	-	-	-	72.0	-	72.0
Deposits by customers	-	-	-	5,113.1	-	5,113.1
Loans and overdrafts from banks	-	-	-	324.3	-	324.3
Debt securities in issue	-	-	-	1,489.6	-	1,489.6
Derivative financial instruments	2.6	-	-	-	8.8	11.4
Amounts due to group undertakings	-	-	-	111.1	-	111.1
Subordinated loan capital	-	-	-	220.7	-	220.7
Other financial liabilities	-	-	-	77.4	-	77.4
	2.6	-	-	7,408.2	8.8	7,419.6

(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:

	2018		2017	
	Fair Value £ million	**Carrying Value £ million**	Fair Value £ million	Carrying Value £ million
Subordinated loan capital	**233.7**	**217.9**	242.0	220.7
Debt securities in issue	**1,544.6**	**1,523.4**	1,522.8	1,489.6

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

NOTES TO THE CONSOLIDATED ACCOUNTS

For the year ended 31 July 2018

22. Financial risk management *continued*

(b) **Valuation** *continued*

• 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").

Investments classified as Level 1 predominantly comprise sovereign and central bank debt and liquid listed equity shares.

Investments classified as Level 2 predominantly comprise less liquid listed equity shares, investment grade corporate bonds and over-the-counter derivatives.

Investments classified as Level 3 comprise contingent consideration payable in relation to the acquisitions of subsidiaries.

The valuation 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 transfers between Level 1, 2 and 3 in 2018 and 2017.

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

	Level 1 £ million	**Level 2 £ million**	**Level 3 £ million**	**Total £ million**
At 31 July 2018				
Assets				
Sovereign and central bank debt classified as available for sale	**44.5**	**-**	**-**	**44.5**
Derivative financial instruments	**-**	**16.6**	**-**	**16.6**
	44.5	**16.6**	**-**	**61.1**
Liabilities				
Derivative financial instruments	**-**	**15.7**	**-**	**15.7**
Contingent consideration		**-**	**1.2**	**1.2**
	-	**15.7**	**1.2**	**16.9**

	Level 1 £ million	Level 2 £ million	Level 3 £ million	Total £ million
At 31 July 2017				
Assets				
Sovereign and central bank debt classified as available for sale	43.6	-	-	43.6
Derivative financial instruments	-	26.9	-	26.9
	43.6	26.9	-	70.5
Liabilities				
Derivative financial instruments	-	11.4	-	11.4
Contingent consideration		-	1.8	1.8
	-	11.4	1.8	13.2

NOTES TO THE CONSOLIDATED ACCOUNTS

For the year ended 31 July 2018

22. Financial risk management *continued*

(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.

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 and are generally short term in nature with low average loan size. This ensures concentration risk is controlled in both the loan book and associated collateral.

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 high 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.

	2018 £ million	2017 £ million
On balance sheet		
Cash and balances at central banks	**1,140.4**	805.1
Loans and advances to banks	**74.4**	55.6
Loans and advances to customers	**7,297.5**	6,884.7
Financial instruments classified as available for sale	**44.5**	43.6
Certificates of deposit classified as loans and receivables	**250.5**	180.3
Derivative financial instruments	**16.6**	26.9
	8,823.9	7,996.2
Off balance sheet		
Undrawn commitments[1]	**291.0**	197.8
Guarantees	**3.1**	7.8
Total maximum exposure to credit risk	**9,118.0**	8,201.8

[1] Prior year figures restated to reflect irrevocable commitments only

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.

At 31 July 2018, the group was a participant of the Bank of England's Term Funding Scheme. Under this scheme, asset finance loan receivables of £773.8 million (31 July 2017: £525.1 million) were positioned as collateral with the Bank of England, against which £495.0 million of cash (31 July 2017: £224.4 million) 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 Bank of England's Funding for Lending Scheme was closed for new drawings on 31 January 2018 and the group no longer had any drawings from the scheme at 31 July 2018. UK Treasury Bills drawn under the scheme of £197.5 million at 31 July 2017 were fully repaid during the year.

NOTES TO THE CONSOLIDATED ACCOUNTS

For the year ended 31 July 2018

22. Financial risk management *continued*

(c) Credit risk *continued*
The group has securitised without recourse and restrictions £1,499.3 million (31 July 2017: £1,486.3 million) of its insurance premium and motor loan receivables in return for cash and asset-backed securities in issue of £983.3 million (31 July 2017: £1,046.9 million). This includes £118.1 million (31 July 2017: £157.3 million) asset-backed securities in issue retained for liquidity purposes. As the group has retained exposure to substantially all the credit risks 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. The security will correspond to the type of lending as detailed in the segmental loan book analysis on page 4 of the Strategic Report. Consistent and prudent lending criteria are applied across the whole loan book with emphasis on the quality of the security provided.

Loans and advances to customers
Credit risk management and monitoring
The 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. All large loans are subject to approval by those credit committees. The Retail, Commercial and Property divisions each use credit underwriting and monitoring measures appropriate to the diverse and specialised nature of their lending.

The group has a dual approach to mitigating credit risk by:

• Lending on a 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 both analytically and in terms of escalation of sanctioning authority where the security collateralising a loan is less tangible, or in cases of higher loan to valuation ("LTV").

Collections and recoveries processes are designed to provide a fair, consistent and effective operation for arrears management. We seek to engage in early communication with borrowers experiencing difficulty in meeting their repayments, to obtain their commitment to maintaining or re-establishing a regular payment plan.

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 customers' circumstances.

The group maintains a forbearance policy 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 is still effective.

The group offers a range of assistance to support customers which vary depending on the product and the customer's status. Such concessions could involve changing the terms and conditions of a loan. The primary forbearance types granted are agreement to terms outside of policy (for example high loan to value) and rescheduling of arrears which may incorporate an extension of loan tenor. Other forms of forbearance (for example, grace periods; covenant waivers; rate concessions) would also be considered. The extent and type of forbearance granted reflects the predominantly secured nature of the portfolio.

Loans are classified as forborne at the time a customer in financial difficulty is granted a concession. Where forbearance has been granted, the customer will remain treated and recorded as forborne until the following exit conditions are met:

1. When all due payments, as per the amended contractual terms, have been made in a timely manner over a continuous repayment period (loan is considered as performing);
2. A minimum two-year probation period has passed from the date the forborne exposure was considered as performing; and
3. None of the customer's exposures with the group are more than 30 days past due at the end of the probation period.

NOTES TO THE CONSOLIDATED ACCOUNTS

For the year ended 31 July 2018

22. Financial risk management *continued*

(c) Credit risk *continued*

Analysis of forborne accounts is shown in the table below.

	Gross loans and advances to customers £ million	Gross value of forborne loans £ million	Forborne loans as a percentage of gross loans and advances to customers %	Provision on forborne loans £ million
31 July 2018	**7,336.6**	**148.6**	**2.0%**	**8.5**
31 July 2017	6,937.1	120.4	1.7%	23.6

Divisional credit risk

Retail Finance is predominantly high volume secured lending with a small average loan size. Credit issues are identified early via largely automated tracking processes. Remedial actions are implemented promptly to restore customers to a performing status or recovery methods are applied to minimise potential loss.

Commercial Finance is a combination of several specialist secured niche lending businesses with a diverse mix of loans in terms of assets financed, average loan size and LTV percentage. Credit quality is predominately assessed on an individual loan by loan basis. 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.

Property Finance is a portfolio of higher value, low volume lending with credit quality assessed on an individual loan by loan basis. Loans are continually monitored to determine whether they are performing satisfactorily.

In Property and Commercial Finance performing loans with elevated levels of credit risk may be placed on watch lists depending on the perceived severity of the credit risk.

Much of the group's lending is short term and the average loan size is small with the result that individual loans have little capacity to materially impact the group's earnings.

Credit risk reporting

Loans and advances to customers, as disclosed in note 10, are analysed between the following categories for credit risk reporting:

(i) Neither past due nor impaired

These loans and advances to customers reflect the application of consistent and conservative lending criteria on inception, and the quality and level of security held. The contractual repayments are monitored to ensure that classification as neither past due nor impaired remains appropriate and also demonstrates the short term nature of the lending, with £4,231.6 million (2017: £3,827.6 million) having a contractual maturity of less than 12 months.

NOTES TO THE CONSOLIDATED ACCOUNTS

For the year ended 31 July 2018

22. Financial risk management *continued*

(c) Credit risk *continued*

(i) Neither past due nor impaired *continued*

The following table shows the ageing based on contractual maturity of loans and advances to customers split by credit assessment method which are neither past due nor impaired:

	2018			2017		
	Loans and advances to customers			Loans and advances to customers		
	Individually assessed £ million	Collectively assessed £ million	Total £ million	Individually assessed £ million	Collectively assessed £ million	Total £ million
Within one month	**725.2**	**393.4**	**1,118.6**	601.4	362.0	963.4
Between one and three months	**426.5**	**452.8**	**879.3**	363.5	440.2	803.7
Between three months and one year	**1,177.5**	**1,056.2**	**2,233.7**	968.9	1,091.6	2,060.5
Over one year	**1,003.6**	**1,710.7**	**2,714.3**	943.3	1,786.3	2,729.6
	3,332.8	**3,613.1**	**6,945.9**	2,877.1	3,680.1	6,557.2

(ii) Past due but not impaired

Loans and advances to customers are classified as past due but not impaired when the customer has failed to make a payment when contractually due but there is no evidence of impairment. This includes loans which are individually assessed for impairment but where the value of security is sufficient to meet the required repayments. This also includes loans to customers which are past due for technical reasons such as delays in payment processing or rescheduling of payment terms.

The following table shows the ageing based on the period loans and advances to customers have been past due, split by credit assessment method, but for which no impairment provision has been raised:

	2018			2017[1]		
	Loans and advances to customers			Loans and advances to customers		
	Individually assessed £ million	Collectively assessed £ million	Total £ million	Individually assessed £ million	Collectively assessed £ million	Total £ million
Within one month	**98.3**	**83.5**	**181.8**	93.5	72.7	166.2
Between one and three months	**46.1**	**3.4**	**49.5**	39.0	1.6	40.6
Between three months and one year	**18.3**	**0.7**	**19.0**	22.8	0.7	23.5
Over one year	**9.4**	**-**	**9.4**	13.7	0.1	13.8
	172.1	**87.6**	**259.7**	169.0	75.1	244.1

[1] Prior year figures restated

(iii) Impaired

The factors considered in determining whether assets are impaired are outlined in the accounting policies in note 1. Impaired loans and advances to customers are analysed according to whether the impairment provisions are individually or collectively assessed.

Individually assessed provisions are determined on a case by case basis, taking into account the financial condition of the customer and an estimate of potential recovery from the realisation of security. Typically this methodology is applied by the Property Finance business and by the Invoice Finance business within Commercial Finance.

NOTES TO THE CONSOLIDATED ACCOUNTS

For the year ended 31 July 2018

22. Financial risk management *continued*

(c) Credit risk *continued*

(iii) Impaired *continued*

Collectively assessed provisions are considered on a portfolio basis, to reflect the homogeneous nature of the assets. A percentage of the portfolio is impaired by evaluating the ageing of missed payments combined with the historical recovery rates for that particular portfolio. Typically this methodology is applied by the Retail Finance businesses and the Asset Finance businesses within Commercial Finance.

The gross impaired loans are quoted without taking account of any collateral or security held which could reduce the potential loss. The application of conservative LTV ratios on inception and the emphasis on the quality of the security provided are reflected in the low provision to gross impaired balance ratio ("coverage ratio") of 30% (2017: 39%).

The following table shows gross impaired loans and advances to customers and the provision thereon split by assessment method:

	2018			2017		
	Loans and advances to customers			Loans and advances to customers		
	Individually assessed £ million	**Collectively assessed £ million**	**Total £ million**	Individually assessed £ million	Collectively assessed £ million	Total £ million
Gross impaired loans	**59.4**	**71.6**	**131.0**	62.9	72.9	135.8
Provisions	**(17.1)**	**(22.0)**	**(39.1)**	(30.5)	(21.9)	(52.4)
Net impaired loans	**42.3**	**49.6**	**91.9**	32.4	51.0	83.4

The amount of interest income accrued on impaired loans and advances to customers was £8.2 million (2017: £12.9 million).

The group holds collateral against loans and advances to customers in the form of residential and commercial property and charges over business assets such as equipment, inventory and accounts receivable. Analysis by LTV ratio is provided below based on the group's lending facilities to customers where the exposure at origination exceeded £1.0 million, excluding Property Finance facilities written pre 2009. Lending below this threshold has greater homogeneity predominately in the Motor and Premium Finance businesses with typical LTV ratios between 80% to 90%. 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.

Gross loans and advances to customers where exposure at origination exceeded £1.0 million:

	Retail £ million	**Commercial £ million**	**Property £ million**	**Total £ million**
LTV				
Less than 70%	**-**	**237.3**	**1,529.1**	**1,766.4**
70% to 90%	**7.5**	**514.5**	**13.1**	**535.1**
Greater than 90%	**17.2**	**201.2**	**-**	**218.4**
At 31 July 2018	**24.7**	**953.0**	**1,542.2**	**2,519.9**
LTV				
Less than 70%	-	212.1	1,331.3	1,543.4
70% to 90%	4.6	352.0	9.1	365.7
Greater than 90%	16.3	138.6	-	154.9
At 31 July 2017	20.9	702.7	1,340.4	2,064.0

NOTES TO THE CONSOLIDATED ACCOUNTS

For the year ended 31 July 2018

22. Financial risk management *continued*

(d) Market risk

Market risk is the risk that a change in the value of an underlying market variable such as interest or foreign exchange rates will give rise to an adverse movement in the value of the group's assets.

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 12.

The Asset and Liability Committee 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 loans; and
- basis risk – occurs where there is a mismatch in the interest rate reference rate for assets and liabilities.

The table below sets out the assessed impact on our base case earnings at risk ("EaR") due to a parallel shift in interest rates at 31 July 2018:

	2018 £ million	2017 £ million
0.5% increase	**(4.9)**	(8.7)
0.5% decrease	**5.8**	6.2

The table below sets out the assessed impact on our base case economic value of equity ("EVE") due to a shift in interest rates at 31 July 2018:

	2018 £ million	2017 £ million
0.5% increase	**0.8**	0.2
0.5% decrease	**(0.8)**	(0.1)

NOTES TO THE CONSOLIDATED ACCOUNTS

For the year ended 31 July 2018

22. Financial risk management *continued*

(d) Market risk *continued*

Foreign currency risk

The group has limited exposure to foreign currency risk which derives from equity balances of its overseas operations, which are not hedged. These balances are predominantly in euros. Foreign exchange differences which arise from the translation of these operations are recognised directly in equity.

A change in the euro exchange rate would decrease the group's equity by the following amounts:

	2018 **£ million**	2017 £ million
20% strengthening of sterling against the euro	**(2.6)**	(2.5)

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 12. 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 11.

NOTES TO THE CONSOLIDATED ACCOUNTS

For the year ended 31 July 2018

22. 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 2018 of £9.3 billion (2017: £8.4 billion). This funding is significantly in excess of its loans and advances to customers at 31 July 2018 of £7.3 billion (2017: £6.9 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 details the contractual maturities of the group's on balance sheet financial liabilities on an undiscounted cash flow basis:

	On demand	Less than three months	More than three months but not more than six months	More than six months but not more than one year	More than one year but not more than five years	More than five years	Total
	£ million	£ million	£ million	£ million	£ million	£ million	£ million
At 31 July 2018							
Financial liabilities							
Deposits by banks	**8.0**	**16.1**	**28.9**	**2.2**	**-**	**-**	**55.2**
Deposits by customers	**81.3**	**1,279.7**	**914.6**	**1,686.5**	**1,610.4**	**-**	**5,572.5**
Loans and overdrafts from banks	**3.5**	**0.6**	**0.6**	**1.2**	**500.1**	**-**	**506.0**
Debt securities in issue	**-**	**26.1**	**86.1**	**496.2**	**712.5**	**317.0**	**1,637.9**
Derivative financial instruments	**0.3**	**4.7**	**3.4**	**7.8**	**50.2**	**14.9**	**81.3**
Subordinated loan capital	**-**	**1.7**	**3.7**	**5.4**	**44.5**	**255.1**	**310.4**
Other financial liabilities	**11.0**	**50.2**	**2.3**	**0.9**	**3.0**	**-**	**67.4**
Total	**104.1**	**1,379.1**	**1,039.6**	**2,200.2**	**2,920.7**	**587.0**	**8,230.7**
At 31 July 2017							
Financial liabilities							
Deposits by banks	18.5	15.4	30.0	7.6	0.7	-	72.2
Deposits by customers	117.5	961.4	923.3	1,634.6	1,550.1	-	5,186.9
Loans and overdrafts from banks	10.7	70.1	0.1	21.0	224.6	-	326.5
Debt securities in issue	-	26.7	28.0	102.3	1,133.9	324.8	1,615.7
Derivative financial instruments	0.1	5.1	2.7	6.4	44.7	19.8	78.8
Subordinated loan capital	-	1.7	3.7	5.4	36.2	274.2	321.2
Other financial liabilities	12.5	60.0	1.1	1.2	2.6	-	77.4
Total	159.3	1,140.4	988.9	1,778.5	2,992.8	618.8	7,678.7

NOTES TO THE CONSOLIDATED ACCOUNTS

For the year ended 31 July 2018

22. Financial risk management *continued*

(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	**Master netting arrangements**	**Financial Collateral**	**Net amounts after offsetting under IFRS 7**
	£ million	**£ million**	**£ million**	**£ million**
At 31 July 2018				
Derivative financial assets	**16.6**	**(8.3)**	**(7.7)**	**0.6**
Derivative financial liabilities	**15.7**	**(8.3)**	**(7.2)**	**0.2**

	Gross amounts recognised	Master netting arrangements	Financial Collateral	Net amounts after offsetting under IFRS 7
	£ million	£ million	£ million	£ million
At 31 July 2017				
Derivative financial assets	26.9	(7.8)	(18.4)	0.7
Derivative financial liabilities	11.4	(7.8)	(1.9)	1.7

NOTES TO THE CONSOLIDATED ACCOUNTS

For the year ended 31 July 2018

23. Pensions

CBG 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. Assets of all schemes are held separately from those of CBG.

Defined contribution scheme
During the year the charge to the consolidated income statement for the group's defined contribution pension schemes was £6.0 million (2017 restated: £5.5 million) representing contributions payable by the group and is included in administrative expenses. Company contributions to the scheme totalled £4.9 million (2017: £4.6 million) during the year.

Defined benefit 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 2018 this scheme had 41 (2017: 47) deferred members and 46 (2017: 45) pensioners and dependants.

24. Related party transactions

Transactions with directors
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.

Key management have banking and asset management relationships with the company which are entered into in the normal course of business. Amounts included in deposits by customers at 31 July 2018 attributable, in aggregate, to key management were £0.2 million (2017: £0.1 million). A member of key management has a holding of 500,000 of the CBG's 4.25% subordinated loan notes.

At 31 July 2018, amounts due to group undertakings of £317.1 million (2017: £111.1 million) largely related to the group providing banking services to the parent undertaking in its normal capacity as a deposit taker.

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 2018

26. Consolidated cash flow statement reconciliation

	2018 £ million	2017 £ million
(a) Reconciliation of operating profit before tax to net cash inflow from operating activities		
Operating profit before tax from continuing operations[1]	**250.5**	252.4
Loss before tax on discontinued operations	**(3.0)**	(3.9)
Tax paid	**(54.9)**	(57.3)
Depreciation and amortisation	**54.8**	48.5
Increase in interest receivable and prepaid expenses	**(16.8)**	(19.4)
Decrease in interest payable and accrued expenses	**1.8**	12.8
Net cash inflow from trading activities	**232.4**	233.1
Decrease/(increase) in:		
Loans and advances to banks and central banks not repayable on demand	**6.6**	(3.4)
Loans and advances to customers	**(449.8)**	(453.1)
Assets let under operating leases	**(68.0)**	(43.0)
Certificates of deposits	**(70.0)**	20.7
Sovereign and central bank debt	**(0.9)**	(44.5)
Other assets less other liabilities	**(0.3)**	2.3
Increase/(decrease) in:		
Debt securities and subordinated loan capital issued	**45.7**	447.0
Deposits by banks	**(16.8)**	0.9
Deposits by customers	**384.1**	218.5
Loans and overdrafts from banks	**174.4**	(127.2)
Net cash inflow from operating activities	**237.4**	251.3
(b) Analysis of cash and cash equivalents[2]		
Cash and balances at central banks	**1,126.8**	798.2
Loans and advances to banks repayable on demand	**59.7**	27.6
	1,186.5	825.8

[1] Restated see note 7

[2] Excludes Bank of England cash reserve account and amounts held as collateral

COMPANY BALANCE SHEET

For the year ended 31 July 2018

	Note	2018 £ million	2017 £ million
Assets			
Cash and balances at central banks		**1,140.4**	805.1
Loans and advances to banks	28	**24.2**	8.6
Loans and advances to customers	29	**5,400.8**	5,226.4
Amounts due from group undertakings		**2,077.6**	1,828.0
Debt securities	30	**295.0**	223.9
Derivative financial instruments	31	**15.9**	26.9
Investments in subsidiaries	32	**120.9**	116.7
Intangible assets	33	**71.9**	55.0
Property, plant and equipment	34	**18.9**	16.5
Deferred tax assets	27	**42.0**	47.3
Prepayments, accrued income and other assets	35	**118.2**	105.8
Assets classified as held for sale		**67.5**	-
Total assets		**9,393.3**	8,460.2
Liabilities			
Deposits by banks	36	**54.5**	69.3
Deposits by customers	36	**5,497.2**	5,113.1
Loans and overdrafts from banks	36	**498.7**	324.3
Derivative financial instruments	31	**15.7**	10.3
Amounts due to group undertakings	36	**1,854.6**	1,618.1
Accruals, deferred income and other liabilities	35	**117.2**	116.1
Current tax liabilities		**10.7**	14.6
Subordinated loan capital	37	**217.9**	220.7
Liabilities classified as held for sale		**0.6**	-
Total liabilities		**8,267.1**	7,486.5
Equity			
Called up share capital		**122.5**	122.5
Retained earnings		**1,005.3**	857.0
Other reserves		**(1.6)**	(5.8)
Total equity		**1,126.2**	973.7
Total liabilities and equity		**9,393.3**	8,460.2

The financial statements of Close Brothers Limited, registration number 195626, were approved and authorised for issue by the Board of Directors on 24 September 2018 and signed on its behalf by:

P. Prebensen
Chief Executive Officer

M. B. Morgan
Director

COMPANY STATEMENT OF CHANGES IN EQUITY

At 31 July 2018

			Other reserves			
	Called-up share capital* £ million	Retained Earnings £ million	Exchange movements reserve £ million	Available for sale reserve £ million	Cash flow hedging reserve £ million	Total attributable to owners of the Company £ million
At 1 August 2016	82.5	708.7	(2.0)	-	(6.8)	**782.4**
Profit for the year	-	191.4	-	-	-	**191.4**
Other comprehensive income/(expense)	-	2.2	(1.0)	0.4	3.6	**5.2**
Total comprehensive income for the year	-	193.6	(1.0)	0.4	3.6	**196.6**
Dividends paid	-	(45.9)	-	-	-	**(45.9)**
Shares issued	40.0	-	-	-	-	**40.0**
Other movements	-	-	-	-	-	**-**
Income tax	-	0.6	-	-	-	**0.6**
At 31 July 2017	122.5	857.0	(3.0)	0.4	(3.2)	**973.7**
Profit for the year	-	176.7	-	-	-	**176.7**
Other comprehensive income/(expense)	-	-	0.5	0.4	3.3	**4.2**
Total comprehensive income for the year	-	176.7	0.5	0.4	3.3	**180.9**
Dividends paid	-	(31.1)	-	-	-	**(31.1)**
Shares issued	-	-	-	-	-	**-**
Other movements		2.3				**2.3**
Income tax	-	0.4	-	-	-	**0.4**
At 31 July 2018	**122.5**	**1,005.3**	**(2.5)**	**0.8**	**0.1**	**1,126.2**

*Allotted, called-up and fully-paid capital comprised 122,480,000 ordinary shares of £1 each (2017: 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 2018

27. Deferred taxation

Movements in deferred tax assets and liabilities were as follows:

	Capital allowances £ million	Share-based payments and deferred compensation £ million	Available for sale assets £ m	Cash flow hedging £ million	Other £ million	Total £ million
At 1 August 2016	44.2	3.6	-	2.3	1.3	51.4
(Charge)/credit to the income statement	(1.3)	(0.5)	-	-	(0.6)	(2.4)
(Charge)/credit to other comprehensive income	(0.7)	-	-	(1.2)	-	(1.9)
Credit to equity	-	0.2	-	-	-	0.2
At 31 July 2017	42.2	3.3	-	1.1	0.7	47.3
(Charge)/credit to the income statement	(3.8)	(0.1)	-	-	(0.2)	(4.1)
(Charge)/credit to other comprehensive income	0.1	-	(0.3)	(1.1)	-	(1.3)
Charge to equity	-	0.1	-	-	-	0.1
At 31 July 2018	**38.5**	**3.3**	**(0.3)**	**-**	**0.5**	**42.0**

28. 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 2018	**24.2**	**-**	**-**	**-**	**-**	**24.2**
At 31 July 2017	8.6	-	-	-	-	8.6

29. 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	Impairment provisions £ million	Total £ million
At 31 July 2018	**72.4**	**1,259.4**	**1,824.8**	**1,108.7**	**1,138.8**	**27.6**	**(30.9)**	**5,400.8**
At 31 July 2017	58.6	1,164.1	1,762.3	1,111.7	1,155.1	22.0	(47.4)	5,226.4

THE NOTES TO THE COMPANY ACCOUNTS

For the year ended 31 July 2018

29. Loans and advances to customers *continued*

	2018 £ million	2017 £ million
Impairment provisions on loans and advances to customers		
At 1 August 2017	**47.4**	50.2
Charge for the year	**39.7**	40.3
Amounts written off net of recoveries	**(56.2)**	(43.1)
At 31 July 2018	**30.9**	47.4
Loans and advances to customers comprise		
Hire purchase agreement receivables	**2,599.8**	2,614.3
Finance lease receivables	**243.3**	260.2
Other loans and advances	**2,557.7**	2,351.9
	5,400.8	5,226.4

At 31 July 2018, gross impaired loans were £118.3 million (31 July 2017: £122.8 million) and equate to 2.2% (31 July 2017: 2.3%) of the gross loan book before impairment provisions. The majority of the group's lending is secured and therefore the gross impaired loans quoted do not reflect the expected loss.

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

	2018 £ million	2017 £ million
Gross investment in finance leases and hire purchase agreement receivables due:		
Within one year	**1,183.4**	1,187.8
Between one and five years	**2,096.7**	2,142.9
After more than five years	**29.0**	24.8
	3,309.1	3,355.5
Unearned finance income	**(453.5)**	(466.1)
	2,855.6	2,889.4
Present value of minimum lease and hire purchase agreement payments:		
Of which due:		
Within one year	**1,017.5**	1,019.6
Between one and five years	**1,813.2**	1,848.5
After more than five years	**24.9**	21.3
	2,855.6	2,889.4

The aggregate cost of assets acquired by the group for the purpose of letting under finance leases and hire purchase agreements was £5,296.4 million (2017: £5,127.4 million). The average effective interest rate on finance leases approximates to 10.1% (2017: 10.4%). 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 impaired provisions.

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For the year ended 31 July 2018

30. Debt securities

	Available for sale £ million	Loans and receivables £ million	Total £ million
At 31 July 2018			
Certificates of deposit	-	**250.5**	**250.5**
Sovereign and central bank debt	**44.5**	-	**44.5**
	44.5	**250.5**	**295.0**
At 31 July 2017			
Certificates of deposit	-	180.3	180.3
Sovereign and central bank debt	43.6	-	43.6
	43.6	180.3	223.9

31. Derivative financial instruments

The company enters into derivative contracts with a number of financial institutions as a principal only 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 company balance sheet is as follows:

	2018			2017		
	Notional £ million	**Assets £ million**	**Liabilities £ million**	Notional £ million	Assets £ million	Liabilities £ million
Exchange rate contracts	**100.5**	**0.1**	**0.7**	89.3	-	0.6
Interest rate contracts	**2,947.1**	**15.8**	**15.0**	3,015.9	26.9	9.7
	3,047.6	**15.9**	**15.7**	3,105.2	26.9	10.3

Notional amounts of interest rate contracts totalling £2,415.7 million (2017: £2,011.1 million) and exchange rate contracts totalling £nil (2017: £nil) have a residual maturity of more than one year.

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

	2018			2017		
	Notional £ million	**Assets £ million**	**Liabilities £ million**	Notional £ million	Assets £ million	Liabilities £ million
Cash flow hedges						
Interest rate contracts	**719.9**	**1.4**	**1.3**	781.7	0.5	4.7
Fair value hedges						
Interest rate contracts	**1,202.3**	**14.0**	**12.1**	1,225.1	24.6	4.1

The cash flow hedges relate to exposure to future interest payments or receipts on recognised financial instruments and on forecast transactions for periods of up to eight years (2017: seven); there was immaterial ineffectiveness. The cash flow hedge amounts that were removed from equity and included in the income statement for the years ended 31st July 2018 and 2017 were immaterial. The gain recognised in equity for cash flow hedges during the year was £3.3 million (2017: £3.6 million loss).

THE NOTES TO THE COMPANY ACCOUNTS

For the year ended 31 July 2018

31. Derivative financial instruments *continued*

The fair value hedges seek to mitigate the interest rate risk in recognised financial instruments; the gain on the hedged item was £18.9 million (2017: £19.1 million gain) which was largely offset by a loss of £18.9 million (2017: £19.5 million loss) on the hedging instrument.

32. Investment in subsidiaries

	£ million
Cost	
at 1 August 2017	127.4
Additions	4.2
Disposals	-
at 31 July 2018	**131.6**
Less: amounts written off	
at 1 August 2017	10.7
Movement during the year	-
at 31 July 2018	**10.7**
Carrying value	
At 31 July 2018	**120.9**
At 31 July 2017	116.7

A list of the company's subsidiaries can be found at note 42.

THE NOTES TO THE COMPANY ACCOUNTS

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33. Intangible assets

	Goodwill £ million	Software £ million	Intangible assets on acquisition £ million	Total £ million
Cost				
At 31 July 2017	4.3	105.4	4.5	114.2
Additions	-	34.5	-	34.5
Intercompany transfers in	-	0.2	-	0.2
Disposals	-	(6.5)	-	(6.5)
At 31 July 2018	**4.3**	**133.6**	**4.5**	**142.4**
Accumulated amortisation				
At 31 July 2017	-	56.3	2.9	59.2
Charge for the year	-	15.2	0.3	15.5
Intercompany transfers in	-	0.1	-	0.1
Disposals	-	(4.3)	-	(4.3)
At 31 July 2018	**-**	**67.3**	**3.2**	**70.5**
Net book value at 31 July 2018	**4.3**	**66.3**	**1.3**	**71.9**
Net book value at 31 July 2017	4.3	49.1	1.6	55.0

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

In the 2018 financial year, £0.3 million (2017: £0.3 million) of the amortisation charge is included in amortisation of intangible assets on acquisition and £15.2 million (2017: £15.6 million) of the amortisation charge is included in administrative expenses shown in the consolidated income statement.

At 31 July 2018, goodwill has been allocated to one single CGU. The company's policy for testing goodwill for impairment is referred to in Note 13 of the consolidated accounts.

At 31 July 2018, the results of the review indicate there is no goodwill impairment.

	2018		2017	
Cash Generating Unit	**Goodwill £ million**	**Pre-tax discount rate %**	Goodwill £ million	Pre-tax discount rate %
Bank	**4.3**	**10.2**	4.3	12.3

THE NOTES TO THE COMPANY ACCOUNTS

For the year ended 31 July 2018

34. Property, plant and equipment

	Short leasehold property £ million	Fixtures, fittings and equipment £ million	Assets held under operating lease £ million	Motor vehicles £ million	Total £ million
Cost					
At 31 July 2017	10.1	24.0	2.1	0.1	**36.3**
Additions	-	8.5	0.3	(0.1)	**8.7**
Disposals	-	(0.2)	(0.6)	-	**(0.8)**
At 31 July 2018	**10.1**	**32.3**	**1.8**	**-**	**44.2**
Accumulated depreciation					
At 31 July 2017	3.2	15.8	0.8	-	**19.8**
Charge for the year	1.2	4.2	0.4	-	**5.8**
Disposals	-	(0.1)	(0.2)	-	**(0.3)**
At 31 July 2018	**4.4**	**19.9**	**1.0**	**-**	**25.3**
Net book value at 31 July 2018	**5.7**	**12.4**	**0.8**	**-**	**18.9**
Net book value at 31 July 2017	6.9	8.2	1.3	0.1	16.5

	2018 £ million	2017 £ million
Future minimum lease rentals receivable under non-cancellable operating leases		
Within one year	**0.7**	0.8
between one and five years	**0.3**	0.6
After more than five years	**-**	-
	1.0	1.4

THE NOTES TO THE COMPANY ACCOUNTS

For the year ended 31 July 2018

35. Other assets and liabilities

	2018 £ million	2017 £ million
Prepayments, accrued income and other assets		
Prepayments and accrued income	**113.4**	98.9
Trade and other receivables	**4.8**	6.9
	118.2	105.8
Accruals, deferred income and other liabilities		
Accruals and deferred income	**71.8**	71.6
Trade and other payables	**37.9**	36.4
Provisions	**7.5**	8.1
	117.2	116.1

Provisions movements in the year:

	Property £ million	Other £ million	Total £ million
Provisions movements during the year			
At 1 August 2017	2.8	5.3	8.1
Additions	0.1	0.3	0.4
Utilised	-	(0.2)	(0.2)
Released	(0.1)	(0.7)	(0.8)
At 31 July 2018	**2.8**	**4.7**	**7.5**

Claims and other items for which provisions are made arise in the normal course of business and include those related to employee benefits. The timing and outcome of these claims and other items are uncertain. Property provisions are in respect of leaseholds where rents payable exceed the value to the company, potential dilapidations and onerous leases. These property provisions will be utilised and released over the remaining lives of the leases which range from one to nine years.

36. 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 2018							
Deposits by banks	**7.9**	**15.9**	**30.7**	**-**	**-**	**-**	**54.5**
Deposits by customers	**86.5**	**1,275.0**	**2,570.5**	**1,142.6**	**422.6**	**-**	**5,497.2**
Bank loans and overdrafts	**3.5**	**0.2**	**-**	**-**	**495.0**	**-**	**498.7**
Amounts due to group undertakings	**-**	**1,854.6**	**-**	**-**	**-**	**-**	**1,854.6**
	97.9	**3,145.7**	**2,601.2**	**1,142.6**	**917.6**	**-**	**7,905.0**

THE NOTES TO THE COMPANY ACCOUNTS

For the year ended 31 July 2018

36. 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 2017							
Deposits by banks	18.4	14.9	36.0	-	-	-	69.3
Deposits by customers	123.4	956.6	2,528.2	991.3	513.6	-	5,113.1
Bank loans and overdrafts	10.7	69.9	-	20.5	223.2	-	324.3
Amounts due to group undertakings	-	1,618.1	-	-	-	-	1,618.1
	152.5	2,659.5	2,564.2	1,011.8	736.8	-	7,124.8

As discussed in note 22(c) the group has accessed £495.0 million (2017: £224.4 million) cash under the Bank of England's Term Funding Scheme and £nil million (2017: £197.5 million) UK Treasury Bills under the Funding for Lending Scheme. At 31 July 2017, £100.0 million of the £197.5 million UK Treasury Bills drawn under the Funding for Lending Scheme were lent in exchange for cash. The UK Treasury Bills were not recorded on the group's consolidated balance sheet as ownership remains with the Bank of England. Cash from the Term Funding Scheme and repurchase agreements is included within bank loans and overdrafts. Residual maturities of the Term Funding Scheme 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 2018	**-**	**0.2**	**-**	**-**	**495.0**	**-**	**495.2**
31 July 2017	1.2	69.9	-	20.5	223.2	-	314.8

37. Subordinated loan capital

	Prepayment date at company's option	Initial interest rate (%)	**2018 £ million**	2017 £ million
Final maturity date				
2026	2021	7.42	**15.5**	15.5
2026	2021	7.62	**30.9**	30.9
2027	2022	4.25	**171.5**	174.3
			217.9	220.7

THE NOTES TO THE COMPANY ACCOUNTS

For the year ended 31 July 2018

38. Contingent liabilities, guarantees and commitments

Contingent liabilities

Financial Services Compensation Scheme ("FSCS")

By virtue of being a regulated deposit taker, the company contributes to the FSCS which provides compensation to customers of financial institutions in the event that an institution is unable, or is likely to be unable, to pay claims against it.

Compensation has previously been paid out by the FSCS funded by loan facilities provided by HM Treasury to FSCS in support of the FSCS's obligations to the depositors of banks declared in default. The facilities are expected to be repaid wholly from recoveries from the failed deposit-takers. In the event of a shortfall, the FSCS will recover the shortfall by raising levies on the industry. The amount of future levies payable by the company depends on a number of factors including the potential recoveries of assets by the FSCS, the company's participation in the deposit-taking market at 31 December, the level of protected deposits and the population of FSCS members.

Guarantees

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

The company has given commitments to provide funds to customers under undrawn facilities and credit lines. Some of the commitments are expected to expire without being drawn.

	2018 £ million	2017 £ million
Guarantees:		
Guarantees and irrecoverable letters of credit	**1.8**	2.0
Capital commitments are as follows:		
Contracted for but not provided for:		
- finance leases entered into	**0.5**	3.1
Annual commitments under non-cancellable operating leases were as follows:		
- within one year	**9.3**	8.5
- between two and five years	**22.1**	23.5
- after five years	**5.7**	9.4
	37.1	41.4
Other items:		
Undrawn facilities, credit lines, other commitments to lend:		
- within one year	**970.3**	601.8
- over one year	**100.0**	100.0
	1,070.3	701.8

THE NOTES TO THE COMPANY ACCOUNTS

For the year ended 31 July 2018

39. 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 21 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.

40. Financial instruments

(a) Classification

The accounting policies in note 1 to the consolidated financial statements describe how different classes of financial instruments are measured, and how income and expenses, including fair value gains and losses, are recognised.

The following table analyses the carrying amounts of the company's financial assets and liabilities by category and by balance sheet heading.

	Held for trading £ million	Available for sale £ million	Loans & receivables £ million	Held at amortised cost £ million	Derivatives held for hedging £ million	Total £ million
At 31 July 2018						
Assets						
Cash and balances at central banks	-	-	1,140.4	-	-	1,140.4
Loans and advances to banks	-	-	24.2	-	-	24.2
Loans and advances to customers	-	-	5,400.8	-	-	5,400.8
Amounts due from group undertakings	-	-	2,077.6	-	-	2,077.6
Debt securities	-	44.5	250.5	-	-	295.0
Derivative financial instruments	0.4	-	-	-	15.5	15.9
Other financial assets	-	-	4.5	-	-	4.5
	0.4	44.5	8,898.0	-	15.5	8,958.4
Liabilities						
Deposits by banks	-	-	-	54.5	-	54.5
Deposits by customers	-	-	-	5,497.2	-	5,497.2
Loans and overdrafts from banks	-	-	-	498.7	-	498.7
Derivative financial instruments	2.3	-	-	-	13.4	15.7
Amounts due to group undertakings	-	-	-	1,854.6	-	1,854.6
Subordinated loan capital	-	-	-	217.9	-	217.9
Other financial liabilities	-	-	-	56.6	-	56.6
	2.3	-	-	8,179.5	13.4	8,195.2

THE NOTES TO THE COMPANY ACCOUNTS

For the year ended 31 July 2018

40. Financial instruments *continued*

(a) Classification *continued*

	Held for trading £ million	Available for sale £ million	Loans & receivables £ million	Held at amortised cost £ million	Derivatives held for hedging £ million	Total £ million
At 31 July 2017						
Assets						
Cash and balances at central banks	-	-	805.1	-	-	805.1
Loans and advances to banks	-	-	8.6	-	-	8.6
Loans and advances to customers	-	-	5,226.4	-	-	5,226.4
Amounts due from group undertakings	-	-	1,828.0	-	-	1,828.0
Debt securities	-	43.6	180.3	-	-	223.9
Derivative financial instruments	1.8	-	-	-	25.1	26.9
Other financial assets	-	-	6.3	-	-	6.3
	1.8	43.6	8,054.7	-	25.1	8,125.2
Liabilities						
Deposits by banks	-	-	-	69.3	-	69.3
Deposits by customers	-	-	-	5,113.1	-	5,113.1
Loans and overdrafts from banks	-	-	-	324.3	-	324.3
Derivative financial instruments	1.5	-	-	-	8.8	10.3
Amounts due to group undertakings	-	-	-	1,618.1	-	1,618.1
Subordinated loan capital	-	-	-	220.7	-	220.7
Other financial liabilities	-	-	-	67.8	-	67.8
	1.5	-	-	7,413.3	8.8	7,423.6

THE NOTES TO THE COMPANY ACCOUNTS

For the year ended 31 July 2018

40. Financial instruments *continued*

(b) Valuation

Note 22(b) to the consolidated financial statements 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.

	Level 1 £ million	Level 2 £ million	Level 3 £ million	Total £ million
At 31 July 2018				
Assets				
Sovereign and central bank debt classified as available for sale	**44.5**	**-**	**-**	**44.5**
Derivative financial instruments	**-**	**15.9**	**-**	**15.9**
	44.5	**15.9**	**-**	**60.4**
Liabilities				
Derivative financial instruments	**-**	**15.7**	**-**	**15.7**
Contingent Consideration	**-**	**-**	**1.2**	**1.2**
	-	**15.7**	**1.2**	**16.9**
At 31 July 2017				
Assets				
Sovereign and central bank debt classified as available for sale	43.6	-	-	43.6
Derivative financial instruments	-	26.9	-	26.9
	43.6	26.9	-	70.5
Liabilities				
Derivative financial instruments	-	10.3	-	10.3
Contingent Consideration	-	-	1.8	1.8
	-	10.3	1.8	12.1

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.

	Fair value		Carrying Value	
	2018 £ million	2017 £ million	**2018 £ million**	2017 £ million
Subordinated loan capital	**233.7**	242.0	**217.9**	220.7

THE NOTES TO THE COMPANY ACCOUNTS

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40. Financial instruments *continued*

(c) Credit risk

The company's credit risk management policy is the same as the group's credit risk policy and can be found in note 21(c) of the consolidated accounts.

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.

	2018 £ million	2017 £ million
On balance sheet		
Cash and balances at central banks	**1,140.4**	805.1
Loans and advances to banks	**24.2**	8.6
Loans and advances to customers	**5,400.8**	5,226.4
Amounts due from group undertakings	**2,077.6**	1,828.0
Debt securities	**295.0**	223.9
Derivative financial instruments	**15.9**	26.9
Other financial assets	**4.5**	6.3
	8,958.4	8,125.2
Off balance sheet		
Undrawn commitments[1]	**178.3**	119.1
Guarantees	**1.8**	2.0
	180.1	121.1
Total maximum exposure to credit risk	**9,138.5**	8,246.3

[1] Prior year figures restated to reflect irrevocable commitments only

Neither past due nor impaired

These loans and advances reflect the application of consistent and conservative lending criteria on inception, and the quality and level of security held. The contractual repayments are monitored to ensure that classification as neither past due nor impaired remains appropriate and also demonstrates the short-term nature of the lending, with £2,974.6 million (2017: £2,812.1 million) having a contractual maturity of less than 12 months.

The table below shows the ageing based on contractual maturity of loans and advances to customers split by credit assessment method which are neither past due nor impaired:

	2018 Loans and advances to customers			2017 Loans and advances to customers		
	Individually assessed £ million	Collectively assessed £ million	Total £ million	Individually assessed £ million	Collectively assessed £ million	Total £ million
Within one month	**97.4**	**386.3**	**483.7**	73.0	359.5	432.5
Between one and three months	**279.0**	**447.9**	**726.9**	229.8	437.2	667.0
Between three months and one year	**728.2**	**1,035.8**	**1,764.0**	641.5	1,071.1	1,712.6
Over one year	**514.7**	**1,656.0**	**2,170.7**	457.3	1,734.3	2,191.6
	1,619.3	**3,526.0**	**5,145.3**	1,401.6	3,602.1	5,003.7

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40. Financial instruments *continued*

(c) Credit risk *continued*

Past due but not impaired

Loans and advances to customers are classified as past due but not impaired when the customer has failed to make a payment when contractually due but there is no evidence of impairment. This includes loans which are individually assessed for impairment but where the value of security or collateral is sufficient to meet the required repayments. This also includes loans to customers which are past due for technical reasons such as delays in payment processing or rescheduling of payment terms.

The following table shows the ageing based on the period loans and advances to customers have been past due, split by credit assessment method, due but for which no impairment provision has been raised:

	2018			2017[1]		
	Loans and advances to customers			Loans and advances to customers		
	Individually assessed £ million	Collectively assessed £ million	Total £ million	Individually assessed £ million	Collectively assessed £ million	Total £ million
Within one month	**60.2**	**83.5**	**143.7**	48.8	72.7	121.5
Between one and three months	**17.2**	**3.4**	**20.6**	17.9	1.6	19.5
Between three months and one year	**1.4**	**0.7**	**2.1**	1.2	0.7	1.9
Over one year	**1.7**	**-**	**1.7**	4.3	0.1	4.4
	80.5	**87.6**	**168.1**	72.2	75.1	147.3

[1] Prior year figures restated

Impaired

The following table shows gross impaired loans and advances to customers and the provision thereon split by assessment method:

	2018			2017		
	Loans and advances to customers			Loans and advances to customers		
	Individually assessed £ million	Collectively assessed £ million	Total £ million	Individually assessed £ million	Collectively assessed £ million	Total £ million
Gross impaired loans	**48.6**	**69.7**	**118.3**	51.7	71.1	122.8
Provisions	**(9.6)**	**(21.3)**	**(30.9)**	(26.1)	(21.3)	(47.4)
Net impaired loans	**39.0**	**48.4**	**87.4**	25.6	49.8	75.4

Gross loans and advances to customers where exposure at origination exceeded £1.0 million:

	2018 £ million	2017 £ million
LTV		
Less than 70%	**1,402.1**	1,197.4
70% to 90%	**51.4**	43.4
Greater than 90%	**102.3**	77.9
	1,555.8	1,318.7

THE NOTES TO THE COMPANY ACCOUNTS

For the year ended 31 July 2018

40. Financial instruments *continued*

(c) Credit risk *continued*

	Gross loans and advances to customers £ million	Gross value of forborne loans £ million	Forborne loans as a percentage of gross loans and advances to customers %	Provision on forborne loans £ million
31 July 2018	**5,400.8**	**107.3**	2.0%	**8.5**
31 July 2017	5,226.4	75.4	1.4%	22.9

(d) Market risk

The interest rate risk policy and foreign currency risk policy for the company is explained in note 22(d) to the consolidated accounts.

(e) Liquidity risk

The company's liquidity risk management policy is explained in note 22(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 2018							
Financial liabilities							
Deposits by banks	**7.9**	**15.9**	**28.7**	**2.0**	**-**	**-**	**54.5**
Deposits by customers	**81.4**	**1,279.7**	**914.6**	**1,686.5**	**1,610.3**	**-**	**5,572.5**
Loans and overdrafts from banks	**3.5**	**0.6**	**0.6**	**1.2**	**500.1**	**-**	**506.0**
Derivative financial instruments	**0.3**	**4.7**	**3.5**	**7.8**	**50.2**	**14.9**	**81.4**
Subordinated loan capital	**-**	**1.7**	**3.7**	**5.4**	**44.5**	**255.1**	**310.4**
Other financial liabilities	**9.5**	**45.0**	**1.1**	**0.9**	**0.5**	**-**	**57.0**
	102.6	**1,347.6**	**952.2**	**1,703.8**	**2,205.6**	**270.0**	**6,581.8**
At 31 July 2017							
Financial liabilities							
Deposits by banks	18.4	14.8	29.4	6.8	-	-	69.4
Deposits by customers	117.5	961.2	923.2	1,634.5	1,550.0	-	5,186.4
Loans and overdrafts from banks	10.8	70.1	0.1	20.9	224.6	-	326.5
Derivative financial instruments	0.1	5.2	2.8	6.4	44.7	19.8	79.0
Subordinated loan capital	-	1.7	3.7	5.4	36.2	274.2	321.2
Other financial liabilities	11.4	52.5	1.0	1.3	1.6	-	67.8
	158.2	1,105.5	960.2	1,675.3	1,857.1	294.0	6,050.3

THE NOTES TO THE COMPANY ACCOUNTS

For the year ended 31 July 2018

40. Financial instruments *continued*

(f) Offsetting

In accordance with IFRS 7 "Financial Instruments: Disclosures", the following table shows the impact on derivative financial instruments relating to transactions where:

• there is an enforceable master netting arrangement or similar agreement in place and an unconditional right to offset is in place,
• there is an enforceable master netting arrangement or similar agreement in place but the offset criteria are otherwise not satisfied,
and
• financial collateral is paid and received.

Master netting arrangements include ISDA Master Agreements and global master repurchase agreements whereby outstanding transactions with the same counterparty can 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.

The net amounts after offsetting under IFRS 7 presented in the following table show the exposure to counterparty credit risk for derivative contracts after netting benefits and collateral, and are not intended to represent the group's actual exposure to credit risk.

This is due to a variety of credit mitigation strategies which are employed in addition to netting and collateral arrangements.

	Gross amounts recognised	**Master netting arrangements**	**Financial Collateral**	**Net amounts after offsetting under IFRS 7**
	£ million	**£ million**	**£ million**	**£ million**
At 31 July 2018				
Derivative financial assets	**15.9**	**(8.3)**	**(7.7)**	**(0.1)**
Derivative financial liabilities	**15.7**	**(8.3)**	**(7.2)**	**0.2**

	Gross amounts recognised	Master netting arrangements	Financial Collateral	Net amounts after offsetting under IFRS 7
	£ million	£ million	£ million	£ million
At 31 July 2017				
Derivative financial assets	26.9	(7.8)	(18.4)	0.7
Derivative financial liabilities	10.3	(7.8)	(1.9)	0.6

THE NOTES TO THE COMPANY ACCOUNTS

For the year ended 31 July 2018

41. Post balance sheet events

Other than the announcement of the sale of Close Brothers Retail Finance as disclosed in note 7, there have been no significant events after the reporting period affecting the group or company.

42. Investment in subsidiaries

In accordance with section 409 of the Companies Act 2006, below is a list of the company's subsidiaries which are all wholly-owned and incorporated in the United Kingdom unless otherwise stated.

Air and General Finance Limited[2]
Armed Services Finance Limited[4]
CBM Holdings Limited[1]
CLL I Limited[11]
Close Asset Finance Limited[2]
Close Brewery Rentals Limited[5]
Close Brothers Asset Finance GmbH (Germany)[12]
Close Brothers Factoring GmbH (Germany)[12]
Close Brothers Finance plc[1]
Close Brothers Military Services Limited[4]
Close Brothers Technology Services Limited[1,14]
Close Brothers Vehicle Hire Limited[10]
Close Business Finance Limited[2]
Close Credit Management (Holdings) Limited[1]
Close Finance (CI) Limited (Jersey)[13]
Close International Bank Holdings Limited (Guernsey)[3]
Close Invoice Finance Limited[1]
Close Leasing Limited[11]
Close Motor Finance Limited[4]
Close Trust Nominees Limited[1]
Commercial Acceptances Limited[6]
Commercial Finance Credit Limited[2]
Ecasks Limited[5]
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]
Surrey Asset Finance Limited[2]

The share capital of the following entities is not owned by the group, but are included in the consolidated financial statements as they are controlled by the group:

Close PF Funding I Limited[7]
Brook Funding (No.1) Limited[8]
Orbita Holdings Limited[8]
Orbita Funding 2016-1 plc[8]
Orbita Funding 2017-1 plc[8]
Arrow Audit Services Limited[9]

Registered office:
1. 10 Crown Place, London EC2A 4FT, United Kingdom.
2. Wimbledon Bridge House, Hartfield Road, Wimbledon, London SW19 3RU, United Kingdom.
3. 1st and 2nd Floors, Elizabeth House, Les Ruettes Brayes, St Peter Port, GY1 1EW, Guernsey.
4. Roman House, Roman Road, Doncaster, South Yorkshire DN4 5EZ, United Kingdom.
5. Unit 1, Kingfisher Park, Headlands Business Park, Ringwood, Hampshire BH24 3NX, United Kingdom.
6. 100 George Street, London W1U 8NU, United Kingdom.
7. Third Floor, 1 King's Arms Yard, London EC2R 7AF, United Kingdom.
8. 35 Great St. Helen's, London EC3A 6AP, United Kingdom.
9. 6 Coldbath Square, London EC1R 5HL, United Kingdom.
10. Lows Lane, Stanton-By-Dale, Ilkeston, Derbyshire DE7 4QU, United Kingdom.
11. Olympic Court Third Avenue, Trafford Park Village, Manchester M17 1AP, United Kingdom.
12. Grosse Bleiche 35 -39, 55116 Mainz, Germany.
13. Conway House, Conway Street, St Helier, JE4 5SR, Jersey.

Notes
14. 85% owned

CAUTIONARY STATEMENT

Certain statements included or incorporated by reference within this report may constitute "forward-looking statements" in respect of the group's operations, performance, prospects and/or financial condition. Forward-looking statements are sometimes, but not always, identified by their use of a date in the future or such words as "anticipates", "aims", "due", "could", "may", "will", "should", "expects", "believes", "intends", "plans", "potential", "targets", "goal" or "estimates". By their nature, forward-looking statements involve a number of risks, uncertainties and assumptions and actual results or events may differ materially from those expressed or implied by those statements. Accordingly, no assurance can be given that any particular expectation will be met and reliance should not be placed on any forward-looking statement. Additionally, forward-looking statements regarding past trends or activities should not be taken as a representation that such trends or activities will continue in the future. No responsibility or obligation is accepted to update or revise any forward-looking statement resulting from new information, future events or otherwise. Nothing in this report should be construed as a profit forecast. Past performance is no guide to future performance and persons needing advice should consult an independent financial adviser.

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