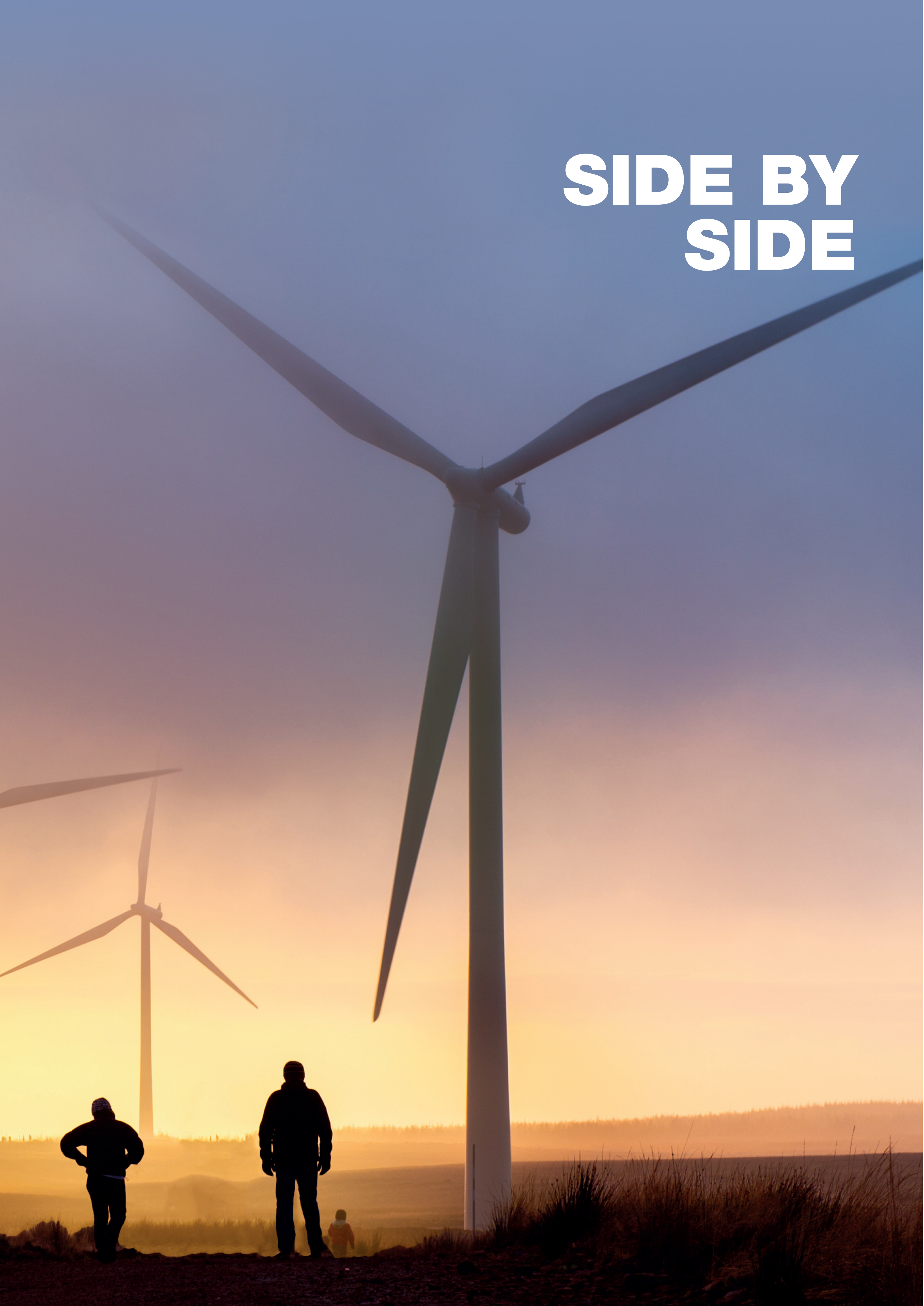
Close Brothers Group plc
Annual Report 2022


SIDE BY
SIDE

EVERY STEP OF THE WAY

At Close Brothers, we are here to help the people and businesses of Britain thrive over the long term.

This means supporting our colleagues, customers and clients, and the communities and environment in which they operate, for the benefit of all our stakeholders.

It means helping people and businesses unlock their potential and plan for the future with confidence, building relationships that stand the test of time. It also means that we continue to be there for the long term, whatever the economic climate, making decisions that are right for today and for generations to come.

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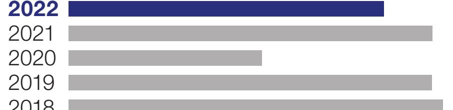
AGAINST A BACKDROP OF MARKET UNCERTAINTY, WE HAVE DELIVERED A SOLID PERFORMANCE

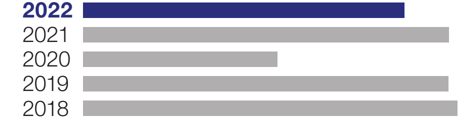
Financial Highlights
for the year ended 31 July 2022

Adjusted[1] Operating Profit



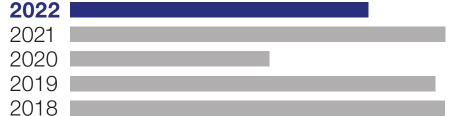
Year	Value
2022	**£234.8m**
2021	£270.7m
2020	£144.0m
2019	£270.5m
2018	£278.6m

Operating Profit Before Tax



Year	Value
2022	**£232.8m**
2021	£265.2m
2020	£140.9m
2019	£264.7m
2018	£271.2m

Adjusted[1] Basic Earnings Per Share



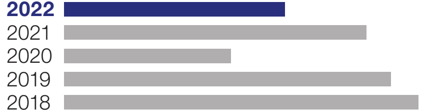
Year	Value
2022	**111.5p**
2021	140.4p
2020	74.5p
2019	136.7p
2018	140.2p

Basic Earnings Per Share

110.4p

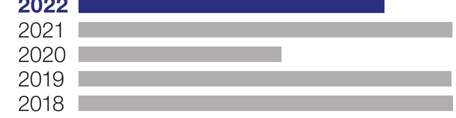
Year	Value
2022	**110.4p**
2021	134.8p
2020	72.8p
2019	133.5p
2018	136.2p

Return on Opening Equity[2]



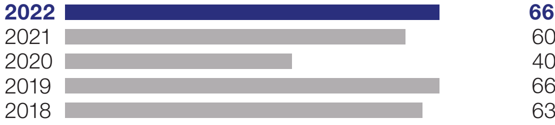
Year	Value
2022	**10.6%**
2021	14.5%
2020	8.0%
2019	15.7%
2018	17.0%

Profit Attributable to Shareholders



Year	Value
2022	**£165.2m**
2021	£202.1m
2020	£109.5m
2019	£201.6m
2018	£202.3m

Ordinary Dividend Per Share[3]



Year	Value
2022	**66.0p**
2021	60.0p
2020	40.0p
2019	66.0p
2018	63.0p

1 Adjusted measures are presented on a basis consistent with prior periods and exclude amortisation of intangible assets on acquisition, to present the performance of the group's acquired businesses consistent with its other businesses, and any exceptional and other adjusting items which do not reflect underlying trading performance. Please refer to page 62 for further details on items excluded from the adjusted performance metrics.
2 Adjusted operating profit attributable to shareholders divided by opening equity, excluding non-controlling interests.
3 Represents the final dividend proposed for the respective years together with the interim dividend declared and paid in those years.

Our Businesses

Close Brothers is a leading UK merchant banking group providing lending, wealth management services and securities trading. We employ approximately 4,000 people across 54 offices, predominantly in the UK and Ireland.

Banking

Commercial

Adjusted operating profit

£91.0m

2021: £52.8m

The **Commercial** businesses lend principally to small and medium-sized enterprises ("SME"), both through their direct sales force and via third party distribution channels. Their highly specialist sales force operates from offices throughout the UK, Ireland and Germany.

The **Asset Finance** business has over 26,000 customers and provides commercial asset financing, hire-purchase and leasing solutions for a diverse range of assets and sectors, including the financing of commercial vehicles, machine tools, contractors' plant, printing equipment, company car fleets, energy production, and aircraft and marine vessels.

Loan book[1]: **£3.0 billion**

Average loan size: **£59,000**

Typical loan maturity[2]: **3 to 4 years**

The **Invoice and Speciality Finance** business works with c.5,700 small businesses, providing debt factoring, invoice discounting and asset-based lending. It also includes our smaller specialist businesses such as Novitas Loans ("Novitas")[4], a specialist provider of finance for the legal sector, Brewery Rentals, which provides solutions for brewery equipment and container maintenance, and Vehicle Hire, which provides heavy goods, light commercial vehicles and buses on rental and contract hire terms.

Loan book[1]: **£1.5 billion**

Average loan size[3]: **c.£540,000**

Typical loan maturity[2,3]: **3 months**

Retail

Adjusted operating profit

£61.0m

2021: £71.9m

The **Retail** businesses provide loans to predominantly individuals and small businesses, through a network of intermediaries.

The **Motor Finance** business provides point of sale finance for the acquisition of predominantly used cars, motorcycles and light commercial vehicles. It operates through a network of over 5,000 independent motor dealers and has approximately 282,000 customers in the UK, Ireland and the Channel Islands.

Loan book: **£2.1 billion**

Average loan size: **£7,200**

Typical loan maturity[2]: **4 years**

The **Premium Finance** business finances insurance payments for around three million companies and individuals, via a network of c.1,500 insurance brokers, allowing their customers to spread the cost of insurance premiums over a number of instalments.

Loan book: **£1.0 billion**

Average loan size: **c.£500**

Typical loan maturity[2]: **10 months**

Property

Operating profit

£75.2m

2021: £87.8m

The **Property** business specialises in short-term residential development finance through Property Finance, and also offers refurbishment and bridging loans through Commercial Acceptances.

The Property business operates in London, the South East and selected regional locations, lending to c.700 professional property developers with a focus on small to medium-sized residential developments.

Loan book: **£1.5 billion**

Average loan size: **£1.2 million**

Typical loan maturity[2]: **6 to 18 months**

Read more about Banking:
See pages 65 to 69

1 Includes operating lease assets of £0.5 million (31 July 2021: £1.3 million) which relate to Asset Finance and £239.5 million (31 July 2021: £221.6 million) to Invoice and Speciality Finance.
2 Typical loan maturities for new business on a contractual basis, except core Invoice Finance which are on a behavioural basis.
3 Average loan size and typical loan maturity include the Invoice Finance business only.
4 Following the strategic review of Novitas' products and services, in July 2021 the group decided to cease permanently the approval of lending to new customers across all of the products offered by Novitas, a wholly owned subsidiary of Close Brothers acquired in 2017, and withdraw from the legal services financing market.

Asset Management

Close Brothers Asset Management ("CBAM")

Adjusted operating profit

£21.7m

2021: £23.7m

CBAM is a vertically integrated top 20 UK wealth manager, providing financial advice and investment management services to private clients in the UK. Our clients range from mid to high net worth individuals.

Our core capabilities are personal financial advice, multi-asset investment management and custody, which we combine to create different propositions tailored to client preference and client wealth.

Our strategic aim is to gather assets into our investment management and platform through three main distribution channels: our own financial advisers; our private client investment managers; and via third party financial advisers.

We are a national business operating out of 14 locations with 90 advisers, 70 investment professionals and c.750 employees in total.

Total client assets: **£16.6 billion**

Managed assets: **£15.3 billion**

Clients: **22,000 households**

Read more about Asset Management:
See pages 70 to 71

Securities

Winterflood

Operating profit

£14.1m

2021: £60.9m

The **Securities** division comprises **Winterflood**, a leading market maker for retail stockbrokers and institutions. Winterflood deals in over 15,500 instruments in the UK and overseas, and trades with over 600 institutional asset managers, retail stockbrokers, wealth managers, platforms and other market counterparties, providing continuous liquidity through its market-leading execution services, supported by strong proprietary technology. Its traders have extensive experience of executing orders in a range of market conditions, enabling it to trade successfully and profitably over many years. We also offer sales trading services to institutional clients both here in the UK and in the United States.

Our investment trust team provides the full range of services of corporate finance, corporate broking, sales and research, as well as market-making. We act as corporate broker and adviser to over 50 corporate clients with a diverse range of conventional and alternative asset classes.

Average bargains per day: **c.81,000**

Winterflood Business Services ("WBS") has been operating for over 10 years and provides outsourced dealing and custody solutions to over 50 corporate clients.

Assets under administration: **£7.2 billion**

Read more about Securities:
See pages 72 to 73

Chairman's Statement

CLOSE BROTHERS' CULTURE IS ONE OF THE FOUNDATIONS OF OUR LONG-TERM SUCCESS

As this year comes to a close, we are transitioning to a post-pandemic world whilst adapting to a more flexible work environment. At the same time, our customers and colleagues are facing increasing uncertainty arising from recent geopolitical events and the rising cost of living. Against this backdrop, our disciplined business model and distinctive culture remain important factors behind the group's progress and its ability to navigate through a difficult environment.

In the 2022 financial year, our lending business continued to deliver good loan book growth and a strong net interest margin. The Asset Management division continued to attract client assets and generated impressive net inflows. Following an exceptional performance in the prior year, Winterflood's profit was impacted by reduced trading activity, heightened volatility and falling markets, particularly in the second half of the year.

As a result, adjusted operating profit decreased 13% to £234.8 million (2021: £270.7 million), with a return on opening equity of 10.6% (2021: 14.5%). In light of this year's solid performance and to reflect the board's continued confidence in the business model, we are pleased to recommend a final dividend of 44.0p per share. If approved at the Annual General Meeting, this will take the full-year dividend to 66.0p per share, a 10% increase on last year, and would mark a return to our pre-pandemic dividend level.

Our Commitment to Deliver Disciplined Growth

I remain confident that we have the right business model to continue delivering to all of our stakeholders. As such, it is a key priority for the board to ensure the model's continuity and consistency. Following the evolution of the group's strategy to reflect its increased focus on delivering disciplined growth, I am pleased to see the progress achieved in identifying both incremental and new growth opportunities. One such area is the significant commercial opportunity presented by the financing of green and transition assets as the UK heads towards a net zero carbon economy. Other areas are the potential expansion of our product offering into adjacent markets that fit with our Banking business model and the continued development of Winterflood Business Services.

The group has a strong capital position, which supports our ability to finance such growth opportunities. The board is acutely aware of its responsibility to monitor the management and allocation of the group's capital resources in the best interest of our shareholders. We believe that these strategic growth opportunities, combined with disciplined loan book growth in the existing Banking businesses, represent the best use of our shareholders' capital. The board remains committed to paying a progressive and sustainable dividend while maintaining a prudent level of dividend cover, in line with the group's dividend policy.

Our Most Valuable Asset

Close Brothers' culture is one of the foundations of our long-term success. It is the expertise of our people and a relentless focus on delivering excellent customer service that is the cornerstone of our business model.

We have recently conducted our latest employee opinion survey ("EOS") and I was pleased to see that we have retained high levels of employee engagement at 86%, which is close to pre-pandemic levels. We are committed to fostering a culture that attracts and retains talent, whilst also growing and building the expertise of our people. 97% of colleagues say that they believe they have the skills and knowledge to do their job well. We also promote teamwork in a fair and open environment, where individuals and their contributions are valued and respected. Again, 97% of colleagues agree that their immediate teams work well together to get the job done. These strong numbers show the group's culture and values are deeply embedded in the organisation. You can read more about the EOS highlights on page 23 of this report.

Board Changes

During the year, we were pleased to welcome Patricia Halliday and Tracey Graham as independent non-executive directors with effect from 1 August 2021 and 22 March 2022, respectively.

Patricia has over 30 years' experience in risk management across the investment, corporate and retail banking sectors, both in the UK and internationally, with a deep understanding of the regulatory, risk and governance environment in which the group operates. On joining the board on 1 August 2021, she was appointed as a member of the board's Risk and Audit Committees.

Tracey is an experienced non-executive director, having served on a number of listed companies and mutual boards. She was appointed as a member of the board's Remuneration and Risk Committees and brings significant commercial, operational and customer service expertise gained across a range of sectors, including from executive and non-executive roles in financial services and other customer-facing businesses.

After nine years' dedicated service on the board, Lesley Jones and Bridget Macaskill will retire from the board at the conclusion of the Annual General Meeting ("AGM"). I would like to thank both Lesley and Bridget for their huge contribution to the group over that time.

Patricia will assume the role of chair of the Risk Committee from the date of the AGM.

The appointments of Patricia and Tracey further contribute to the strengthening and diversity of the range of skills, backgrounds and experience on the board. I am also very pleased that we comply with the recommendations of the Parker Review in terms of the composition of the board.

Making a Lasting Positive Impact, Both Now and into the Future

During the year, the board and management team have maintained a strong focus on the group's sustainability agenda. I am particularly pleased with the progress we have made towards meeting our climate responsibilities as I firmly believe that we have an important role to play in supporting our customers and clients transitioning to a low-carbon economy.

We have further developed our climate strategy and significantly improved our understanding of our impact on the environment, covering not just our operational emissions, but also the implications across our financed activities. As a group we are supportive of the goals of the Paris Agreement to achieve net zero by 2050. We have set ourselves ambitious targets for our operational emissions and are now setting ourselves a wider and longer-term ambition to align our operational and attributable greenhouse gas emissions from our lending and investment portfolios with pathways to net zero by 2050. To this end, I am pleased to report that we have recently joined as a signatory to the Net Zero Banking Alliance. You can read more about our climate disclosures on pages 42 to 57 of this report.

Our People

Our people are key in driving the long-term success of this organisation and I would like to thank them for their commitment and dedication. Together, I am confident that we will continue to deliver on our purpose.

Michael N. Biggs
Chairman

27 September 2022

Chief Executive's Statement

FOCUS ON MAXIMISING DISCIPLINED GROWTH

We have delivered a solid performance this year. The Banking division has performed well as we continued to see good demand across our lending businesses and strong margins. CBAM was affected by falling markets but continued to attract client assets. Winterflood faced declining markets and reduced trading activity, in sharp contrast to the exceptionally strong conditions in the prior year.

Although we are aware of the pressures that the rising inflation and interest rates will have on our customers and colleagues, I am confident that our proven and resilient business model, strong financial position and deep expertise leave us well positioned to continue to support them now and into the future.

Financial Performance

The group's income reduced 2% to £936.1 million (2021: £952.6 million). The Banking division achieved a 10% increase in income, reflecting a strong net interest margin of 7.8% (2021: 7.7%) and 5.0% year-on-year loan book growth. In the second half, we saw loan book growth of 3.0% as momentum picked up. Income grew 6% in Asset Management as we continued to attract client assets despite the impact of volatile market conditions on wider client sentiment, with net inflows of 5% (2021: 7%). Winterflood saw a 48% reduction in income, reflecting a market-wide slowdown in trading activity from elevated levels during the pandemic and a change in the mix of trading volumes, exacerbated by periods of volatility in falling markets.

Adjusted operating expenses were broadly stable as a significant reduction in variable costs in Winterflood was offset by continued investment, as well as higher staff costs primarily reflecting the current inflationary environment, across the Banking and Asset Management divisions.

The bad debt ratio[1] of 1.2% (2021: 1.1%) remained broadly stable. Excluding Novitas, the bad debt ratio was 0.5% (2021: 0.2%) and reflected the release of Covid-19 provisions and the ongoing review of provisions and coverage across our loan portfolios. Whilst we are not yet seeing a significant impact from rising inflation and interest rates and their effect on customers on our credit performance, we are alert to the highly uncertain macroeconomic environment and continue to monitor closely the performance of the book.

As a result, adjusted operating profit was down 13% to £234.8 million (2021: £270.7 million), and we delivered a return on opening equity of 10.6% (2021: 14.5%), reflecting the reduction in Winterflood's profit and continued growth in the equity base. The return on average tangible equity was 12.2% (2021: 16.5%).

Following the group's solid financial performance in the year and strong capital position, and to reflect our continued confidence in the business model, the board is proposing a final dividend of 44.0p per share. This will result in a full-year dividend per share of 66.0p (2021: 60.0p), returning to the pre-pandemic level.

The group maintained strong capital, funding and liquidity positions, with our common equity tier 1 ("CET1") capital ratio of 14.6% (31 July 2021: 15.8%) significantly above the applicable minimum regulatory requirements.

Capital Management Framework

The prudent management of the group's financial resources is a core part of our business model. Our primary objective is to deploy capital to support disciplined loan book growth in Banking and to make the most of strategic opportunities.

The board remains committed to the group's dividend policy, which aims to provide sustainable dividend growth year-on-year, while maintaining a prudent level of dividend cover. Further capital distributions to shareholders will be considered depending on future opportunities.

We are considering the further optimisation of our capital structure, including the issuance of debt capital market securities if appropriate, targeting a CET1 capital ratio range of 12% to 13% over the medium term. In the short term, we would expect to operate above the 12% to 13% CET1 capital ratio target range, in light of the heightened macroeconomic uncertainty and potential growth opportunities available to us.

1 Bad debt ratio represents impairment losses in the year as a percentage of average net loans and advances to customers and operating lease assets.

Protecting Our Business Model and Maximising Future Income Generation
We continue to deliver against our strategic priorities to "Protect", "Grow" and "Sustain" our business model.

Our multi-year investment programmes are progressing well and enable us to protect our business, as well as enhance efficiency and future-proof our income generation capabilities. We are seeing tangible benefits from these investments. In our Savings franchise, investment in the customer deposit platform allowed us to broaden our product offering and drove significant growth in our retail deposits, up more than 50% since the launch of the platform in December 2018. The total balance of Fixed Rate ISAs now stands at c.£350 million, supporting lower cost of funds and funding diversification.

We continued to invest in our technology and digital capabilities to make our experts even more valuable, empowering them with key data insights and automated processes. In Motor Finance, our investment in digital and technology has allowed us to make the most of opportunities in the second hand car market. Through our partnership with AutoTrader, we are providing our dealers with real-time insights on vehicle demand and pricing, a unique proposition that has won the Innovation Award at the Car Finance Awards 2022. We have also developed Application Programming Interfaces ("APIs") that enable us to connect seamlessly into strategic partners and provide our finance offering at various points of the customer journey. In CBAM, we have undertaken a major re-platforming project to rationalise legacy systems and improve efficiency, while adding a digital portal to improve functionality and customer experience. We are also delivering a new customer portal in Asset Finance and are automating elements of our processes to enhance customer experience.

Focus on Maximising Disciplined Growth
We remain focused on maximising disciplined growth in our existing and adjacent markets. This year, we have conducted a further review of potential growth opportunities and have a strong pipeline of identified target areas that are aligned with our business model.

We recognise a significant opportunity in broadening our sustainable finance offering as the UK heads towards a net zero carbon economy. Our current lending already spans a diverse array of assets including wind and solar generation, battery electric vehicles and grid infrastructure. Over the coming years, we will continue to build further our expertise in green and transition assets, cementing our reputation for specialist knowledge. We are a through-the-cycle lender and will continue to support our customers as they look for financing of green and transition assets. In particular, we are seeing growth across a range of battery electric vehicles, predominantly through our Commercial business, as the UK's economy moves to electrify all forms of transport. As we develop our green growth strategy, we have set ourselves an initial green finance ambition. We aim to provide £1.0 billion of funding for battery electric vehicles over the next five years.

In addition, we are piloting a specialist buy-to-let extension to our existing Property bridging finance customers. We have also extended our sector coverage in Asset Finance with the addition of specialist materials handling and agricultural equipment teams. In Invoice Finance, we continue to pursue opportunities in the Asset-Based Lending ("ABL") space, including identifying syndication opportunities, partnering with other lenders.

Our Asset Management business is well aligned with the long-term trends in the wealth management space and we will continue to invest to support its growth potential. We remain committed to building on our excellent track record of increasing client assets organically, through the continued selective hiring of wealth management professionals, as well as through in-fill acquisitions.

Winterflood Business Services ("WBS") has delivered another strong performance, with income up 12% from £9.1 million to £10.2 million and assets under administration up 16% from £6.2 billion to £7.2 billion. Our award-winning proprietary technology is highly scalable and we see significant growth potential in this business, with a solid pipeline of clients expected to increase assets under administration in excess of £10 billion in the 2023 financial year.

Our Role in Supporting the Transition to a Sustainable Future
We have an important role to play in helping people and businesses transition to a lower carbon future and this responsibility is at the forefront of our minds. I am pleased with the significant progress we have made in developing our climate strategy, covering not just our operational impacts, but also understanding the implications across our financed activities.

This year, we have carried out an assessment of our indirect Scope 3 emissions across all categories of operational emissions as well as a first assessment of our financed emissions, initially focused on our loan book. Initial findings are available in our inaugural Task Force on Climate-related Financial Disclosures ("TCFD") report from page 42, where we also set out our progress this year and areas of future focus with regard to the integration of climate risk into our governance infrastructure, business strategy and risk management framework. Notwithstanding the efforts already made, we remain at the start of a long journey and recognise there is more to do to develop our own transition plans, targets and metrics. This also includes our ability to address challenges around data and modelling as we continue to work across industry and alongside our customers, to enhance both understanding and our capabilities.

As a group we are supportive of the goals of the Paris Agreement to achieve net zero emissions by 2050. Having previously set ambitious short-term net zero targets for our Scope 1 and 2 operational emissions, we are now setting ourselves a wider and longer-term ambition to align all of our operational and attributable greenhouse gas ("GHG") emissions from our lending and investment portfolios on a path to net zero by 2050. To this end, I am pleased to report that we have recently joined 116 banks globally as a signatory to the Net Zero Banking Alliance.

In CBAM, we have mobilised a Sustainability Programme with dedicated initiatives to embed the Principles for Responsible Investment ("PRI") and stewardship across all facets of our business, and as part of this, have recently become a signatory to the UK Stewardship Code.

Outlook
We have delivered a solid performance this year and we start the 2023 financial year against a highly uncertain external environment. Although we are alert to the impact of rising inflation and interest rates on our customers and wider financial market conditions, we remain well placed to continue delivering on our long track record of profitability and disciplined growth.

In Banking, we are focused on maximising opportunities in the current cycle and delivering continued growth at strong margins. We are confident in the long-term growth prospects of our businesses and will continue to assess opportunities to deliver disciplined growth.

In Asset Management, we continue to invest to support the long-term growth potential of the business. Whilst the business is sensitive to financial market conditions, we remain committed to driving growth both organically and through the continued selective hiring of advisers and investment managers, and through in-fill acquisitions.

As a daily trading business, Winterflood is highly sensitive to changes in the market environment, but remains well positioned to continue trading profitably, taking advantage of returning investor appetite. We see significant growth potential in WBS, with a solid pipeline of clients expected to increase assets under administration in excess of £10 billion in the 2023 financial year.

Our proven and resilient model and strong balance sheet, combined with our deep experience in navigating a wide range of economic conditions, leave us well placed to continue supporting our colleagues, customers and clients over the long term.

Adrian Sainsbury
Chief Executive

27 September 2022

Business Model

Close Brothers has a proven and resilient business model, delivering excellent service in sectors we know and understand.

Our distinctive strengths

Disciplined underwriting and pricing through the cycle

In Banking, our success is supported by our disciplined pricing and underwriting criteria. We consistently apply these criteria at all stages of the economic cycle. Our lending is predominantly secured or structurally protected, with conservative loan to value ratios, small loan sizes and short maturities. We do not operate in the undifferentiated, volume-driven markets which are dominated by the larger banks, and prioritise pricing and margins over volume.

Prudent management of financial resources

We take a prudent approach to managing our financial resources. A fundamental part of our business model is ensuring we have a strong capital position which allows us to grow, invest and meet all regulatory requirements. We also take a conservative approach to liquidity management and funding, as we focus on diversity of funding sources and a prudent maturity profile. This enables us to protect, grow and sustain our business model.

Service, expertise and relationships

Our focus on service and personal approach gives us a deep understanding of the needs of our customers, clients and partners. It allows us to offer high service levels and flexible solutions across all of our businesses. In Banking, this leads to fast lending decisions and access to funds when customers need them most. Close Brothers Asset Management and Winterflood are strong examples of the expertise of our people in their specialist fields, which underpins their success in wealth management and trading. We combine industry expertise and digital capabilities to support our customer-centric approach.

Distinctive culture

A key asset of Close Brothers is our distinctive culture. It brings out the very best in our people and our customer-centric and long-term approach to everything we do is embedded throughout the organisation. Our people are engaged in the business and embody the values that enable us to help our customers thrive. Our culture is key to the foundations of our successful business model and in driving our strong financial performance.

Diversified portfolio of businesses

Our diversified portfolio of businesses is an important part of our success and resilience over the years. We lend in a variety of sectors, locations and asset classes, and also provide wealth management services and securities trading. Close Brothers Asset Management and Winterflood provide additional income streams and contribute to the diversification of the group. This diversification supports the stability of earnings and dividends, particularly in challenging times, while also allowing us to continue investing to grow the business through the cycle.

Supporting our long-term track record of growth and profitability

High net interest margin and low bad debt ratio in Banking

We do not manage our businesses to a growth target, but instead prioritise the consistency of our lending criteria and maintaining strong returns. The consistent application of underwriting discipline and responsible lending criteria has resulted in a low bad debt ratio ranging from 0.6% to 2.3% over the last 10 years.

A key point of difference at Close Brothers is our long-term approach and the rigorous discipline behind our proven and resilient business model. This ensures we are well positioned to deliver for all of our stakeholders and continue our long-term track record of growth, profitability and returns.

Our track record

Each of our distinctive strengths has contributed to our long-term track record, enabling us to deliver loan book growth, profitability and returns to shareholders over many years, with each of our businesses supporting our overall performance as a group.

Strong customer scores

Latest scores

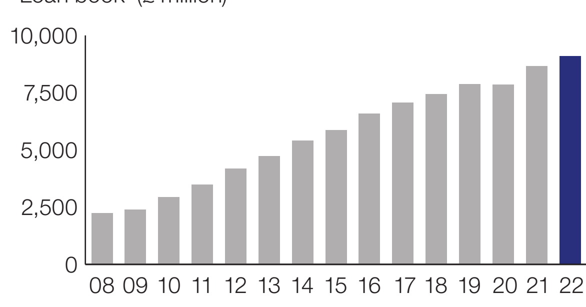
Asset Finance CSAT[1]	Property Finance NPS[2]	Motor Finance NPS[3]
+88	+87	+73

1 Customer satisfaction score ("CSAT").
2 Property Finance net promoter score ("NPS") excludes the Commercial Acceptances business.
3 Motor Finance Dealers net promoter score ("NPS").

We listen to our customers, putting their needs at the heart of our business. Our customer-centric approach is reflected in the strong customer satisfaction and net promoter scores we continue to achieve across our businesses.

Long-term growth

Loan book[1] (£ million)

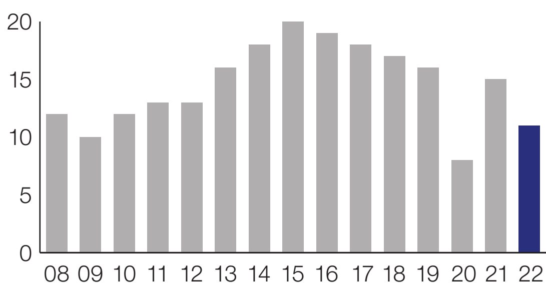


1 Loan book figures include operating lease assets.

We have a strong track record of delivering disciplined growth by maximising the opportunity in existing markets, as well as continuously exploring new opportunities that fit with our model.

Strong returns through the cycle

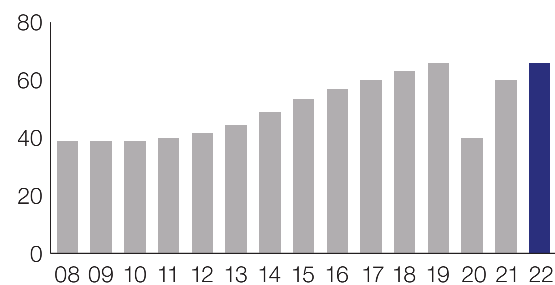
Return on opening equity (%)



The disciplined application of our business model and diversified portfolio of businesses have supported consistently strong returns at all stages of the financial cycle.

Long-term dividend track record

Dividend per share (p)



While dividend decisions in the 2020 and 2021 financial years have reflected the unprecedented uncertainty caused by Covid-19, we aim to return to delivering long-term, progressive and sustainable dividend growth in the future, in line with our policy.

Strong net inflows in CBAM

We have seen strong growth in our Asset Management business with net inflow rates ranging from 5% to 12% over the past five years. We continue to work to improve the long-term scale and profitability of the Asset Management division, capitalising on our vertically integrated and multi-channel distribution.

Long-term income generation in Winterflood

Winterflood has a long track record of profitable trading and good levels of income generation in a wide range of market conditions. The business made the most of the volatility and surge in retail trading seen during Covid-19 and, despite the impact of falling markets in this financial year, it remains well placed to navigate changes in the market environment. Winterflood continues to diversify its revenue streams and we are confident in accelerating the growth trajectory of WBS, balancing the cyclicality seen in the trading business.

Business Model continued

Combining industry expertise and digital capabilities to support our customer-centric approach.

How our investments in technology are making our experts even more valuable
Our successful business model is built around the deep expertise of our people, our personal and flexible service, and our long-standing relationships, which are all focused on delivering on the needs of our customers, clients and partners.

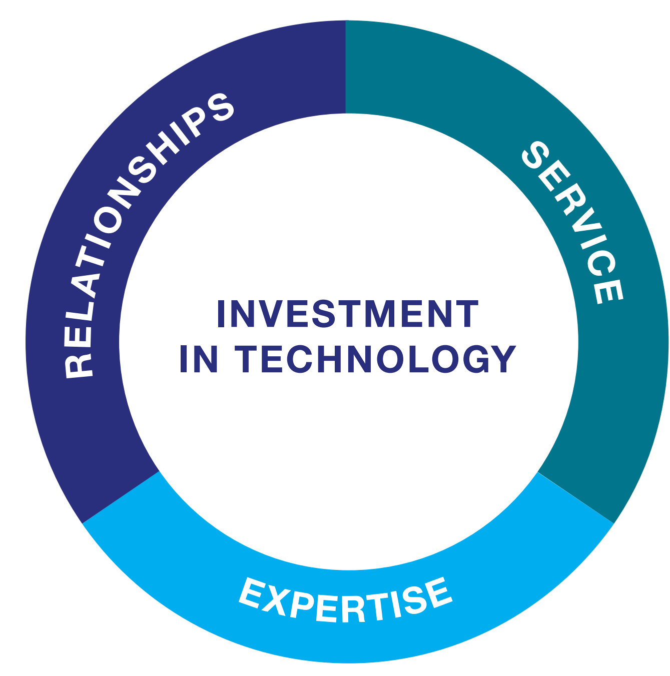
We are investing in our technology and digital capabilities to make our experts even more valuable. We are empowering them with unique data insights and automating processes to optimise their time.

We are combining the deep expertise of our people with innovative technology to add real value to our customers, clients and partners.

Using data insights to enhance our proposition and respond to changing customer needs

Adding functionality to improve the service and experience we can provide for our customers

Creating efficient and scalable platforms to support the growth of our business



Broadening our proposition for our Motor Finance dealer partners with real-time data and market insights, in partnership with AutoTrader

This unique proposition means we can provide dealers with real-time insights, both locally and nationally, on vehicle demand, optimum pricing and time to sell, all based on consumer search and purchase trends.

Combined with our own data on loan volumes, acceptance rates and stock funding position, we can provide dealers with data-backed insights, enabling them to stock their forecourts effectively and efficiently.

This unique and value-adding proposition won the Innovation Award at the Car Finance Awards 2022.

Providing more routes to customers and dealers via API links, enabling us to seamlessly offer our products at various stages of the customer journey

As customer behaviour changes, with increasing use of digital channels, we are adapting our Motor Finance model.

We have developed a set of APIs that enable us to connect seamlessly into strategic partners and provide our finance offering at various points of the customer journey.

We have partnered with iVendi, AutoTrader and others to enable dealers to position finance options on their advertising platforms and websites.

Enhancing customer experience and improving control in our Asset Management business

Our multi-year Asset Management technology transformation has included the delivery of a customer relationship management ("CRM") platform, which provides significant benefits for our clients and colleagues, whilst supporting our growth ambitions.

We have integrated the platform with our client portal to improve digital engagement, have delivered a new mobile application and have redesigned our annual client review pack, all of which have contributed to a significant reduction in paper usage.

On an operational level, we have introduced improved automated anti-money laundering and bank verification checks and have rolled out consistent onboarding practices. The integration between our platforms has generated productivity gains and with significantly fewer data entry points across the Advice process, we have reduced risk and improved our control environment.

Expanding our Savings business by diversifying our product offering and growing customer numbers through the Customer Deposit transformation programme

The programme involved a replacement of our back office systems, which enhanced our resilience and reduced manual processing, whilst creating a strong foundation from which to grow our savings proposition. Since the launch of the platform, we have broadened our product range, bringing to market new notice account and ISA product ranges. Our online portal also offers an alternative channel for our customers to communicate with us, as we adapt to our customers' preferences. Providing strong customer service remains core to the business and we have maintained very high levels of service, with a customer satisfaction score of 84%.

This investment has supported significant growth in our retail deposits, which are up 16% year-on-year, following similarly strong growth in previous years. This growth is supported by the online channel, which now has over 50% of customers signed up for self-service, setting us up for scalability in future years.

Transforming platforms in Asset Finance to improve customer service outcomes and process efficiency

Our Asset Finance transformation has allowed us to automate non-value-adding parts of the customer journey, whilst building rich customer insights, and respond to changing customer behaviour through our new customer relationship management system.

We are developing a customer portal that will allow customers to choose the services they receive based on their needs and improving their user experience.

As a result of our transformation programme, during Covid-19, we were able to build, test and launch our CBILS portal which included automated eligibility testing, within 10 days, as we continued to support our customers during this challenging period.

We are also delivering a "proposal to payout" solution, which enables integration directly into service providers such as credit reference agencies, and offers additional functionality such as e-documents and e-signature.

Launch of new insight tools in Premium Finance that help our insurance brokers make better decisions

Foresight is a new model which provides unique point of quote customer behaviour insights to support personal lines broker commercial decision making.

Foresight has been built using machine learning models on our extensive Premium Finance data, supplemented with a broader market insurance policy dataset. The models predict the likelihood of customers cancelling before the end of their policy term.

Focus 360 is a new tool available for our commercial brokers, with real-time finance, credit and operational data summarised into an interactive dashboard to help them understand how Premium Finance is performing. Brokers also get access to peer benchmarking data to understand areas of improvement for new business opportunities.

Our Stakeholders

Delivering for our stakeholders

At Close Brothers, we have a long-term track record of creating value and delivering positive outcomes for all of our stakeholders.

We work hard to understand and meet the needs of our different stakeholder groups, engaging with them and adapting our service and offering to create value for them. We undertake a comprehensive programme of stakeholder engagement and consider the feedback provided, embedding this in the decision-making process throughout the group.

Colleagues

With approximately 4,000 employees around the UK, Ireland, the Channel Islands and Germany, we have a diverse and motivated workforce which delivers the highest levels of service to our customers, clients and partners. We are committed to the development of our colleagues, ensuring they are supported and engaged.

Key priorities of our colleagues

- A safe working environment
- A fair, supportive, diverse and inclusive culture where employee feedback is valued
- Being appropriately rewarded for their contributions
- Opportunities for training and development
- Long-term successful performance of the group

Engaging with our colleagues

Engagement with employees helps to attract, build and retain a high calibre talent pool and ensure that our employees remain enthusiastic about their work and Close Brothers.

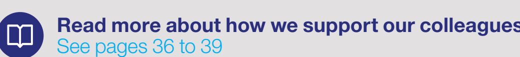
Engagement takes place daily through line managers, with senior management regularly speaking at Town Halls and other business-wide forums. Listening to our colleagues and acting upon their feedback is essential to maintaining employee engagement, whether this is through undertaking regular employee opinion surveys or management leading engagement activities to provide updates on business performance. Training and mentoring programmes are in place to support the development of all employees.

Key engagement during the year

We ran our latest Employee Opinion Survey, which closed in March 2022, to gather feedback from our colleagues and provide them with a platform to anonymously share their views on working at Close Brothers. We listened closely to this feedback and held a series of Town Halls and team meetings with our colleagues to discuss the results and consider any actions to take. We also donated £2 per survey completed to our staff-nominated charities, Cancer Research UK and Make-a-Wish.

Ways we have created value

- Established new Gender Balance, Social Mobility, and Working Parents and Carers Networks as part of our Diversity and Inclusion initiatives.
- Held events and online workshops on a variety of topics including International Women's Day, LGBTQ+ History Month, Race Equality Week, Time to Talk Day, Black History Month and National Inclusion Week.



Read more about how we support our colleagues
See pages 36 to 39

Customers, Clients and Partners

The needs of our customers, clients and partners are at the heart of our business and are core to our purpose. Our aim is to be there for our customers across all market conditions to help them meet their goals with ease and confidence that earns their loyalty and ensures we build long-lasting customer relationships.

Key priorities of our customers, clients and partners

- Building and maintaining strong personal relationships based on trust, understanding and specialist expertise
- Understanding, treating and valuing them as individuals
- Fair and equitable conduct of business
- Receiving consistent, responsive and supportive service delivered with simplicity, clarity and ease
- Meeting their needs throughout changing economic cycles
- Receiving customer-led propositions that meet their individual needs

Engaging with our customers, clients and partners

The group has customers, clients and partners in the UK, Ireland, the Channel Islands and Germany. Our long-term success depends on the strength of our relationships with customers, clients and partners, our specialist expertise and maintaining high standards of service.

As such, central to all decision-making is doing the right thing for customers, clients and partners, by helping them achieve financial solutions to meet their needs.

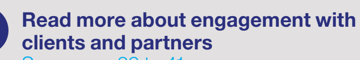
Our specialist, expert teams consistently deliver high quality service to our customers, clients and partners. We engage with our customers throughout their end-to-end journey with us and actively seek their feedback. We proactively review the customer feedback we receive in our local business unit customer forums and continuously look at how we can improve our experience and service, ensuring the service we provide meets their needs and is aligned with our customer principles. We also use this feedback to evolve our proposition and offering as we adapt to the changing needs of our customers, clients and partners.

Key engagement during the year

We have supported our customers, clients and partners throughout the heightened uncertainty we have experienced during the year, and maintained close contact as they navigated rising inflation and cost of living pressures, as well as the roll-off of Covid-related government support. We have discussed our customer needs with them regularly to help ensure we are supporting them appropriately.

Ways we have created value

- Continue to refine our products and services based on customer feedback to deliver positive customer outcomes, underpinned by high quality service and a great end-to-end experience.
- By deeply understanding customers' needs and goals and tailoring new solutions to meet those needs, created an award-winning and industry-first solution, providing a forecourt insights data tool to motor dealers.



Read more about engagement with our customers, clients and partners
See pages 39 to 41

Suppliers

Our business is supported by a broad range of suppliers, enabling us to provide high standards of service to our customers, clients and partners. We are focused on developing and maintaining transparent and sustainable working relationships with our suppliers.

Key priorities of our suppliers

- Strong and sustainable relationships with Close Brothers
- Fair and equitable conduct of business
- Appropriate and clear payment procedures
- An understanding of the Close Brothers Group purpose and strategy
- Robust risk management framework

Engaging with our suppliers

Engagement with our suppliers enables the group to develop and maintain long-term and sustainable relationships and ensures our suppliers can better understand and align to our risk management requirements and operate responsibly.

Our key supplier relationships are owned by relationship managers and are supported by our central third party management function who provide specialist expertise and support. Engagement with suppliers includes regular meetings, with strategic meetings taking place at least quarterly with our top tier suppliers, as well as an annual survey to seek feedback on Close Brothers as a client.

Key engagement during the year

Throughout the last year, we have continued to maintain our frequent contact with our suppliers and conduct regular reviews of service.

Our annual survey of key suppliers was undertaken in July 2022, focusing on how Close Brothers performs as a client and how our suppliers feel about doing business with us.

We continue to share a strategic vision with our suppliers to help them understand our direction and provide clarity, while ensuring that we remain considerate of our suppliers.

We are also working in partnership with our key suppliers within facilities and fleet management to directly collaborate and contribute to the sustainability agenda.

Ways we have created value

- Working with our facilities management partner to invest funds and expertise to accelerate our carbon reduction plans across our group property portfolio.
- Continued to refine our third party management framework to ensure that processes remain efficient, are business enabling but remain robust from a risk management perspective and remain aligned to latest regulatory requirements.

Read more about our supplier relationships
See page 41

Regulators and Government

We are committed to sustaining high standards of business conduct across our business and maintain an active dialogue with government and regulatory bodies.

Key priorities of our regulators and government

- Good customer outcomes
- Compliance with both applicable regulations, including prudential requirements, and with regulators' expectations
- Recognition of the importance of resilience and risk management
- Provision of high quality information and regulatory reporting
- Active consideration of risks relating to sustainability and other climate matters
- Transparent group tax strategy

Engaging with our regulators and government

The group fosters an open and transparent relationship with all our regulators, including the Financial Conduct Authority ("FCA") and the Prudential Regulation Authority ("PRA"), as well as government authorities and trade associations. It is important that we maintain a culture that is focused on high standards in all our business activities, regulatory compliance and an open relationship with our regulators. Active engagement with the relevant regulators and associations helps to ensure the business is aware of and adapting to the evolving regulatory framework.

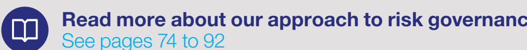
We maintain a proactive dialogue with the PRA and the FCA and have a constructive relationship with HMRC to help ensure we are aligned with the relevant regulatory frameworks. We regularly interact with the trade bodies and business associations we are affiliated with to ensure we are engaged with issues impacting our industry.

Key engagement during the year

We have continued to maintain a close working relationship with the regulators as we progress through the application process for moving to use the Internal Ratings Based approach. We submitted our initial application in December 2020 and, since then, have moved through a series of reviews and interviews. We received confirmation from the PRA that our application successfully transitioned to Phase 2 of the process in March 2022. Phase 2 documentation was submitted in July 2022 and we are well positioned to support the next set of reviews.

Ways we have created value

- Contributed constructive feedback to trade associations on a wide range of regulatory developments such as the Debt Respite Scheme (Breathing Space), Consumer Duty, and Statutory Debt Repayment Plans ("SDRP").
- Kept abreast of regulatory developments to better understand not only changes in regulation but also changes in regulators' expectations and industry concerns.



Read more about our approach to risk governance
See pages 74 to 92

Our Stakeholders continued
Delivering for our stakeholders

Communities and Environment

Close Brothers is committed to contributing lasting value and making a positive impact on the society in which we operate and the environment more broadly. This underpins the growing range of programmes and initiatives we support that benefit our communities and the environment.

Key priorities of our communities and the environment
- A suitable strategy for approaching sustainability issues
- Support for community initiatives
- Job creation and social mobility
- A long-term focus on addressing the impacts of climate change

Engaging with our communities and the environment
Engaging with local communities helps the board and our employees develop our understanding of our clients, customers and partners so that we can support them and help them to achieve their ambitions, whilst also building employee engagement. We firmly believe that environmental considerations should form an integral part of the decisions we make as a business and employees across the group are actively engaged on responsible behaviours and environmental issues.

Many of our employees participate in group-wide committees established to drive forward a range of initiatives around diversity and inclusion, helping the environment and charitable and community activities, with our employee volunteers the driving force behind our successful community and charitable events. We have a range of partnerships with leading organisations dedicated to creating positive impact via diversity, inclusion and social mobility schemes, while our regular interactions with industry bodies and third party consultants help inform our strategy towards climate change and the environment.

Key engagement during the year
In recognition of the Queen's Platinum Jubilee, we donated a tree for every colleague to support the Queen's Green Canopy scheme. This will help to enhance our environment and create a legacy that will benefit future generations, which is something that is deep-rooted in our purpose and our responsibility. The donated trees will be planted in deprived urban areas and in and around schools, where they will improve the quality of life in these communities by giving access to green spaces and all the benefits these bring.

Ways we have created value
- Became a signatory to the Net Zero Banking Alliance.
- Established a new relationship with The Wildlife Trusts and donated £50,000 to support the charity's work.

Read more about our volunteering and community initiatives
See pages 38 to 39

Investors

Close Brothers has a proven and resilient business model and is focused on generating long-term, sustainable value for its investors, while also maintaining a strong balance sheet.

Key priorities of our investors
- Strong returns and financial resilience through the cycle
- Capital generation and distributions
- Sustainable and consistent business model
- Appropriate governance practices and regard to environmental and social responsibility

Engaging with our investors
Our investors are the providers of capital to our business so it is important that we engage actively with them and listen and respond to their feedback.

We have an established programme of engagement for shareholders, debt capital providers and other market participants through our investor relations team, which includes regular dialogue with the executive team and chairman. We proactively collate feedback from our investors and relay this to senior management, the board and to our employees in the appropriate forums such as Town Halls.

Key engagement during the year
We maintained our programme of communication with the investment community throughout the year, including through our regular market updates and analyst presentations. We undertook investor roadshows covering the UK, North America and Europe and completed a series of meetings with sell-side analysts and sales desks, as well as with fixed income holders. In addition, our chairman held a corporate governance roadshow with top shareholders.

Ways we have created value
- Enhanced our disclosures on Environment, Social and Governance ("ESG") in line with the recommendations of the TCFD.
- Comprehensive programme of engagement over the year with existing and prospective shareholders and analysts, covering over 70 institutions across the UK, Europe and North America.

Read our TCFD disclosures
See pages 42 to 57

Section 172 Statement and Statement of Engagement with Employees and Other Stakeholders

Section 172(1) of the Companies Act 2006 requires the directors of a company to act in a way that they consider, in good faith, would be most likely to promote the success of the company for the benefit of its members as a whole, and in doing so have regard (amongst other factors) to various other considerations and stakeholder interests:

- the likely consequences of any decision in the long term;
- the interests of the company's employees;
- the need to foster the company's business relationships with suppliers, customers and others;
- the impact of the company's operations on the community and the environment;
- the desirability of the company maintaining a reputation for high standards of business conduct; and
- the need to act fairly as between members of the company.

The board is responsible for establishing and overseeing the company's values, strategy and purpose, all of which centre around the interests of key stakeholders and other factors set out in section 172(1).

The directors are conscious that their decisions and actions have an impact on stakeholders, including employees, customers, suppliers, communities and investors, and they have had regard to stakeholder considerations and other factors in section 172(1) during the year.

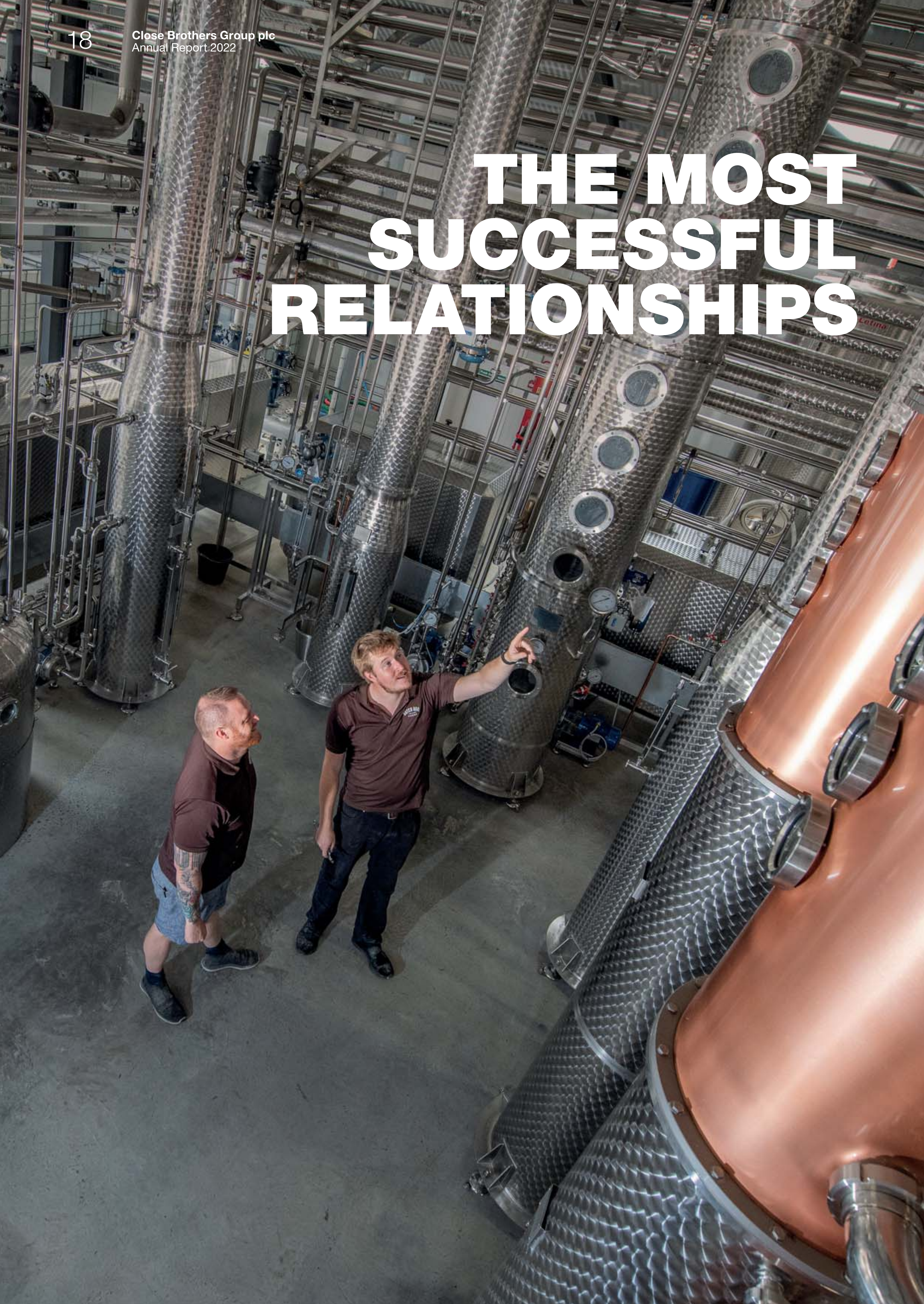
Regular engagement with stakeholders, both directly and indirectly via management, has continued to be an important focus for the board and has ensured that the directors are aware of and have effective regard to the matters set out in section 172(1). Throughout the year, the board received and discussed stakeholder insight and feedback and it ensured that stakeholder considerations were taken into account in the board's deliberations and decision-making.

Whilst the board acknowledges that, sometimes, it may have to take decisions that affect one or more stakeholder groups differently, it seeks to treat impacted groups fairly and with regard to its duty to act in a way that it considers would be most likely to promote the success of the company for the benefit of its members as a whole, having regard to the balance of factors set out in section 172(1).

Considerations relating to the factors in section 172(1) are an important part of governance processes and decision-making both at board and executive level, and more widely throughout the group. For example, the Schedule of Matters Reserved to the Board and the terms of reference for each of the board's committees emphasise the importance of decision-making with regard to relevant factors under section 172(1) and broader stakeholder considerations.

Necessarily in a large and regulated group, some decisions are taken by management or the directors of subsidiary companies. These decisions are taken within parameters set by the board and there is a robust framework that ensures ongoing oversight, monitoring and challenge by the board and its committees (including certain decisions and activities that are always reserved to the board or its committees). The board has regard to relevant factors set out in section 172(1) in its activities in these areas, including considerations relating to the potential impact of delegated decisions on the long-term success of the group as a whole, the group's reputation for high standards of business conduct and the consequences of local decisions on the group's stakeholders.

Detail on the board's engagement with, and consideration of, the company's stakeholders can be found on pages 99 to 122 of the Corporate Governance Report.



THE MOST SUCCESSFUL RELATIONSHIPS

WORK BEAUTIFULLY ON BOTH SIDES

Case Study

Ellers Farm Distillery wanted a financier who shared their ethos and commitment to sustainability.

The Challenge

Starting up in September 2020, Ellers Farm Distillery has grown steadily and ethically. Based on an old North Yorkshire farmstead, it includes a barn-based distillery and an orchard to sustain vodka making. Opening in the pandemic placed extra pressure on their ambitious plans to focus on people, planet and profit. With a world-renowned distiller and head of sustainability in place, it was vital they found a like-minded funder to support them in acquiring and installing the equipment they needed.

The Solution

Ellers Farm spoke to several organisations but were particularly impressed with Close Brothers. We showed an understanding of their ethos and commitments to the environment, as well as governance and funding costs. Our industry specialists developed a finance solution that funded their new distillery plant, consisting of stills, bottling and fermentation equipment, a boiler and a water treatment plant. Today, they are successfully supplying supermarkets, high-end restaurants, and directly to the consumer.

As we're an ethical business that's doing things a little bit differently, patience is key. Close Brothers were brilliant to work with. We put our partners and suppliers under scrutiny to check that they meet our values, and we're confident we chose the right funder.

Andy Braithwaite, Managing Director
Ellers Farm Distillery

The Foundations of Our Business

Our culture, our strategy and our responsibility underpin the foundations of our success, enabling us to deliver on our purpose: to help the people and businesses of Britain thrive over the long term.

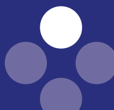
We believe in putting our customers and clients first. Our cultural attributes bring out the very best of our people, skills and strong reputation that we have built with our stakeholders over many years. A combination of expertise, service and relationships with teamwork, integrity and prudence underpins our approach and gives us the tools to help our customers thrive over the long term.

Our long-term strategic approach places exceptional service at the heart of everything we do. Each of our diverse, specialist businesses all have a deep industry knowledge, so they can understand the challenges and opportunities that our customers and clients face. We support the unique needs of our customers and clients to enable them to thrive, rather than simply survive, whatever the market conditions.

And we recognise that to help the people and businesses of Britain thrive, we also have a responsibility to help address the social, economic and environmental challenges facing our business, employees and clients, now and into the future.

These guiding principles are the foundations of our success and enable us to continue delivering for our stakeholders.

Our Purpose

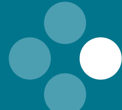


OUR PURPOSE IS TO HELP THE PEOPLE AND BUSINESSES OF BRITAIN THRIVE OVER THE LONG TERM

Our purpose is at the heart of our business and guides every decision we make. We take a long-term approach to managing our business.

This means supporting our colleagues, customers and clients, and the communities and environment in which they operate, for the benefit of all our stakeholders. It means helping people and businesses unlock their potential and plan for the future with confidence, building relationships that stand the test of time. It also means that we continue to be there for the long term, whatever the economic climate, making decisions that are right for today and for generations to come.

Our customers are the people and businesses of Britain and we recognise that putting their needs and interests at the heart of our business is central to our success.



OUR DISTINCTIVE CULTURE AND LONG-TERM APPROACH ARE EMBEDDED THROUGHOUT THE ORGANISATION

Our distinctive culture and long-term approach are embedded throughout the organisation.

It combines our values of service, expertise and relationships with our ways of working: teamwork, integrity and prudence. These values ensure we continue to provide excellent service for our customers and clients over the long term, bringing out the best in our people and supporting our strong reputation.

Service

We pride ourselves on our excellent level of service and thinking that is both entrepreneurial and disciplined.

92%

2021: 93%

see colleagues **go the extra mile** to meet the needs of customers and clients

Expertise

We are committed to fostering a culture that attracts and retains talent, whilst also growing and building the expertise of our people.

97%

2021: 97%

of colleagues believe they have the **skills and knowledge** to do their job well

Relationships

We take the time to understand and build strong long-term relationships with our customers and clients.

High customer satisfaction and strong levels of repeat business across the group

Teamwork

We promote teamwork in a fair and open environment, where individuals and their contributions are valued and respected.

97%

2021: 96%

of colleagues believe their **immediate team works well together** to get the job done

Integrity

We insist on trustworthy behaviour and always acting with integrity – “doing the right thing”, internally and externally.

96%

2021: 97%

of colleagues believe our **culture** encourages them to **treat customers and clients fairly**

Prudence

We always take a prudent, robust and transparent approach to risk management.

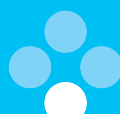
95%

2021: 94%

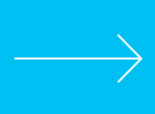
of colleagues believe we are committed to **prudent risk management**

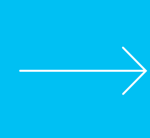
All scores are taken from Close Brothers’ Employee Opinion Survey, with the survey closing in March 2022.

Our Strategy



TO PROTECT, GROW AND SUSTAIN OUR PROVEN AND RESILIENT BUSINESS MODEL SO THAT IT CONTINUES TO DELIVER IN THE LONG TERM





Protect
Keeping it safe

Maintaining and enhancing the **key strengths** of our business model

Grow
Delivering disciplined growth

Maximising opportunities in existing and new markets; loan book growth remains an output of the business model

Sustain
Doing it responsibly

Securing the **long-term future** of our business, customers and the world we operate in

Protect
Keeping it safe

Maintaining and enhancing the key strengths of our business model
Our key strengths differentiate our proven and resilient business model and have contributed to our long-term track record, enabling us to deliver growth, profitability and returns to shareholders over many years.

Our high levels of personal service and specialism are key points of differentiation. Our people have deep knowledge of the industry sectors and asset classes we cover, leading to lending decisions informed by experts and faster access to funds when our customers need them most.

We run our business prudently, maintaining a strong funding, liquidity and capital position. Our loan book is predominantly secured or structurally protected, with a focus on maintaining strong credit quality. We adopt a consistent and disciplined approach, as we maintain prudent underwriting and pricing in our lending.

Whilst our focus on the strict management of costs remains unchanged, it is essential that we continue to invest in protecting the key attributes of our model and maintain regulatory compliance and enhance our operational and cyber resilience. Our investments and cost base support the generation of our strong margins, enabling our operational and financial resilience, while also supporting our ability to maximise opportunities as they arise.

Protecting our business: operational and cyber resilience

We continue to invest in the operational and cyber resilience of our business, to protect our customers whilst maintaining and enhancing our key strengths as a business.

In line with UK regulatory developments, we have identified our important business services, assessed their resilience, and are aligning our capital investment roadmap with these services to enable enhancements to their resilience over time. This is enabling us to test and demonstrate how our most important services can be sustained through severe but plausible disruptions, and to target enhancements to address any vulnerabilities identified.

Further, we continue to invest in people, systems and processes through a multi-year strategic cyber resilience programme.

Our focus on cyber resilience includes evolving our in-house cyber security expertise, augmented by input from strategic supplier partnerships, whilst maintaining Security by Design as a core tenet of technology and operational changes. Utilising an industry-standard control framework, we maintain an ongoing assessment of our risk and control profile, targeting investments to effectively prevent compromise of information assets. Acknowledging the nature of cyber risks, we recognise there is a risk that prevention may not be absolute and we therefore simultaneously maintain our investment in capabilities to detect, respond to, and recover from any cyber events which may occur.

More information on our approach to risk can be found on pages 74 to 92

Our Strategy continued

Grow
Delivering disciplined growth

Maximising opportunities in existing and new markets

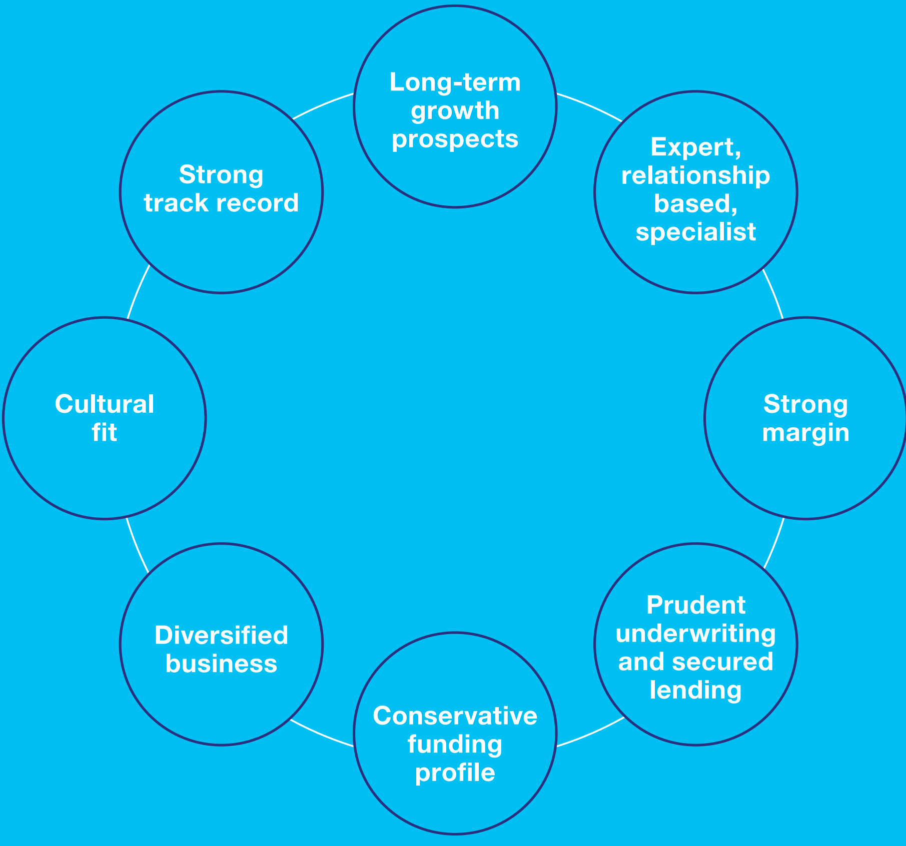
Our focus on delivering disciplined growth is critical in enabling us to protect the model, whilst still maximising opportunities and taking the business forward. It allows us to prioritise consistent and prudent underwriting criteria and maintain strong returns across our businesses. We do not manage the group to a growth target, with loan book growth remaining an output of the business model.

Whilst we remain operationally and strategically well positioned to continue supporting our customers and delivering for our shareholders, we continually assess existing and new markets for growth opportunities that fit with our model.

We have a long history of delivering disciplined growth and to support us in building on this track record, we developed our "Model Fit Assessment Framework". This framework supports our review of opportunities, assessing their fit with our model, culture and responsible way of doing business, alongside their suitability from a strategic perspective.

Ensuring the right fit

These eight criteria are all factors that we consider when assessing growth opportunities. They capture the key strengths of our model and so by taking these into account, it ensures we are following a disciplined approach to growth and preserving the attributes that generate value for our shareholders.



Growing our business: commercial opportunities in the green lending space

Delivering disciplined growth

The UK government's Net Zero Strategy report estimates up to £90 billion of private investment in the green industrial revolution by 2030[1].

The existing markets and assets that we have deep expertise in financing are transitioning towards become greener, aided by government policies and corporate commitments, as the UK aligns towards a net zero economy.

We currently finance a wide array of green assets, as well as transitioning assets where new green technology is still developing:

- Our Asset Finance business has been financing wind farms, solar parks and hydro schemes since 2014 and also finances transition assets such as gas peaking plants. We also support battery electric vehicle deployments through the Wholesale Fleet business
- In our Motor Finance business, we finance hybrid and electric vehicles and support our dealer partners with guidance and thought leadership on the market, features of the technology and considerations specific to alternative fuel vehicle ownership
- In our Property business, all of our new developments have an EPC rating of A or B and we have significant expertise in financing sustainably focused developments

Financing a battery energy storage system

We have recently provided a development loan to Pacific Green Technologies Group for the construction phase of one of the UK's largest battery energy storage systems ("BESS"), a 99.98 MW battery energy storage system at Richborough Energy Park in Kent.

Given the sizeable market opportunity in supporting the transition to a net zero economy, we are continually looking for opportunities for disciplined growth in this arena, whether that be through increasing our appetite for lending to green asset classes or expanding our offering into new green propositions and technologies.

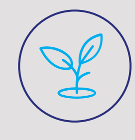
We continue to build our expertise in green and transition assets, cementing our reputation for specialist knowledge and financing.

£90bn

Estimated potential investment in the UK green industrial revolution by 2030

1 HM Government (2021), "Net Zero Strategy: Build Back Greener", page 10. Contains public sector information licenced under the Open Government Licence v3.0 (https://www.nationalarchives.gov.uk/doc/open-government-licence/version/3/).

Growing our business: Close Brothers Brewery Rentals



Delivering disciplined growth

The Brewery Rentals business was established in 2007 and, since then, has grown from strength to strength. We work with brewers and distillers, offering tailored solutions for keg and cask rentals, container maintenance services and equipment finance solutions.

We operate from four sites around the UK and, with a fleet of over 2.3 million, are the UK's biggest owner of kegs and casks. We have grown the business organically, delivering a record performance in the 2022 financial year.

We are continually evolving our offering and expanding into complementary products, utilising our specialist expertise and knowledge to offer flexible solutions to meet the needs of our customers. This demonstrates the Close Brothers model perfectly – specialist knowledge in action to support our customers and a focus on expanding into niche and adjacent markets to deliver disciplined growth.

EkegPlus

EkegPlus is a container rental pooling service, offering an outsourced keg and cask solution to allow brewers to pay only for the time they are using the containers.

Each container is embedded with Radio Frequency Identification ("RFID") technology so it is uniquely identifiable, enabling customers to track containers directly and giving them greater visibility over usage and costs.

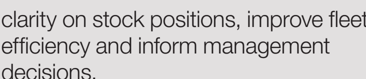
We developed the product in response to requests from customers for a direct to retail outlet short-term rental solution. It has enabled us to operate in a market segment previously unavailable to us.

EkegPlus has seen strong customer demand this year, increasing to 90 customers since launch, with more in the pipeline.

Innovative and sustainable focus

As a business, we are constantly developing new technology as we broaden our offering and provide greater benefits for our customers.

Our award-winning container RFID tracking technology allows customers to monitor an array of data points that can provide clarity on stock positions, improve fleet efficiency and inform management decisions.



The self-collection element of our EkegPlus service also supports the reduction of CO_2 emissions.

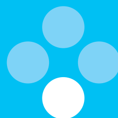
We use ultra-high pressure ("UHP") water jetting for the internal cleaning of containers, an innovative method that means we can process units quickly and to a high standard. There are no chemicals used in the UHP process, reducing our impact on the environment.

During Covid-19, we were able to help brewers with lockdown waste by providing a solution to safely empty the expiring contents of kegs and casks in an eco-friendly manner. Over 130 million pints of beer, cider and ale were either sold to farmers for fertiliser or used as a pH balancer for anaerobic digestion processes.

2.3m

Our fleet of kegs and casks

Our Strategy continued



Sustain
Doing it responsibly

SECURING THE LONG-TERM FUTURE OF OUR BUSINESS, CUSTOMERS AND THE WORLD WE OPERATE IN

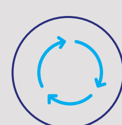
Our long-term approach is embedded throughout our organisation and guides all of our decisions, so it is important that we evolve our business to sustain it for the long term.

For our customers, this involves recognising and responding to changes in their behaviour, adapting our business accordingly and improving our digital capabilities and the customer journey to enhance their user experience. We continue to value the importance of long-standing relationships with our customers, providing them with exceptional service and the deep industry knowledge and expertise of our people.

For our people, this means maintaining our focus on employee engagement to support the wellbeing and needs of our colleagues. We will continue to enable the ongoing development of our people, as we look to retain talent and support our succession planning, whilst also nurturing an inclusive culture where our people feel valued and respected.

We are also focused on our impact. We create value in our local communities by understanding the needs of SMEs and helping them achieve their ambitions, and by creating equal opportunities for all, regardless of background. We maintain our focus on reducing our environmental impact and responding to the risks and opportunities brought by climate change.

Sustaining our business: supporting the opportunities brought by climate change



Offshore wind farm support vessels
Offshore wind is a significant contributor of renewable energy in the UK, with the government recently announcing its ambition to reach 50GW of installed capacity by 2030, supporting 90,000 jobs[1].

Our Commercial Marine finance team is an active funder to businesses performing mission-critical services to the UK offshore wind farm sector, where innovative crew transfer vessels such as the HST Harri (pictured) operated by High Speed Transfers Limited, are engaged to deploy engineering and maintenance crews safely to offshore wind farms in the North Sea, in often challenging weather conditions. With the ability to transfer up to 26 personnel and equipment at a time, these modern vessels, which were developed in cooperation with the offshore wind industry, provide an efficient and timely service to ensure that offshore wind farms can remain online and reliably provide a major, low-carbon contribution to the UK grid.

1 HM Government (2022), "British energy security strategy". Contains public sector information licenced under the Open Government Licence v3.0 (https://www.nationalarchives.gov.uk/doc/open-government-licence/version/3/).

SHARED PERSPECTIVES

MAKING IT HAPPEN

Case Study

Gold Property Developments has been building family homes in semi-rural locations across the South East of England for more than 20 years.

Finance Solution

Gold Property Developments sought finance for its Fairbrook Grove development – now an award-winning innovative community of 14 Passive House homes, the UK's first private development of its kind.

With a shared philosophy on sustainable development, we understood the challenges and were able to provide the finance required. In turn, this freed up the capital for Gold Property Developments to use on other sustainable development projects.

The Result

Since working with us, Gold Property Developments has thrived as a business, demonstrating award winning sustainability credentials, and going from strength to strength.

It has been important to us and very helpful that Close Brothers has a similar philosophy to sustainable development and supported us to proceed with these sorts of developments.

We have gone from strength to strength since doing so, we have really thrived as a business.

Bradley Gold, Chairman
Gold Property Developments

Strategy and Key Performance Indicators

Our long-term strategic approach focuses on ways to protect, grow and sustain our model, enabling us to continue delivering excellent stakeholder outcomes.

Protect
Keeping it safe

How we are achieving this

- **Maintaining a strong capital, funding and liquidity position**
- **Consistently applying our prudent business model through our disciplined approach to underwriting and pricing**
- **Balancing investment needs and cost discipline**
- **Maintaining regulatory compliance, whilst enhancing operational and cyber resilience**

The progress we are making

- Strengthened our funding base with a securitisation of our Motor Finance book and growth of our deposit base
- Continued to lend through the cycle, adhering to our disciplined approach to underwriting and pricing, whilst maintaining a strong margin
- Maintained our strict focus on costs whilst investing in strategic programmes that protect the business model
- IRB application successfully transitioned to Phase 2
- Further enhanced our operational and cyber resilience, whilst undertaking a continuous cycle of improvements

Future priorities

- Retaining our strong capital, funding and liquidity position
- Continuing focus on pricing and prudent underwriting whilst lending through the cycle
- Strict management of costs whilst investing in strategic programmes that protect key attributes of our model
- Ongoing preparations for a transition to the IRB approach, although the timetable remains under the direction of the PRA
- Continuing preparations for implementation of the FCA's Consumer Duty
- Compliance with regulatory changes, whilst further strengthening our operational and cyber resilience
- Monitor and mitigate external threats, including from heightened uncertainty in the economic and geopolitical environment and competition from both established and emerging players

Grow
Delivering disciplined growth

How we are achieving this

- **Maximising opportunities available to us in the current environment**
- **Capitalising on cyclical opportunities in each business**
- **Extending our product offering and launching new initiatives**
- **Assessing opportunities for disciplined growth in new and existing markets**

The progress we are making

- Over £400 million of loan book growth and a strong margin, as we make the most of demand across our lending businesses
- Recruited new teams to extend our offering in agriculture and specialist materials handling
- Digital investments have enabled us to broaden our proposition, with Motor Finance entering strategic partnerships with AutoTrader and iVendi
- Piloting a buy-to-let offering in our Property bridging finance business
- Grown our ISA balances to c.£350 million following the expansion of our Retail Savings product range
- Investing in new hires in CBAM in line with our growth strategy
- Continued strong growth of Winterflood Business Services, with assets under administration increasing to £7.2 billion

Future priorities

- Continue to capitalise on cyclical and structural growth opportunities in each of our businesses
- Assess opportunities in new and existing markets, in line with the "Model Fit Assessment Framework"
- Broadening our sustainability offering to capture demand within the green lending space
- Further growth of CBAM through hiring and selective acquisitions
- Continued growth of Winterflood Business Services, with a solid pipeline of clients expected to support assets under administration in excess of £10 billion in the 2023 financial year
- Aiming to provide £1.0 billion of funding for battery electric vehicles in the next five years

Sustain
Doing it responsibly

How we are achieving this

- **Promoting an inclusive culture and supporting new ways of working and social mobility**
- **Reducing our impact on the environment and responding to the threats and opportunities of climate change**
- **Promoting financial inclusion, helping borrowers that might be overlooked and enabling savers and investors to access financial markets and advice to plan for their future**
- **Supporting our customers, clients and partners in the transition towards more sustainable practices**

The progress we are making

- Remain on track to achieve our target of 36% of female senior managers and 14% ethnically diverse managers by 2025
- Established new Gender Balance, Social Mobility, and Working Parents and Carers Networks as part of our Diversity and Inclusion initiatives
- Supporting the wellbeing of our employees in the hybrid working environment with flexible working arrangements and events and initiatives from internal networks, virtual workshops and online fitness classes
- Continued to support social mobility programmes, with six students joining us through our partnership with UpReach
- Offering employees access to our financial education website provided by Close Brothers Asset Management
- Enhancing our climate disclosures in line with the recommendations of the TCFD
- Became a signatory to the Net Zero Banking Alliance
- Focus on supporting our customers and partners in the current uncertain environment

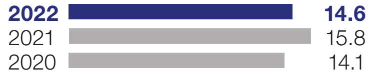
Future priorities

- Retain and attract talent and maximise productivity by engaging, training and developing our people, nurturing an inclusive and diverse culture and investing in tools and technology
- Expand our expertise in green and transition assets and broaden our sustainability offering as we support the transition to a net zero carbon economy
- Achieve a net zero company car fleet by 2025 and become operationally net zero through our Scope 1 and 2 emissions by 2030
- Continue to adapt to the evolving needs of our customers and clients and take into account the feedback they provide

Key performance indicators

Creating long-term shareholder value

Common equity tier 1 capital ratio
Per cent

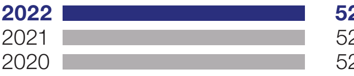


Year	Value
2022	**14.6**
2021	15.8
2020	14.1

Net interest margin
Per cent

Year	Value
2022	**7.8**
2021	7.7
2020	7.5

Banking expense/income ratio
Per cent



Year	Value
2022	**52**
2021	52
2020	52

Total funding as a percentage of loan book[1]
Per cent

Year	Value
2022	**127**
2021	128
2020	131

Bad debt ratio
Per cent

Year	Value
2022	**1.2**
2021	1.1
2020	2.3

Group return on opening equity
Per cent

Year	Value
2022	**10.6**
2021	14.5
2020	8.0

Loan book growth[2]
Per cent

Year	Value
2022	**5**
2021	11
2020	0

Net inflows
Per cent of opening AUM

Year	Value
2022	**5**
2021	7
2020	9

Adjusted basic earnings per share
Pence

Year	Value
2022	**111.5**
2021	140.4
2020	74.5

Employee engagement
Per cent

Year	Value
2022	**86**
2021	91
2020	86

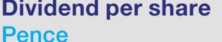
Total Scope 1 and 2 emissions (market based)
Tonnes CO_2e

Year	Value
2022	**2,438**
2021	2,542
2020	3,484

Customer scores[3]
2022

Measure	Score
Savings online CSAT	**+86**
Property Finance NPS	**+87**
Asset Finance CSAT	**+88**
Motor Finance (dealer) NPS	**+73**

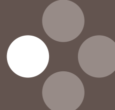
Dividend per share
Pence



Year	Value
2022	**66.0**
2021	60.0
2020	40.0

1 Total funding as a % of loan book includes operating lease assets. 2021 and 2020 metrics have been re-presented to include operating lease assets. Revised definition is total funding as a % of loan book including operating lease assets.
2 Loan book includes operating lease assets. 2021 and 2020 loan books have been re-presented to include operating lease assets.
3 CSAT represents customer satisfaction score. NPS represents net promoter score. Property Finance NPS score excludes Commercial Acceptances. July 2021 customer scores: Savings online CSAT +82, Property Finance NPS +87, Asset Finance CSAT +81, Motor Finance (dealer) NPS +70.

Our Responsibility



OUR RESPONSIBILITY IS TO HELP ADDRESS THE SOCIAL, ECONOMIC AND ENVIRONMENTAL CHALLENGES FACING OUR BUSINESS, EMPLOYEES, CUSTOMERS AND CLIENTS, NOW AND INTO THE FUTURE

We see this responsibility as a core part of our business and central to our success. It encourages us to look at how we operate our business more broadly, as we focus on achieving the best outcomes for our stakeholders and making a positive impact on the society and the environment we operate in. We believe this will enable us to make a greater difference for our employees, customers and clients, both now and into the future.

Our values encourage and support diversity and inclusion at all levels of our organisation, helping the communities we operate in.

We consistently strive to act responsibly, ethically and with integrity, and this commitment to sustainable behaviours is embedded within our corporate culture and supported by a wide range of policies and procedures.

Sustainability Report

At Close Brothers, behaving responsibly is integral to our actions and decision-making and this is reflected across our sustainability objectives we set ourselves.

Our Sustainability Objectives

We are known for our core strengths of a trusted client approach, disciplined lending and adaptability. These position us well to support our customers as they navigate a changing world. We have demonstrated we take our responsibilities to our employees and our community seriously, acting ethically and responsibly.

This is reflected in our sustainability objectives we have set as a business:

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

In the following pages, we provide updates on our progress this year across all aspects of our ESG strategy. New for this year's annual report, and following the TCFD requirements, we demonstrate the significant progress we have made in developing our climate strategy, covering not just our operational impacts, but understanding the implications across our financed activities and evaluating the important role we will play in supporting businesses and individuals to transition to a low carbon economy.

During the year we have maintained a strong focus on progressing with our wide-ranging sustainability agenda, driving forward with programmes and initiatives that address key priorities such as inclusion, social mobility, supporting customer needs and responding to the impacts of climate change.

> "We are committed to supporting the transition to a low-carbon economy and will continue to work with all of our stakeholders on the journey to a net zero future."

Adrian Sainsbury, Chief Executive

Sustainability Report continued

Our Sustainability Pillars

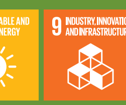
Environment

Reducing our impact on the environment and tackling climate change

Our Targets
- Becoming operationally net zero by 2030 through our scope 1 and 2 emissions
- Achieve a net zero company car fleet by 2025
- To align all operational and attributable emissions from our lending and investment portfolios with pathways to net zero by 2050
- Aim to provide over £1.0 billion of lending for zero emission battery electric vehicles over the next 5 years

Our Progress
- 44.8% reduction in scope 1 and 2 emissions since 2019 (market based)
- A further reduction of 43% in average fleet vehicle CO_2 emissions vs 2021 financial year
- Completed initial assessment across all categories of scope 3 emissions including assessment of financed emissions in our loan book
- Published our inaugural TCFD report
- Became a signatory to the Net Zero Banking Alliance
- 35% of new cars financed in the last financial year were battery electric

Alignment to SDGs[1]



For our TCFD report
See pages 42-57

Society

Ensuring we are a diverse and inclusive employer. Serving the needs of our customers

Our Targets
- 36% female senior managers by 2025
- 14% of our managers to be from an ethnic minority background by 2025
- Aim to maintain or improve customer satisfaction scores across our businesses

Our Progress
- 33% female senior managers at 31 July 2022
- 10% of our managers were from an ethnic minority background at 31 July 2022
- Customer satisfaction scores
  - Property finance NPS +87
  - Asset finance CSAT +88
  - Savings online CSAT +86

Alignment to SDGs[1]

For our people
See pages 36-38

Social responsibility
See pages 38-39

Helping our customers
See pages 39-41

Governance

Setting high standards of corporate governance to ethically and transparently achieve long-term success for stakeholders

Our Targets
- Maintain high standards of governance, with appropriate board level oversight
- Aim to maintain or improve our external ESG ratings

Our Progress
- 50% of board members were female at 31 July 2022
- CBAM became a signatory of the UK Stewardship Code
- Received strong ratings of B- from CDP, AAA from MSCI and CIS-1 ESG Credit Impact Score from Moody's

Climate risk governance
See pages 50-52

Corporate governance
See pages 99-112

1 We have identified above specific United Nations Sustainable Development Goals ("SDGs") which align with aspects of our sustainability strategy detailed in our report following.

Our people

Valuing Our Colleagues

Creating an inclusive culture where all colleagues are supported to thrive is fundamental to the continued success of our business. We value the expertise of our people in delivering excellent service and building long-lasting relationships with our customers, clients and partners based on trust and integrity.

We celebrate diversity and are committed to creating an inclusive culture where all of our employees can feel proud to work for us, regardless of their gender, age, ethnicity, disability, sexual orientation or background. We want our colleagues to feel as though Close Brothers is a great place to work and are proud that 94% of colleagues feel included and 93% feel they can be themselves at work.

We are signatories to a wide range of charters and commitments across a broad spectrum of inclusion themes and social enterprises, including the Race at Work Charter, the Social Mobility Pledge, the Women in Finance Charter and the Valuable 500. We partner with leading diversity organisations, including Stonewall and the Business Disability Forum, to help inform our thinking and subsequent actions. We continue to run inclusive leadership training sessions for our managers, senior managers and group executives, highlighting how actions and behaviours can shape our inclusive culture.

All hiring managers are required to complete a collection of training modules developed to provide a consistent and best practice approach for talent acquisition. They ensure a focus on inclusion and unconscious bias and equip line managers with the skills and knowledge to make effective and fair recruitment decisions.

We are also committed to inclusive recruitment practices; using gender decoders to avoid the use of gender bias wording in adverts and job descriptions, and seeking balanced shortlists and diverse interview panels to alleviate bias in the process. We strive to achieve a 50:50 gender split for our entry level and formal training programmes including our Aspire school leaver programme, our graduate schemes and our summer internships.

This year, we have established new employee networks for Accessibility, Social Mobility, and Working Parents and Carers. We now have networks focused on each of our diversity and inclusion pillars. Each are chaired by an executive sponsor and take responsibility for driving our inclusion initiatives across the organisation.

Employee Engagement

Listening to the views of our colleagues remains key to retaining a highly engaged workforce; ensuring our culture is one where our colleagues feel motivated, proud to work for us and can thrive.

Our latest Employee Opinion Survey closed in March 2022.

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

Racial Equality

As signatories to the Race at Work Charter, we demonstrate our commitment to their seven key actions to help improve representation of ethnic minorities across all levels of the organisation. As part of this commitment, we continue to monitor ethnicity disclosure levels. Our disclosure has increased from 75% at the end of the 2021 financial year to 83% at 31 July 2022, which allows us to more accurately measure our ethnic balance to inform our thinking and future actions.

Our target to have at least 14% of our managers to identify from an ethnic minority background by 2025, forms part of our Long-Term Incentive Plan objectives and demonstrates our commitment towards improving representation of all colleagues with an ethnic minority background.

This year we extended our partnership with the 10,000 Black Interns programme to provide 6-week paid internships to 30 students across the group. This programme provides greater opportunities for us to support the career progression of our ethnically diverse colleagues. The board continues to support the recommendations of the Parker Review and the composition of the board is in line with the advice to have at least one director of colour. The board will continue to take opportunities to further strengthen the diversity of backgrounds and experience among its directors as part of future board-level recruitment searches.

Our Ethnic Diversity employee network, sponsored by our chief credit risk officer, has established itself with core strategic aims to create a safe space for colleagues from ethnic minority groups to share personal experiences and seek counsel. The network has been a key driver in promoting a multitude of key celebrations whilst also raising awareness through speaker events available to all colleagues. The work they continue to drive complements and supports our overall Diversity and Inclusion agenda.

Gender Diversity

At Close Brothers, we are passionate about creating an environment where all our colleagues feel they belong and can thrive. As part of our commitment to building an inclusive culture, we remain focused on reducing our gender pay gap. The gender pay gap shows the difference in average pay between women and men, which is an important differentiation to pay equality. We remain confident that women and men are paid equally for performing equivalent roles across our business. Reducing our gender pay gap is one way in which we review our progress on improving gender balance across our organisation.

Our 2022 gender pay gap report shows our mean group-wide gender pay gap was 38.7% at 5 April 2021. At Close Brothers, the gap is mainly driven by a higher proportion of male incumbents in both senior and front office roles, and a higher number of females who work part-time. We are committed to improving gender balance across all levels of the organisation and have a number of initiatives in place to support this.

Further details of our gender pay gap can be found on our website.

At Close Brothers, we recognise that gender identity is broader than male and female and we want to affirm that we welcome colleagues of all gender identities. In recognition of this, one of the steps we have taken this year is to update our family-friendly policies to ensure they use gender neutral language and are inclusive for all.

As signatories of the Women in Finance Charter, we remain confident that we are on track to achieve 36% of senior manager roles being held by a female by 2025. At the end of the financial year 50% of our board members were female, exceeding the government's target of 33%, and we remain broadly in line with FTSE Women Leaders gender targets for executives and their direct reports.

Our gender balance network, sponsored by our Winterflood chief executive officer, continues to thrive. This year, the network has successfully:

- hosted a number of events including speed networking, providing colleagues with the opportunity to speak with senior members of the firm
- run events focusing on topics of interest such as parental leave and imposter syndrome
- launched a quarterly newsletter to spotlight the career paths of women within the firm, and
- continued to look for opportunities to engage with colleagues to progress our gender balance initiatives.

> "Ensuring we are a diverse and inclusive employer."

Female senior managers:[1]

33%

as at 31 July 2022

Future target:

36%

by 2025

94%

of our employees feel included by their colleagues.

93%

of colleagues feel they can be themselves at work.

1 Senior managers are defined as those managers with line management responsibility for a line manager, in accordance with the representation identified in our gender pay gap report. They are generally heads of departments, functions or larger teams.

Sustainability Report continued

We also have a number of external partnerships in place to support and promote diversity and gender balance at all levels of the organisation. We continue to partner with the 30% Club through which we provide cross-business mentoring, as part of Gender Equity, for our talented females. Almost half of mentees who have participated in the scheme over the years have had a promotion, secondment or internal move.

We are proud to have co-sponsored the latest UK Automotive 30% Club's "Inspiring Automotive Women Awards" and are delighted that one of our colleagues in our Motor Finance business was declared a winner.

Our workforce remains diverse, with 44% female employees, and we have a broad age range of employees, with 22% of our employees being under 30 years old and 20% over 50.

Gender Diversity

	31 July 2022	
	Male	Female
Number of board directors[1]	6	6
Number of directors of subsidiaries[2]	48	7
Number of senior managers, other than board directors[3]	192	107
Number of employees, other than board directors and senior employees	1,934	1,590
	2,180	**1,710**

1 Includes non-executive directors, excluded from group headcount calculations.
2 Includes subsidiary directors who are excluded from group headcount calculations.
3 Senior managers defined as those managers with line management responsibility for a line manager, in accordance with the representation identified in our gender pay gap report. They are generally heads of departments, functions or larger teams. This figure excludes 42 male and eight female employees who are reported under directors or subsidiary directors.

Developing Our People

We provide a full range of training and development for our people irrespective of where they are in their careers. We work with our colleagues from induction and technical training to management, leadership and talent development programmes. We promote a range of mentoring schemes and opportunities to broaden external networks as well as sponsoring qualifications to further support professional development.

All staff continue to have access to our learning portal offering a wide variety of practical tools and e-learning on a number of topics. The average number of training hours across the group was 13 per employee during the year. We require all employees to complete relevant regulatory training on an annual basis with further training offered when required. This year, we maintained a 100% completion rate of mandatory training by the last working day of the financial year.

We continue to support our talent through mentoring programmes including the cross-company schemes Mission Include (supporting those who identify as being from an ethnic minority background) and Gender Equity (with a focus on supporting females in progressing to senior roles). To support inclusivity, we opened up application processes for these schemes, and this year, we were awarded "most dynamic organisation of the year" for the Mission Include programme.

We run several tailored junior training programmes across the business which are aimed at growing high-potential individuals to progress into senior roles. Similar to our mentoring schemes, these programmes are open to everyone by means of an application process to promote inclusivity at all levels. Our Sales Academy programme within our commercial business has resulted in nine colleagues graduating this year and commencing Area Sales Manager roles across the business.

To support our high potential colleagues, we have launched our emerging leaders programme with 20 individuals across the group taking part. We continue to support our entry level programmes through our school leaver programme, Aspire, where we have three new students joining us in September 2022. In addition, we have hired a new graduate scheme cohort for the 2023 financial year with 22 graduates ready to fulfil roles across the firm.

To support our inclusive culture through further embedding our code of conduct, we continue to ensure all our new starters receive our "Close Brothers Way" e-learning module, focusing on our cultural attributes and expected behaviours. We have also worked with members of our employee inclusion networks to update the content for all colleagues to receive in January 2023.

Supporting Our People

This year, we have focused on supporting colleagues as many embarked on new ways of working after the pandemic. As part of this, we have partnered with our UK benefits provider BUPA to run 16 virtual workshops for colleagues on a number of wellbeing topics including managing stress and uncertainty and work-life balance. All colleagues are offered company-funded private healthcare with high take-up rates across the group. As part of the UK offering, BUPA provides a wealth of health and wellbeing support as well as dedicated mental health support.

Maintaining the positive mental wellbeing of our colleagues is of great importance to us and we now have over 50 trained Mental Health First Aiders across the group as well as an employee assistance programme offering a range of confidential support. Our recent Employee Opinion Survey results showed 89% of colleagues feel Close Brothers is genuinely concerned for the wellbeing of employees, which is above the external benchmark.

It is important to us that we reward our staff fairly and openly, and we therefore strive to ensure that clear and transparent objectives link directly to remuneration across the group.

We are confident that our enhanced benefit package remains fit for purpose and satisfies the expectations of our colleagues.

The group continues to pay all staff at or above the national living wage.

We offer both a Save As You Earn scheme as well as a Buy As You Earn share incentive plan, which allows employees to acquire shares on a monthly basis out of pre-tax earnings. Participation rates in our long-term ownership schemes remain strong at 47% of eligible employees.

For members of the group's pension plans, we contribute between 6%-10% towards colleagues' pensions, which is above required levels.

Supporting Social Mobility

We are proud to be an inclusive organisation that supports social mobility and creates equal opportunities for all, regardless of background. Social mobility is one of our inclusion pillars, with our working group recently transitioned to become a new employee network with executive sponsorship from our commercial chief executive officer.

We continue our partnership with upReach, a charity committed to transforming social mobility. This year's summer internship programme offered six-week placements for six university students from lower socioeconomic backgrounds. The proven success of these internships has supported us to broaden our talent pool for entry level roles, with some interns successfully obtaining permanent roles within the firm.

To extend our commitment to social mobility, we offer a number of mentoring opportunities to our current colleagues. We partner with "The Girl's Network" through supporting mentoring to inspire and empower girls from lower socioeconomic backgrounds to identify with female role models. In addition, through our partnership with upReach, we support 10 individuals to volunteer and train to become mentors each year.

Our Employees in the Community

We are committed to creating a positive impact in our communities and recognise that employee volunteers are often the driving force behind many community and charity activities.

As part of the relationships we have with our charity partners, we look to encourage employee engagement through involvement in volunteering initiatives. For every hour of voluntary time, we donate £8 directly to the charity under our Matched Giving Scheme, and we also encourage people to take advantage of one paid volunteering day each year through our Employee Volunteering Policy.

Volunteering has been a key part of our newer charity relationships. Teams from across Close Brothers have donated their time to Smart Works to take part in corporate wardrobe days, helping marginalised women build their confidence and find employment. A group of colleagues also provided close support to Stop Hate UK to improve their marketing and strategic operations activities, enabling them to reach out to help more communities affected by hate crime.

We continue to partner closely with the children's literacy charity Bookmark. This academic year, Close Brothers' volunteers have delivered over 300 one-to-one reading sessions to children. This is the equivalent of five weeks of back-to-back reading support during school hours which has never been achieved by another Bookmark corporate partner. In addition, teams have given their time to build school libraries and help with the charity's work to support Ukrainian child refugees.

We are supportive of our colleagues giving their time and expertise to fulfil trustee roles for various charities. In return, employees gain board-level experience to support their personal development and career progression.

Charitable Activities

Our two main corporate charity partners are chosen by our colleagues as part of our employee opinion survey and these remain Make-A-Wish Foundation, who grant wishes for children with life-threatening illnesses, and Cancer Research UK, which we have now supported for ten consecutive years. To date, we are proud to have raised over £550,000 for Cancer Research UK and we are repeatedly nominated for Corporate Fundraising Team of the Year by the charity. Over the last three years, we have raised £176,000 for Make-A-Wish Foundation, enabling them to grant 71 wishes.

This year, a group of colleagues successfully took part in Make-A-Wish's first ever wish challenge volunteering day which resulted in a wish being granted for a critically ill little boy. Close Brothers' support and feedback has helped develop this challenge into a successful team building exercise which is now delivered globally by Make-A-Wish.

We have a dedicated committee for charitable and community activities chaired by our group head of human resources and supported by employees from across the group. This committee meets regularly to discuss and propose new initiatives with input from our control functions when required. We also have several local committees which plan and run initiatives to raise funds for local charities.

We match 50% of funds that our colleagues raise for charities under the Close Brothers Matched Giving Scheme. We also encourage our employees to collaborate on raising money for causes that are most meaningful to them by matching funds raised through locally organised fundraising events and activities.

This year, we have expanded the reach of our charitable giving to donate a total of £150,000 to support three additional charities that align with our ESG goals.

Our donations:
- helped Stop Hate UK establish a new helpline based in the London borough of Merton
- are helping support The Wildlife Trusts with their vital work in restoring and protecting nature
- are supporting Smart Works to help more women get back into employment

To further our relationship with Bookmark, we made a donation of £40,000 this year, which accompanies the significant contribution our employees make to the charity through volunteering. In response to the crisis in Ukraine, we have donated £50,000 to date. This includes a donation to the Refugees at Home charity and matching 100% colleague donations to the British Red Cross in support of their Ukraine Crisis Appeal.

Our Payroll Giving Scheme matches charitable contributions while allowing employee donations to be made directly from pre-tax salary. Approximately 12% of employees across the group were signed up to Payroll Giving at 31 July 2022, achieving us a twelfth consecutive year of the Payroll Giving Quality Mark Gold Award and ensuring that we have met our target of maintaining this standard.

Helping our customers thrive

There have been multiple factors contributing to the current environment of changing customer, partner and client needs. Considerations include the acceleration of the use of digital channels coming out of the pandemic, as well as rising inflation and cost of living. At Close Brothers, being there for our customers, clients and partners and lending through the cycle remain an important part of our business model.

Furthermore, to continue supporting customers, clients, and partners we believe in maintaining high standards of service, delivering specialist expertise and building long-lasting relationships. These priorities continue to guide the end-to-end experience we aim to consistently deliver to customers whilst also ensuring we continue to adapt as needed to meet emerging needs against a backdrop of a constantly changing environment.

Supporting our Vulnerable Customers

In continuing to refine and deliver the desired experience for different customer groups, we have also made various vulnerable customer experience journey improvements. Motor Finance conducted research into vulnerable customers generating insight which assisted the creation of an appropriate governance model across Retail to ensure improvement in identification, oversight and outcome monitoring. Conduct risk dashboards are being developed for each of the businesses to track and measure vulnerability and the various outcomes customers receive. Finally, many of our businesses use their customer forums and executive committees to monitor, discuss and refine their approaches towards vulnerable customers. We proactively identify vulnerability and provide necessary support, tailoring our service and customer journey to vulnerable customer needs.

In the Retail business, for example, we work with one of our partners to provide additional support to vulnerable customers in the management of collections, recoveries and arrears whilst ensuring Close Brothers retains robust governance, control and management oversight including dealing with more challenging and complex vulnerable customer cases.

We are focused on continuing to support vulnerable customers. Most recently, we established a group-wide vulnerable customer working group to share best practice and improve the consistency of delivery across the group. Furthermore, we are in the process of undertaking a maturity assessment across key vulnerability capabilities to identify further opportunities to evolve our approach to meet customers' emerging needs as the operating environment changes.

Leading Through Purpose

Our purpose of helping the people and businesses of Britain thrive over the long-term is a fundamental commitment to our customers that we will be there for them in both the good times and the bad. Our purpose is underpinned by our group-wide customer principles, which guide how we deliver the end-to-end experience to our customers, clients and partners throughout their journey with Close Brothers and also helps us measure how effectively we are performing across the key principles. (You can read more about our delivery against these principles on page 36).

Sustainability Report continued

Our Customer Principles - Success Stories

Our customer principles serve as a strong reflection of the experience we strive to deliver. Here are some examples of how we have delivered value to our customers, clients and partners in the past year:

We do the right thing for customers, clients and partners

The pandemic accelerated an industry paradigm shift with the focus on short-term commitment, self-service and pay for use. Brewery Rentals responded with a new product (EKegPlus) which is a short-term rental product using technology to track assets and provide a daily hire charging model. The team automated the repetitive backend processes, freeing up internal resource to focus on customer experience. The product is designed to partner with customers to provide low-level commitment from the customer. The results are that there is clarity and transparency as fees are highlighted early on for customers to make informed decisions. Customers are in control of their own cost to serve with the ability to reduce fees by doing more themselves.

We are flexible, responsive and execute with speed

It is critical to remain abreast with customer, client and partner needs. In Premium Finance, we utilised a regulatory requirement change to improve compliance and enhance our customer journey by providing a new channel for customers to make arrears payments. The team implemented the ability for customers to make arrears payments using a QR code in customer communication for ease and speed, taking them through to a secure platform. The result was an optimised journey and a reduction in arrears calls. The solution aids the ecosystem as the support is also available to our broker partners as they can share the link directly with their customer to make a payment. The solution is scalable and may be deployed in other business lines.

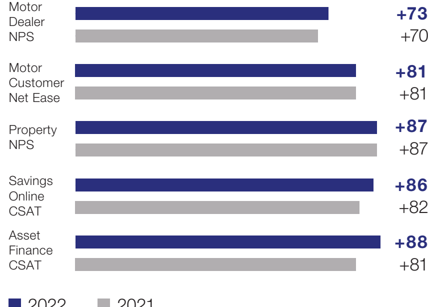
We make decisions informed by our specialist expertise

To remain constantly aware of how we can continue to help our customers and partners thrive in an ever-evolving landscape and to identify areas of improvement, we rely on our Voice of Customer programme to provide actionable insights across the group. The Invoice Finance business has been working hard to ensure we are capturing feedback from customers and acting upon it, with valuable improvement delivered as a result, including platform migration to a better tolling system for customers, communication to customers to remind them about cybercrime and what to look out for and optimised call routing so customers can get through for support easier and quicker.

We build relationships based on quality and trust

Solid and lasting relationships are of utmost importance to us at Close Brothers. In Property Finance the focus has been on retaining great existing relationships whilst looking to build new ones. The team has been driving events in person to bring together skills to host and foster conversations for the next generation developer. Attendees of the events are provided with practical advice from industry experts, start to build a relationship with a market leading property finance specialist and join a network of long-standing clients and professionals who will share their challenges and experience with the next generation of developers.

Customer Satisfaction Scores



Note: All scores as at June each year.

Listening to Our Customers and Improving Experience

We collect a broad range of customer metrics that we use to help inform day-to-day changes as well as longer-term strategic decisions to improve customer experience. We listen, analyse and act on customer insight and strive to improve our ability to meet customer needs. We are refining our customer operating framework to provide better experience visibility as well as improved governance of the end-to-end customer journey with clear accountability and ownership of different journey stages. We consistently apply our journey model of the 5E framework (Entice, Enter, Engage, Extend and End) to understand the key experience stages with Close Brothers across our various business and customer, client and partner groups. It is important that we constantly walk in the shoes of our customers and make the voice of our customers visible to colleagues to prioritise experience improvements and to engage with customers in line with their preferences. We have created journey dashboards in the Banking division which reflect journey and experience performance. We measure holistic brand metrics as well as specific journey stage metrics, including sentiment, operational and insight data.

We continue to achieve strong hero metric performance and our scores perform well against available external benchmarks. This evidences the strength of our relationships and the faith our customers place in us as their provider of choice.

Looking Ahead

We continue to evolve our customer capability and conducted a customer experience maturity assessment across our businesses in the spring to calibrate and benchmark against external best practice. From this, we have identified some key opportunities to further accelerate and embed customer centricity which builds on existing programmes in the business.

We are in the process of adding customer specific objectives to journey stage owners' KPIs with tailored objectives and explicit clarity on what behaviours need to be demonstrated to deliver on our customer, client and partner ambition.

Engaging Our Suppliers

We engage with our most important suppliers on a regular basis to ensure that both parties are attaining optimum value from the relationship. Our annual survey of key suppliers who represent our most critical and strategic services was last conducted in July 2022 and remains anonymous to ensure we gather honest and candid feedback.

Similar to previous years, the 2022 survey focused upon how Close Brothers performs as a client and how our suppliers feel about doing business with us. Overall, feedback remains positive throughout and we are seeing further improvements across key areas following action undertaken as a result of the 2021 survey.

We were pleased that the majority of our suppliers would continue to recommend us as a client, scoring 8 out of 10 for this measure.

Previous results indicated suppliers wanted greater transparency of our strategy and priorities. Having enhanced our engagement with suppliers on this topic, we are pleased to see in this year's survey that responses received indicate improved transparency on growing collaboration to reach shared goals. As such 77% of suppliers feel positive about how we treat them as a valued partner and rate this good or excellent, an improvement from 71% in 2021.

We have also seen a continued improvement in how our suppliers rate our approach to transparency and fairness, with 83% rating it as good or excellent compared to 78% in 2021. Suppliers continue to rate us on average at 7.6 out of 10 for ease of doing business with us.

We also engage our suppliers on their approach to sustainability, covering suppliers' environmental and social governance, to help better inform our views of the progress each party is making towards improvements. We use the output of this to inform our internal strategy and specific initiatives to further contribute to the sustainability agenda. Some examples are:

Gaining greater transparency of our scope 3 emissions and identify targeted areas of focus. Collaborating with our facilities partner to closely analyse data across our national portfolio, report accurately and monitor against specific sustainability KPIs.

Working closely with Lex Autolease and car manufacturers on a Road to Zero transmission initiative by 2025 in relation to our company car fleet.

We recognise that our suppliers form a key part of the service we provide and are committed to treating them fairly. We are therefore pleased to have maintained our Corporate Certification for Ethical Procurement from the Chartered Institute of Procurement and Supply ("CIPS").

Our policies

We are committed to acting responsibly throughout all our activities, and have a number of group-wide policies and regulations in place to ensure we continue to operate in a socially responsible and compliant manner, including:

Dignity at Work Policy

Our Dignity at Work Policy outlines the type of behaviour that the company considers to be unacceptable and explains what solutions there are if any employee has experienced or believes someone else has experienced any discrimination, harassment or bullying at work.

We ensure equal opportunities for all, including having a commitment as part of our Dignity at Work Policy to ensure no employee is subject to discrimination. This applies to all work contexts, as well as all employee lifecycle events, for example in recruitment, training, promotion and flexible working requests.

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

Whistleblowing Policy

We provide a simple, transparent and secure environment for our employees, shareholders and other stakeholders to raise concerns about any potential wrongdoing within the company.

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.

Employee Health and Safety Policy

Our Health and Safety Policy demonstrates our commitment to ensuring our employees and visitors are safe and sets the framework for our safety culture. We continue to provide a safe and healthy working environment for our employees and visitors in accordance with The Management of Health and Safety at Work Regulations 1999.

The Health and Safety Committee continues to meet on a quarterly basis and we are proud of the ongoing progress in successfully raising the profile of health and safety across the business. This year we recorded 83 incidents across all of our sites. Of these, nine were reportable and all arising from Covid-19 within the workplace reportable requirements. We continue to use an online risk assessment tool to manage site-specific risks as appropriate and our Display Screen Equipment risk assessment programme.

Privacy Policy

Our Privacy Policy codifies our approach to protecting personal information, in line with the General Data Protection Regulation and UK Data Protection Act 2018. It sets out our core principles for what personal information we collect and process, and the controls to which the data is subject through its lifecycle.

We have a nominated Data Protection Officer who is accountable for the firm's approach to privacy management, a Chief Information Security Officer accountable for our approach to cyber security, and a broader operating model in which the privacy and security requirements are embedded in operations throughout the organisation.

Financial Crime Policy

Our policies and standards are intended to prevent the group, employees, clients and any other associations or representatives from being used for the purposes of financial crime, including, but not limited to, money laundering, terrorist financing, facilitation of tax evasion and circumvention of financial sanctions.

We are committed to carrying out business fairly, honestly and openly, operating a zero-tolerance approach to bribery and corruption. We are dedicated to ensuring full compliance with all applicable anti-bribery and corruption laws and regulations, including the UK Bribery Act 2010.

Human Rights and Modern Slavery Act

The board gives due regard to human rights considerations, as defined under the European Convention on Human Rights and the UK Human Rights Act 1998. We are aware of our responsibilities and obligations under the Modern Slavery Act, with the appropriate policies and training in place to enable compliance across the organisation.

The Banking division has also committed to the CIPS Ethical Code of Conduct, which supports our commitment to preventing modern slavery from existing within our supply chain. Further details of our compliance with the Modern Slavery Act can be found on our group website.

Tax Strategy

We are committed to complying with our tax obligations and doing so in a manner consistent with the spirit as well as the letter of tax laws. This includes a transparent and cooperative relationship with the tax authorities. Our tax obligations arise mainly in the UK where our operations and customers are predominantly based. Our straightforward business model reduces the complexity of our tax affairs and helps us maintain a lower risk tax profile. Further details of our approach to tax can be found on our website.

Sustainability Report continued
Task Force on Climate-related Financial Disclosures

"The effects of climate change are already evident. Financial institutions such as Close Brothers need to play their part. In this, our first TCFD report, we have outlined our current approach, considering both risks and opportunities, with our disclosures aligned to TCFD recommendations."

Robert Sack, Group Chief Risk Officer

Introduction
Welcome to our inaugural Task Force on Climate-related Financial Disclosures ("TCFD") report. We recognise the importance of addressing the threat of climate change and are pleased to present our progress in addressing climate-related risks and opportunities.

We take our responsibility towards the environment seriously and are committed to meeting the goals of the Paris Agreement to achieve net zero by 2050. We are conscious that the emissions impact of the assets and sectors that we finance can contribute to climate change, and as a financial services provider we recognise the role we have to play in supporting the transition to a more sustainable future. This includes supporting our customers and partners with their own transition journeys. Our efforts to reduce the impact of our operations on the environment continue at pace, and we strive to take actions that make a positive contribution to the world around us.

Careful consideration of environmental factors and potential risks now plays an integral role in the actions we take, alongside thoughtful evaluation of where opportunities may arise for us to make a meaningful difference through our business decisions.

Progress to Date
We believe in enhanced climate disclosure in line with TCFD recommendations and support the organisation's aims of market transparency and stability. We are committed to providing transparent disclosures that help our stakeholders understand the progress we are making in managing our climate-related risks and opportunities, and support them in their efforts to do the same.

In this, our initial TCFD report, we have highlighted our progress, as well as areas of future focus, with regard to the integration of climate risk into our governance infrastructure, business strategy and risk management framework. To date we have made good progress embedding climate risk into our ways of working, ensuring we consider the impact of climate change in the decisions we take. To support our efforts, we continue to build capabilities across the group. This has included the roll-out of climate risk training, updates to our governance approach, evolution of our risk management framework to improve our analytical capabilities, and undertaking our first climate risk long horizon scenario analysis exercise. Notwithstanding the efforts already made, we remain at the start of a long journey and recognise there is more to do to develop our own transition plans, targets and metrics. An important enabler for this will be our ability to address challenges around data and modelling. This represents a key focus area and we continue to work across industry and alongside our customers, to evolve both understanding and capabilities.

In preparing our TCFD disclosures, we have sought to provide sufficient granularity, proportionate to the materiality of the climate risks identified across the group. An extensive analysis of risks presented by climate change has been completed, identifying impacts across our risk universe. Analysis indicates we are not materially exposed to loss or disruption from climate-related considerations over the short to medium term. Over the longer term, increased risk has been identified, primarily driven by potential transitional impacts such as changes to regulation, technological change and the evolution of consumer preferences, and in respect of physical risk, we consider severe impacts are only likely to present in the long-term although we do recognise that acute physical events are already happening. These risks are largely mitigated through our resilient business model which benefits from a short average tenor of 17 months, a customer base that is predominantly UK and Republic of Ireland based with strategic management actions being executed to support our customers and strategic partners on their own transition pathways.

Our disclosures are consistent with the June 2017 report entitled Recommendations of the Task Force on Climate-related Financial Disclosures and we have also considered the additional guidance published in the 2017 and 2021 TCFD Annexes where practical to do so. The structure of the report that follows provides a summary of our alignment with the TCFD recommendations and the key focus areas within our plan to mature our climate risk framework. Further detail is provided on pages 44-57.

Climate-related Disclosures Overview

TCFD Recommendations	Our Progress	Future Focus
Governance Describe the board's oversight of climate-related risks and opportunities. Describe management's role in assessing and managing climate-related risks and opportunities.	• Board monitoring of climate-related risks and opportunities enabled through clear roles and responsibilities for the board and board committees. • Supported by increased regular management updates covering climate strategy, risk management capabilities and investment needs (i.e. to build skills, data and tooling). • ESG and climate-specific training delivered to board with climate-specific training rolled out to all group employees. • Group chief risk officer accountable under the Senior Managers and Certification Regime for identifying and managing the financial risks associated with climate change. • Executive and senior management teams/ committee structures support via collaboration, escalation and control oversight. • Climate Risk Steering Committee responsible for overseeing evolution of climate risk framework, supported by various subsidiary working groups covering credit risk, scenario analysis and disclosures.	• Board to oversee continued evolution of climate strategy and ambition, including underlying transition plan and supporting metrics and targets. • Continue to build knowledge at board and senior management level to support development of climate strategy and related risk appetite. • Further embed the climate risk framework and supporting operating models and processes to support management of both risks and opportunities. • Develop plans to address key challenges on data, models and tooling. • Continue to build climate awareness and competency across our staff and key stakeholders. • Continued enhancement of disclosures highlighting the breadth and depth of the climate governance framework including specific details on the frequency and topics monitored by committees.
Strategy Describe the climate-related risks and opportunities the organisation has identified over the short, medium and long-term. Describe the impact of climate risks and opportunities on the organisation's business strategy and planning. Describe the resilience of the organisation's strategy taking into consideration different climate-related scenarios, including a 2ºC or lower scenario.	• Initial climate-related risks and opportunities identified with management actions agreed for strategic focus areas. • Climate risks and opportunities considered within financial and strategic planning processes, using the firm's standard one to three-year time horizon. • Long-term horizon scenario analysis capabilities developed utilising the Network for Greening the Financial System ("NGFS")-aligned scenarios. • Signatory of Partnership for Carbon Accounting Financials ("PCAF") using methodologies to conduct first estimates of financed carbon emissions. • Identification of climate related lending growth opportunities have been developed including an initial five year ambition for funding battery electric vehicles.	• Further develop climate strategy and ambitions, including design of transition plan, decarbonisation actions and other risk and opportunity measurements. • Continue to enhance scenario data and modelling capabilities to enhance strategic and financial planning. • Continue to address key challenges related to the availability of granular customer data, including the use of customer outreach. • Respond to evolving regulatory requirements and developments in the broader industry, including the emergence of best practice.
Risk management Describe the organisation's processes for identifying and assessing climate-related risks. Describe the organisation's processes for managing climate-related risks. Describe how processes for identifying, assessing and managing climate-related risks are integrated into the organisation's overall risk management.	• Development of climate risk framework, and embedment within the group's Enterprise Risk Management Framework ("ERMF"). • Climate risk classified as a cross-cutting risk, impacting multiple principal risks. Also identified as an emerging risk • Identification and analysis across the group of the various risks presented by climate change, identifying impacts across various existing principal and key risks • Qualitative and, where practical, quantitative assessment of potential impacts of physical and transitional risks completed, including via inaugural long-term horizon scenario analysis • Initial credit risk sensitivity methodology implemented to support identification and monitoring of potential climate risk within our loan book. • Enhanced third party risk due diligence climate and ESG questionnaire deployed. • Potential impacts on customers, people and infrastructure considered through crisis management and business continuity planning exercises.	• Continue to integrate climate risk considerations within business processes to further mature risk management and decision-making. • Commence implementation of more sophisticated climate credit risk assessment methodology, including development of associated reporting and MI. • Progress multi-year programme of work to both improve data quality and analysis capabilities and further evolve risk appetite setting. • Continue to work with customers, key partners and suppliers to better understand potential impacts to their businesses. • Continue to be transparent within our disclosures on both our progress and the challenges we face. • Continue to mature climate stress testing and scenario analysis, including within existing ICAAP and operational risk processes.

Sustainability Report continued
Task Force on Climate-related Financial Disclosures

TCFD Recommendations	Our Progress	Future Focus
Metrics and targets Disclose the metrics used by the organisation to assess climate-related risk and opportunities in line with its strategy and risk management process. Disclose Scope 1 and 2 and, if appropriate, Scope 3 greenhouse gas emissions and the related risks. Describe the targets used by the organisation to manage climate related risks and opportunities and performance against targets.	• Continued progress to enhance our capabilities in relation to measuring our carbon footprint for our own operations including measurement across all Scope 3 operational emission categories. • Initial assessment of Scope 3 financed emissions (across our loan book) using PCAF methodologies. • Broadening of our climate strategy and targets to cover both net zero scope 1, 2 operational targets, as well as specific targets relating to our financed emissions. • An overarching commitment to net zero through our recent joining of the Net Zero Banking Alliance.	• Setting of interim 2030 targets across the most carbon intensive sectors within our portfolios. • Continue to enhance data quality across our portfolios to improve quality of financed emissions reporting, risk assessment and business strategy. • Set additional targets across our lending and investment activities (adding to our new battery electric vehicles ambition) and supporting our transition pathway plans.

Our Climate Risk Framework

Group Climate Risk Strategy
- Alignment with the broader group sustainability agenda

Risk Management
- Climate risk integration across risk management framework
  - Risk identification, considering both physical and transitional impacts across Close Brothers' risk universe
  - Risk assessment, evaluation and measurement, utilising stress testing/scenario analysis as appropriate
  - Mitigation and control via individual risk frameworks e.g. policies/standards
  - Monitoring and reporting across risk governance framework (incl. board); includes alignment with strategy and appetite (see Governance)
- Enhanced ICAAP risk assessment
- Consideration as part of strategic acquisitions and new products/services

Credit Risk
People & Premises Risk
Third Party Risk
Traded Market Risk
Funding & Liquidity Risk
Conduct Risk
Regulatory Risk
Business/Strategic Risk

Scenario Analysis
- Use of short and long-term analysis to inform strategic planning and risk assessment/measurement
  - Short-term assessments to leverage existing ICAAP
  - Separate exercise to consider long-term impacts under a range of transitional paths
- Evolution of quantitative modelling capacity in line with data/model suite maturity

Governance
- Clear roles and responsibilities across 3LOD, including committee terms of reference and SMF assignment
- Integration within risk appetite statements with consideration to both long and short time horizons
- Performance and incentive management integration
- Appropriate training/awareness for relevant individuals
- Board-level oversight and understanding with consideration as part of overall business strategy

Disclosures
- Enhanced group climate risk disclosures
- Regulatory compliant product and entity-level disclosures
- Evolution of other external disclosures in line with broader group sustainability strategy

Data

Resource | Systems & Models

Embedding Climate Risk: Risks and Opportunities

We have sought to address climate risk and opportunity management by integrating climate-related considerations into our core ways of working, ensuring appropriate consideration of potential impacts. In doing so, the group has developed a nascent Climate Risk Framework that aligns with our long-standing approach to enterprise risk management (as detailed above).

Governance

Integrating Climate Considerations into Our Governance and Decision-Making

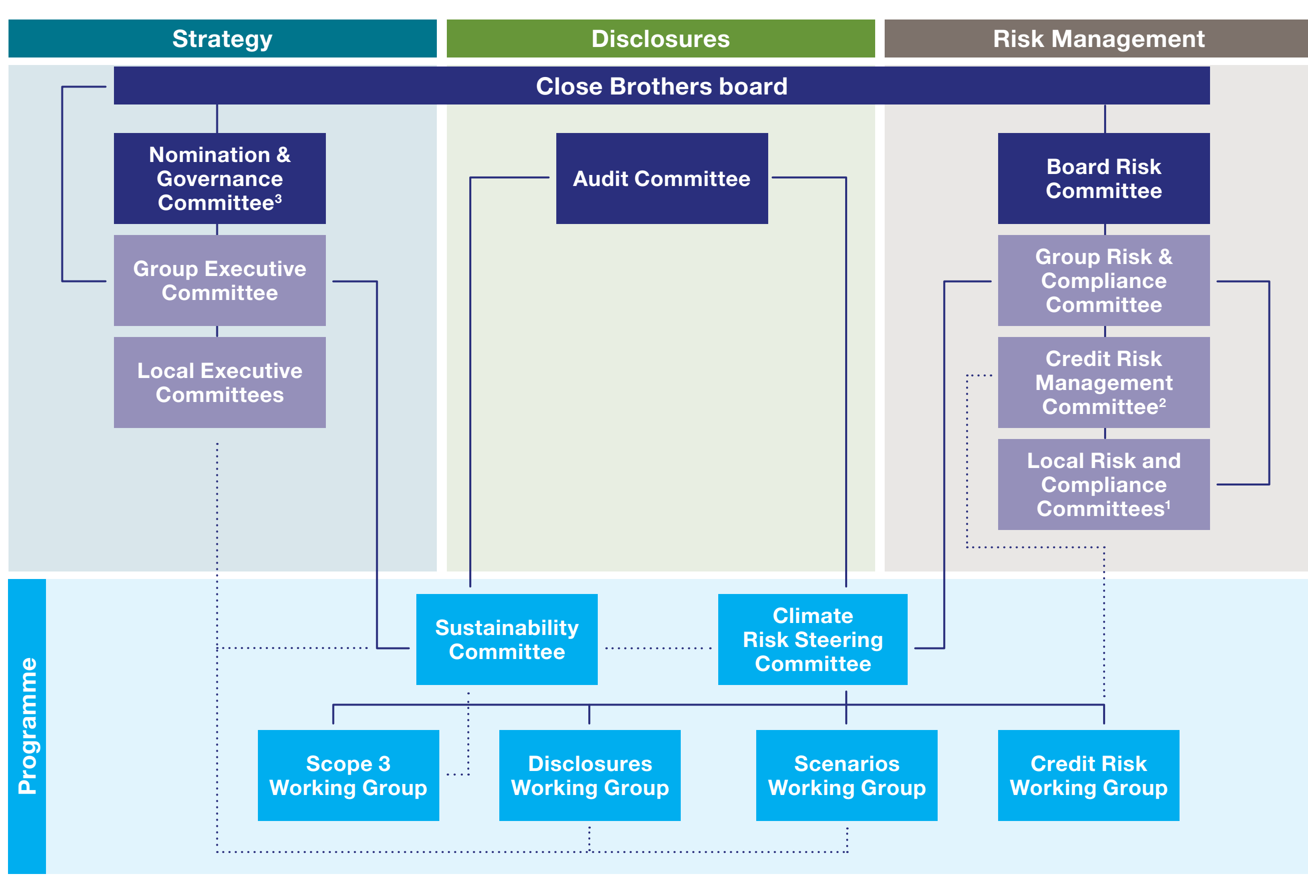
Since 2020, the corporate governance framework has been subject to continuous review and refinement to ensure effective oversight of risk framework implementation and manage the interconnect with the firm's climate strategy.

Oversight of climate-related risks and opportunities has been supported by the establishment of clear roles and responsibilities, extending across board and executive committees, and the three lines of defence more generally. Integral to this has been the provision of regular framework status updates to appropriate committees and fora, the refinement of Terms of References and the integration of climate-related considerations within both the group's policy framework and new product approval process.

Enriched reporting and management information ("MI") are also now being provided to relevant committees, providing important insights that are in turn enabling climate considerations to be embedded within both strategic planning and the setting of group-level risk appetites. A link has also been established between the delivery of the firm's climate strategy and executive remuneration through the inclusion of climate/ESG objectives within both the executive committee's scorecard and Long-Term Incentive Plan.

Further details on the roles and responsibilities of both the board and management with regard to climate risk management are outlined from page 46.

ESG and Climate Committee Governance Framework



1 Operates on delegated GRCC authority, however credit risk climate reporting feeds into CRMC in first instance.
2 Operates on delegated GRCC authority, however feedback loop into programme governance via Credit Risk Working Group.
3 Oversight and monitoring only, decisioning via group board.

Key: Board, Executive, Programme, Direct, Indirect

Sustainability Report continued
Task Force on Climate-related Financial Disclosures

Board Oversight

Board

The board is responsible for the long-term success of the group and the delivery of sustainable value to its shareholders and wider stakeholders. It discharges some of its responsibilities directly and others through its subsidiary committees.

In ensuring the long-term sustainability of the group, the board is also responsible for the overall delivery of the firm's climate and ESG strategy. It reviews and approves the strategy and receives regular updates on its execution from relevant members of the executive team. The board is also responsible for approving the group's risk appetite statements, including risk appetites associated with climate risk.

Board Risk Committee

Operating on authority delegated by the board, the Board Risk Committee (the "BRC") oversees the management of risk across the group, including the risks presented by climate change.

The BRC provides oversight of the measures taken to manage climate risk and receives regular updates on the development and subsequent embedding of the firm's climate risk framework. This includes the ongoing review of emerging portfolio MI, monitoring the evolution of associated risk appetites and the consideration of climate-related risks and opportunities assessed through the completion of long-term scenario analysis exercises.

Audit Committee

Operating on authority delegated by the board, the audit committee oversees the management of financial and regulatory reporting across the group, as well as the firm's internal financial controls. The committee is responsible for ensuring the clarity and completeness of environmental and sustainability disclosures included within the group's annual report and accounts.

Nomination and Governance Committee

The Nomination and Governance Committee monitors environmental, social and governance ("ESG") and sustainability developments relevant to the group (including developments relating to climate change).

The role of management

The chief executive has ultimate responsibility for climate-related issues affecting the group and its customers and overall accountability to the board and shareholders for ensuring sustainable and responsible practices, including those associated with the environment. Accountability for the group's climate and ESG strategy similarly rests with the chief executive, albeit with various responsibilities delegated to members of the executive team as appropriate to ensure strategic delivery and embedment within ways of working.

Within the Banking division, and in line with expectations under the Senior Managers Regime, the group chief risk officer ("GCRO") is specifically responsible for climate risk management. This includes:

- embedding climate change risks within business planning and risk appetite statements;
- conducting scenario analysis over different time horizons;
- ensuring sufficient board-level visibility and a clear allocation of roles/ responsibilities; and
- considering risk materiality as part of the annual Internal Capital Adequacy Assessment Process ("ICAAP").

The GCRO is supported by the board and the executive who collectively oversee delivery of the firm's climate risk objectives and are also responsible for challenging and approving the firm's broader climate and ESG strategy.

Group Risk and Compliance Committee

At an executive-level, climate risk management is primarily overseen by the Group Risk and Compliance Committee ("GRCC"), which is responsible for reviewing and challenging the risk framework employed to manage the financial risks from climate change. To support this, regular framework updates are presented to the committee with relevant climate risk MI also embedded within its long-established risk reporting mechanisms.

To support practical day-to-day oversight, responsibility is delegated to a Climate Risk Steering Committee which is chaired by the GCRO and tasked with overseeing climate risk framework design and delivery.

Executive Committee (and local Executive Committees)

The Executive Committee considers and implements initiatives to ensure a sustainable business model that takes into account all risks, including ESG.

Climate Risk Steering Committee

The Climate Risk Steering Committee coordinates programme governance and oversees the design and implementation of the firm's regulatory compliant climate risk framework, ensuring alignment with group strategy. It also ensures that regular updates are provided to the GRCC and BRC, enabling them to stay informed on framework delivery and opine on/review key strategic deliverables.

The steering committee is supported by focused subsidiary working groups covering credit risk, scenario analysis, Scope 3 and disclosures, and also works closely with the group's Sustainability Committee, which is responsible for day-to-day management of the firm's climate and ESG strategies.

Credit Risk Management Committee

The Credit Risk Management Committee ("CRMC") is specifically responsible for monitoring the group's credit risk profile. Accordingly, it is responsible for overseeing the management of climate-related credit risk considerations.

Over the last year it has received regular updates on the development and subsequent implementation of the Banking division's inaugural credit risk assessment framework, as well as the initial MI reporting stemming from this, designed to illustrate the potential climate risk sensitivity of different sectors and asset classes.

The committee has also reviewed and approved the integration of climate considerations within credit risk policies and standards, most notably to reflect new requirements introduced to support the management of associated credit risk impacts.

Business Risk and Compliance Committees

Business risk and compliance committees are responsible for overseeing risk profile, alignment to risk appetite and the effectiveness of the risk management and compliance framework at a local level. With regards to climate risk, these committees are responsible for overseeing key risks and opportunities on an ongoing basis. This includes monitoring of the evolving regulatory and industry landscape as relevant to each business, the review of regular risk MI, and oversight of local actions to align with group-wide change initiatives.

Sustainability Committee

The Sustainability Committee oversees the development of the group's sustainability strategy including the advancement of climate and ESG ambitions, and associated operational and financing activities, targets and metrics, supporting the chief executive and Executive Committee to recommend to the board for approval.

Training and competency

Both the board and executive team are committed to building and embedding a requisite skill set across climate and ESG competencies. The regular updates provided to the board and management committees over the course of the last year have played a key role in this regard, helping to educate key populations on the risks and opportunities that climate change presents, as well as the firm's progress in addressing these.

These updates have been supplemented by a number of externally facilitated training sessions, tailored to focus on the complexities associated with the topic – for example, the evolving regulatory landscape, specific board and management responsibilities and general trends in industry practice.

To support awareness more broadly across the organisation, a new mandatory training module was issued to all UK-based staff across the group during the year to support the development of a core level of understanding of climate risk considerations. Tailored updates and presentations were also delivered to relevant business and function-specific forums while further job-specific training is planned over the course of the next financial year to augment understanding and awareness among those likely to be most impacted. This will be delivered in line with planned future business operating model changes (see Risk Management). Going forward, additional capability and expertise will be enabled through further training of our people, including the undertaking of accredited climate qualifications where relevant, as well as the augmentation of new capabilities via recruitment and/or the use of external specialist expertise.

Strategy

We are committed to meeting the goals of the Paris Agreement to achieve net zero by 2050

Supporting our customers, clients, and partners in the transition towards more sustainable practices

Overview

Across the organisation we recognise the importance of addressing the threat of climate change, and the urgency needed in tackling the environmental, economic and social impacts that it brings, noting that these extend across all sections of society, affecting all key stakeholder groups.

Our ongoing work to identify the risks and opportunities climate change poses to our business model remains a key area of strategic focus for the board and senior management. We take our responsibility towards the environment seriously and, as a group, are committed to meeting the goals of the Paris Agreement to achieve net zero by 2050.

As a financial services provider we recognise the specific role we can play in supporting the climate agenda, aligning our lending and investment portfolios with the transition pathways of our clients. We provide expert financing solutions for UK SMEs and medium-sized businesses. As these businesses evolve and, over time, deliver their own transition plans to adopt clean technologies, greener assets, and new business models, we are ready to support them by providing appropriate financing solutions; in doing so, facilitating change and supporting the wider transition of the economy.

It is also important we meet our own emissions reduction targets across our operations, through the deployment of energy efficiency, green transport and renewable energy supplies. This will include coordination with our suppliers to ensure the impacts of all of our business processes are minimised.

Adapting in response to market, technological, regulatory and geopolitical developments that affect the shape and timing of the transition to a low-carbon economy is also critical. We will keep our policies, targets and progress under continual review, reflecting the rapidly changing external environment and the need to support our customers and societal ambitions.

We are currently working on formulating our detailed net zero strategy, the decarbonisation pathways necessary to support it and the associated targets which we will aim to disclose within 18 months. To date, our approach has focused on those areas across our businesses where we believe Close Brothers can have the greatest impact, breaking these down into three core pillar objectives (see chart on page 49).

In assessing climate-related risks and opportunities, there are two primary channels from which impacts occur, namely transitional and physical risks.

Transitional risks

Arising from the process of adjustment towards a low-carbon economy. A range of factors influence this adjustment, including climate-related developments in policy and regulation, the emergence of disruptive technology or business models, or shifting sentiment and societal preferences.

These could similarly impair the value of financed assets or impact the creditworthiness of our customers should they fail to adapt effectively.

Physical risks

Arising from a number of factors including specific weather events (such as heatwaves, floods, wildfires and storms) and long-term shifts in climate (such as changes in precipitation, extreme weather variability, sea level rises and rising mean temperatures).

These could result in physical damage to the group's own properties, impair the value of financed assets or impact the creditworthiness of our customers.

We also consider potential impact across different time horizons. These take into account the long-term nature of some climate change impacts, while also ensuring alignment with the group's broader business strategy and financial planning cycles. The firm's approach to time horizons is likely to develop further over the coming years, both to align with the advancement of our targets and measures as well as the broader evolution of our climate risk framework.

As outlined in the sections that follow, no material impact is anticipated over the short to medium term.

Key Climate-Related Risks

As outlined on page 50, the group has undertaken an extensive analysis of the various risks presented by climate change, identifying impacts across various existing principal and key risks. Our analysis to date indicates that we are not immediately (over the short to medium term) exposed to potential material losses or disruption.

Over the longer term however, increased risk has been identified, primarily driven by transitional impacts such as changes to regulation, technological change and the evolution of consumer preferences. With regard to physical factors, we recognise that acute physical events are already happening, although more severe impacts are only likely to present in the long-term.

The core climate-related risks facing the group can be summarised as follows:

- Efforts and ambitions of governments and businesses to accelerate the transition to a low-carbon economy may result in rapid adoption of policy and regulatory intervention, presenting transition risk for ourselves and our customers (e.g. more aggressive energy efficiency requirements for buildings, acceleration of planned bans on new petrol/diesel cars).
- Increased global warming may lead to extreme variability in weather patterns, increasing incidence and severity of physical risks, which in turn could lead to our customers being disrupted and experiencing financial loss.
- The same extreme variability could also impact our own operations, either as a result of damage to offices or data centres, or through disruption to key suppliers (who may also be impacted by transitional factors).
- Risk associated with the group's own transition to a low-carbon economy – for example, a potential increase in costs associated with meeting key targets or a strategic failure to deliver in line with our transition plan.

The group has already taken steps to mitigate each of these core risks through the implementation of targeted measures within existing risk-specific frameworks. These include enhancements to business continuity plans and changes to our third party management process with further refinement planned over the years to come.

Our primary focus area is on potential credit risk impacts given the nature of the services we provide particularly within the Banking division. Importantly, the group has minimal appetite for coal and other fossil fuel extraction with enhanced due diligence required on individual case assessments. We

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do provide funding to some higher emission sectors and assets as detailed on page 49 and will continue to monitor concentrations across all sectors and asset classes.

Sector analysis from our loan book

While the firm is exposed to potential credit impacts, we consider any climate impact, in the short to medium term, to be substantially mitigated. Physical risk is reduced by our geographic location, with 99% of our loan portfolio based in either the UK or the Republic of Ireland, where the risk profile is lower. Regardless, across our property portfolio (100% UK), we still undertake analysis to consider the potential flood risk associated with every transaction, with only 2% of our existing portfolio currently in locations categorised as very high or high climate sensitivity, with appropriate mitigants put in place for each to ensure any potential risk is reduced.

Similarly, transitional risk is greatly reduced by our short loan book tenor (average residual tenor of 17 months with only 2% greater than 5 years) which enables us to quickly adapt our lending strategy to respond to any changes in asset or sectoral risk profiles. Rigorous underwriting and lending policies are also deployed, with any decrease in asset valuations mitigated by conservative structuring of the funding provided.

As outlined on page 47, progress has also been made to integrate climate risk within the broader credit risk management framework, supporting top-down oversight and in turn enhancing our risk management capabilities.

Key climate-related opportunities

As a significant provider of asset lending across the UK and the Republic of Ireland we believe there are also significant commercial opportunities to support our customers and clients as they transition to cleaner technologies.

The key opportunities identified to date relate to our lending portfolios, particularly within the energy sector and our wholesale finance business. We are already supporting the energy sector through renewables and reserve power, while within our transport business we are seeing significant growth with key partners in providing lending products for electric vehicles. We have set our inaugural green growth target this year, with the ambition to provide over £1 billion of lending for zero emission battery electric vehicles, over the next five years.

Other opportunities are still being explored with deep dive analysis recently launched through our annual strategic planning cycle. Whilst we are yet to engage our customers in a structured approach to improve their climate and ESG credentials, planning on the approach is well advanced to engage, partner

Our Business Planning Time Horizons

Short term (0-1 year)	Time horizon for annual budgeting and capital assessment.
Medium term (1-3 years)	Time horizon for business strategy and financial planning. Also aligns with typical ICAAP scenario analysis horizon.
Long term (more than 3 years)	Time horizon beyond typical financial planning cycle. Impacts primarily assessed through the use of long-term scenario analysis noting most material climate risks will crystallise in this horizon.

and incentivise our customers and colleagues to reduce their environmental impact.

Looking ahead, advancement across the sector in data capabilities, particularly to support carbon accounting and the knowledge of individuals and SME businesses with regard to climate and ESG credentials, will facilitate greater management insights and inform ongoing disclosure transparency.

Scenario analysis pilot exercise

During the last year, we have continued to deploy scenario analysis to enhance our ability to identify climate-related risks and opportunities, and assess the resilience of our business model.

Since 2019, all divisions have been asked to consider potential climate scenarios as part of short to medium-term (1-3 years) scenario analysis run as part of the annual ICAAP framework. While no specific climate scenarios have yet been adopted for the group-wide scenarios deployed for Pillar 2b purposes (again using the firm's standard 1–3 year time horizon), climate impacts and possible climate-led scenarios continue to be discussed and debated as part of the scenario design process. Ultimately however, due to the short-dated tenor of our lending book, climate risk is not deemed to be a significant risk in the short to medium term.

This assessment was re-affirmed in the last year through the completion of an inaugural long-term scenario analysis exercise designed to explore potential climate risk impacts over an extended (30-year) time horizon. This was the first time the firm had undertaken an exercise beyond our typical strategic planning cycle and a proportionate approach was subsequently taken to planning and implementation. This prioritised scope coverage of our motor and asset finance businesses – capturing c.£5 billion/60% of our loan book.

Recognising the complexities and challenges posed by such an exercise, the firm engaged the support of a third party to aid scenario development. Ultimately, we elected to use three Network for Greening the Financial System ("NGFS")-aligned scenarios, each reflecting contrasting transition paths:

i) Early action: Transition to a low-carbon economy starts early, increase in global temperatures stays below 2°C (global climate goal);
ii) Late action: Global climate goal is met, however the transition is delayed and is more severe to compensate for the late start; and
iii) No additional action: No additional policy actions beyond those already announced, Global climate goal not met.

Each scenario was assessed on two different bases:

i) No management actions – testing static financial year 2019 balance sheet (pre-pandemic) at different points in the scenario to determine resulting financial impact; and
ii) With management actions – allowing for changes in business strategy at each five-year interval i.e. changes in loan book composition, additional risk mitigation measures and pursuit of new commercial opportunities.

Given data and modelling limitations, a broadly qualitative approach was adopted. Assumptions were primarily expert-judgement driven, with business modelling underpinned by quantitative industry data inputs and projections, and emerging trends for key sectors including transport/energy provided by a third party. Analysis was completed at five-year intervals out to 2050 with modelling run at a portfolio level. High level business assumptions were applied to key financial parameters (i.e. impairment and loan book movements), with outputs intended to be directional only given known limitations.

As part of this work, workshops were held with business senior management, sector experts and risk specialists to explore and assess climate-related vulnerabilities and opportunities, and identify proportionate and timeous mitigation strategies. The exercise proved extremely valuable, prompting genuine and thought-provoking consideration of real-world impacts while generating significant interest from both first and second line stakeholders, including at an executive and board level.

Within the portfolios across our motor and asset finance businesses we can already see that technology advancements and customer demand are accelerating the transition to battery electric vehicles and we anticipate this trend will continue to accelerate. Additionally, the renewables sector together with the necessary

supporting infrastructure has been recognised as key opportunity areas within our analysis and we anticipate that new technologies emerging across our sectors will continue to offer further opportunities.

Our initial scenario analysis proved its real value through the identification and consideration of potential management actions over a range of transition pathways that could serve to mitigate any material impact and in addition supported the embedding of climate risk impact consideration within longer-term strategic planning. While risks over a longer time horizon were identified, our business model continued to demonstrate its strength and robustness, providing the tools and capacity to largely mitigate these over the short to medium term. We will continue to evolve our strategy and capabilities to ensure we can continue to support and fund our customers as they transition to the use of new technology and lower carbon assets.

In the next year, we intend to further advance our use of long-term scenario analysis, expanding coverage to include our property business while also completing initial counterparty-specific assessment across sectors likely to be most impacted. In doing so, we will seek to leverage enhanced data capabilities, both internally and externally, with a view to taking a more quantitative approach. The availability of comparable portfolio-relevant data remains a challenge, particularly across retail and SME markets, meaning the evolution of our approach is likely to be gradual.

Climate strategy

We recognise the need to continually assess and monitor the threats and opportunities associated with climate change. As our data capabilities improve, providing more powerful insights, strategy across each of our three core pillars will evolve.

The Three Pillars of our Climate Strategy

Achieving net zero operations
Achieving net zero operations and reducing supply chain emissions, working with our partners and suppliers to minimise operational impacts

Reducing our financed emissions
Supporting the goals of the Paris Agreement through re-alignment of our financing and by assisting our customers in meeting their transitional targets

Financing the transition
Enabling the deployment of cleaner technologies and business model adaption through our green growth lending strategy, leveraging our expertise and ensuring alignment with agreed risk appetite

1. Achieving net zero operations

We continue to focus on the initiatives in our direct control to decrease our operational footprint. We have previously set ourselves challenging net zero aligned targets for our direct operational emissions and continue to make good progress towards our ambitions to achieve a net zero position for our car fleet by 2025 and for all of our Scope 1 and 2 emissions across our operations by 2030.

We have recently expanded our carbon accounting to cover all categories of our Scope 3 emissions, providing us with initial visibility across both our direct and indirect operational emissions. This will enable us to develop our emission reduction plans for all our operational impacts, working with our suppliers and partners in areas such as facilities management and IT services. This year, we have continued to broaden our engagement with our supply chain on environmental matters, while working with those who share our ambitions to efficiently use resources and combat the adverse effects of climate change. We have extended the emissions data we collect from our suppliers and continue to explore ways in which we can incorporate carbon impact criteria into our choice of suppliers.

Reducing the impact our operations have on the environment continues through a number of initiatives and improvement programmes, to continue lowering our emissions, reducing our energy use and enhancing our energy efficiency. This year we continued momentum with additional energy savings, energy efficiencies and water use reductions. We have set our facilities management contractor the task of evaluating the current estate of buildings and their building services, to develop a further inventory of energy efficiency measures. Furthermore, having already adopted renewable electricity supplies for our offices, we have recently added green gas supplies to reduce further the impacts of the energy we do use.

Post pandemic, we continue to benefit from reduced commuting in the year with staff continuing use of flexible and hybrid working practices, with associated environmental benefits. We encourage our employees to make positive change by leasing low emission cars and participating in the cycle to work scheme. To support their own switch to an electric car, we offer our employees a salary sacrifice scheme as a route to make the shift.

We have continued to reduce the impacts of our company car fleet by only now offering battery operated fully electric cars onto the fleet, with the aim to meet our zero emission car fleet by 2025.

Waste recycling is encouraged in all our offices and 100% of the waste contractors we use across our offices send zero waste to landfill. Our progress in Scope 1, 2 and 3 emissions is detailed in page 54.

2. Reducing our financed emissions

This year, we have significantly advanced our carbon accounting and reporting. This includes our results from our Scope 3 assessment which covers emissions across all 15 categories of Scope 3, including our initial assessment of financed emissions across our loan book.

We have adopted the Partnerships for Carbon Accounting Financials ("PCAF") methodologies to calculate our financed emissions. As signatories to PCAF, we will engage with our peers and share best practice frameworks to advance accounting for financed emissions and improve the resolution of our analysis.

Guided by our commitment to align to the Paris Agreement's net zero ambition by mid-century, we will define our targets for sustainable finance opportunities across both our existing established finance markets as well as new market and technologies sectors that best fit with our established lending criteria and technical capabilities.

In the coming year we will enhance our customer data across our financing activities, which will provide us with the insights needed to be in a position to set credible longer-term targets that will:

- validate our support for the Paris Agreement;
- demonstrate the role we will play in supporting our customers transition, and
- complement our established net zero operational targets.

Acknowledging our previous support of the goals of the Paris Agreement to achieve net zero by 2050, and as we further develop our understanding of the impacts of our financed emissions, we will progress forward in evaluating wider goals for our business and its impacts. Demonstrating this progress we have recently become a signatory of the Net Zero Banking Alliance, committing to setting robust, ambitious and science-based targets.

3. Financing the transition

We have been an active provider of green and sustainable finance across a number of sectors for several years.

We recognise supporting UK businesses in their transition through the adoption of green technologies offers a significant growth opportunity for the Banking division building

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on this recent track record, our strategy in this area is underpinned by our significant expertise in the asset and sectors we fund, rigorous underwriting, monitoring and control processes to assess credit and climate-related risk and our commitment to build capabilities in emerging technologies. We will continue to adapt lending policies and grow existing green portfolios to fit evolving economic and industry landscapes.

To further our commitment, we aim to broaden our support for renewable technologies such as solar and wind power, expand our funding of cleaner transport solutions such as zero emission electric vehicles, and expand our green financing into new technologies and markets including charging infrastructure, battery storage and energy efficiency (across buildings and industrial processes). We will continue to provide customers with the support, finance and expertise they need to grow and flourish and realise their own transitions.

As we develop our decarbonisation transition plan over the next 12-18 months we will closely monitor projected sector transition pathways and aim for the emissions of our lending activity to at least align with sector-wide reductions in the medium to longer term.

One example of a green growth opportunity is in zero emission vehicles. Being a significant funder of both goods vehicles and passenger vehicles, transport is a specialist sector for us. We support our clients to bring new, cleaner vehicles to their fleets.

Transport is the highest-emitting sector in the UK economy and so the electrification of surface transport (supported by modern grid infrastructure and significant deployment of renewable electricity) represents a key transition for our business and consumer customers.

We are a leading provider of finance for the adoption of zero emission electric vehicles, deploying finance for new innovative vehicles into sectors such as logistics and delivery, supporting electrification of car fleets, and enabling innovative financing packages for consumer adoption of electric cars.

Battery electric cars represents over a third (35.3%) of all new cars we funded in our commercial business in the last year, more than double the proportion across new car sales in the UK (15.3%).

We believe the battery powered vehicle sector offers a significant growth opportunity. Our assessment of this market potential is based on transport policy drivers and an appetite from our customers, including our corporate customers, looking to meet their own carbon reduction targets.

We have set ourselves an ambition of providing over £1.0 billion of lending for zero emission battery electric vehicles over the next five years from 2023 to 2027.

Risk management

Integrating Climate Risk into Risk Management

As outlined in our Risk Report (see pages 74 to 92), the group employs an Enterprise Risk Management Framework to effectively manage the risks it faces on a day-to-day basis. In addition to detailing the core risk management components and structures used across the firm, the framework defines a consistent and measurable approach to identifying, assessing, controlling and mitigating, reviewing and monitoring, and reporting risk – the risk process lifecycle. It also outlines each of the firm's principal risks, setting the foundation for the individual risk frameworks put in place to manage and mitigate each.

Consistent with our approach to risk management, the group considers climate risk to be a cross-cutting risk, noting the potential for impacts arising from climate change to affect several of our existing principal risks. We recognise that these may be both physical and transitional in nature.

Noting the longer horizon over which some climate impacts will ultimately crystallise, and the propensity for emerging policy and regulatory developments on the topic, the group also continues to track climate risk as one of its core emerging risks (see page 91).

Substantive progress has already been made in embedding climate risk considerations within our existing risk frameworks, with further refinement and enhancements planned over the months and years to come. The completeness of this journey is critical. Over time, our expectation is that climate risk will be considered within every component of our risk framework, ensuring full coverage through our risk lifecycle.

Integration within key parts of our group policy framework, risk appetite statements and group stress testing framework has been an important first step on this journey, and over time, the extent to which climate risk consideration becomes further embedded within business-as-usual risk assessment and decisioning will be an important benchmark of our success.

How we identify, assess and manage climate-related risks

Recognising the potential for climate change to present both disruptive physical and transitional impacts, the group coordinated an initial risk identification exercise in 2019 with a view to identifying the most material risks to the group. This covered all business areas as well as relevant group central functions and, using a pre-agreed questionnaire format, was successful in identifying potential climate-related impacts across several existing principal or key risks, most notably:

- Credit risk (counterparty and collateral impacts)
- Operational risk (premises and people, and third party impacts)
- Traded market risk
- Regulatory risk
- Conduct risk
- Business and strategic risk
- Funding and liquidity risk

The group has subsequently sought to review and consider all identified risk areas, with consideration given to each aspect of the risk lifecycle, namely (1) Identify; (2) assess; (3) control and mitigate; (4) review and monitor; and (5) report.

For each, businesses and group central functions have developed, or are developing, processes and reporting to support the effective management of potential climate impacts going forward, as well as the embedding of clear accountabilities and responsibilities.

To date, our focus has primarily centred on credit and operational risk impacts consistent with our view that these areas carry the highest level of potential risk. Whilst we accept that we are exposed to degrees of both transitional and physical risk, current risk exposure is not considered to be material.

However, we accept that developments over the longer term (particularly those with a transitional impact) could impact the business without the implementation of appropriate management actions and the evolution of our business operating model.

To date our analysis of each risk area has remained broadly qualitative with industry best practice still not established and data needs and capabilities (both internally and externally) still evolving. Over time, developments both within the group and across the industry will facilitate a more quantitative assessment of potential impacts. Some quantitative analysis, such the completion of our inaugural long-term horizon scenario analysis exercise outlined on page 48, has been performed, greatly supporting our ability to understand and assess potential risk exposure.

Credit risk

Our primary focus has undoubtedly been on credit risk given its materiality to the Banking division and the wider group, but more so its sensitivity to possible climate impacts, noting that both physical and transitional drivers have the potential to affect both counterparty and collateral risk.

To enable a standardised assessment of current loan book exposures to physical and transitional risks, we have developed and implemented a first-generation climate sensitivity methodology. This utilises a standardised impact classification approach with exposures categorised from "Low" to "Very High" based on the potential sensitivity at both a counterparty (driven by sector) and asset level. The methodology relies on existing data sources and applies a set of qualitative, expert judgement assumptions to assign exposures into different classifications.

Presently the methodology is deployed across c.£7 billion of the Banking division's loan book (77%) and has proved useful in identifying those exposures deemed as having the most potential sensitivity to climate change, namely:

- Carbon asset funding within our Motor/ Asset Finance businesses
- Non-renewable energy and carbon asset funding
- Receivables funding in potentially impacted sectors within our Invoice Finance business
- Residential/commercial property funding (particularly in high flood risk locations) in our Property business

Importantly, the current methodology does not account for time horizons over which climate impacts are expected to crystallise, meaning that the segmentations it produces are not necessarily representative of our current portfolio risk. As outlined on page 42, we believe the short average tenor of the portfolio significantly mitigates the risk associated with our existing book.

Nonetheless, outputs from the methodology have provided important insights into potential future risk with resulting sensitivity dashboard extracts incorporated into regular reporting to key risk committees since October 2021. These include divisional risk and compliance committees ("RCCs"), CRMC, GRCC and the board risk committee.

Addressing data and future enhancements

Data quality remains a key challenge and we are committed to developing enriched climate credit risk data that will support more accurate measurement and monitoring that can in turn support not just effective risk mitigation but also strategic alignment.

To support us in this endeavour, we have now commenced the development of a second-generation climate assessment methodology that will incorporate a more sophisticated approach utilising both qualitative and quantitative inputs. This will:

- facilitate customer and asset assessment scorecards for each exposure as relevant;
- leverage a wider range of data attributes (both customer and asset); and
- incorporate customer outreach at onboarding to better understand counterparty-specific climate and ESG sensitivities.

Our transition to this enhanced methodology forms an integral part of our plan for enhancing climate risk management capabilities. It will also require us to address various existing data gaps which will be facilitated by the gathering of more customer data as well as the leveraging of industry wide data sources where relevant and available.

Whilst we envisage it will take time to implement, the enhanced methodology will ultimately move functionality beyond simple reporting enhancements, initiating parallel changes to operating models, credit sanctioning processes, core systems and, in time, our credit modelling approach. The enhanced reporting and MI it will provide will also facilitate more decision useful insights that will in turn support the evolution of the firm's longer-term strategy for managing risks and opportunities and the development of more tailored credit risk appetites based on sectoral transition risk assessments.

Operational risk

Premises and people

Recognising the potential for climate change to impact both our buildings and service provision capabilities, particularly in the event of a sustained increase in temperatures over the longer term, the group has conducted a review of its existing business continuity plans as well as its broader approach to crisis management to ensure it is adequately prepared. Where necessary, appropriate updates have been made to ensure sufficient consideration of potential impact although the location of the group's properties and service centres (primarily UK and Ireland-based) reduces our exposure to the most immediate physical risks.

Potential climate impacts on our people, customers and infrastructure are also now considered in crisis management simulations conducted across the group. These span from disruption to data centres as a result of extreme weather events, to operational impacts resulting from the failure of key third parties, right through to significant changes in customer preferences.

Relevant operational risk standards have also been updated to recognise the risks presented by climate change while work continues to incorporate climate risk considerations within our assessment of operational resilience for critical services and change management risk assessments. Over time, we also plan to gather further physical risk data on our premises, including key data centres, with a view to supporting our assessment of future risk. More immediately, consideration of a bespoke climate-based Pillar 2a operational risk scenario is underway as part of our next ICAAP cycle.

Third party risk

The group also recognises the potential for key third parties and suppliers to be impacted by climate change (due either to physical or transitional factors), causing disruption to day-to-day business operations. Enhanced supplier due diligence questionnaires have now been introduced to gather climate and ESG data for all of our Tier 1 and Tier 2 suppliers while our tendering process has been updated to consider environmental and climate considerations alongside sustainability innovation.

Where practical, measurable performance indicators are also now included within agreements with performance against these monitored on an ongoing basis. Whilst we have not yet set climate-specific third-party risk appetites, we continue to work collaboratively with our suppliers to support them with their climate and ESG agendas. Over the next year we plan to further enhance the group's third-party management framework to keep pace with the evolving regulatory landscape, adapting our risk assessment processes and controls as appropriate.

Other risks

Work to integrate consideration of climate risk across other identified risk areas is also progressing at pace. Climate change, and the group's response to it, now forms an integral part of our business strategy. This includes continued assessment of the resilience of our model, to ensure we are sufficiently prepared to manage the risks posed by it. As outlined on page 45 (Governance section), strong oversight of strategic delivery is maintained through our committee framework, with consideration of climate risks now embedded within our strategic planning and new product approval processes.

Funding and liquidity impacts have also been reviewed and are now subject to ongoing re-assessment with regular updates provided to relevant Treasury committees. Primary focus areas include implications for debt capital markets, potential behavioural changes in our investor base, and possible direct and indirect reputational impacts, including those related to evolving disclosure requirements.

We also continue to assess traded market risk implications for Winterflood, although the business' role as a market maker means we do not take long-term positions, mitigating potential risk exposure.

The rapidly evolving regulatory landscape also presents risk and we recognise our responsibility to comply with new and emerging requirements. Horizon scanning capabilities have been enhanced in response, with new developments initially identified via the group's Regulatory Oversight Group and subsequently assigned to relevant functions and business areas as appropriate.

Sustainability Report continued
Task Force on Climate-related Financial Disclosures

Work is also underway to consider conduct risk implications. In particular, we recognise the need for transparency across all levels of disclosure. This includes compliance with any new product-specific disclosure requirements as they come into effect. Linked to this, we also note the increased potential for litigation risk should we fail in this regard.

Our asset management business has integrated responsible investment practices in our investment process to aid us in creating long-term value for clients and beneficiaries, in turn leading to sustainable benefits for the economy, the environment and society. This approach is underpinned by our focus on stewardship, where we have set ourselves high standards of integrity and excellence to deliver consistent value for our people and clients. We also continue to grow our product offering for clients who wish to further align their investments to their values; we offer ethical screening, Sustainable Funds and our Socially Responsible Investment Service and are actively looking at ways in which we can align our portfolios with positive environmental, social and governance factors. To do this, we are continually educating our people and clients on industry best practice, and are signatories of the Principles for Responsible Investment ("PRI").

Looking ahead to 2023 and beyond, we have mobilised a Sustainability Programme with dedicated initiatives to embed the principles of responsible investment and stewardship across all facets of our business including becoming a signatory of the UK Stewardship Code. We believe that to manage our Asset Management clients' capital responsibly, we must be acutely aware of, and respond to, the material risks and opportunities presented by climate change. We also believe the asset management industry can play a huge role in facilitating the transition to a lower carbon economy, while being mindful of the impacts to society. To drive this forwards, our asset management business will be making a commitment to actively contribute towards the UK government's net zero climate goals, through the Net Zero Asset Managers initiative, in addition to maintaining a prudent approach to ESG risk management.

Risk appetite

During the last year, work has continued to integrate consideration of climate risk within the group's risk appetite statements. This has included the ongoing refinement of existing qualitative statements as well as the development of quantitative risk measures for relevant principal and key risks.

While quantitative measures are, in the main, currently included for monitoring purposes, we are continuing to develop more tailored, formal risk appetites, particularly for credit risk. We expect these to be based on sectoral transition risk assessments, aligned to our ambition to meet the goal of the Paris Agreement to reach net zero by 2050.

Metrics will be further enhanced as data and capabilities evolve, and over time we expect these to also leverage scenario analysis and our enhanced credit risk reporting methodology to enable the setting of risk appetite across different time horizons.

During the last year, we have made progress in developing further our climate strategy and our understanding of our broader emissions including our full operational emissions (including Scope 3) and early assessment of our financed emissions in our loan book. Our footprinting activities in the year have broadened our boundary to include our full Scope 1, 2 and 3 operational emissions across the group as well as an initial evaluation of our Scope 3 financed emissions (initially focused on our lending book).

We recognise the importance of addressing the threat of climate change and also appreciate the vital role we can play in supporting our customers on the transition to a low-carbon economy. Having previously set ambitious short-term net zero targets for our Scope 1 and 2 operational emissions, we are now setting ourselves a wider and longer-term ambition to align all of our operational and attributable GHG emissions from our lending and investment portfolios to align with pathways to net zero by 2050.

To this end, we have recently joined 116 other banks globally, as a signatory to the Net Zero Banking Alliance. This sets us on a clear trajectory to further develop our understanding of our full value chain emissions (including our financed emissions) and to set short-term and long-term targets aligning our operational and financed greenhouse gas emissions with pathways to net zero by mid-century.

Our climate strategy is formed around three pillars:

- Achieving net zero operations across our buildings and fleet (covering our Scope 1 and 2 emissions), as well as our wider operational impacts in our supply chain emissions (Scope 3)
- Measuring and reducing our financed emissions across our lending and investment portfolios to support our customers to meet their own goals and aligning our pathway to net zero by mid-century
- Developing our green financing activities, growing existing green markets (such as our current work supporting our customers' transition to battery electric vehicles), as well as opening new green asset categories where they align to our lending expertise and appetite.

Reducing our operational emissions

Having previously made good progress across our building and fleet emissions (including setting of ambitious net zero targets for our Scope 1 and 2 emissions by 2030 as well as a net zero fleet by 2025), we have expanded further our assessment of operational impacts this year.

As can be seen in the tables on pages 54 and 56, we have now carried out our first evaluation of our full operational footprint, covering Scope 1 and 2 as well as all relevant Scope 3 categories.

We gather our environmental data and compile our greenhouse gas emissions with the support of an independent third-party analytics and reporting consultancy.

Further to meeting all of the mandatory reporting requirements under the Streamlined Energy and Carbon Reporting ("SECR") standards, we are now providing enhanced disclosure across our wider operational impacts.

Our methodology for calculating and disclosing our GHG emissions and energy use is in accordance with the requirements of the World Resources Institute GHG Protocol Corporate Standard, GHG Protocol Corporate Value Chain Accounting and the SECR standards. We report on all material Scope 1 and 2 emissions associated with our operations. Scope 1 includes fuel emissions from buildings and company vehicles and Scope 2 includes our emissions from electricity. We have also reported our indirect Scope 3 operational emissions across all relevant categories.

In the 2022 financial year, our total location-based GHG emissions were 2,679 tonnes of carbon dioxide equivalent (tCO_2e), equating to 0.70 tCO_2e per employee, up 2% overall but down by 1% per employee from 2021. Though we saw significant reductions in emissions from our buildings in 2022, we saw a similar sized increase in fleet emissions as our relationship managers got back on the road following the quieter Covid-19 period.

Our offices and Brewery Rentals Operations

As can be seen in the chart on page 55, a growing proportion of the energy we use across our offices as well as use in our Brewery Rentals sites (primarily to clean the kegs) is coming from renewable sources. We have extensive deployment of renewable electricity across our sites and primarily use wood pellets to raise heat for our barrel cleaning processes. This year, these existing sources of renewable energy have been complemented with our use of green gas (supplied to us with Renewable Gas

Metrics and targets

Our Climate Strategy

As a signatory to the Net Zero Banking Alliance

We commit to transition all operational and attributable GHG emissions from our lending and investment portfolios to align with pathways to net zero by mid-century, or sooner, including CO_2 emissions reaching net zero at the latest by 2050, consistent with a maximum temperature rise of 1.5°C above pre-industrial levels by 2100.

Operational emissions

Achieving net zero operations

Achieving net zero operations and reducing supply chain emissions.

Working with our partners and suppliers to minimise our operational impact.

Financed emissions

Reducing our financial emissions

Supporting the goals of the Paris Agreement to achieve net zero by 2050, aligning our financing over time to support the necessary reductions and timelines, enabling our customers to meet their targets.

Helping to finance the transition

Enabling the deployment of clean technology and business models through our green growth lending strategy.

Growing existing green asset markets and unlocking new sectors that align with our lending expertise and appetite.

Our Climate Ambitions

- Become operationally net zero through our Scope 1 and 2 emissions by 2030.
- To reach net zero emissions by 2050 across our operational and attributable GHG emissions from our lending and investment portfolios.
- Provide over £1 billion of lending for zero emission battery electric vehicles over the next five years (2023-2027).
- Achieve a net zero company car fleet by 2025.

In development:

Interim (2030) financed emissions targets supporting our path to net zero.
Further green asset lending targets across specific technologies or markets

Guarantee of Origin ("RGGO") certificates). This gives us complete traceability and assurance that our gas comes from authentic biogas sources. Our gas supplier is a registered supplier with the Green Gas Certification Scheme ("GGCS").

Our ongoing approach across our operations of energy efficiency and sourcing of renewable energy continues to drive down our Scope 1 and 2 emissions. We have now achieved a reduction of 44.8% in our Scope 1 and 2 emissions since 2019 under a market-based approach, which demonstrates good progress towards becoming operationally net zero by 2030.

During the past year, our energy efficiency programme across our office estate has implemented a number of energy-saving initiatives, including:

- Boiler demand strategy: reviewing the boiler usage at one of our sites has saved an estimated 10% gas consumption since it was implemented. Based on this success, we are now looking to roll out this initiative across other office sites.
- Decommissioning staircase heating: a planned change to how we heat the staircases and other communal space at our Head Office has saved an estimated 5% gas consumption at this site since implementation.
- Continuation of our LED lighting upgrades: lighting across a further three office sites has been upgraded to efficient LED lighting saving 5.2 MWh of electricity this year.

Electrifying our car fleet

Our drive towards having a fully electric car fleet and a net zero fleet by 2025 has continued this year. We are proud of our leading strategy, allowing us to demonstrate to our customers how progress in decarbonising fleets can be achieved – an area we can support them to finance.

Since January 2022 we have only offered fully electric, battery electric vehicles ("BEVs") options on our car scheme (other than in exceptional circumstances).

Our fleet of 639 cars is now almost wholly battery electric or hybrid (as can be seen in the diagram on page 55) and we anticipate the majority of the vehicles to be BEVs by the end of the 2022 calendar year.

Our efforts to transition our fleet (and to progress towards our net zero target by 2025) has driven our fleet average emissions down further this year (and a long way ahead of the UK average for new vehicles).

The average CO_2 emissions have now fallen to 32.9 gCO_2/km (2021: 57.3 gCO_2/km).

Sustainability Report continued
Task Force on Climate-related Financial Disclosures

Our Operational Impacts

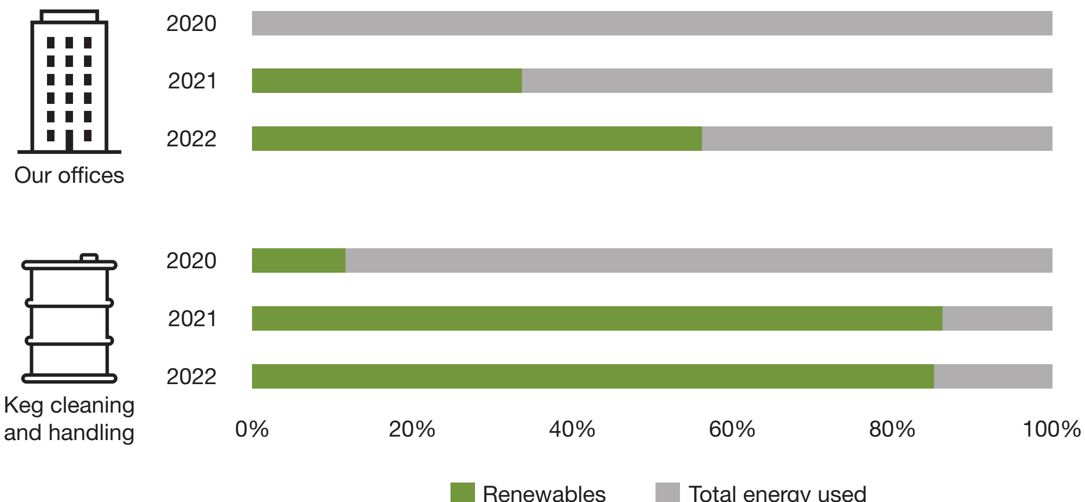
		Location based		Market based	
Greenhouse gas emissions[1,2]	Emissions source	2022 tCO_2e	2021[3] tCO_2e	2022 tCO_2e	2021[3] tCO_2e
Scope 1	Buildings - fuel	**379**	712	**355**	712
	Owned vehicles - fuel	**1,015**	345	**1,015**	345
Total Scope 1		**1,394**	1,057	**1,370**	1,057
- Of which UK Total Scope 1		***1,358***	*1,057*	***1,334***	*1,057*
Scope 2	Buildings - electricity	**1,123**	1,511	**906**	1,428
	Owned vehicles - electricity	**162**	57	**162**	57
Total Scope 2		**1,285**	1,568	**1,068**	1,485
- Of which UK Total Scope 2		***1,242***	*1,446*	***941***	*1,306*
Total Scope 1 and 2 (Operational)		**2,679**	2,625	**2,438**	2,542
- Of which UK Total Scope 1 and 2		***2,600***	*2,503*	***2,275***	*2,363*
Scope 3 (Operational)	Category 1 - Purchased goods and services	**44,219**	141		
	Category 2 - Capital goods	**19,291**			
	Category 3 - Fuel and energy-related emissions	**712**	129		
	Category 4 - Upstream transportation and distribution	**86**			
	Category 5 - Waste generated in operations	**206**	44		
	Category 6 - Business travel	**1,110**	130		
	Category 7 - Employee commuting	**4,212**			
	Category 9 - Downstream transport and distribution	**408**			
Total Scope 3 (Operational)		**70,244**	444		
Total Scope 1, 2 and 3 (Operational)		**72,923**	3,069		

Energy Use	2022 GWh	2021 GWh
Total energy use	**18.47**	16.70
- Of which UK Total energy use	***18.06***	*16.44*

	tCO_2e per employee		tCO_2e per employee	
Emission Intensity	2022	2021	2022	2021
Operational Scope 1 and 2 emissions intensity	0.70	0.71	0.64	0.69
Operational Scope 1, 2 and 3 emissions intensity	19.14			
- Calculated using: Average number of employees in year	***3,810***	*3,709*	***3,810***	*3,709*

1 We have reported on all emission sources required under the Companies (Directors' Report) and Limited Liability Partnerships (Energy and Carbon Report) Regulations 2018. Our reporting year runs from August 2021 to July 2022. The emissions reporting boundary is defined as all entities and facilities either owned or under our operational control.
2 Emissions have been calculated using the Greenhouse Gas Protocol Corporate Standard and covers all greenhouse gases (converted to TCO_2e). We have used emissions factors published by the UK government's Department for Business, Energy & Industrial Strategy, and the International Energy Agency.
3 During year end carbon accounting we identified a small adjustment to the 2021 financial scope 2 emissions. The 2021 scope 2 footprint has been restated - increasing slightly by 9 tonnes under location based and 12 tonnes under market based accounting.

Proportion of Renewable Energy used Across our Offices and Brewery Rental Sites



Recognising our progress
We continue to participate in the CDP, which allows us to disclose our greenhouse gas emissions and our approach to managing climate-related impact on a voluntary basis. We were pleased to be awarded a B- in the latest CDP scores in December 2021, in recognition of the positive ongoing progress we are making. This year, we were also proud to be included again, for its second year, in the Financial Times' list of European Climate Leaders, recognising our position as one of the top 300 European companies at reducing Scope 1 and 2 emissions.

Understanding our financed emissions

We recognise the need for holistic action on climate change. We are addressing the impact of our own operations through our existing targets of net zero Scope 1 and 2 operational emissions by 2030 and a net zero fleet by 2025.

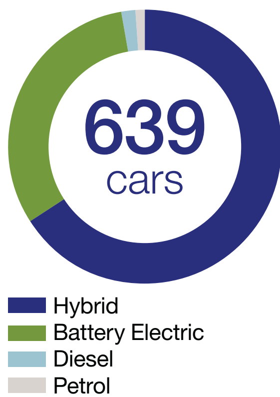
This year we have begun our journey to evaluate the wider impacts of our business, by including our financed emissions in our carbon accounting.

To assess these emissions we have used the PCAF approaches, applying the guidance included in their Global GHG Accounting and Reporting Standard for the Financial Industry, drawing on three of their developed methodologies, business loans, project financing and motor vehicle loans. On review, 87% of our loan book is in scope of GHG assessment under the current PCAF standard. Of this, 59% has been assessed under the business loans methodology, accounting for an apportioned amount of emissions from these businesses, in line with the value we finance. A further 5% of our total loan book has been assessed under the project finance methodology. Here, we have accounted for the apportioned emissions of the project due to our contribution. A final 23% of our loan book has been assessed using the motor vehicle loans methodology, accounting for the annual in-use emissions of the vehicles that we finance.

Due to limited availability of data, we have, leveraged robust datasets from the UK government, the OECD and others, in line with PCAF recommendations, within our assessment. This is our starting point and is based on current best available data. We have a strategy to move forward on progressing the availability, granularity and accuracy of the data utilised to further improve the quality of this reporting. However, as recommended by PCAF, we are choosing to not allow low data availability to deter us from beginning our journey to assess our financed emissions. We report now as it sets our intention as a business to align our loan portfolio with the Paris Climate Agreement and move towards not just improved accuracy in our reported emissions but also to drive greater decarbonisation across the activities we finance.

In the table on page 56, we have set out the initial emissions calculations for this proportion of our loan book against each category, as well as the impacts of our operating lease business which we have included under Scope 3 category 13 – downstream leased assets. We have also included estimates of emissions impacts of any assets we dispose of under category 11 (Use of sold products – for their remaining life), and category 12 (End of life treatment of sold products).

Our Own Car Fleet



Sustainability Report continued
Task Force on Climate-related Financial Disclosures

Our Financed Impacts[2]

Greenhouse gas emissions	Emissions source		2022 tCO_2e
Scope 3 (Financed)	Category 11 - Use of sold products		196,526
	Category 12 - End of life treatment of sold products		100
	Category 13 - Downstream leased assets		535,989
	Category 15 - Investments[1] (loan book only)		707,421
	Of which:		
	- Motor vehicle loans	394,493	
	- Business loans	218,985	
	- Project finance	93,943	
Scope 3 (financed)			1,440,036

Emission intensity	tCO_2e per £M loan book 2022
Financed emissions intensity (Category 15 - Investments only[2])	88.8
- Calculated using: loan book related to activities currently included in the footprint £8.0 billion	

1 Partnerships for Carbon Accounting Financials ("PCAF") methodology selected as the most appropriate approach to calculating financed emissions.
2 Our initial assessment of financed emissions covers our banking loan book only and excludes our asset management activities.

Green Growth

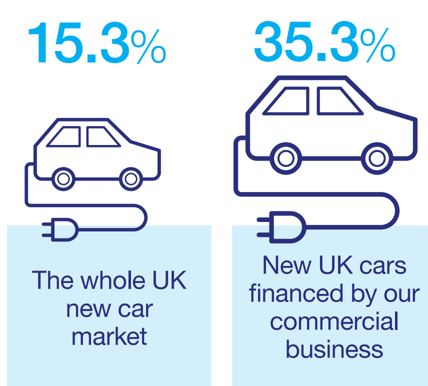
We recognise the significant growth opportunities for green asset lending across several of our existing asset classes, as well as new ones. As a specialist, adaptable lender, with deep understanding of our customers' needs, we can support them in their transition to new cleaner technologies to meet their own sustainability targets.

As an existing lender across a range of vehicle markets (both passenger and commercial), we are already seeing growth in battery electric vehicles, as our fleet customers seek to reduce their emissions. In our wholesale finance business, we are seeing a major move to fully battery electric cars, an example being our support for the launch of a new personal car hire offering by Octopus Electric Vehicles (see case study right).

Demonstrating our leadership in providing support for the deployment of zero emission vehicles, in the past year, 35.3% of new cars financed by our commercial business have been battery electric. This is more than double the proportion that were seen across the whole UK market in the same period.

Building on this early success in supporting the electrification of surface transport, as an initial green growth ambition, we have set ourselves the ambition to provide funding for at least £1.0 billion of battery electric vehicles in the next five years (2023-2027).

Proportion of New Cars that were Battery Electric in the Past Year



Our Sustainability Alliances

Net Zero Banking Alliance

Close Brothers has recently signed up to the Net Zero Banking Alliance ("NZBA"), a global coalition of banks convened by the UN.

As a signatory to the NZBA, we commit to transition our lending and investment porfolios to align with net-zero pathways by 2050.

Partnership for Carbon Accounting Financials

This year, we joined Partnership for Carbon Accounting Financials ("PCAF") to support our progress in measuring our financed emissions.

PCAF is a collaboration of over 290 financial institutions worldwide with the aim of harmonising the assessment and disclosure of greenhouse gas (GHG) emissions associated with their loans and investments.

CDP

CDP is a global not-for-profit organisation that runs the world's environmental disclosure system for investors, companies, cities, states and regions to manage their environmental impacts. For the seventh year in a row, in 2022, we disclosed through CDP. In reporting our environmental data through CDP, we are able to benchmark our greenhouse gas emissions reporting and our approach to managing our climate-related impacts. In December 2021, we were pleased to be awarded a B- in the CDP scoring, in recognition of the positive ongoing progress we are making in addressing the threat of climate change.

New Personal Contract Hire package launched to consumers with Octopus Electric Vehicles

Our wholesale finance business has been working with Octopus Electric Vehicles for the last 3 years. We were the first funder to support their own book offering which allowed them to take to market their fully electric salary sacrifice product. Since launch, the product has grown exponentially and Octopus Electric Vehicles are now one of the fastest growing leasing companies in the UK.

Building on this success, we have continued to work with Octopus Electric Vehicles to support them bringing new innovative products to the market. In July 2022 we were pleased to be named as sole funder for the launch phase of their exciting new consumer offering: "the ultimate EV package". This offers consumers a complete EV solution, combining a new electric car with Octopus flexible EV domestic energy tariffs and a smart home charger, installed for free. This combination allows the customer to take advantage of cheaper and greener 'time of use' energy tariffs to charge their car.

DEDICATED SERVICE

FOR DEEPER RELATIONSHIPS

Case Study

Staveley Mill Yard, a four-acre "green" business park in the Lake District National Park comprising over 40 retail and industrial units. From engineers, woodturners, cafes, a brewery and the biggest bicycle shop in the UK, Staveley Mill Yard is a unique and vibrant working community.

Finance Solution

Renewable energy has always been in the mill's DNA. With lots of roof space available, the decision was made to install a large, state-of-the-art photovoltaic ("PV") system. We were able to fund this installation through a Coronavirus Business Interruption Loan Scheme loan agreement.

The Result

The 1,533 roof-mounted solar panels, and nine Tesla Powerwall Batteries, installed by Genfit, supply around 593 MWh of power annually to the business park's tenants, helping make it more sustainable while also saving significant cost. The daily surplus energy is exported to the grid and also used in the local village.

It goes a long way to reducing the carbon footprint of all the businesses on site and adds to the 14,000 deciduous hardwood trees we planted in the village.

Close Brothers were very professional and flexible when accommodating our requirements.

David Brockbank, Owner
Staveley Mill Yard

Non-Financial Information Statement

In line with the non-financial reporting requirements contained in sections 414CA and 414CB of the Companies Act 2006, the table below contains references to non-financial information intended to help our stakeholders understand the impact of our policies and activities.

Reporting Requirement	Policies and Standards	Information Necessary to Understand our Impact and Outcomes
Environmental Matters	• Bank Credit Policy Underwriting Standards • Environmental Policy	• Our Responsibility, page 34 • Sustainability Report, pages 42 to 57 • Our stakeholders, page 16
Employees	• Health and Safety Policy • Whistleblowing Policy • Key Customer Principles • Equal Opportunity and Dignity at Work Policy	• Business Model, page 10 • The Foundations of our Business, page 20 • Our Culture, pages 22 and 23 • Our Responsibility, page 34 • Our stakeholders, page 14 • Sustainability Report, pages 35 to 39 and 41 • Corporate Governance Report, page 99
Social Matters	• Key Customer Principles • Bank Credit Policy Underwriting Standards	• Our Responsibility, page 34 • Sustainability Report, pages 35 to 57 • Our stakeholders, page 16
Respect for Human Rights	• Human Rights and Modern Slavery Act • Privacy and Data Protection Policy • Cyber Security Policy	• Sustainability Report, page 41
Anti-Corruption and Anti-Bribery	• Anti-Money Laundering Policy • Anti-Bribery and Corruption Policy • Cyber Security Policy	• Sustainability Report, page 41
Description of the Business Model		• Business Model, pages 10 to 13 • The Foundations of our Business, page 20 • Our Purpose, page 21 • Our Culture, pages 22 and 23 • Our Strategy, pages 24 to 32
Description of Principal Risks and Impact of Business Activity		• Principal Risks, pages 78 to 89 • Emerging Risks and Uncertainties, pages 90 to 92 • Risk Committee Report, pages 117 to 119
Non-Financial Key Performance Indicators		• Strategy and Key Performance Indicators, pages 32 and 33 • Sustainability Report, pages 36 and 53

Financial Overview

Summary Group Income Statement[1]

	2022 £ million	2021 £ million	Change %
Operating income	**936.1**	952.6	(2)
Adjusted operating expenses	**(598.0)**	(592.1)	1
Impairment losses on financial assets	**(103.3)**	(89.8)	15
Adjusted operating profit	**234.8**	270.7	(13)
Banking	**227.2**	212.5	7
Commercial	**91.0**	52.8	72
Retail	**61.0**	71.9	(15)
Property	**75.2**	87.8	(14)
Asset Management	**21.7**	23.7	(8)
Winterflood	**14.1**	60.9	(77)
Group	**(28.2)**	(26.4)	7
Amortisation and impairment of intangible assets on acquisition	**(2.0)**	(14.2)	(86)
Goodwill impairment	**–**	(12.1)	n/a
Exceptional item: HMRC VAT refund	**–**	20.8	n/a
Operating profit before tax	**232.8**	265.2	(12)
Tax	**(67.6)**	(63.1)	7
Profit after tax	**165.2**	202.1	(18)
Profit attributable to shareholders	**165.2**	202.1	(18)
Adjusted basic earnings per share[2]	**111.5p**	140.4p	(21)
Basic earnings per share[2]	**110.4p**	134.8p	(18)
Ordinary dividend per share	**66.0p**	60.0p	10
Return on opening equity	**10.6%**	14.5%	
Return on average tangible equity	**12.2%**	16.5%	

1 Adjusted measures are presented on a basis consistent with prior periods and exclude amortisation of intangible assets on acquisition, to present the performance of the group's acquired businesses consistent with its other businesses; and any exceptional and other adjusting items which do not reflect underlying trading performance. Further detail on the reconciliation between operating and adjusted measures can be found in note 3.

2 Refer to note 8 for the calculation of basic and adjusted earnings per share.

Basis of Presentation

Results are presented both on a statutory and an adjusted basis to aid comparability between periods. Adjusted measures are presented on a basis consistent with prior periods and exclude amortisation of intangible assets on acquisition, to present the performance of the group's acquired businesses consistent with its other businesses; and any exceptional and other adjusting items which do not reflect underlying trading performance. Please refer to page 62 for further details on items excluded from the adjusted performance metrics. The loan book figure has been re-presented to incorporate closing loans and advances to customers and operating lease assets, previously shown separately.

Adjusted Operating Profit and Returns

Adjusted operating profit reduced 13% to £234.8 million (2021: £270.7 million), primarily reflecting a reduction in income in Winterflood and an increase in impairment charges. After adjusting items, statutory operating profit before tax decreased by 12% to £232.8 million (2021: £265.2 million). The group delivered a return on opening equity of 10.6% (2021: 14.5%), reflecting the reduction in Winterflood's profit and continued growth in the equity base, and return on average tangible equity of 12.2% (2021: 16.5%).

Adjusted operating profit in the Banking division increased by 7% to £227.2 million (2021: £212.5 million), reflecting strong income growth, partially offset by higher costs and impairment charges. In the Asset Management division, adjusted operating profit declined 8% to £21.7 million (2021: £23.7 million) as growth in income was more than offset by increased staff costs. Winterflood saw reduced trading opportunities in higher margin sectors and periods of volatility in falling markets. Following the exceptionally strong trading performance and elevated market activity experienced in the prior year, operating profit was down 77% to £14.1 million (2021: £60.9 million). Group net expenses, which include the central functions such as finance, legal and compliance, risk and human resources, increased 7% on the prior year to £28.2 million (2021: £26.4 million), mainly reflecting third party spend in relation to the assessment of potential growth opportunities.

Operating Income

Operating income reduced 2% to £936.1 million (2021: £952.6 million), with growth in Banking and Asset Management offset by a reduction in trading income in Winterflood. Income in the Banking division increased by 10%, reflecting good loan book growth and a strong net interest margin of 7.8% (2021: 7.7%). Although income in the Asset Management division was up 6%, with continued net inflows and positive market performance in the first half of the year, income was more subdued in the second half of the year due to falling markets and their impact on wider client sentiment. Income in Winterflood reduced by 48%, driven by a market-wide slowdown in trading activity from elevated levels during the pandemic and a change in the mix of trading volumes, exacerbated by falling markets.

Adjusted Operating Expenses

Adjusted operating expenses were broadly stable at £598.0 million (2021: £592.1 million), reflecting a significant reduction in variable costs in Winterflood, offset by higher investment spend and salary increases in Banking and higher staff costs in Asset Management. In the Banking division, costs were up 10%, as we continued to invest in our key strategic programmes and incurred higher business-as-usual ("BAU") spend following salary increases to reflect inflation and performance-driven compensation. Expenses increased 9% in the Asset Management division, mainly driven by higher staff costs in the current inflationary environment and new hires, as we continue to invest to grow the business. Winterflood's operating expenses decreased 33%, reflecting lower variable compensation and settlement costs. Overall, the group's expense/income ratio increased on the prior year period to 64% (2021: 62%), whilst the group's compensation ratio decreased to 37% (2021: 38%). Statutory operating expenses increased to £600.0 million (2021: £597.6 million).

Impairment Charges and IFRS 9 Provisioning

Impairment charges increased to £103.3 million (2021: £89.8 million), corresponding to a bad debt ratio of 1.2% (2021: 1.1%). This included the impact of updated assumptions for the Novitas loan book, informed by experience of credit performance, which resulted in £60.7 million (2021: £73.2 million) of impairment charges related to this business.

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

Financial Overview
continued

Adjusted operating profit

£234.8m

2021: £270.7m

Dividend per share

66.0p

2021: 60.0p

Return on average tangible equity

12.2%

2021: 16.5%

There was a marginal decrease in provision coverage to 3.1% (31 July 2021: 3.2%). Excluding provisions related to the Novitas loan book, the coverage ratio reduced to 1.9% (31 July 2021: 2.3%), primarily reflecting provision releases, mainly driven by reduced Covid-19 forborne balances. This coverage level appropriately reflects the elevated uncertainty in the external environment in the range of modelled outcomes.

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

Whilst we are not yet seeing a significant impact from rising inflation and interest rates and their effect on customers on our credit performance, we are alert to the highly uncertain macroeconomic environment and continue to monitor closely the performance of the book. We remain confident in the quality of our loan book, which is predominantly secured, prudently underwritten and diverse. Approximately 99% of our loan book exposure is to the UK, Republic of Ireland and Channel Islands, with the remaining exposure to Western European countries.

Exceptional and Other Adjusting Items

Amortisation and impairment of intangible assets on acquisition was down significantly to £2.0 million (2021: £14.2 million). The prior year charge included a £10.1 million impairment of intangible assets recognised on acquisition in relation to Novitas, following the decision to cease permanently the approval of lending to new customers across all of the products offered by this business.

Following this decision, we also recognised an adjusting item in relation to the full write down of goodwill allocated to Novitas in the prior year of £12.1 million.

There were no exceptional items recorded in the 2022 financial year (2021: £20.8 million). In 2021, we recognised an exceptional gain of £20.8 million, reflecting a VAT refund from HMRC in relation to hire purchase agreements in the Motor Finance and Asset Finance businesses.

Tax Expense

The tax expense was £67.6 million (2021: £63.1 million), which corresponds to an effective tax rate of 29.0% (2021: 23.8%). The increase in the effective tax rate primarily reflected a write-down in the group's deferred tax assets as a result of the legislated reduction in the rate of banking surcharge from 8% to 3% which was due to apply from April 2023, and the non-recurrence of the prior year write-up in the group's deferred tax assets as a result of legislation that year increasing the mainstream corporate tax rate from 19% to 25% (also due to apply from April 2023).

The group's underlying effective tax rate for the year ended 31 July 2022, excluding the impact of the deferred tax asset write-down, would be 25.7%, reflecting the UK corporate tax rate of 19% and headline banking surcharge of 8% (which applied to a proportion of the group's profits, resulting in c.6% banking surcharge).

On 23 September 2022, the Chancellor of the Exchequer announced as part of his Growth Plan that the corporation tax rate increase from 19% to 25% from April 2023 will be cancelled, and that the banking surcharge rate will remain at 8%. The relevant legislation is expected to be enacted in the year ending 31 July 2023 and is a non-adjusting post balance sheet event. Had this change been enacted before 31 July 2022, the group's deferred tax asset balance at 31 July 2022 would have decreased by approximately £1.5 million, with a corresponding tax charge recognised in the income statement, net of a smaller credit to other comprehensive income.

Earnings per Share

Profit attributable to shareholders reduced 18% on the prior year to £165.2 million (2021: £202.1 million), reflecting a reduction in adjusted operating profit and the impact from revaluations of deferred tax assets on the effective tax rate in the 2022 and 2021 financial years. As a result, adjusted basic earnings per share ("EPS") was 111.5p (2021: 140.4p) and basic EPS was 110.4p (2021: 134.8p).

Dividend

The board is proposing a final dividend of 44.0p per share, resulting in a full-year dividend per share of 66.0p (2021: 60.0p), up 10% on the prior year. This reflects the group's solid performance in the year and strong capital position, as well as our continued confidence in the business model. We remain committed to our dividend policy, which aims to provide sustainable dividend growth year-on-year, while maintaining a prudent level of dividend cover.

Subject to approval at the Annual General Meeting, the final dividend will be paid on 22 November 2022 to shareholders on the register at 14 October 2022.

Summary Group Balance Sheet

The group maintained a strong balance sheet and a prudent approach to managing financial resources. The fundamental structure of the balance sheet remains unchanged, with most of the assets and liabilities relating to our Banking activities. Loans and advances make up the majority of assets. Other items on the balance sheet include treasury assets held for liquidity purposes, and settlement balances in Winterflood. Intangibles, property, plant and equipment, and prepayments are included as other assets. Liabilities are predominantly made up of customer deposits and both secured and unsecured borrowings to fund the loan book.

Total assets increased 5% to £12.7 billion (31 July 2021: £12.0 billion), mainly reflecting growth in the loan book, an increase in non-trading debt securities and higher market-making assets. Total liabilities were up 5% to £11.0 billion (31 July 2021: £10.5 billion), driven primarily by higher customer deposits and an increase in secured borrowings. Both market-making assets and liabilities, related to trading activity at Winterflood, were up year-on-year due to an increase in value traded at the end of the period when settlement balances are calculated.

Total equity increased 6% to £1.7 billion (31 July 2021: £1.6 billion), primarily reflecting the profit in the year, partially offset by dividend payments of £95.5 million (2021: £86.6 million). The group's return on assets marginally decreased to 1.3% (2021: 1.7%).

Movements in Capital and Other Regulatory Metrics

The CET1 capital ratio reduced from 15.8% to 14.6%, mainly driven by a change in the regulatory treatment of software assets (c.45bps), the impact of the transitional IFRS 9 add-back (c.30bps) and an increase in risk weighted assets ("RWAs") (c.80bps), partly offset by retained earnings (c.75bps).

CET1 capital decreased 3% to £1,396.7 million (31 July 2021: £1,439.3 million), reflecting the regulatory change in the treatment of software assets, which increased the intangible assets deducted from CET1 capital by £50.2 million, a decrease in the transitional IFRS 9 add-back to capital of £34.8 million and the regulatory deduction of dividends paid and foreseen of £98.4 million. This was partially offset by the capital generation through profit of £165.2 million.

Total capital decreased 4% to £1,596.7 million (31 July 2021: £1,662.7 million), also reflecting the regulatory change in the treatment of software assets and a small repayment of our subordinated debt.

RWAs increased 5% to £9.6 billion (31 July 2021: £9.1 billion), mainly driven by an increase in the loan book and risk weighted assets related to derivatives held for hedging purposes, partly offset by the regulatory change in treatment of software assets.

As a result, CET1, tier 1 and total capital ratios were 14.6% (31 July 2021: 15.8%), 14.6% (31 July 2021: 15.8%) and 16.6% (31 July 2021: 18.3%), respectively.

At 31 July 2022, the applicable minimum CET1, tier 1 and total capital ratio requirements, excluding any applicable Prudential Regulation Authority ("PRA") buffer, were 7.6%, 9.3% and 11.5%, respectively. Accordingly, we continue to have headroom significantly above the applicable minimum regulatory requirements of 700bps in the CET1 capital ratio, 530bps in the tier 1 capital ratio and 510bps in the total capital ratio.

The group applies IFRS 9 regulatory transitional arrangements which allows banks to add back to their capital base a proportion of the IFRS 9 impairment charges during the transitional period. Our capital ratios are presented on a transitional basis after the application of these arrangements. On a fully loaded basis, without their application, the CET1, tier 1 and total capital ratios would be 13.8%, 13.8% and 15.9%, respectively.

The leverage ratio, which is a transparent measure of capital strength not affected by risk weightings, remains strong at 12.0% (31 July 2021: 11.8%). The ratio at 31 July

Summary Group Balance Sheet

	31 July 2022 £ million	31 July 2021[1] £ million
Loans and advances to customers and operating lease assets[2]	**9,098.9**	8,667.4
Treasury assets[3]	**1,855.1**	1,788.2
Market-making assets[4]	**887.2**	801.6
Other assets	**837.1**	777.3
Total assets	**12,678.3**	12,034.5
Deposits by customers	**6,770.4**	6,634.8
Borrowings	**2,870.1**	2,600.9
Market-making liabilities[4]	**796.1**	690.6
Other liabilities	**584.2**	538.9
Total liabilities	**11,020.8**	10,465.2
Equity	**1,657.5**	1,569.3
Total liabilities and equity	**12,678.3**	12,034.5

1 Loans and advances to customers has been re-presented for 31 July 2021 to include £222.9 million of operating lease assets, with a corresponding reduction to other assets.
2 Includes operating lease assets of £0.5 million (31 July 2021: £1.3 million) that relate to Asset Finance and £239.5 million (31 July 2021: £221.6 million) to Invoice and Speciality Finance.
3 Treasury assets comprise cash and balances at central banks and debt securities held to support the Banking division.
4 Market-making assets and liabilities comprise settlement balances, long and short trading positions and loans to or from money brokers.

Group Capital[1]

	31 July 2022[1] £ million	31 July 2021 £ million
Common equity tier 1 capital	**1,396.7**	1,439.3
Total capital	**1,596.7**	1,662.7
Risk weighted assets	**9,591.3**	9,105.3
Common equity tier 1 capital ratio (transitional)	**14.6%**	15.8%
Tier 1 capital ratio (transitional)	**14.6%**	15.8%
Total capital ratio (transitional)	**16.6%**	18.3%
Leverage ratio[2]	**12.0%**	11.8%

1 In line with CRR, effective on 1 January 2022, the CET1, tier 1 and total capital ratios no longer include the benefit related to software assets which were previously exempt from the deduction requirement for intangible assets from CET1.
2 The leverage ratio is calculated as tier 1 capital as a percentage of total balance sheet assets excluding central bank claims, adjusting for certain capital deductions, including intangible assets, and off-balance sheet exposures, in line with the UK leverage framework under CRR. At 31 July 2021, the leverage ratio was calculated under the EU CRR and included central bank claims.

Financial Overview continued

Group Funding[1]

	31 July 2022 £ million	31 July 2021 £ million
Customer deposits	**6,770.4**	6,634.8
Secured funding	**1,598.7**	1,333.7
Unsecured funding[2]	**1,544.3**	1,539.5
Equity	**1,657.5**	1,569.3
Total available funding	**11,570.9**	11,077.3
Total funding as % of loan book[3]	**127%**	128%
Average maturity of funding allocated to loan book[4]	**21 months**	24 months

1 Numbers relate to core funding and exclude working capital facilities at the business level.
2 Unsecured funding excludes £22.1 million (31 July 2021: £22.7 million) of non-facility overdrafts included in borrowings and includes £295.0 million (31 July 2021: £295.0 million) of undrawn facilities.
3 Total funding as a % of loan book has been re-presented to include £240.0 million (31 July 2021: £222.9 million) of operating lease assets in the loan book figure. The revised definition is total funding as a % of loan book including operating lease assets.
4 Average maturity of total funding excluding equity and funding held for liquidity purposes.

Group Liquidity

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

1 Included in sovereign and central bank debt is £216.9 million encumbered UK Government debt (31 July 2021: £90.2 million).

2022 reflects a change in calculation under the UK leverage framework to exclude central bank reserves.

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

Capital Management Framework
The prudent management of the group's financial resources is a core part of our business model. Our primary objective is to deploy capital to support disciplined loan book growth in Banking and to make the most of strategic opportunities. These include strategic initiatives and small acquisitions in existing or adjacent markets that fit with our business model.

The board remains committed to the group's dividend policy, which aims to provide sustainable dividend growth year-on-year, while maintaining a prudent level of dividend cover. Further capital distributions to shareholders will be considered depending on future opportunities.

We are considering the further optimisation of our capital structure, including the issuance of debt capital market securities if appropriate, targeting a CET1 capital ratio range of 12% to 13% over the medium term. This would allow the group to maintain a buffer to minimum regulatory requirements while also retaining the flexibility for growth.

In the short term, we would expect to operate above the 12% to 13% CET1 capital ratio target range, in light of the heightened macroeconomic uncertainty and potential growth opportunities available to us.

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

We increased total funding in the year by 4% to £11.6 billion (31 July 2021: £11.1 billion) which accounted for 127% (31 July 2021: 128%) of the loan book at the balance sheet date. The average cost of funding reduced to 1.3% (2021: 1.4%), an increase from 1.1% in the first half of the 2022 financial year due to the increased cost of customer deposits.

Customer deposits increased 2% to £6.8 billion (31 July 2021: £6.6 billion) with non-retail deposits reducing by 7% to £3.7 billion (31 July 2021: £3.9 billion) and retail deposits increasing by 16% to £3.1 billion (31 July 2021: £2.7 billion).

The previous investment in our customer deposit platform continues to generate benefits and has enabled us to enhance our Savings proposition. Balances in our Fixed Rate Cash Individual Savings Accounts ("ISAs") have grown to c.£350 million (31 July 2021: £160 million) since their launch in December 2020. We remain focused on continuing to extend the deposit product range, which will support us in growing and diversifying our retail deposit base and further optimise our cost of funding and maturity profile.

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

Unsecured funding, which includes senior unsecured and subordinated bonds and undrawn committed revolving facilities, remained stable at £1.5 billion (31 July 2021: £1.5 billion).

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

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

Group Liquidity
The group continues to adopt a conservative stance on liquidity, ensuring it is comfortably ahead of both internal risk appetite and regulatory requirements.

We continued to maintain higher liquidity relative to the pre-Covid-19 position to provide additional flexibility given the uncertain UK economic outlook, whilst enabling us to maximise any opportunities available. Over the year, treasury assets increased 4% to £1.9 billion (31 July 2021: £1.8 billion) and were predominantly held on deposit with the Bank of England.

We regularly assess and stress test the group's liquidity requirements and continue to comfortably meet the liquidity coverage ratio ("LCR") regulatory requirements, with a 12-month average to 31 July 2022 LCR of 924% (2021: 1,003%). In addition to internal measures, we monitor funding risk based on the CRR rules for the net stable funding ratio ("NSFR") which became effective on 1 January 2022. The NSFR at 31 July 2022 was 118.3% (31 January 2022: 117.3%).

Banking

Good Loan Book Growth and Strong Margins

Banking adjusted operating profit increased 7% to £227.2 million (2021: £212.5 million), reflecting good loan book growth and a strong net interest margin. Statutory operating profit increased to £227.1 million (2021: £207.2 million).

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

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

As a result, operating income increased 10% to £693.1 million (2021: £631.7 million), reflecting the good loan book growth and a strong net interest margin.

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

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

Key Financials[1]

	2022 £ million	2021 £ million	Change %
Operating income	**693.1**	631.7	10
Adjusted operating expenses[2]	**(362.6)**	(329.1)	10
Impairment losses on financial assets	**(103.3)**	(90.1)	15
Adjusted operating profit	**227.2**	212.5	7
Net interest margin	**7.8%**	7.7%	
Expense/income ratio	**52%**	52%	
Bad debt ratio	**1.2%**	1.1%	
Return on net loan book	**2.6%**	2.6%	
Return on opening equity	**12.5%**	13.7%	
Closing loan book and operating lease assets[3]	**9,098.9**	8,667.4	5

1 Adjusted measures are presented on a basis consistent with prior periods and exclude amortisation of intangible assets on acquisition, to present the performance of the group's acquired businesses consistent with its other businesses; and any exceptional and other adjusting items which do not reflect underlying trading performance. Further detail on the reconciliation between operating and adjusted measures can be found in note 3.
2 Related ongoing costs resulting from investment projects are recategorised from investment costs to BAU costs after one year. For comparison purposes, £5.2 million has been recategorised from investment costs to BAU costs in the 2021 financial year to adjust for investment projects' ongoing costs that commenced prior to the 2022 financial year.
3 Commercial, Asset Finance and Invoice and Speciality Finance loan books have been re-presented for 31 July 2021 to include £222.9 million of operating lease assets (£1.3 million in Asset Finance and £221.6 million in Invoice and Speciality Finance).

Our investment projects align with our strategic priorities of protecting, growing and sustaining the business and continue to deliver tangible benefits. Our IRB spend has driven enhancements in our risk management framework, whilst investment in our customer deposit platform has enabled the expansion of the Savings product offering, supporting a lower cost of funds. In Asset Finance, investment in our systems has added new functionality and improved customer insights. Our Retail businesses are benefiting from digital investment, with Motor Finance utilising API links to connect to strategic partners and offer our finance at various points of the customer journey and Premium Finance have launched insight tools to support brokers.

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

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

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

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

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

Banking continued

"We continued to see good demand across our lending businesses and strong margins."

Banking adjusted operating profit

£227.2m

2021: £212.5m

Net interest margin

7.8%

2021: 7.7%

Loan Book Analysis

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

1 Commercial, Asset Finance and Invoice and Speciality Finance loan books have been re-presented for 31 July 2021 to include £222.9 million of operating lease assets (£1.3 million in Asset Finance and £221.6 million in Invoice and Speciality Finance).
2 Operating lease assets of £0.5 million (31 July 2021: £1.3 million) relate to Asset Finance and £239.5 million (31 July 2021: £221.6 million) to Invoice and Speciality Finance.

Return on opening equity in the Banking division reduced to 12.5% (2021: 13.7%).

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

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

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

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

The Republic of Ireland makes up approximately 7% of our total loan book (31 July 2021: 8%), with an offering from both our Commercial and Retail businesses.

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

Well Positioned to Deliver Disciplined Growth

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

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

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

Over the coming years, we will continue to build further our expertise in green and transition assets, cementing our reputation for specialist knowledge, financing and

maximising commercial opportunities arising in the space, for example through the financing of battery electric storage systems and charging infrastructure across the UK.

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

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

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

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

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

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

Banking: Commercial[1]

	2022 £ million	2021[2] £ million	Change %
Operating income	**343.4**	288.9	19
Adjusted operating expenses	**(180.0)**	(158.2)	14
Impairment losses on financial assets	**(72.4)**	(77.9)	(7)
Adjusted operating profit	**91.0**	52.8	72
Net interest margin	**7.8%**	7.7%	
Expense/income ratio	**52%**	55%	
Bad debt ratio	**1.7%**	2.1%	
Closing loan book and operating lease assets[3]	**4,561.4**	4,191.0	9

1 Adjusted measures are presented on a basis consistent with prior periods and exclude amortisation of intangible assets on acquisition, to present the performance of the group's acquired businesses consistent with its other businesses; and any exceptional and other adjusting items which do not reflect underlying trading performance. Further detail on the reconciliation between operating and adjusted measures can be found in note 3.
2 Commercial, Asset Finance and Invoice and Speciality Finance loan books have been re-presented for 31 July 2021 to include £222.9 million of operating lease assets (£1.3 million in Asset Finance and £221.6 million in Invoice and Speciality Finance).
3 Operating lease assets of £0.5 million (31 July 2021: £1.3 million) relate to Asset Finance and £239.5 million (31 July 2021: £221.6 million) to Invoice and Speciality Finance.

Commercial

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

Adjusted operating profit in Commercial rose 72% to £91.0 million (2021: £52.8 million) as the business achieved positive operating leverage and saw a decrease in impairment charges. Statutory operating profit was £90.9 million (2021: £35.9 million).

Operating income increased 19% to £343.4 million (2021: £288.9 million), reflecting strong loan book growth in both Asset Finance and Invoice Finance. The net interest margin increased marginally to 7.8% (2021: 7.7%), mainly driven by a lower cost of funds.

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

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

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

Banking continued

Banking: Retail[1]

	2022 £ million	2021 £ million	Change %
Operating income	**237.0**	219.8	8
Adjusted operating expenses	**(151.6)**	(138.0)	10
Impairment losses on financial assets	**(24.4)**	(9.9)	146
Adjusted operating profit	**61.0**	71.9	(15)
Net interest margin	**7.8%**	7.6%	
Expense/income ratio	**64%**	63%	
Bad debt ratio	**0.8%**	0.3%	
Closing loan book	**3,064.0**	2,974.3	3

1 Adjusted measures are presented on a basis consistent with prior periods and exclude amortisation of intangible assets on acquisition, to present the performance of the group's acquired businesses consistent with its other businesses; and any exceptional and other adjusting items which do not reflect underlying trading performance. Further detail on the reconciliation between operating and adjusted measures can be found in note 3.

Banking: Property

	2022 £ million	2021 £ million	Change %
Operating income	**112.7**	123.0	(8)
Operating expenses	**(31.0)**	(32.9)	(6)
Impairment losses on financial assets	**(6.5)**	(2.3)	183
Operating profit	**75.2**	87.8	(14)
Net interest margin	**7.6%**	7.6%	
Expense/income ratio	**28%**	27%	
Bad debt ratio	**0.4%**	0.1%	
Closing loan book	**1,473.5**	1,502.1	(2)

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

Retail

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

Operating profit for Retail reduced 15% to £61.0 million (2021: £71.9 million), driven by higher impairment charges and increased operating expenses, which more than offset income growth.

Operating income increased 8% to £237.0 million (2021: £219.8 million), reflecting loan book growth and an increase in the net interest margin to 7.8% (2021: 7.6%), mainly driven by higher fee income in Premium Finance and a lower cost of funds.

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

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

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

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

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

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

Property

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

Operating profit decreased 14% to £75.2 million (2021: £87.8 million) primarily reflecting a reduction in income, as well as an increase in impairment charges on the prior year.

Operating income was down 8% to £112.7 million (2021: £123.0 million) reflecting the reduction in the loan book. The net interest margin was stable at 7.6% (2021: 7.6%), mainly driven by lower cost of funds, partly offset by the negative impact of rising rates in the last few months of the financial year on the interest rate floors, which were set at 1%. With the UK base rate now above 1%, we expect no further impact in respect of these floors as a result of future rate rises.

Operating expenses were 6% lower at £31.0 million (2021: £32.9 million) as we maintained our rigorous focus on cost discipline. The expense/income ratio remained broadly stable on the prior year at 28% (2021: 27%).

Impairment charges increased to £6.5 million (2021: £2.3 million) following the ongoing review of provisions and the prior year benefiting from the release of Covid-19 related provisions, resulting in a bad debt ratio of 0.4% (2021: 0.1%). The provision coverage ratio decreased marginally to 2.4% (31 July 2021: 2.6%).

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

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

CONFIDENT IN THE LONG-TERM GROWTH PROSPECTS OF OUR BUSINESSES

Asset Management

Key Financials[1]

	2022 £ million	2021 £ million	Change %
Investment management	**110.4**	102.9	7
Advice and other services[2]	**36.1**	36.4	(1)
Other income[3]	**1.5**	0.1	n/a
Operating income	**148.0**	139.4	6
Adjusted operating expenses	**(126.3)**	(115.9)	9
Impairment gains on financial assets	**–**	0.2	n/a
Adjusted operating profit	**21.7**	23.7	(8)
Revenue margin (bps)	**87**	91	
Operating margin	**15%**	17%	
Return on opening equity	**28.6%**	31.7%	

1 Adjusted measures are presented on a basis consistent with prior periods and exclude amortisation of intangible assets on acquisition, to present the performance of the group's acquired businesses consistent with its other businesses; and any exceptional and other adjusting items which do not reflect underlying trading performance. Further detail on the reconciliation between operating and adjusted measures can be found in note 3.
2 Income from advice and self-directed services, excluding investment management income.
3 Other income includes £1.4 million gain on disposal of an advised client book.

Movement in Client Assets

	31 July 2022 £ million	31 July 2021 £ million
Opening managed assets	**15,588**	12,594
Inflows	**2,330**	2,284
Outflows	**(1,486)**	(1,367)
Net inflows	**844**	917
Market movements	**(1,130)**	2,077
Total managed assets	**15,302**	15,588
Advised only assets	**1,272**	1,435
Total client assets[1]	**16,574**	17,023
Net flows as % of opening managed assets	**5%**	7%

1 Total client assets include £5.9 billion of assets (31 July 2021: £6.0 billion) that are both advised and managed.

Continuing to Build on a Long Track Record of Growth

Close Brothers Asset Management provides personal financial advice and investment management services to private clients in the UK, including full bespoke management, managed portfolios and funds, distributed both directly via our advisers and investment managers, and through third party financial advisers.

Adjusted operating profit in CBAM decreased 8% to £21.7 million (2021: £23.7 million), driven by negative market movements which adversely impacted revenue in the second half of the year and higher staff costs. The operating margin reduced to 15% (2021: 17%). Statutory operating profit before tax was £19.8 million (2021: £22.4 million).

Total operating income grew 6% to £148.0 million (2021: £139.4 million), reflecting positive net inflows and market movements in the first half of the year, despite falling markets and their impact on wider client sentiment in the second half of the year. The revenue margin reduced to 87bps (2021: 91bps) reflecting lower investment management margins as flows have included a higher proportion of lower margin products.

Adjusted operating expenses increased 9% to £126.3 million (2021: £115.9 million), driven by higher staff costs, primarily reflecting the current inflationary environment and new hires, as we continue to invest to grow the business. As a result, expense/income ratio grew to 85% (2021: 83%) with the compensation ratio remaining in line with the prior year at 56% (2021: 56%).

We have been investing in technology in the business and recently completed a major re-platforming project to rationalise legacy systems and increase efficiency, while adding a digital portal to improve functionality and customer experience. Our technology projects have been focused on increasing efficiency and operational resilience, improving client experience by using best-of-breed applications, digital technology and selective in-house development.

Continued Positive Net Inflows, Despite Volatile Market Conditions

Equity markets have experienced a mixed performance during the financial year. In the second half of the year, a global equity market sell-off led to largely unfavourable conditions, with some major indices suffering near-unprecedented declines. Although concerns over continued inflation and geopolitical uncertainty continue to weigh on markets and adversely impact investor sentiment, we saw net inflows of £844 million for the year, delivering a net inflow rate of 5% (2021: 7%).

Total managed assets decreased 2% to £15.3 billion (2021: £15.6 billion), as negative market movements of £1.1 billion more than offset net inflows. Total client assets, which includes advised and managed assets, reduced by 3% overall to £16.6 billion (2021: £17.0 billion).

Fund Performance

Our funds and segregated bespoke portfolios are designed to provide attractive risk-adjusted returns for our clients, consistent with their long-term goals and investment objectives. Fund performance over the 12 months since 31 July 2021 has been mixed, reflecting volatile markets across asset classes since the start of 2022. As a result, all our funds have delivered negative absolute returns over this period. In relative terms, eight of our 15 funds have outperformed their relevant peer group averages. Our bespoke strategy composites have outperformed their respective peer groups in a falling market environment, except for the Equity Risk strategy, which was the most impacted by the 2022 market falls.

Our Approach to ESG and Sustainability

ESG integration in our investment research and stewardship remains a key area of focus and we continue to expand our Responsible Investment team.

Our sustainable funds (Close Sustainable Balanced Portfolio Fund and Close Sustainable Bond Portfolio Fund), launched in 2020 to complement the existing SRI discretionary service, are gaining traction and we continue to develop our sustainable proposition as more of our clients look to how they can make a difference with their investments.

We have mobilised a Sustainability Programme with dedicated initiatives to embed the Principles for Responsible Investment ("PRI") and stewardship across all facets of our business, and as part of this, have recently become a signatory to the UK Stewardship Code.

CBAM will be making a commitment to actively contribute towards the UK government's net zero climate goals, through the Net Zero Asset Managers initiative. In line with our regulatory reporting obligations and desire to be transparent in fulfilling our commitments, we are also working towards aligning our disclosures with the TCFD recommendations by 2024.

Well Positioned for Future Growth

We remain confident that our vertically integrated, multi-channel business model positions us well for ongoing demand for our services and the structural growth opportunity presented by the wealth management industry.

Our focus remains on providing excellent service to our clients whilst investing in new hires to support the long-term growth potential of our business. While CBAM is sensitive to financial market conditions, we remain committed to driving growth both organically and through the continued selective hiring of advisers and investment managers, and through in-fill acquisitions.

As previously announced, Eddy Reynolds took over the leadership of the Asset Management division from Martin Andrew in March 2022. Eddy has over 30 years' experience in the fund and wealth management industries and has brought with him outstanding experience and knowledge to lead our talented team at CBAM.

CONTINUING TO BUILD ON A LONG TRACK RECORD OF GROWTH

Securities

Key Financials

	2022 £ million	2021 £ million	Change %
Operating income	**95.2**	182.0	(48)
Operating expenses	**(81.1)**	(121.2)	(33)
Impairment gains on financial assets	**–**	0.1	n/a
Operating profit	**14.1**	60.9	(77)
Average bargains per day ('000)	**81**	101	
Operating margin	**15%**	33%	
Return on opening equity[1]	**10.5%**	63.5%	

1 Reflecting increase in capital base in financial year 2021.

Cyclicality in the Trading Business Impacted Performance; Well Placed for When Investor Appetite Returns

Winterflood is a leading UK market maker, delivering high quality execution services to stockbrokers, wealth managers and institutional investors, as well as providing corporate advisory services to investment trusts and outsourced dealing and custody services via Winterflood Business Services ("WBS").

Global geopolitical events, in particular the ongoing conflict in Ukraine, energy and commodity price rises, supply chain issues, new Covid variants and the resulting restrictions, have all negatively impacted market conditions in the 2022 calendar year. Tightening monetary policy to combat inflation and concerns over slowing economic growth have also resulted in a risk-off sentiment for markets, further subduing investor risk appetite.

Cyclicality seen in the trading business negatively impacted Winterflood's performance, with a significant reduction in trading opportunities, exacerbated by periods of volatility in falling markets. Following the exceptionally strong trading performance and elevated market activity experienced during the prior year, operating profit was down 77% to £14.1 million (2021: £60.9 million).

Operating income decreased 48% to £95.2 million (2021: £182.0 million), primarily driven by a market-wide slowdown in trading activity and a change in the mix of trading volumes, exacerbated by falling markets.

We also saw a decline in fees generated from corporate activity, although WBS continued to generate increased levels of income, up 12% to £10.2 million on the prior year.

Trading volumes have reduced, with average daily bargains at 81k (2021: 101k), but they remain elevated on pre-Covid levels (2019: 56k). However, there has also been a change in the composition of trading volumes, with volumes in the higher-margin markets of AIM and Small Cap both down on the prior year, as retail investor appetite has fallen, and retail-driven trading opportunities have reduced. As a result, trading income has declined to £80.7 million for the year (2021: £164.1 million).

Winterflood Business Services

WBS provides outsourced dealing, settlement and custody services to asset managers, wealth managers and retail platforms.

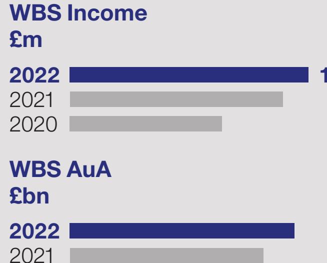
WBS has been operating for more than 10 years and provides services to over 150,000 retail clients and over 50 institutions on its platform. It has a sticky annuity style income stream based on assets under administration fees and dealing commissions, a key differentiator to our core trading business. WBS has grown significantly in the last few years and had assets under administration of £7.2 billion at 31 July 2022. We continue to see significant growth potential in this business, with a solid pipeline of clients. Our award-winning proprietary technology developed in house is highly scalable and allows us to design bespoke solutions for our customers that support the growth in assets and trading volumes.

Diversification of client base

Fee-driven revenue model, greater predictability from fees and trading volumes

Sticky annuity style income stream

Strong growth potential



WBS Clients

AVIVA

Global equity markets have experienced substantial volatility in the past six months and indices have suffered, with US stocks recording their worst first half in more than 50 years, the FTSE 250 losing 14% and the AIM index down 24% this year. We have navigated the volatile intraday trading well, benefiting from the expertise of our traders and our strong focus on risk management, which has resulted in eight loss days for the year (2021: one loss day), of which seven occurred in the second half of the year.

Operating expenses decreased 33% to £81.1 million (2021: £121.2 million) driven by the variable nature of Winterflood's cost base, as the reduced revenue performance and trading volumes led to lower staff compensation and settlement costs. The expense/income ratio increased to 85% (2021: 67%) as the reduction in income was not fully offset by the corresponding decrease in variable costs. The compensation ratio fell to 47% (2021: 48%).

WBS, which provides outsourced dealing and custody services, has delivered another strong performance, generating £10.2 million of income (2021: £9.1 million) and growing its assets under administration to £7.2 billion (31 July 2021: £6.2 billion). Net inflows over the period were £1.3 billion (2021: £1.2 billion). We see significant growth potential in this business, with a solid pipeline of clients expected to increase assets under administration in excess of £10 billion in the 2023 financial year.

As a daily trading business, Winterflood is sensitive to changes in the market environment but remains well positioned to continue trading profitably, taking advantage when investor appetite returns. Winterflood continues to diversify its revenue streams and explore growth opportunities, balancing the cyclicality seen in the trading business. Our recently appointed new chief executive, Bradley Dyer, will be well placed to lead Winterflood in the next stage of its growth and development. We would like to thank Philip Yarrow for his significant contribution to the group and to Winterflood following his decision to retire as chief executive.

WELL PLACED FOR WHEN INVESTOR APPETITE RETURNS

Risk Report

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

Our Approach to Risk
The group faces a number of risks in the normal course of business providing lending, deposit taking, wealth management services and securities trading. To manage these effectively, a consistent approach is adopted based on a set of overarching principles, namely:
- adhering to our established and proven business model, as outlined on pages 10 to 13;
- implementing an integrated risk management approach based on the concept of "three lines of defence"; and
- setting and operating within clearly defined risk appetites, monitored with defined metrics and limits.

This Risk Report provides a summary of our approach to risk management, covering each of the key aspects of the firm's Enterprise Risk Management Framework. Information on the group's principal risks, including an overview of the frameworks in place to manage them, is also included, together with an overview of current emerging risks and uncertainties.

Role of the Board
The board retains overall responsibility for overseeing the maintenance of a system of internal control which ensures that an effective risk management framework and oversight process operates across the group. The risk management framework and associated governance arrangements are designed to ensure a clear organisational structure with distinct, transparent and consistent lines of responsibility and effective processes to identify, manage, monitor and report the risks to which the group is, or may become, exposed.

Risk management across the group is overseen by the Board Risk Committee. The Committee is responsible for reviewing risk appetite, monitoring the group's risk profile against this and reviewing the day-to-day effectiveness of the risk management framework. In addition, the Committee is responsible for overseeing the maintenance and development of an appropriate and supportive risk culture and for providing risk input into the alignment of remuneration with performance against risk appetite. The Committee's key areas of focus over the last financial year are set out on pages 117 to 119.

The group closely monitors its risk profile to ensure that it continues to align with its strategic objectives as documented on pages 24 to 33. The board considers that the group's current risk profile remains consistent with its strategic objectives.

Risk Appetite
Risk appetite forms a key component of the group's risk management framework and refers to the sources and levels of risk that the group is willing to assume in order to achieve its strategic objectives and business plan. It is managed through an established framework that facilitates ongoing communication between the board and management with respect to the group's evolving risk profile. This enables key decisions concerning the allocation of group resources to be made on an informed basis.

Risk appetite is set on a top-down basis by the board with consideration to business requests and executive recommendation. Appetite measures, both qualitative and quantitative, are applied to inform decision-making, and monitoring and reporting processes. Early-warning triggers are also employed to drive required corrective action before overall tolerance levels are reached.

The group conducts a formal review of its risk appetites annually, as part of the strategy-setting process. This aligns risk-taking with the achievement of strategic objectives. Adherence is monitored through the group's risk committees on an ongoing basis with interim updates to individual risk appetites considered as appropriate through the year.

Enterprise Risk Management
The group employs an Enterprise Risk Management Framework to provide the board and senior management with oversight of the organisation's financial position as well as the risks that might adversely affect it.

The framework details the core risk management components and structures used across the firm, and defines a consistent and measurable approach to identifying, assessing, controlling and mitigating, reviewing and monitoring, and reporting risk – the risk process lifecycle. This sets out the activities, tools, techniques and organisational arrangements that ensure all principal risks facing the group are identified and understood; and that appropriate responses are in place to protect the group and prevent detriment to its customers and colleagues. This enables the group to meet its goals and enhances its ability to respond to new opportunities.

The framework is purposely designed to allow the capture of business opportunities whilst maintaining an appropriate balance of risk and reward within the group's agreed risk appetite.

Enterprise Risk Management Framework

Stress Testing

Stress testing represents another core component of the risk management framework and is employed, alongside scenario analysis, to support assessment and understanding of the risks to which the group might be exposed in the future. As such, it provides valuable insight to the board and senior management, playing an important role in the formulation and pursuit of the firm's strategic objectives.

Stress testing activity within the group is designed to meet three principal objectives:

1. Inform capital and liquidity planning – including liquidity and funding risk assessment, contingency planning and recovery and resolution planning;
2. Support ongoing risk and portfolio management – including risk appetite calibration, strategic decisioning and planning, risk/reward optimisation and business resilience planning; and
3. Provide a check on the outputs/accuracy of risk models – including the identification of non-linear effects when aggregating risks.

To support these objectives, stress testing is designed to cover the group's most material risks, with activity conducted at various levels, ranging from extensive group-wide scenario analysis to simple portfolio sensitivity analysis.

Stress testing also represents a critical component of both the firm's Internal Capital Adequacy Assessment ("ICAA") and Internal Liquidity Adequacy Assessment ("ILAA") processes, with scenario analysis additionally employed as part of the group's Recovery Plan.

Risk Governance

The group's risk management approach is underpinned by a strong governance framework that it considers appropriate to both the size and strategic intentions of its businesses.

The framework is founded on a "three lines of defence" model, as set out below:

The key principles underlying this approach are that:

- business management owns all the risks assumed throughout the group and is responsible for their management on a day-to-day basis to ensure that risk and return are balanced;
- the board and business management together promote a culture in which risks are identified, assessed and reported in an open, transparent and objective manner;
- the overriding priority is to protect the group's long-term viability and produce sustainable medium to long-term revenue streams;
- risk functions are independent of the businesses and provide oversight of and advice on the management of risk across the group;
- risk management activities across the group are proportionate to the scale and complexity of the group's individual businesses;
- risk mitigation and control activities are commensurate with the degree of risk; and
- risk management and control supports decision-making.

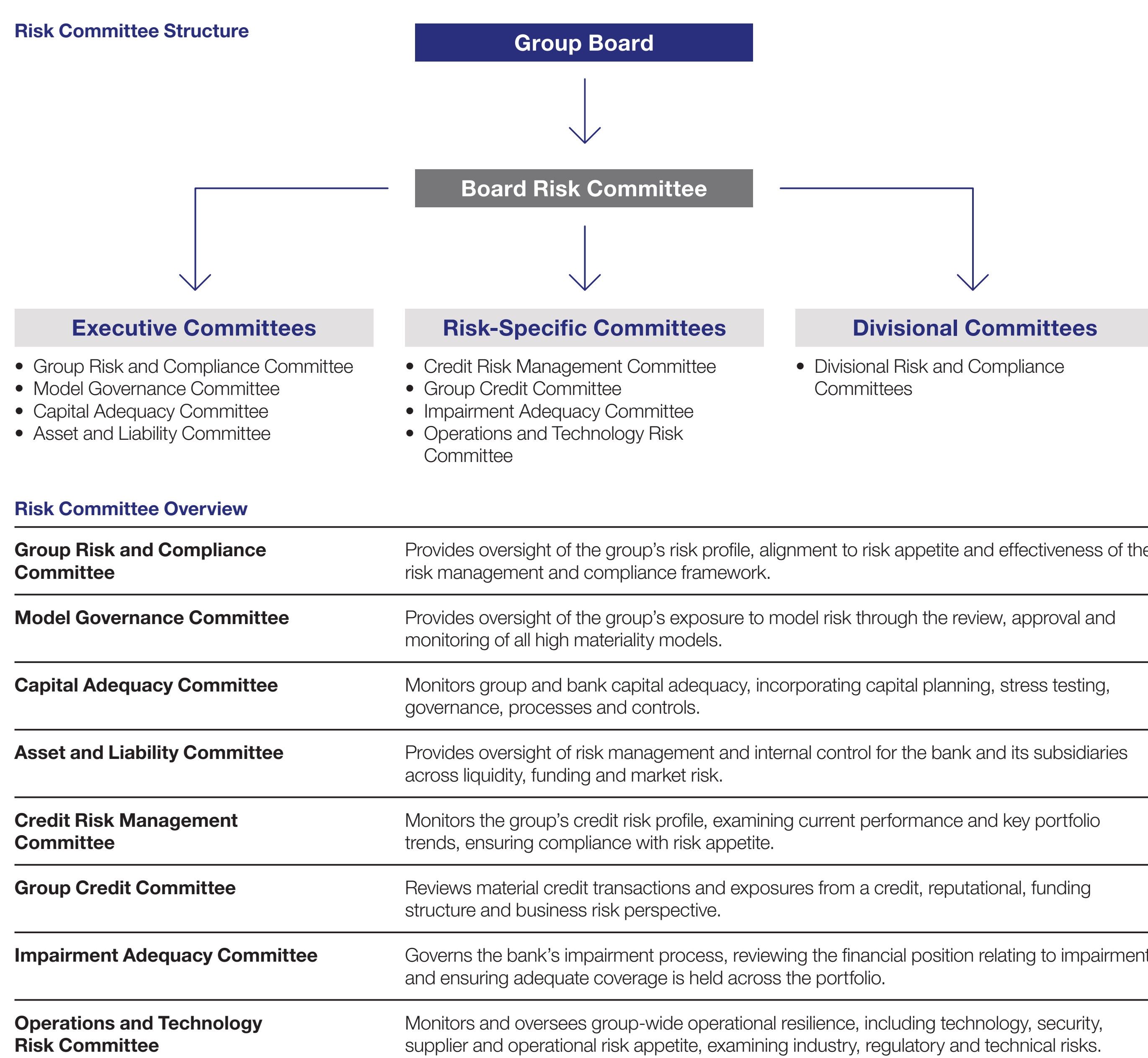
Aligned to these core principles, the governance framework operates through various delegations of authority from the board downwards. These cover both individual authorities as well as authorities exercised via the group's risk committee structure.

Three Lines of Defence

First line of defence	Second line of defence	Third line of defence
The Businesses	**Risk and Compliance**	**Internal Audit**
Group Risk and Compliance Committee (Reports to the Risk Committee)	**The Risk Committee** (Reports to the board)	**The Audit Committee** (Reports to the board)
The chief executive delegates to divisional and operating business heads day-to-day responsibility for risk management, regulatory compliance, internal control and conduct in running their divisions or businesses. Business management has day-to-day ownership, responsibility and accountability for: • identifying and assessing risks; • managing and controlling risks; • measuring risk (key risk indicators/early warning indicators); • mitigating risks; • reporting risks; and • committee structure and reporting. **Key Features** • Promotes a strong risk culture and focus on sustainable risk-adjusted returns. • Implements the risk framework. • Promotes a culture of adhering to limits and managing risk exposures. • Promotes a culture of customer focus and appropriate behaviours. • Ongoing monitoring of positions and management and control of risks. • Portfolio optimisation. • Self-assessment.	The Risk Committee delegates to the group chief risk officer day-to-day responsibility for oversight and challenge on risk-related issues. Risk functions (including compliance) provide support, assurance and independent challenge on: • the design and operation of the risk framework; • risk assessment; • risk appetite and strategy; • performance management; • risk reporting; • adequacy of mitigation plans; • group risk profile; and • committee governance and challenge. **Key Features** • Overarching "Risk Oversight Unit" takes an integrated view of risk (qualitative and quantitative). • Supports through developing and advising on risk strategies. • Facilitates constructive check and challenge – "critical friend"/"trusted adviser". • Oversight of business conduct.	The Audit Committee mandates the head of group internal audit with day-to-day responsibility for independent assurance. Internal audit provides independent assurance on: • first and second lines of defence; • appropriateness/effectiveness of internal controls; and • effectiveness of policy implementation. **Key Features** • Draws on deep knowledge of the group and its businesses. • Provides independent assurance on the activities of the firm, including the risk management framework. • Assesses the appropriateness and effectiveness of internal controls. • Incorporates review of culture and conduct.

Risk Report continued

Risk Committee Structure



Risk Committee Overview

Committee	Overview
Group Risk and Compliance Committee	Provides oversight of the group's risk profile, alignment to risk appetite and effectiveness of the risk management and compliance framework.
Model Governance Committee	Provides oversight of the group's exposure to model risk through the review, approval and monitoring of all high materiality models.
Capital Adequacy Committee	Monitors group and bank capital adequacy, incorporating capital planning, stress testing, governance, processes and controls.
Asset and Liability Committee	Provides oversight of risk management and internal control for the bank and its subsidiaries across liquidity, funding and market risk.
Credit Risk Management Committee	Monitors the group's credit risk profile, examining current performance and key portfolio trends, ensuring compliance with risk appetite.
Group Credit Committee	Reviews material credit transactions and exposures from a credit, reputational, funding structure and business risk perspective.
Impairment Adequacy Committee	Governs the bank's impairment process, reviewing the financial position relating to impairment and ensuring adequate coverage is held across the portfolio.
Operations and Technology Risk Committee	Monitors and oversees group-wide operational resilience, including technology, security, supplier and operational risk appetite, examining industry, regulatory and technical risks.
Divisional Risk and Compliance Committees	Provide oversight of risk profile, alignment to risk appetite and effectiveness of the risk management and compliance framework at a divisional or business level.

Together, these committees facilitate an effective flow of key risk information, as well as functioning to support appropriate risk management at each stage of the risk process lifecycle. They also provide an escalation channel for any risks or concerns, supporting the maintenance of an effective risk culture.

Over the past 12 months the group has further enhanced its risk governance framework and specifically the organisation's risk and compliance committees, both at a group and divisional level. This has included the continued refinement of committee Terms of References and the evolution of reporting packs and MI suites. All committees continue to work efficiently and effectively.

Internal Control System

Aligned to the risk governance framework, oversight across the group is supported by the maintenance of a range of internal controls. These cover risk and financial management and reporting and control processes and are designed to ensure the accuracy and reliability of the firm's financial information and reporting.

The main features of these controls include consistently applied accounting policies, clearly defined lines of responsibility and processes for the review and oversight of disclosures within the Annual Report. These controls are overseen by the Audit Committee.

The accounting policies form part of a broader policy framework, overseen by the board, that supports the foundation of a strong risk management structure. Group policies are supported by group standards, divisional/business-level policies and procedures which, together, outline the way in which policy is implemented and detail the process controls in place to ensure compliance. Policies and standards relating to the group's principal risks are fully covered within the framework, and include specific documents relating to financial crime compliance (e.g. anti-money laundering/anti-bribery and corruption) and whistleblowing.

This structure establishes a link between group strategy and day-to-day operations in a manner consistent with agreed risk appetite, while simultaneously facilitating board and executive-level oversight and assurance as to the application of said strategy via conformance with underlying policy and standard requirements.

Review of Effectiveness of Risk Management and Internal Control Systems

Throughout the year, the board, assisted by the Risk Committee and the Audit Committee, monitors the group's risk management and internal control systems and reviews their effectiveness. This covers all material controls, including financial, operational and compliance controls. The board also reviews the effectiveness of both committees on an annual basis. Based on its assessment throughout the year, and its review of the committees' effectiveness, the board considers that, overall, the group has in place adequate systems and controls with regard to its profile and strategy.

Risk Culture and Awareness

Maintenance of an effective risk management culture is integral to the group meeting its regulatory conduct requirements and assisting the accomplishment of key strategic goals.

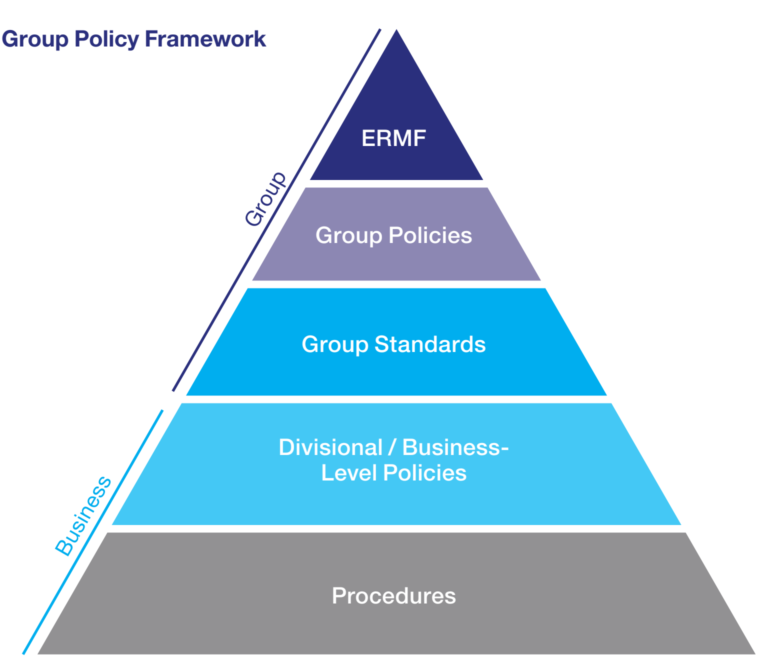
The risk culture:

- supports the group and its directors in meeting their legal and regulatory obligations, particularly with respect to the identification and management of risks and the need for a robust control environment;
- underpins the group's purpose, strategy, cultural attributes and divisional values;
- provides enhanced awareness of risk in business operations by highlighting strengths and weaknesses and their materiality to the business and, in turn, facilitating informed decision-making;
- optimises business performance by facilitating challenge of ineffective controls and improving the allocation of resources;
- ensures allocation of capital for operational risk is proportionate for the risks identified;
- improves the group's control environment; and
- assists in the planning and prioritisation of key projects and initiatives.

While risk management is led by the centre, it is embedded locally within our businesses. Managers actively promote a culture in which risks are identified, assessed, managed and reported in an open, transparent and objective manner, and where appropriate staff conduct is viewed as critical.

All members of staff are responsible for risk identification and reporting within their area of responsibility and are encouraged to escalate risks and concerns where necessary, either through line or business management or by following the provisions of the Group Whistleblowing Policy.

Group Policy Framework



Risk Culture

Group Risk Management operates independently of the business, providing oversight and advice on the operation of the risk framework, and assurance that agreed processes operate effectively and that a risk and conduct culture is embedded within the business.

The relationship between risk and reward is also a key priority with all staff evaluated against both agreed objectives (the what) and desired behaviours (the how). This encourages long-term, stewardship behaviours together with a strong and appropriate risk and conduct culture.

For further information on our approach to remuneration for the group's directors see pages 123 to 143.

Risk Report continued

Principal Risks

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

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

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

Principal Risks and Direction of Outlook

Key: = No change ↘ Risk decreased ↗ Risk increased

Principal Risk	Change/Outlook
Business Risk The risk of realising lower than anticipated profits or experiencing a loss rather than a profit.	=
Capital Risk The risk that the group has insufficient regulatory capital (including equity and other loss absorbing debt instruments) to operate effectively, including meeting minimum regulatory requirements, operating within board approved risk appetite and supporting its strategic goals.	=
Conduct Risk The risk that the group's behaviours, or those of its colleagues, whether intentional or unintentional, result in poor outcomes for customers or the markets in which it operates. It is rooted in the importance of delivering good customer outcomes at every stage of the customer journey.	↗
Credit Risk The risk of a reduction in earnings and / or value due to the failure of a counterparty or associated party, with whom the group has contracted or is exposed as part of its operations, to meet its obligations in a timely manner.	↗
Funding and Liquidity Risk Funding risk is the risk of loss caused by the inability to raise funds at an acceptable price or to access markets in a timely manner. Liquidity risk is defined as the risk that liabilities cannot be met when they fall due or can only be met at an uneconomic price.	=
Market Risk The risk that a change in the value of an underlying market variable will give rise to an adverse movement in the value of the group's assets. To support the management of market risk, the group distinguishes between traded market risk and non-traded market risk, as set out in the sections that follow.	Traded Market Risk = Non-Traded Market Risk ↘
Operational Risk The risk of loss or adverse impact resulting from inadequate or failed internal processes, people and systems or from external events. This includes the risk of loss resulting from fraud/financial crime, cyber attacks and information security breaches.	
Reputational Risk The risk of detriment to stakeholder perception of the firm, leading to impairment of the business and its future goals, due to any action or inaction of the company, its employees or associated third parties.	

Note: While defined benefit pension obligation risk, intra group risk and tax risk are also classified internally as principal risks, none are deemed sufficiently material to impact the group's ability to deliver its strategy. The group's defined benefit pension scheme was closed to new entrants in 1996 and to future accrual in 2012. For further information see Note 25 on pages 187 and 188.

Business risk

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

Exposure

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

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

Risk appetite

The group seeks to address business risk through the execution of a sustainable business model based on:
- focusing on specialist markets where we can build leading market positions based on service, expertise and relationships;
- focusing on quality and returns rather than overall loan book growth or market share;
- investing in the business for the long term;
- maintaining a strong balance sheet;
- consistently supporting our customers and clients through the cycle; and
- acting sustainably and responsibly, considering the needs of all stakeholder groups and increasing demand for sustainable products and services.

Measurement

Business risk is measured through a number of key performance metrics (including those set out on page 33) and risk indicators at a business, divisional and group level which provide transparency on progress and execution against strategy. These indicators are typically reported monthly via relevant risk and finance committees, with oversight also exercised via the board, most notably through their review of key financial metrics and underlying performance trends.

Alongside these measures, the status of key group initiatives and projects is also tracked and discussed, noting the importance of their successful delivery to the group's strategic trajectory.

Mitigation

To support the management of its core strategy, and help mitigate potential business

risk, the group maintains a comprehensive framework covering both the design and approval of strategy, and the ongoing monitoring of its implementation.

The group's core strategic pillars are regularly reviewed and updated to ensure we continue to focus on strategic priorities that support our business model and adapt to changes and expectations in the external operating environment.

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

We also build and maintain long-term relationships with our clients and intermediaries based on:
- speed and flexibility of services;
- our local presence and personal approach;
- the experience and expertise of our people; and
- our offering of tailored and client-driven product solutions.

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

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

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

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

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

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

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

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

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

Change/Outlook
Notwithstanding the continued uncertain macroeconomic environment our business model as outlined on pages 10 to 13 remains proven and resilient. We continue to focus on supporting our customers, maintaining underwriting standards and investing in our business.

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

For further details on emerging risks and uncertainties see pages 90 to 92. In addition, further commentary on the market environment and its impact on each of our divisions is outlined on pages 65 to 73.

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

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

Risk Report continued

Risk appetite
The group looks to maintain a strong base level and composition of capital, sufficient to:
- support the development and growth of business;
- continue to meet Pillar 1 requirements, Individual Capital Guidance, additional Capital Requirements Directive buffers and leverage ratio requirements; and
- be able to withstand a severe but plausible stress scenario with satisfactory capital and leverage ratios.

A prudent capital position is a core part of the group's business model, allowing it to grow and invest in the business, support paying dividends to shareholders and meet regulatory requirements.

Capital triggers and limits are maintained within the risk appetite framework and are approved by the board at least annually.

Measurement
Capital risk is measured using CET1, Tier 1 and total capital ratios, and leverage ratios, determined in line with regulatory capital adequacy requirements. These ratios, and associated metrics, are actively monitored, and reported quarterly to the regulator. They are also disclosed annually in the group's Pillar 3 disclosures as well as in the Annual Report – see pages 184 to 186.

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

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

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

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

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

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

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

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

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

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

Mitigation
The following controls and procedures are in place to help mitigate conduct risk:
- The group takes steps to proactively identify conduct risks and encourages individuals across the organisation to feel responsible for managing the conduct of their business and/or function.
- The group provides support to colleagues to enable them to improve the conduct of their business or function, including training and specialist training where required.
- The group's remuneration strategy is designed to incentivise good behaviours and due consideration is given to individual conduct as part of any remuneration.
- Policies and standards set out employee expectations around key areas including dealing with clients, dealing with markets, complaint handling, vulnerable customers, and conflicts of interest. Mandatory staff training on these topics is provided on a regular basis.
- All products are subject to a robust risk-based product development and review process.

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

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

Over the past 18 months, conduct risk reporting has been enhanced in some of our businesses to provide increased transparency and visibility to monitor conduct risk. Reporting on, and monitoring of, conduct risk is expected to further evolve with the introduction of new regulatory requirements for the Financial Conduct Authority's ("FCA") Consumer Duty for retail customers for our in-scope businesses of Motor Finance, Premium Finance, Asset Finance and Savings.

Conduct Risk Framework

Change/Outlook
Conduct risk has increased in the last 12 months.

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

Credit risk

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

Exposure
Credit risk across the group arises predominantly through the lending activities of the bank. As a lender to businesses and individuals, the bank is exposed to credit losses if customers are unable to repay loans and outstanding interest and fees. At 31 July 2022 the group had loans and advances to customers amounting to £9.1 billion.

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

Further details on loans and advances to customers and debt securities held are in notes 11 and 12 on pages 172 to 176 of the financial statements. Further commentary on the credit quality of our loan book is outlined on pages 195 to 202.

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

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

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

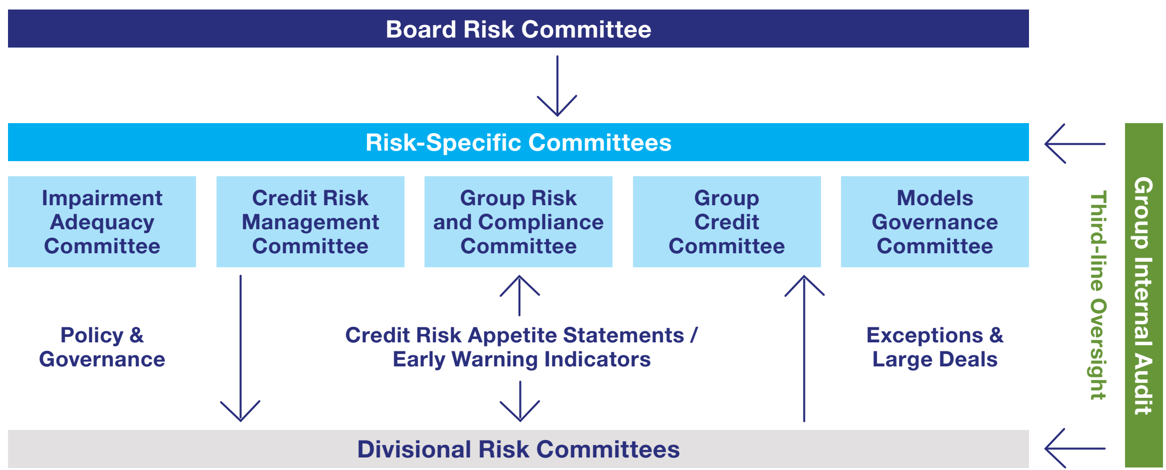
All are based on the following key principles:
1. To lend within asset classes we are familiar with, and in markets we know and understand.
2. To operate as a predominantly secured, or structurally protected, lender against identifiable and accessible assets, and maintain conservative loan to values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

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

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

Risk Report continued

Credit Risk Governance Framework



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

Measurement

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

A central repository facilitates:

- the use of common data definitions for CRMI across all business units;
- consistent and controlled extraction and housing of credit data from the bank's core business systems;
- dynamic credit risk management to improve strategic policy decision-making;
- oversight and control of the profile of the lending book to manage to credit risk appetite;
- identification, monitoring and control of material credit risks against a clear and communicated credit risk appetite statement.

Mitigation

Credit assessment/lending criteria

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

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

The bank's common lending principles are as follows:

1. Predominantly secured lender: 97.7% of loan book secured or structurally protected.
2. Short average tenor: portfolio residual maturity of 17 months.
3. Low average loan size: approximately 42% of loan book has a value of less than £50k.
4. Diversified portfolio: by sector, asset class and UK geography. Low single-name concentration risk with the top 10 facilities representing less than 5% of book.
5. Local underwriting expertise with central oversight: focus on assets "we know and understand", with continued investments in people and systems.

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

Expertise

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

Governance framework and oversight

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

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

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

These underwriting approaches are reinforced by timely collections and arrears management, working in conjunction with the customer to ensure the best possible outcome for both customer and the group.

The local model is supported by central oversight and control. An independent central credit risk function provides ongoing monitoring of material credit risks through regular reviews of appetite and policy.

Counterparty risk mitigation
Exposures to counterparties with whom we trade or place deposits are mitigated by continuous monitoring of the credit quality of our counterparties within approved set limits and Winterflood's trading relating to exchange traded cash securities being settled on a delivery versus payment basis. Counterparty exposure and settlement failure monitoring controls are also in place.

Monitoring
High-level requirements are outlined in standards documents covering the identification, monitoring and management of problem lending, with detailed credit policy and guidance formalised within local credit policies, including guidelines on the identification and treatment of vulnerable customers.

This includes the documentation of internal policy and process for monitoring, recording and approving problem credits at all levels of exposure, business-specific definitions of criteria for identifying problem cases and requirements for outlining the courses of action available to protect our position, taking account of the terms/covenants of facilities, security enforcement options, legal remedies and third-party intervention (for example, brokers).

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

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

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

Credit risk oversight and control
The second line of defence has three tiers: business-aligned risk directors and their teams, the central group credit risk team, and oversight committees. The risk directors in the bank, who report to the chief credit risk officer, are responsible for setting and communicating credit risk strategy, identifying exceptions and ensuring local compliance. Similarly, the risk heads in Close Brothers Asset Management and Winterflood Securities, and the asset and liability management risk lead, ensure that their respective operations are performed in line with the group financial institution and non-banking financial institution credit risk standards and also report up through their divisional RCCs. The group credit risk team provides a further layer of oversight and approval, supported by credit committees, CRMC, MGC, GRCC and the BRC. Together, the second line of defence provides a clear tactical and strategic understanding of credit risk, proposing enhancements to the credit risk framework for ongoing effective management and control.

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

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

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

Forbearance levels have further decreased from those observed at the peak of the pandemic; however, they remain above historical, pre-pandemic levels.

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

Further commentary on the credit quality of our loan book is outlined on pages 195 to 202. Further details on loans and advances to customers and debt securities held are in Notes 11 and 12 on pages 172 to 176 of the financial statements. Our approach to credit risk management and monitoring is outlined in more detail in note 28 on pages 195 to 202.

Risk Report continued

Funding and liquidity risk

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

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

Exposure

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

Close Brothers Group plc has relatively few material cash requirements and all requirements are known in advance; for example, external dividends. It meets its cash requirements through deposits placed with the Banking division and the group's committed borrowing facilities.

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

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

Funding and liquidity risk in Winterflood Securities is driven from four primary sources: long trading book risk positions; overnight and intraday normal and failed settlement; margin requirements; and multiday client orders. Winterflood maintains risk appetite sufficient to ensure continued compliance with Individual Liquidity Guidance ("ILG") set by the regulator.

For Close Brothers Asset Management, cash requirements, such as payroll and dividends to the group, are known in advance. Funding and liquidity risks are considered through the division's cash flow forecasting, ensuring that sufficient liquidity is maintained to cover the next three months of outflows.

Further detail on the group's funding and liquidity exposure is provided on page 64 of the Financial Overview and page 204 of the financial statements.

Risk appetite

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

These objectives form the basis for the Group Funding and Liquidity Risk Appetite Statement, approved annually by the board, which outlines the specific levels of funding and liquidity risk that the group is willing to assume. Given the materiality of the Banking division, this is primarily focused on the levels of risk assumed within the bank.

Measurement

A variety of metrics are used to measure the Banking division's funding and liquidity position to ensure compliance with both external regulatory requirements and internal risk appetite. These cover both the short and long-term view of liquidity and funding and have limits and early-warning indicators in place that are approved via the Asset and Liability Committee ("ALCO"). These metrics include term funding as a percentage of loan book, weighted average tenor of loan book versus weighted average tenor of funding, available cash balance with the Bank of England and liquid to total asset ratio.

The primary measurement tool for funding is the Banking division's funding plan which seeks to ensure that the bank maintains a balanced and prudent approach to its funding risk that is in line with risk appetite. The funding plan is supplemented by metrics that highlight any funding concentration risks, funding ratios and levels of encumbrance.

Liquidity is managed in accordance with the ILAAP which is approved by the board. In addition to regulatory metrics, the banking division also uses a suite of internally developed liquidity stress scenarios to monitor its potential liquidity exposure daily and determine its high quality liquid asset requirements. This ensures that the bank remains within risk appetite and identifies potential areas of vulnerability. The outcomes of these scenarios are formally reported to the ALCO, GRCC and the board.

Mitigation

Our funding approach is based on the principles of "borrow long, lend short" and ensuring a diverse range of sources and channels of funding. In the Banking division, retail and corporate customer funding is supported by wholesale funding programmes including unsecured medium-term notes and securitisation programmes.

The bank has also drawn against the Bank of England's TFSME scheme, that was introduced to support lending in the prevailing low interest rate environment. This approach provides resilience and flexibility. Total available funding is kept well in excess of the loan book funding requirement to ensure funding is available when needed.

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

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

Monitoring

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

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

Change/Outlook

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

The Banking division successfully issued a new £200 million securitisation transaction in April 2022 and has continued to enhance its current retail product range. For example, this year saw the launch of a new version of our Personal Fixed Rate Bond product which has greatly increased operational efficiencies and allowed us to scale up our level of fixed funding. ISAs continue to feature heavily in our range and represent a key product for growth.

Market risk

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

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

To support the management of market risk, the group distinguishes between traded market risk and non-traded market risk, as set out in the sections that follow.

Traded market risk

Exposure

Traded market risk in the group only arises in Winterflood Securities, whose core business is to provide liquidity and interact with the market on a principal basis, holding positions in financial instruments as a result of its client facilitation activity.

Winterflood operates as a market maker in equities, exchange-traded products, investment trusts and sovereign and corporate bonds, operating across three primary markets: the United Kingdom, North America and Europe. For hedging purposes, a number of derivatives are also traded, although these are limited to listed futures in UK equity and fixed income markets.

See page 203 for details of the group's trading book exposure to market price risk.

Risk appetite

Winterflood's strategic objectives and business plan are centred on its ability to continue transacting in the markets in which it operates, in the manner it has historically. The group sets its risk appetite accordingly, acknowledging that an acceptable level of traded market risk must be incurred for the business to operate effectively.

Winterflood seeks to always ensure sufficient levels of capital and liquidity are maintained to cover its traded market risk exposure.

Measurement

Traded market risk is measured against a set of defined risk limits set at overall global, desk and individual stock levels, on both an intraday and end-of-day basis. These limits are monitored via a combination of internally developed, and external, industry leading systems on an intraday and overnight basis against a limit framework aligned to the company risk appetite. The framework incorporates:

- Market risk appetite being managed via trading book exposures limits. These are set using gross cash positions and the sterling value of a basis point ("SV01") for products with interest rate exposure.
- Adoption of a real-time limit monitoring system, along with end-of-day summary reports to track equity, fixed income and foreign exchange ("FX") book cash exposure risk against agreed limits.
- Minimal exposure to derivatives (limited to hedging of interest rate exposures and FX positions resulting from trades in foreign currencies).

Mitigation

The management of traded market risk is fully embedded under Winterflood's training and governance framework. Key attributes include:

- An established training programme for junior dealers, requiring their supervision by a senior dealer until deemed competent to trade on their own.
- The provision of training to all new joiners and newly certified staff by front office controls. This includes market risk considerations as well as detail regarding order entry controls.
- The maintenance of risk mandates for all traders, detailing the firm's market-making strategy, controls frameworks and policies and procedures.
- Oversight of all risk issues, including traded market risk, via the Winterflood Risk and Compliance Committee. Management information and key risk indicators are reported to the committee on a monthly basis with escalation to the Group Risk and Compliance Committee and Board Risk Committee in case of need.
- The maintenance of a Group Market Risk Policy and specific Traded Market Risk Standard, outlining minimum governance requirements and escalation.
- Order entry controls in place across the trading floor, limiting, amongst other trading variables, the amount of capital that can be committed per order (these are documented in a front office procedure).
- Daily total value traded caps to limit the amount the business can trade through a single broker.
- Minimal exposure to derivatives (limited to conservative hedging of FX positions resulting from trades in foreign currencies).

Monitoring

Building on the use of real-time limit monitoring (see above), the monitoring of traded market risk is embedded across all three lines of defence. Top-down visibility is exercised via the Winterflood Risk and Compliance Committee which retains regular oversight of core traded market risk MI and key risk indicators, as well as stress testing outputs and policies and standards.

The Winterflood risk team works in conjunction with the front office controls team to ensure the management of traded market risk is correctly aligned to documented controls. To support this, MI dashboards are utilised alongside daily reporting to help manage market risk on a daily and intraday basis.

Change/Outlook

While the impacts of Covid-19 have largely fallen away, in recent months China's economy has been impacted by further lockdowns which has had an onward impact to global markets and supply chains. This has been coupled with a rising interest rate environment, driven by inflation, and a backdrop of global political uncertainty, driving higher volatility into what is now a bear market.

The Investment Firms Prudential Regime ("IFPR") has been introduced in the past 12 months, changing the way the company calculates capital. From a market risk perspective this has had very little impact in the calculations we perform for the regulator or those we conduct internally. Over the next 12 months it was expected that the introduction of the Fundamental Review of the Trading Book ("FRTB") may change the firm's calculation of regulatory capital; however, the implementation of this regulation has been delayed.

Non-traded market risk

Exposure

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

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

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

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

Further detail on the group's exposure to non-traded market risk is outlined in note 28 on pages 202 and 203 of the financial statements.

Risk appetite

The group has a simple and transparent balance sheet and a low appetite for interest rate risk which is limited to that required to operate efficiently. The group's policy is to match repricing characteristics of assets and liabilities naturally where possible or by using interest rate swaps to secure the margin on its loans and advances to customers.

Risk Report continued

The group also has a low appetite for foreign exchange risk, avoiding large open positions and applying individual currency limits to mitigate risk.

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

Measurement

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

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

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

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

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

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

Mitigation

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

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

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

Monitoring

ALCO is responsible for monitoring the non-traded market risk of the current and future risk profile within defined limits. Treasury are responsible for day-to-day management of all non-traded market risks. Day-to-day oversight of non-traded market risk is exercised via a combination of daily reporting by bank finance and review and challenge through local RCCs. Further independent oversight is provided via the second line of defence through ALM risk, with monthly reporting into the ALCO.

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

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

Change/Outlook

In recent years, the Banking division's exposure to IRRBB has been driven by embedded optionality with some variable rate lending businesses utilising contracts with floors. With rates now rising, this embedded optionality risk is decreasing, with repricing risk now the biggest driver of EaR. The Banking division currently has positive sensitivity under both up and down rate scenarios for the group's EaR as shown in note 28 on page 202.

Operational risk

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

Exposure

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

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

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

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

Risk appetite

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

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

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

Measurement

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

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

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

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

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

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

Key Operational Risks

Operational Risk Areas of Focus

Model Risk Focus:

Robust model risk framework embedded across the group to reduce the risk of potential adverse outcomes arising from the use of models.
The group uses models for a range of different purposes, including provisioning, stress testing, credit approval, risk management and financial reporting. In doing so, it seeks to minimise the occurrence of financial loss, lost income or reputational damage as a result while ensuring transparency regarding the level of model risk incurred.

A model risk framework is embedded across the group to manage and mitigate risk through the model lifecycle. This is underpinned by a Group Model Risk Policy and various supporting standards and procedures outlining clear roles and responsibilities in terms of model risk management. A dedicated model risk management team is also in place, responsible for the independent validation of all models, the identification of potential limitations and assumptions and the proposal of approval recommendations, including the use of expert judgement to adjust model outputs or identify appropriate post-model adjustments. The MGC provides oversight of the group's exposure to model risk through the review, approval and monitoring of material models used within the group, alongside regular reporting on a set of defined key risk indicators which form part of the Group Risk Appetite. Ongoing evolution of the model risk framework is aligned to the firm's ongoing advanced internal rating based ("AIRB") application.

Cyber Risk Focus:

The group recognises the importance of protecting information and systems from the ever-growing cyber threat faced by the financial services industry.
The group uses an industry standard framework to anchor its cyber risk management, continually assessing and developing its maturity. We acknowledge the challenge of preventing all incidents as the capabilities and tactics of malicious actors advance and focus efforts across a spectrum of controls to mitigate occurrence and potential impacts.

A group chief information security officer maintains a dedicated team and sets the policy for the group's posture, with an emphasis on delivering controls against identified external and internal threats.

The cyber risk management lifecycle is aligned to the group's broader approach to operational risk management. The group has strategic partnerships with external experts, participates in industry fora and utilises the three lines of defence model to manage cyber risk. This is underpinned by supporting standards and baselines which set the terms for the management of cyber risk. The Board Risk Committee has oversight of the group's cyber risk profile, supported by detailed oversight by the Operations and Technology Risk Committee.

Risk Report continued

Legal and regulatory risks are mitigated by:

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

Monitoring

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

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

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

Change/Outlook

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

Reputational risk

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

Exposure

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

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

Risk appetite

The group has a strong reputation which it has built over many years and considers it a valuable asset, managing it accordingly through consistent focus on a set of cultural and responsible attributes. The group has no tolerance for behaviours that contradict these attributes in a manner that could harm the organisation, and avoids engaging with third parties, markets or products that would inhibit the firm's adherence to them.

The group seeks to operate in a responsible manner that has client outcomes at the heart of everything that it does. Protection of the group's reputation is firmly embedded in its business-as-usual activities, and the group, as part of its overall strategy, adopts a prudent approach to risk taking.

Core Drivers of Reputational Risk

Drivers
1. Employee conduct
2. Supplier and intermediary conduct
3. Products and services
4. Changes in business/societal conduct
5. Crystallisation of another risk type

Impact Areas
1. Customers and clients
2. Intermediaries
3. Employees
4. Suppliers
5. Regulators and government
6. Communities and the environment
7. Investors

The group also recognises that its reputation is linked to broader responsibilities to help address social, economic and environmental challenges, and maintains appropriate sustainable objectives that the group sets itself as a business.

Measurement
The group recognises five core drivers of reputational risk and considers potential impact across seven areas as shown in the diagram.

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

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

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

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

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

Monitoring
Reputational risk is considered across all three lines of defence as part of oversight and assurance activities.

Adherence to the group's cultural framework is monitored through the culture dashboard, which is reported to the board on a quarterly basis and includes key metrics in relation to culture across the group and each of its divisions. Customer forums are also in place across the firm, reinforcing the organisation's commitment to favourable client outcomes. Regular engagement with our investors also enables open communication with this stakeholder group.

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

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

Risk Report continued

Emerging Risks and Uncertainties

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

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

- **Top-down:** identified by directors and executives at a group level via the GRCC and the board.
- **Bottom-up:** identified at a business level and escalated, where appropriate, via risk updates into the GRCC.

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

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

Emerging risks and uncertainties currently tracked by the group include:

Emerging Risk/Uncertainty	Mitigating Actions and Key Developments	Outlook
Economic uncertainty	The group's business model aims to ensure that we are able to trade successfully and support our clients in a wide range of economic conditions. By maintaining a strong financial and capital position, we aim to be able to absorb short-term economic downturns, respond to any change in activity or market demand, and in so doing, build long-term relationships by supporting our clients when it really matters. The group focuses on quality and returns rather than overall growth or market share and continues to invest in the business for the long term, to support our customers and clients through the cycle. We test the robustness of our financial position by carrying out regular stress testing on our performance and financial position in the event of adverse economic conditions. The group adopts a prudent and conservative approach and regularly reviews its risk appetite to ensure it remains appropriate in the prevailing economic environment.	There remains significant ongoing uncertainty regarding the future economic trajectory in both the UK and across global markets more generally. Notwithstanding the resilience of our model, we are continuing to plan for a range of different economic and business scenarios to ensure we have the resources and capability to continue to perform effectively. Further commentary on the attributes and resilience of the group's diversified business model is shown on pages 10 to 13 with commentary on the market environment and its impact on each of our divisions outlined on pages 65 to 73.
Geopolitical uncertainty	The group operates predominantly in the UK and Republic of Ireland, with approximately 99% of our loan book exposure to the UK, Republic of Ireland and Channel Islands. Monitoring is in place to track changes in the geopolitical landscape that could have an impact on the group and its operations, its customers and its supply chain, either directly or indirectly. The group has a strong financial position and maintains capital and liquidity levels well in excess of regulatory minimums. Further information on the group's financial performance during the year can be found on pages 61 to 73 Regular stress testing is undertaken on our performance and financial position in the event of various adverse conditions to test the robustness and resilience of the group. The group adopts a prudent and conservative approach and regularly reviews its risk appetite to ensure it remains appropriate in the prevailing geopolitical and economic environment.	The geopolitical environment remains uncertain, with conflict in Ukraine, possible Brexit-related changes to the Northern Ireland protocol and the potential for a Scottish independence referendum amongst others. Going forward, we will continue to closely monitor changes in the geopolitical landscape and regularly test the financial and operational resilience of the group under an evolving range of scenarios.

Emerging Risk/Uncertainty	Mitigating Actions and Key Developments	Outlook
Financial loss or disruption resulting from the impacts of climate change	Since 2019 the group has been working to embed an appropriate and regulatory-compliant climate risk framework, overseen by a Climate Risk Steering Committee and supporting working groups for credit risk, scenarios, disclosures and sustainability. Regular updates are provided to the Board Risk Committee, which retains oversight responsibility, while senior management responsibility is assigned to the group chief risk officer. Monitoring is in place to continually identify and assess climate risks and opportunities, supported by annual climate-related scenario analysis. For further detail, see the firm's inaugural Task Force on Climate-related Financial Disclosures ("TCFD") Report on pages 42 to 59.	Climate risk represents an area of continued focus, both within the group and across the industry more broadly. We continue to closely monitor government and regulatory developments as well as emerging best practice. The short-dated tenor of our lending book and strong business model resilience capabilities mitigate current risk exposure while the continued embedding of our climate framework will enable us to review the evolution of the risk landscape on an ongoing basis.
Legal and regulatory change	The group maintains an established horizon scanning and monitoring framework to identify regulatory and legal changes that could materially impact its operations, including legislative and regulatory reform, changes in regulatory practice and case law developments. We engage regularly with regulators in the jurisdictions in which we operate, including the PRA and FCA in the UK, as well as industry bodies and external advisers, to understand relevant changes. High-level gap and impact analyses are undertaken to assess new compliance requirements and identify any changes required to the group's systems and controls, processes and procedures, with programmes of work initiated to address any identified issues. The extent and nature of this work ranges from simple isolated remedial activity to large multi-year projects, depending on the complexity and scale of the change.	A sustained increase in legal and regulatory change has been experienced in recent years and this is expected to continue in the short to medium term, including the possibility of regulatory and legal divergence between the UK and EU. Increasing regulatory focus on consumer and small business customer outcomes is seen from the group's regulators in the UK, the Republic of Ireland and other jurisdictions in which the group operates.
Evolving working practices	The group continues to assess the appropriateness of its work patterns on an ongoing basis through consideration of four key principles: customer and client outcomes; risk appetite; culture and collaboration; and employee choice. Ways of working are risk assessed quarterly, enabling the identification and mitigation of any risks arising. All roles are assessed to ensure flexibility can be offered where appropriate in response to competitive pressure for talent attraction and retention. Market developments continue to be monitored for further shifts in working patterns which could impact employee and candidate expectations. We remain focused on maintaining our company culture and ensuring optimisation of the workspace and in-office activities to support collaboration and inclusion.	Management continues to monitor market expectations regarding work patterns to ensure levels of flexibility can be offered to compete effectively in a tight labour market.

Risk Report continued

Emerging Risk/Uncertainty	Mitigating Actions and Key Developments	Outlook
Technological change and new business models	Technological change and new business models have the potential to impact the group's market position and future profitability. While regulation remains a barrier to entry for many potential new competitors, consumer expectations continue to evolve, challenging existing capabilities and traditional approaches. Competitors are adapting in response, while new financial technology companies continue to develop alternative business models. Notwithstanding, the group prides itself on its deep knowledge of its customers and clients and the industries/sectors in which they operate. Market developments are closely monitored to identify and understand emerging dynamics as well as the evolving preferences of our customers.	The group is continuing to invest in strategic data capabilities as part of our business and technology strategies. Data governance remains a key focus as part of this as we look to further manage and exploit our data assets. Our businesses, particularly within Retail, also continue to prioritise digital channels and messaging to enhance the customer journey and associated experience. The technology function is actively planning to benefit from cloud arrangements which match the agility and scalability of any potential competitor or new entrant. The group is also focused on upskilling current staff and strategic third party provider partnerships to support the digital transformation of our businesses.
Supply chain risk	The group's third party management framework ensures a risk-based approach is adopted with regard to the identification, classification and management of the many potential business impacts that can result from failures in the supply chain. Through the identification of inherent risks at the outset of all third party engagements, appropriate due diligence is completed prior to onboarding, suitably robust contracts are put in place and effective lifecycle management is implemented. Ongoing reporting of key risk and performance indicators coupled with periodic supplier reviews from our third party monitoring team help to manage supply chain risk. Oversight of all material suppliers is retained via the GRCC while continuity of service is a key focus for all critical relationships through resilience and substitutability planning. The group is also continuing to build out its understanding of supply chain concentration risk across material third and fourth parties.	While Covid-19 continues to impact supply chains globally, this has been further aggravated by the conflict in Ukraine and the general inflationary economic environment in key markets. Direct impacts have thus far proved relatively moderate across the sector and less so for the group given its relatively low level of reliance on offshore service provision, although close monitoring and management is ongoing in more sensitive goods and services categories. Notwithstanding, continued improvement to the group's third party management framework is likely to be required to keep pace with the evolving regulatory landscape over the short to medium term, noting this remains an area of heightened regulatory focus, particularly with respect to material suppliers.
Future pandemics and ability to respond	Capabilities delivered through the group's focus on operational resilience are primary mitigants against plausible and controllable impacts of a future pandemic. The group's ability to respond to pandemic-induced disruption was tested through Covid-19. The resilience of the group's workforce, suppliers and systems is tested on a risk-based cycle, considering severe but plausible disruptions. This approach to ongoing testing enables maintenance of suitable readiness should another pandemic emerge in the future.	Pandemics of a nature that cause material societal impact are inherently low-likelihood, high-impact events. It is unlikely that another pandemic will emerge in any given year, although it is probable that at some future point another one will emerge.

Going Concern Statement

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

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

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

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

Under both scenarios the company and group continue to operate with sufficient levels of liquidity and capital for the next 12 months, with the group's capital ratios and liquidity comfortably in excess of regulatory requirements.

For each of the divisions, the directors have also considered the impact of the central and downside scenarios on financial performance. For Banking these include expected customer demand that underpins loan book growth, the impact of rising interest rates and inflationary pressures on our customers and the impact this will have on the bad debt ratio and net interest margin. For Asset Management, the level of markets and amount of net flows as a percentage of opening managed assets was considered. For Winterflood, the volume of trading activity within their markets and expected trading revenue was assessed. Across all the divisions, the impact of the selected downside scenario demonstrated the resilience of our business model.

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

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

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

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

Viability Statement

In accordance with provision 31 of the UK Corporate Governance Code, the board has assessed the prospects of the group and confirms that it has a reasonable expectation that the company and group will continue to operate and meet their liabilities, as they fall due, for the three-year period up to 31 July 2025.

The board considers three years to be an appropriate period for the assessment to be made. A period of three years has been chosen given the group's proven and resilient business model, prudent maturity profile and because it is the period covered by the group's well embedded strategic planning cycle. We continue to adopt a three-year period for our regulatory and internal stress testing processes, including: (i) group-wide internal forecasting and stress testing, which has undergone significant review and challenge, to confirm the viability of the group; (ii) the Internal Capital Adequacy Assessment Process ("ICAAP"), which assesses capital requirements; and (iii) the Internal Liquidity Adequacy Assessment Process ("ILAAP"), which identifies liquidity requirements.

In making its assessment, the board has identified and assessed the principal and emerging risks facing the group and these are highlighted on pages 78 to 92. The group's approach to monitoring and managing principal risks faced by the group's business, including financial, business, market and operational risks, have remained consistent given the group's activities, business model and strategy are unchanged.

The group utilises an established risk management framework to monitor its portfolio of emerging risks incorporating the group's "bottom up" and "top down" approach. These are monitored by the local and group risk and compliance committees with agreed actions regularly tracked. Key emerging risks include:

- economic uncertainty regarding the future economic trajectory in both the UK and across global markets more generally;
- geopolitical uncertainty with conflict in Ukraine, possible Brexit-related changes to the Northern Ireland protocol and the potential for a Scottish independence referendum amongst others;
- financial loss or disruption resulting from the impacts of climate change;
- legal and regulatory changes including the possibility of regulatory and legal divergence between the UK and EU; and
- supply chain risk, with Covid-19 continuing to impact supply chains globally, further aggravated by the conflict in Ukraine and the general inflationary economic environment in key markets.

The group will continue to monitor and assess these risks, adhering to our established and proven business model, as outlined on pages 10 to 12; implementing an integrated risk management approach based on the concept of "three lines of defence"; and setting and operating within clearly defined and monitored risk appetites. The group's business model, supported by a solid track record and sustained profitability, has worked well through a range of economic, social and environmental conditions over multiple economic cycles and this is projected to continue over the medium term. Given the diversified portfolio of the businesses across the group, the board considers medium-term economic, social, environmental and technological trends at the individual business unit level as part of the strategic planning cycle. This includes focusing on the long-term strategic approach to protect, grow and sustain our business model, with key priorities outlined on page 32.

The board has also assessed the group's viability by considering regular forecasting and stress testing undertaken to reflect uncertainties in the economic environment. A range of forward-looking scenarios has been considered, with distinct social and economic assumptions. Differing macroeconomic assumptions have been assessed across the scenarios including GDP growth, inflation, interest rates, unemployment, residential house prices and equity prices. The modelling considers the group's future projections of profitability, cash flows, capital requirements and resources, and other key financial and regulatory ratios over the period. In the modelled scenarios, it has been assumed that no significant structural changes to the company or group will be required.

These scenarios have been built using the same principles as those in the going concern assessment, extended out over the three-year period:

- the central scenario presents our base case assuming inflation levels remain elevated, reflecting the latest economic outlook, with minimal GDP growth, whilst unemployment remains low; and
- the downside scenario assumes a pronounced and sudden rise in inflation and interest rate levels, with impairment losses front-loaded as customer affordability is impacted, coupled with lower income in market-facing businesses as equity prices and market levels decline.

The group maintains capital ratios significantly above regulatory minima, which are currently set at a minimum common equity tier 1 ratio of 7.6% and a minimum total capital ratio of 11.5%, excluding any applicable Prudential Regulation Authority ("PRA") buffer. In all scenarios, the company and group continue to operate with sufficient levels of capital, with the group's capital ratios and funding and liquidity positions well within appetite and comfortably in excess of regulatory requirements.

Across the divisions, the financial impact of each scenario demonstrates the resilience of our business model. In addition, the directors have reviewed the key management actions which would be taken in the event of a downside, in order to mitigate the stress, and the viability of these actions.

In making this assessment, the directors have considered a wide range of information, including:

- the board's risk appetite and robust assessment of the principal and emerging risks, which could impact the performance of the group, and how these are managed – please refer to the Risk Report on pages 74 to 92;
- the group's current financial position and prospects – please refer to the Financial Overview on pages 61 to 64; and
- the group's business model and strategy – please refer to the Business Model on pages 10 to 12, and Strategy and Key Performance Indicators on pages 32 to 33.

The directors have also considered the results from the most recent version of the following reviews:

- the annual review of the Recovery Plan which included employing a number of scenarios to test our recovery plan, our wide range of risk indicators and recovery options available to the group;
- the 2021 ICAAP, which included both stress testing and scenario analysis. At a group level, two severe stress test scenarios were assessed representing protracted downside scenarios. This took account of the availability and likely effectiveness of mitigating actions that could be taken by management to avoid or reduce the impact or occurrence of underlying risks. As part of the ICAAP, reverse stress testing was also employed to support the identification of potential adverse circumstances and events; and
- the 2021 ILAAP, which was undertaken to assess the group's liquidity across a range of market-wide and idiosyncratic scenarios demonstrating the ongoing strength of the group's funding and liquidity model.

This forward-looking viability statement made by the board is based on information and knowledge of the group at 27 September 2022. Unexpected risks and uncertainties may arise from future events or conditions, such as economic changes and business conditions, which are beyond the group's control and could cause the group's actual performance and results to differ from those anticipated.

This Strategic Report was approved by the board and signed on its behalf by:

Adrian Sainsbury
Chief Executive

27 September 2022

Board of Directors

Mike Biggs (R) (N)
Chairman | Appointed to the Board on 14 March 2017, and as Chairman on 1 May 2017

Background and Experience
Mike was the chairman of Direct Line Insurance Group plc from 2012 until August 2020. He was previously chairman of Resolution Limited, then a FTSE 100 UK life assurance business, and has acted as both chief executive officer and group finance director of Resolution plc. Mike was group finance director of Aviva plc and is an Associate of the Institute of Chartered Accountants in England and Wales.

Mark Pain (R) (N) (RI)
Senior Independent Director | Appointed on 1 January 2021

Current External Appointments and Changes
Mark now serves as the chairman of AXA UK plc where he chairs the Nomination and Risk Committees and he serves on the Investment and Remuneration Committees, London Square Limited and Empiric Student Property plc (also chair of the Nomination Committee and a member of the Remuneration Committee).

Background and Experience
Mark has extensive finance, risk management and commercial experience, having held board positions at Barratt Developments plc and Abbey National Group. Mark has previously been a non-executive director of Yorkshire Building Society (where he served as senior independent director), Ladbrokes Coral Group plc, Punch Taverns plc, Spirit Pub Company plc, Johnston Press plc, and Aviva Insurance Limited, among others.

Adrian Sainsbury
Chief Executive | Appointed on 21 September 2020

Current External Appointments
Non-executive director of UK Finance, the banking and finance industry body.

Background and Experience
From 2016 until September 2020, Adrian was managing director of Close Brothers' Banking division. Since August 2013 he has been a director of Close Brothers Limited, the group's banking subsidiary. Adrian has previously held executive roles at Barclays, RBS and Bank of Ireland and was chief executive of ANZ Bank in Europe. Adrian has also served as chairman of the Asset Based Finance Association, the UK and Ireland industry body.

Mike Morgan
Group Finance Director | Appointed on 15 November 2018

Background and Experience
From 2010 to 2018, Mike was chief financial officer of Close Brothers' Banking division and has been a director of Close Brothers Limited, the group's banking subsidiary, since 2010. Mike is a chartered accountant and from June 2019 to June 2021 was chair of the ICAEW Financial Services Faculty Board and an ICAEW Council member. Mike also held senior roles at Scottish Provident and RBS, most recently as finance director of the Wealth Management Division of RBS.

(A) Audit Committee member
(RI) Risk Committee member
(R) Remuneration Committee member
(N) Nomination and Governance Committee member
● Committee chair

Board of Directors continued

Oliver Corbett A N RI
Independent Non-executive Director | Appointed on 3 June 2014

Current External Appointments
Chief financial officer of McGill & Partners Ltd.

Background and Experience
Oliver was formerly chief financial officer of Hyperion Insurance Group Limited and finance director of LCH. Clearnet Group Limited and of Novae Group plc. Oliver is a chartered accountant and previously worked for KPMG, SG Warburg, Phoenix Securities (later Donaldson Lufkin Jenrette) and Dresdner Kleinwort Wasserstein, where he was managing director of investment banking. Oliver was also a non-executive director of Rathbone Brothers plc.

Patricia Halliday A RI
Independent Non-executive Director | Appointed on 1 August 2021

Background and Experience
Patricia has over 30 years' experience in risk management across the investment, corporate and retail banking sectors. Patricia was chief risk officer ("CRO") of Santander UK with responsibility for risk management and oversight across retail and commercial banking. Prior to Santander, Patricia was CRO of GE Capital International Holdings Limited. She began her career at NatWest, followed by senior credit risk roles at Barclays Capital and then Deutsche Bank, including as Head of Leveraged and Structured Finance and Commercial Real Estate, and chair of the Underwriting Committee, covering the UK, European and US markets.

Tracey Graham R RI
Independent Non-executive Director | Appointed on 22 March 2022

Current External Appointments
Non-executive director of Ibstock plc, DiscoverIE Group plc and LINK Scheme Limited.

Background and Experience
Tracey has broad executive experience from companies operating in the financial and business services sectors, both in the UK and internationally. She has extensive experience as a remuneration committee chair and also serves as a senior independent director. Tracey began her career at HSBC and subsequently held the role of director of customer services at AXA Insurance plc. She was chief executive officer of Talaris Limited, an international cash management business. Before that, she held a number of senior roles in De La Rue plc, including as managing director – Identity Systems, president – Sequoia Voting Systems and managing director – Cash Systems. Tracey served as a non-executive director of Royal London Mutual Insurance Society Limited for nine years until March 2022.

Peter Duffy R RI
Independent Non-executive Director | Appointed on 1 January 2019

Current External Appointments
Chief executive officer of Moneysupermarket.com Group plc.

Background and Experience
Peter previously served as chief executive officer of Just Eat Limited, having been interim chief executive officer and chief customer officer of Just Eat plc before that. Between 2011 and 2018, Peter held a number of senior roles at easyJet plc, including as chief commercial officer and group commercial director. Prior to that, Peter held roles at Audi UK Ltd and Barclays Bank plc over a period of more than 15 years. Peter was also president of the Incorporated Society of British Advertisers.

Sally Williams (A) (RI)
Independent Non-executive Director | Appointed on 1 January 2020

Current External Appointments
Non-executive director of Lancashire Holdings Limited and of Family Assurance Friendly Society Limited (OneFamily) and chair of the audit committee at both companies.

Background and Experience
Sally is a member of the Institute of Chartered Accountants of England and Wales. Sally has extensive risk, compliance and governance experience, having held senior executive positions at Marsh, National Australia Bank and Aviva. Prior to that, Sally held roles at PricewaterhouseCoopers LLP in both their risk management and audit teams over a period of 15 years.

Tesula Mohindra (A) (RI)
Independent Non-executive Director | Appointed on 15 July 2021

Current External Appointments and Changes
Non-executive director of NHBC (National House-Building Council) and trustee of Variety, the Children's Charity, and was appointed as non-executive director of the RAC group in September 2022.

Background and Experience
Tesula qualified as a chartered accountant with PricewaterhouseCoopers, and held managing director roles at JP Morgan and at UBS, specialising in corporate finance for financial institutions and pension fund risk management. She was also a founding member of the management team of Paternoster, the specialist bulk annuity insurer, where she was a member of the executive committee. Since then, she has worked as an independent financial consultant on business plans and capital raising.

Lesley Jones (A) (R) (N) (RI)
Independent Non-executive Director | Appointed on 20 December 2013

Current External Appointments
Chair of Sainsbury's Bank; non-executive director of Moody's Investors Service Limited; and non-executive director of Moneysupermarket.com Group plc.

Background and Experience
Lesley has extensive banking experience, having previously held several line management positions within Citigroup and was group chief credit officer of Royal Bank of Scotland plc from 2008 to 2014. Lesley was previously a non-executive director of N Brown Group plc, ReAssure Group plc (where she also chaired the Risk Committee) and Northern Bank Limited.

Bridget Macaskill (R) (RI) (N)
Independent Non-executive Director | Appointed on 21 November 2013

Current External Appointments
Non-executive director of Jones Lang LaSalle Incorporated and chairman of Cambridge Associates LLC.

Background and Experience
Bridget was formerly chairman of First Eagle Holdings, Inc. and a senior adviser to First Eagle Investment Management LLC, of which she was president and chief executive officer. Bridget was also a trustee of the TIAA-CREF funds and a non-executive director of Jupiter Fund Management plc, Prudential plc, Scottish & Newcastle plc, J Sainsbury plc, Hillsdown Holdings plc and of the Federal National Mortgage Association in the US.

(A) Audit Committee member
(RI) Risk Committee member
(R) Remuneration Committee member
(N) Nomination and Governance Committee member
● Committee chair

The Board considered and approved the additional external commitments taken on by Mark Pain and Tesula Mohindra during the period. In each case, it was agreed that there would be no impact on the time commitment required as non-executive directors, or on the independence and objectivity required to discharge the agreed responsibilities of the roles.

Executive Committee
Members at 27 September 2022

Adrian Sainsbury
Chief Executive

Mike Morgan
Group Finance Director

Martyn Atkinson
Group Chief Operating Officer

Neil Davies
Chief Executive Officer Commercial

Bradley Dyer
Winterflood Chief Executive

Rebekah Etherington
Group Head of Human Resources

Naz Kazi
Group Head of Internal Audit

Rebecca McNeil
Chief Executive Officer Retail

Frank Pennal
Chief Executive Officer Property

Eddy Reynolds
Asset Management Chief Executive

Robert Sack
Group Chief Risk Officer

Angela Yotov
Group General Counsel

Corporate Governance Report

Compliance with the UK Corporate Governance Code
The UK Corporate Governance Code 2018 (the "Code"), published by the Financial Reporting Council ("FRC"), applied to the company throughout the financial year. A copy of the Code can be found on the FRC's website: www.frc.org.uk.

It is the board's view that, throughout the year, the company has applied the principles and complied with the provisions set out in the Code. Details on how the company has applied and complied with the Code are set out in this Corporate Governance Report and in other sections of the Annual Report. We have aligned our report with the five sections of the Code and the underlying principles and provisions.

Board leadership	Page 101
Division of responsibilities	Page 108
Composition, succession and evaluation	Page 113
Audit, risk and internal control	Page 117
Remuneration	Page 123

Michael N. Biggs
Chairman

On behalf of the board, I am pleased to introduce the Corporate Governance Report for the year ended 31 July 2022. The following pages explain the group's governance structure and key activities undertaken by the board and its committees during the year. The report describes how we have complied with the UK Corporate Governance Code in full during the year.

At Close Brothers, we firmly believe in the important role that high standards of corporate governance and effective board oversight play in supporting the group's performance, the delivery of its strategy and achieving long-term sustainable success for the company's shareholders and other stakeholders. The board is committed to maintaining a robust and effective governance, control and risk management framework and I have been pleased once again this year to see the benefits of that framework.

As the country has moved out of the pandemic and restrictions eased, the board has returned to a more normal schedule of meetings and board operations. The meetings have been mainly in person, except where circumstances have prevented individuals from attending. The board has welcomed the return to the office and the opportunity to meet board colleagues and employees in person again.

Strategy, Purpose and Culture

The board plays an important role in setting the group's strategy, purpose, business model and culture and the board spends time on each of these areas throughout the year. Each of the directors recognises their role in setting the tone from the top and in monitoring how the group's culture and values are communicated and embedded. We also acknowledge the crucial link between culture, governance and leadership and the role that decision-making plays as a key driver of culture. Once again this year, in my own engagement with employees, I have been pleased to see the group's strong and distinctive culture in action, as shown by the continuing commitment on the part of our employees to support customers, clients and partners.

Corporate Governance Report continued

Changes to the Board
During the year, we were pleased to welcome Patricia Halliday and Tracey Graham as non-executive directors. More details on their appointments and the process may be found on page 114. Lesley Jones and Bridget Macaskill will retire from the board at the conclusion of the annual general meeting ("AGM"). Patricia will assume the role of chair of the Risk Committee from the date of the AGM.

The board continues to be diverse, with directors from a range of backgrounds, and I am pleased that we comply with the recommendations of the FTSE Women Leaders and Parker Reviews in terms of the composition of the board.

Board Effectiveness
This year, in line with the Code, the board undertook an internal process to review its effectiveness and performance. The review concluded that the board remains strong and effective, and that it has responded well to the challenges arising from the uncertain current economic situation. The evaluation also acknowledged that the board has addressed each of the recommendations made in the external evaluation in 2021. The board welcomes the findings and will work to consider opportunities for incremental improvements during the year ahead. Further detail on the evaluation can be found on page 111.

Stakeholder Engagement
Stakeholder engagement remains a priority for the board. During the year the board has used formal meetings and other opportunities to discuss the group's performance and delivery of its strategy with group and divisional executives. These discussions included consideration of stakeholders and their interests, as well as risks arising from the wider regulatory, economic and political environment. As part of the board's regular meetings and in sessions specifically focusing on strategy, the directors have spent considerable time assessing and having regard to the impact of individual decisions and the group's operations on different stakeholder groups. This has included extensive discussion of points arising from engagement with shareholders, customers, employees, regulators and other groups. The board has engaged with its employees in a variety of forums as part of its workforce engagement activities. You can find our formal statement in relation to section 172 of the Companies Act 2006, together with further detail about how the directors have engaged with, and had regard to the interests of, stakeholders in the Strategic Report on pages 14 to 17 and in the Corporate Governance Report on pages 106 to 107.

Sustainability
The board and its committees spent time on a broad range of sustainability considerations, including as part of its regular discussions about the group's strategy and regular environmental, social and governance ("ESG") updates. I have been pleased to discuss the board's approach in this area as part of my regular meetings with shareholders. As part of wider sustainability discussions, the board has continued to focus on external and internal developments in relation to climate change. This has included discussion of the group's climate strategy and goals, together with oversight of progress towards disclosure requirements relating to the Task Force on Climate-related Financial Disclosures ("TCFD") which apply to the group for the first time this year.

The board and the Nomination and Governance Committee have continued to monitor diversity and inclusion, both as part of ongoing board succession planning and in relation to activities aimed at developing a diverse and inclusive talent pipeline below board level. Further information on the board's approach to diversity and inclusion can be found on page 115.

Engagement with Shareholders
Engagement and dialogue with shareholders continues to be a key focus for the board and I have been pleased to meet with a number of our shareholders during the year to discuss a range of topics and to ensure that the board is aware of our shareholders' views.

We are delighted to welcome shareholders to an in-person AGM this year. Further details will be set out in the Notice of AGM sent to shareholders in due course.

On behalf of the board, I would like to thank shareholders for their continued engagement and support. My fellow directors and I look forward to continued engagement with you in the year ahead, including at the AGM.

Michael N. Biggs
Chairman

27 September 2022

Board leadership

Effective Leadership
The board's primary role is to provide effective leadership and direction for the group as a whole, and to ensure that the company is appropriately managed, delivers long-term shareholder value and contributes to wider society. It establishes the group's purpose and strategic objectives ensuring that these are aligned with the group's culture and monitors management's performance on an ongoing basis against those objectives. The board also supervises the group's operations, with the aim of ensuring that it maintains a framework of prudent and effective controls which enables risks to be properly assessed and appropriately managed.

The board acknowledges its role in assessing the basis on which the group generates and preserves value over the long term. It spends time during the year, in scheduled board meetings, during its annual strategy discussions and in other sessions with senior management and stakeholders, considering how opportunities and risks to the future success of the group's business should be addressed. These discussions include the sustainability of the group's model. Further information on these considerations can be found in the Strategic Report on pages 3 to 59 of this Annual Report.

Another key function of the board is to define, promote and monitor the company's culture and values, setting the "tone from the top". It also ensures effective engagement with, and participation from, shareholders and other stakeholders. When making decisions, the board has regard to the interests of a range of stakeholders, including employees, customers, clients and shareholders, as well as its broader duties under section 172 of the Companies Act 2006. The company's formal section 172 statement can be found on page 17 of this Annual Report.

Board Size and Composition
The board has 12 members: the chairman, two executive directors and nine independent non-executive directors. The board's members come from a range of backgrounds and the board is structured to ensure that no individual or group of individuals is able to dominate the decision-making process and no undue reliance is placed on any individual. The Nomination and Governance Committee monitors the overall size of the board and the balance between its executive and non-executive membership.

During 2022, the board appointed two additional non-executive directors as part of its proactive and orderly approach to succession planning. The overall size of the board has grown slightly in recent years as new directors have been appointed to bring additional and complementary knowledge, skills and experience, and to ensure continuity of membership and knowledge as other directors near the end of their terms in the years ahead.

The board considers that recent appointments have resulted in a valuable refreshing of the board, providing new perspectives and challenge which have further strengthened the board's effectiveness and the quality of its deliberations. As mentioned above, Lesley and Bridget, who have served on the Board for nine years, will retire at the forthcoming AGM.

Role of the Board in Relation to Strategy and Purpose
The board recognises its responsibility for establishing and monitoring the strategy and purpose of the group. During the year, a range of activities enabled the board to focus on these areas. These included a strategy session in May 2022. The session covered a broad range of strategic issues, including the group's three-year strategic plan, shareholder feedback during the year, opportunities for individual businesses and people-related issues, including the results of the recent employee opinion survey.

In addition, the board considers strategic issues and the group's business model as part of regular meetings throughout the year. At each scheduled meeting, group and divisional executives provide updates on performance against strategic goals and relevant developments in the wider market, including from a competitor or regulatory perspective. During the year, the board has held a number of "deep-dive" strategy sessions, each focused on an individual business. The board aims to cover each of the group's businesses at such a session on a rolling two-year basis.

Corporate Governance Report continued
Board leadership

Governance Framework and Board Resources
The governance framework supports good governance across the group and facilitates delivery of the strategy through effective decision-making.

The board has delegated responsibility for certain matters to its committees. Each committee has written terms of reference. The chair of each committee reports regularly to the board on matters discussed at committee meetings. All members of the board have access to the papers of all committees, and have a standing invitation to attend any committee meeting. Reports from the board's committees are set out later in this report and they include further detail on each committee's role and responsibilities, and the activities undertaken during the year.

The board

The role of the board is to promote the long-term success of the group and to deliver value to shareholders and other stakeholders. It sets the governance framework and has responsibility for the leadership, management direction, culture and performance of the group

Nomination and Governance Committee
- Reviews board composition, structure and diversity
- Monitors that the board collectively has the skills and experience to operate and deliver the strategy
- Oversees the board effectiveness review
- Considers succession planning for the board and Executive Committee
- Reviews ESG strategy

Risk Committee
- Reviews and monitors the principal and emerging risks
- Reviews the effectiveness of the group's risk management systems
- Oversees compliance

Audit Committee
- Oversees the group's financial reporting
- Maintains and manages the relationship with the external auditor
- Receives reports from group Internal Audit
- Monitors internal financial controls

Remuneration Committee
- Determines the remuneration policy for the executive directors and ensures that there is a clear link between reward and performance
- Reviews workforce remuneration policies
- Reviews and approves the remuneration of the chairman, executive directors and other senior employees

Executive Directors

The board delegates the execution of the group's strategy and the day-to-day management of the business to the executive directors

Executive Committee

Together with the Executive Directors, the Executive Committee is responsible for the day-to-day execution of the group's strategy and management of the business

Supporting Committees

Supporting committees provide oversight on key business activities and risk

Meetings of the Board

At each scheduled meeting, the board receives reports from the chief executive and group finance director on the performance and results of the group. The board discusses performance, strategic initiatives and developments in each of the group's divisions, including updates from divisional chief executives on their respective areas. The group chief risk officer and the group general counsel have a standing invitation to attend and provide updates on their respective functions. The board also receives regular reports from the group human resources, operations, corporate development, compliance and internal audit functions.

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

The non-executive directors meet during the year on an informal basis to discuss matters relevant to the group.

In addition to the scheduled meetings, all directors attended a strategy session with senior management in May 2022. There were a further eight ad hoc meetings during the year to discuss progress on key projects and the Annual Report. The Nomination and Governance Committee held two additional ad hoc meetings during the year to discuss, among other things, non-executive director recruitment, and to consider and recommend to the board the appointment of Tracey Graham. The Remuneration Committee held two additional ad hoc meetings during the year to discuss, among other things, matters relating to compensation planning. The Risk Committee held one additional ad hoc meeting during the year to receive project updates. These additional meetings are not reflected in the table below.

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

	Board	Nomination and Governance Committee	Risk Committee	Audit Committee	Remuneration Committee
Executive directors					
Adrian Sainsbury	7/7				
Mike Morgan	7/7				
Non-executive directors					
Mike Biggs	7/7	5/5			5/5
Oliver Corbett	7/7	5/5	5/5	5/5	
Peter Duffy	7/7		5/5		5/5
Tracey Graham[1]	3/3		1/1		3/3
Patricia Halliday[2]	7/7		5/5	5/5	
Lesley Jones	7/7	5/5	5/5	5/5	5/5
Bridget Macaskill	7/7	5/5	5/5		5/5
Tesula Mohindra	7/7		5/5	5/5	
Mark Pain	7/7	5/5	5/5		5/5
Sally Williams	7/7		5/5	5/5	

1 Tracey Graham was appointed as an independent non-executive director and a member of the Remuneration and Risk Committees with effect from 22 March 2022.
2 Patricia Halliday was appointed as an independent non-executive director and a member of the Audit and Risk Committees with effect from 1 August 2021.

Corporate Governance Report continued
Board leadership

Board Activities

Strategy
- Held an offsite strategy session in conjunction with the Executive Committee
- Reviewed Investment Programme strategy and update
- Reviewed the group's sustainability strategy
- Received regular business unit updates
- Received deep-dive reviews of selected business areas
- Received regular updates on climate and sustainability activities
- Approved annual tax strategy

Financial and Corporate Reporting
- Received regular reports from the group finance director on financial performance
- Reviewed rolling forecasts and approved 2023 budget
- Approved full-year and half-year results
- Received reports from group Internal Audit
- Reviewed new disclosure framework to ensure compliance with TCFD reporting

Structure/Capital
- Reviewed the group's stress testing policy
- Reviewed the group's treasury policy
- Reviewed the group's capital strategy

2021	August	September	October	November	December
Board and committee meetings	• Board papers	• Board • Remuneration • Audit • Risk • Nomination and Governance	• Board • Nomination and Governance	• Board papers • Risk • Audit • Annual General Meeting	• Board update
Announcements and investor engagement	• Appointment of Patricia Halliday as a non-executive director on 1 August 2021	• Year-end results and Annual Report • Year-end analyst briefing • Year-end roadshow		• Trading update • Results of AGM	

Stakeholders
- Received regular updates on customers
- Received regular updates on suppliers
- Reviewed the annual employee opinion survey results
- Reviewed regular updates on the culture dashboard
- Received regular updates on investor relations activities including meetings with shareholders and post-results roadshows
- Approved the annual Modern Slavery Statement
- Held the 2021 Annual General Meeting in hybrid format

Risk and Control
- Received reports from the chief risk officer
- Approved the group's Enterprise Risk Management Framework
- Approved the group's Recovery Plan
- Approved the annual review of the ICAAP and ILAAP
- Reviewed the group's risk appetite statements
- Reviewed Pillar 3 disclosures
- Reviewed the group's principal risks and considered emerging risks
- Reviewed the group's annual compliance plan
- Reviewed the group's whistleblowing policy and received an update on activity
- Approved the annual renewal of the group's insurances

Governance
- Appointed Tracey Graham as an independent non-executive director
- Reviewed the board and committee performance evaluation and the review of the chairman's performance by the senior independent director
- Monitored progress on actions from previous years' board and committee performance evaluations
- Reviewed the terms of reference of the Audit, Remuneration, Risk and Nomination and Governance Committees
- Reviewed the matters reserved for the board
- Approved the board Diversity and Inclusion Policy
- Received regular training and updates
- Undertook a review of NED fees and recommended no change
- Approved the arrangements for the Annual General Meeting 2021
- Recommended the reappointment of directors

2022

January	February	March	April	May	June	July
• Board • Remuneration • Audit • Risk • Nomination and Governance	• Board papers	• Board • Audit • Risk	• Board • Remuneration • Nomination and Governance	• Strategy session • Board update	• Board • Remuneration • Audit • Risk	• Board • Remuneration • Nomination and Governance
• Pre-close trading update		• Half-year results • Half-year analyst briefing • Half-year roadshow • Appointment of Tracey Graham as a non-executive director on 22 March 2022		• Trading update		• Pre-close trading update

Corporate Governance Report continued

Board leadership

Engagement with Stakeholders

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

Stakeholders include:
- Colleagues
- Customers, clients and partners
- Suppliers
- Regulators and government
- Communities and environment
- Investors

Further detail and examples of how the board has considered stakeholder interests, as well as the company's section 172 statement, can be found in the Strategic Report on pages 14 to 17.

The sections below describe the board's approach to engagement with employees and shareholders. Further information about how the directors have engaged with employees and had regard to their interests is set out in the Strategic Report on page 14. This section further explains how the directors have had regard to the need to foster the company's business relationships with suppliers, customers and others, and the effect of this on the principal decisions taken by the company during the financial year.

During the year, as part of the group's responsibility to wider society, the board discussed the group's charitable efforts and community activities, including donations of £150,000 each to Stop Hate UK, The Wildlife Trusts and Smart Works.

Engagement with Employees

As permitted by the Code, the board has put in place its own arrangements to engage with employees across the group rather than using one of the specific methods set out in the Code. The board believes that there is value to be derived from all directors participating in meaningful employee engagement activities and, following discussion by the Nomination and Governance Committee, a framework for board engagement with employees is managed by the company secretary. This framework builds on existing employee engagement activities that have been in place for some time, and presents a range of different opportunities for board members to engage directly with employees and also to receive feedback on relevant issues from management. The framework takes account of guidance and suggestions published by the FRC in this area.

The board acknowledges the benefits of meaningful two-way engagement between the directors and senior management (on the one hand) and employees (on the other hand). To this end, the board and senior management provide employees with regular information on matters of interest or concern to them and consult with them or relevant representatives in order to take their views into account when making relevant decisions which are likely to affect their interests. An example of engagement and consultation in the year included working arrangements on the easing of restrictions. In addition, engagement with, and consideration of the interests of, employees continues to form a significant part of the board's oversight of programmes across the group.

The directors undertake a range of direct and indirect employee engagement activities during the year to ensure that they are aware of relevant issues and considerations as part of their decision-making and oversight activities. The directors have opportunities throughout the year to discuss their own observations following engagement activities and also to feed back comments raised with them by employees. The board considers that its employee engagement activities during the year have been effective.

Employee engagement activities undertaken by the board in the year included:
- attendance or participation in business and other functional Town Hall sessions to explain the group's strategy and operations;
- regular communications from executive directors to employees on the performance and operations of the group, in relation to the half-year and full-year results;
- detailed discussion of the results, themes and next steps arising out of the group's employee opinion survey;
- attendance at committees and other forums below board level to understand employee-related issues and priorities;
- reviewing the quarterly culture dashboard which summarises the group's cultural attributes and provides an overall cultural assessment;
- site visits by non-executive directors to meet employees at different levels of the group's operations. The board has started to resume its programme of visits, in particular for newly appointed non-executive directors as part of their induction programmes;
- participation by directors in programmes and initiatives operated for different groups of employees, including training and development programmes;
- participation by executive and non-executive directors in Q&A sessions with employees; and
- attendance or participation in diversity and inclusion events.

The board recognises that the activities above are important in helping to achieve a common awareness on the part of all employees of the financial and economic factors affecting the performance of the company. This contributes to a better understanding of the group's activities, purpose, strategic aims, and the long-term success of the company. Throughout the year, both as part of its oversight of business performance and developments, and in the context of strategic discussions, individual board members have provided insight from their own engagement with employees across the group. This insight makes a meaningful contribution to the board's discussions and decision-making. By way of example, the Remuneration Committee has considered points arising from the employee opinion survey undertaken in the year in its discussions in relation to compensation. Members of the Nomination and Governance Committee have discussed their own observations from their engagement with employees as part of the committee's oversight of diversity and inclusion initiatives around the group.

The board supports and encourages the involvement of employees in the company's performance through two types of share scheme operated by the group: Save As You Earn ("SAYE") and Buy As You Earn ("BAYE"). Both schemes are open to eligible employees who have completed six months' continuous employment with the group. During the year, the Remuneration Committee has considered data showing the participation of employees in the schemes and discussed steps to improve participation levels.

Engagement with Shareholders

The group has a comprehensive investor relations programme to ensure that current and potential shareholders, as well as financial analysts, are kept informed of the group's performance and have appropriate access to management to understand the company's business and strategy.

The group's investor relations team, reporting to the group finance director, has primary responsibility for managing the group's relationship with shareholders. The team runs a structured programme of meetings, calls and presentations around the financial reporting calendar, as well as throughout the year. The team also regularly seeks investor feedback, both directly and via the group's corporate brokers, which is communicated to the board and management. Once again throughout the year, the team has responded to a range of enquiries and points of feedback raised by shareholders, including in relation to ESG issues.

The board is regularly updated on the investor relations programme through a report, which is produced for each board meeting and summarises share price performance, share register composition and feedback from any investor meetings. In addition, periodic specific "deep dives" on investor relations matters are provided to the board.

The board believes it is important to maintain open and constructive relationships with shareholders and for them to have opportunities to share their views with the board. The chief executive and group finance director engage with the group's major institutional shareholders on a regular basis. In addition, the chairman meets with major institutional shareholders to discuss matters such as strategy, corporate governance, and succession planning. The Remuneration Committee chair is available to discuss remuneration matters. Feedback on these meetings is provided to the board during the course of the year. Separately, the senior independent director is available to meet with shareholders.

The chairs of the board's committees periodically seek engagement with shareholders on significant matters that arise relating to their areas of responsibility and are available for engagement with shareholders at other times.

Periodically, the group runs seminars covering different aspects of its business to provide additional detail to investors and analysts. Relevant presentations, together with all results announcements, Annual Reports, regulatory news announcements and other relevant documents are available on the investor relations section of the company's website.

The group engages with institutional shareholder bodies and proxy advisers during the year.

Annual General Meeting

The directors regard the company's AGM as an important opportunity for shareholders to engage directly with the board.

The board acknowledges the importance of shareholders receiving presentations from the board at the meeting and being able to ask questions on the business of the AGM and the performance of the group.

All voting at general meetings of the company is conducted by way of a poll which results in a fairer and more accurate indication of the views of shareholders as a whole. All shareholders have the opportunity to cast their votes in respect of proposed resolutions by proxy, either electronically or by post. Following the AGM, the voting results for each resolution are published and made available on the company's website.

The company will return to a solely in-person meeting this year. The meeting is scheduled to take place on Thursday 17 November 2022 at 11.00 am.

Principal Board Decision: Climate Risk Scenario Analysis Stress Testing

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

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

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

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

Corporate Governance Report continued
Division of responsibilities

The roles and responsibilities of the chairman and chief executive are separate with clear divisions and set out formally in writing. Each member of the board has a distinct role and is part of the cohesive membership of the board. Each role on the board is discussed below.

Role	Responsibility
Mike Biggs Chairman	• Responsible for leading the board and ensuring it operates effectively • Sets the agenda for meetings and ensures efficient and balanced decision-making and sufficient time for boardroom discussion • Ensures that the board as a whole develops the group's strategy • Ensures the culture in the boardroom promotes effective debate and good governance • Supports the development of the group's culture and sets the tone from the top • Promotes effective engagement between the board, its shareholders and other stakeholders • Leads the annual board evaluation process • Chairs the Nomination and Governance Committee and monitors the board's composition
Adrian Sainsbury Chief Executive	• Executes the group's strategy as agreed with the board • Leads the Executive Committee in the day-to-day management of the group • Ensures the group's business is conducted with the highest standards of integrity aligned with the group's culture • Manages the group's risk exposure in line with board policies and risk appetite • Leads the group's investor relations activities
Mark Pain Senior Independent Director	• Provides a sounding board for the chairman • Provides an alternative channel of communication for shareholders and other stakeholders • Leads the annual meeting of non-executive directors without the chairman present to appraise the chairman's performance
Non-Executive Directors	• Provide constructive challenge and scrutiny of the performance of management • Bring an external perspective, knowledge and experience to the board • Assist in the development of strategy and the decision-making process • Promote the highest standards of integrity and governance • Through membership of the group's committees, determine appropriate levels of remuneration, review the integrity of the financial statements, review succession plans for the board and the Executive Committee and monitor the risk profile of the group • Gather the views of the workforce through attendance at key business events and through employee engagement
Company Secretary	• Ensures the board receives high quality information and in sufficient time • Advises on corporate governance • Facilitates board induction and training • Available to provide advice and services to support all directors • Organises the Annual General Meeting

The chairman and chief executive have various prescribed responsibilities under the Senior Managers Regime overseen by the PRA.

Non-Executive Directors' Independence and Time Commitment

The board has assessed the independence of each of the non-executive directors, in accordance with provision 10 of the Code, and is of the opinion that each acts in an independent and objective manner and therefore, under the Code, is independent and free from any relationship that could affect their judgement. The board's opinion was determined by considering for each non-executive director, among other things:

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

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

The company has complied with the Code provision that at least half the board, excluding the chairman, should comprise independent non-executive directors. Each non-executive director is required to confirm at least annually whether any circumstances exist which could impair their independence. At the start of each board meeting, all directors are reminded of their obligations relating to conflicts of interest and asked to declare any changes since the last meeting. The company secretary mains a register of conflicts of interest.

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

As required by the Code, and in advance of Tesula Mohindra taking on an additional directorship of a non-listed entity and the change of responsibilities at AXA UK for Mark Pain, the board reviewed the proposed roles. It considered the time commitment and whether the roles presented any potential conflicts of interest for the group. In each case following that review, the board was satisfied that none of the proposed appointments would restrict these directors from carrying out their duties and responsibilities as a director of the company, and accordingly it approved the appointments.

Powers of Directors
The directors are responsible for the management of the company. They may exercise all powers of the company, subject to any directions given by special resolution and the articles of association. The directors have been authorised to allot and issue ordinary shares and to make market purchases of the company's ordinary shares by virtue of resolutions passed at the company's 2021 AGM. Further detail regarding these authorisations is set out on page 141.

Appointment and Removal of Directors
The appointment of directors is governed by the company's articles of association, the Companies Act 2006 and other applicable regulations and policies. Directors may be elected by shareholders in general meeting or appointed by the board of directors in accordance with the provisions of the articles of association.

In accordance with the Code, all directors retire and submit themselves for reappointment at each AGM. The board will only recommend to shareholders that executive and non-executive directors be proposed for reappointment at an AGM after evaluating the performance of the individual directors.

Appointment and Reappointment of Directors at the 2022 AGM
Tracey Graham joined the board on 22 March 2022 and will be proposed for appointment at the AGM.

Following performance evaluations undertaken during the year, the board has confirmed that each director continues to be effective and demonstrate commitment to their role. On the recommendation of the Nomination and Governance Committee, the board will therefore be recommending that all other serving directors be reappointed by shareholders at the 2022 AGM, with the exception of Lesley Jones and Bridget Macaskill, who will retire from the board at the conclusion of the AGM.

Induction and Professional Development
On appointment, all new directors receive a comprehensive and personalised induction programme to familiarise them with the group and the regulatory, market, risk and governance framework within which it operates, and to meet any specific development requirements identified during the recruitment process. The company also provides bespoke inductions for directors when they are appointed as a committee chair or member. Induction programmes are tailored to a director's particular requirements, but would typically include site visits, one-to-one meetings with executive directors, the company secretary, senior management for the business areas and support functions and a confidential meeting with the external auditor. Directors also receive guidance on directors' responsibilities and the Senior Managers Regime, together with a range of relevant current and historical information about the group and its business. A key aim of the induction is to ensure that new board members are equipped to contribute to the group and the work of the board as quickly as possible.

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

There is a central training programme in place for the directors, which is reviewed at least annually by the Nomination and Governance Committee. In addition, the chairman discusses and agrees any specific requirements as part of each non-executive director's regular reviews. During the year, training and development activities took a number of forms, including meetings with senior management within the businesses and control functions, in-depth business reviews, attendance at external seminars and dedicated briefings from management and external advisers covering topics such as climate change, regulatory developments and horizon-scanning, corporate governance changes, accounting updates, the regulatory Senior Managers Regime, changes in remuneration regulation and practice, and consumer duty of care, climate risk and ESG.

Induction Programme for Tesula Mohindra, Patricia Halliday and Tracey Graham
All new directors joining the board undertake a comprehensive and tailored induction process which is designed to provide an understanding of the company's business, strategy, culture, governance, management and stakeholders. In relation to the most recent non-executive directors that have joined the board, namely Tesula Mohindra, Patricia Halliday and Tracey Graham, personalised induction programmes have been completed or are ongoing. The chairman and the company secretary design and facilitate the programme and their ongoing training.

For these new non-executive directors, their induction programmes included the following elements:
- one-to-one meetings with the executive directors, covering strategy, operational and financial matters, people, the regulatory framework and culture and values;
- briefings from the company secretary, the investor relations team and the group's external legal advisers on legal and governance matters and shareholder relationships, which are followed up by sessions with the company's corporate brokers;
- meeting with the external audit partner;
- briefings from Executive Committee members and senior managers about their business areas and support functions including risk, corporate development, human resources, IT and cyber security;
- access to reference materials including relevant current and historical information about the group and its business such as financial data, the corporate team and policies supporting our business practices;
- access to board papers through the online board paper portal; and
- site visits to the group's offices with the relevant senior management recommenced following the easing of Covid-19 restrictions.

Additional sessions are tailored to the individual to reflect their previous experience and committee responsibilities:
- in her role as a member of the Audit and Risk Committees, Tesula attended, in an observer capacity, a number of the business risk committees as well as the Group Risk and Compliance Committee;
- as a member of the Risk Committee, Patricia met with relevant subject matter experts on technical risk matters and modelling and attended a number of the business risk committees and Group Risk and Compliance Committee; and
- Tracey, in her role as a member of the Remuneration Committee, met with the Remuneration Committee's advisers.

Regular meetings with the chairman and company secretary were held to monitor progress and ensure that the non-executive directors were receiving all the information they required to fulfil their roles.

Corporate Governance Report continued
Division of responsibilities

In addition to training organised by the group specifically for the board, directors attend a range of other training and development sessions as part of other roles they hold. Training and development records are maintained by the company secretary and reviewed annually by the chairman and each individual director.

Conflicts of Interest

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

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

Culture and Values

The board recognises the importance that culture and values play in the long-term success and sustainability of the group, and the role of the board in establishing, monitoring and assessing culture. The board also acknowledges the importance of individual directors, and the board as a whole, acting with integrity, leading by example and promoting the desired culture.

The ongoing assessment of the contribution of culture and values to the group's long-term success remains a key focus for the board. The board also spends time monitoring, and satisfying itself as to, the alignment of the group's purpose, values and strategy with its culture.

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

- review and discussion by the board of a quarterly culture dashboard, setting out an assessment of culture, and culture and conduct metrics, across the group and each of its divisions from the perspective of customers, people and control;
- regular updates to the board on external guidance and insight on culture, including from regulators and industry bodies, which are used by the board to benchmark the group's approach and plans;
- discussing feedback received from employees across the group in regular employee opinion surveys;
- informal feedback from meetings of non-executive directors with employees in their workforce engagement capacity and attendance at various employee forums;
- updates on activities across the group in relation to culture and values, including employee training programmes, activities in relation to the group code of conduct, the Close Brothers Way, and other initiatives;
- the employee opinion survey included specific questions in the areas of culture and inclusivity, customers and clients and wellbeing;
- following the activities of employee networks considering discrete areas in relation to diversity and inclusion, including gender, ethnic diversity, LGBTQ+, disability, working parents and carers, mental wellbeing and social mobility;
- inclusion of culture-related objectives as part of the executive directors' balanced scorecard assessed by the Remuneration Committee (further detail on which can be found in the Directors' Remuneration Report on page 132) continuing to focus on rewarding and investing in the group's employees, including discussions by the Remuneration Committee in relation to gender pay reporting and a strong focus on employee considerations as part of board decision-making and oversight;
- consideration of culture, behaviour and conduct issues by the Remuneration Committee;
- discussion of cultural and behavioural attributes by the Nomination and Governance Committee as part of regular talent reviews and succession planning;
- reviewing the group's whistleblowing arrangements by which employees can raise concerns in confidence and, if they wish, anonymously;
- the Risk Committee's regular review of a conduct risk dashboard covering an assessment of relevant issues and developments for each of the group's divisions;
- discussing culture and conduct issues arising out of specific activities and programmes being undertaken by the group;
- supporting and participating in training and development programmes for employees; and
- encouraging and enabling eligible employees to participate in schemes to promote share ownership. Eligible employees are able to participate in the group's SAYE and BAYE schemes, which provide cost-effective opportunities for employees to acquire shares in the company.

The activities described above have allowed the board to monitor effectively the group's culture during the year and to ensure that culture continues to be aligned with the group's purpose, values and strategy. In the year, the board and its committees considered the role and impact of culture as part of individual decisions and its oversight of the group's operations. Considerations relating to culture and values have also formed an important part of the board's discussions on the group's strategy, model and purpose, including in the context of M&A opportunities considered by the group.

Whistleblowing

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

Among other things, the board discharges this responsibility through the provision of half-yearly updates by the group head of operational risk and compliance. These updates include:

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

In addition, the board appoints one of the directors to act as the group's whistleblowing champion. This is currently Oliver Corbett. As part of his role, Oliver engages with the group head of operational risk and compliance regularly in relation to whistleblowing matters during the course of the year.

Board and Committee Effectiveness

Annual board and committee evaluation

The board undertakes a formal and rigorous evaluation of its effectiveness and the performance of the whole board, its individual directors and its committees annually.

In accordance with the Code, the board has a three-year cycle for evaluations of its performance. In 2021, the board appointed an external evaluator to undertake the board performance review and the results of that review were set out in full in that Annual Report.

This year, the board undertook an internal evaluation led by the chairman. Each of the directors completed a questionnaire which considered a range of different areas relevant to board effectiveness and corporate governance, including:

- the role and composition of the board;
- strategy;
- oversight of business performance;
- culture, purpose and values;
- management of the work of the board;
- board behaviours;
- the operation of the board during the Covid-19 pandemic (with a reduced focus this year recognising the easing of restrictions and return to the office for employees);
- the work and contribution of the board's committees;
- stakeholder engagement and wider societal impact; and
- risk management.

The results were presented and discussed at the July board meeting. The board also discussed the progression against the key outcomes identified in the 2021 external evaluation, recognising that a continuous approach to improvement will continue to deliver good governance.

The overall conclusion of the evaluation was that the board and its committees remain strong and effective, with clarity as to their role and purpose. In terms of the operation of the board, the evaluation found that the board is chaired well, demonstrating rigour and focus in its work, whilst creating an atmosphere of inclusivity and openness, combined with constructive challenge, which allows for diversity of opinion.

Evaluation Cycle

2021	2022	2023
External evaluation	Internal evaluation Consider external evaluation recommendations	Internal evaluation Consider internal evaluation recommendations

2021 review

Findings

- Increased customer-related data for individual businesses
- Included the annual talent review within a dedicated session of the Nomination and Governance Committee, with all non-executive directors invited to attend
- Additional topics for inclusion in the board's annual training and development programme
- More detailed reports to the board on committee discussion points and decisions

Actions taken

- More detailed information has been provided to the board
- A more frequent talent review by the Nomination and Governance Committee has been introduced and all non-executive directors invited to attend the committee for these sessions
- The additional topics have been incorporated into the annual training and development programme
- Extra time has been incorporated in the board agenda to provide for more detailed reports to the board from the chairs of the committees. Full minutes of all committee meetings are available to all directors

2022 review

Findings

- To reduce the length and density of Board papers
- To consider the number of and frequency of Board meetings
- To provide more detailed reporting on stakeholders and engagement
- The strategy session was well-received and the format worked well. This will be repeated on an annual basis with the Executive Committee
- The board recognised the strategic focus over the last twelve months
- Further suggestions on topical areas for Board training and development were provided for inclusion in the annual training programme

Actions taken

- A detailed review of the findings from the evaluation will be undertaken and a programme scheduled to continue to improve the matters raised

Corporate Governance Report continued
Division of responsibilities

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

Chairman's performance
As in previous years, Mark Pain, in his role as the senior independent director, has led an annual performance assessment process in respect of the chairman. This involves review meetings during the year with the other non-executive directors individually, without the chairman being present, and consultation with the chief executive, group finance director and other members of senior management. The senior independent director subsequently provides feedback to the chairman.

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

Penny Thomas
Company Secretary

27 September 2022

Composition, succession and evaluation

Nomination and Governance Committee Report

Membership
Mike Biggs (Chair)
Oliver Corbett
Lesley Jones
Bridget Macaskill
Mark Pain

The chief executive, group head of human resources and group head of sustainability attend the Committee by invitation.

Meetings
Five scheduled meetings held
100% attendance (see also page 103)

Key Responsibilities
- regularly reviewing the structure, size and composition of the board and its committees, and making recommendations to the board with regard to any changes.
- considering the leadership needs of the group and considering succession planning for directors and senior executives.
- considering the appointment or retirement of directors.
- reviewing the continued independence of the non-executive directors.
- assessing the board's balance of skills, knowledge and experience.
- evaluating the skills, knowledge and experience required for a particular appointment, normally with the assistance of external advisers to facilitate the search for suitable candidates.
- assessing the contribution and time commitment of the non-executive directors.

The Committee's terms of reference are available at www.closebrothers.com.

2022 Highlights
- considering board composition and succession, including the search for additional non-executive directors.
- reviewing talent and executive management succession planning, including oversight of activities to support and encourage the development of a diverse and inclusive talent pipeline.
- the annual review of the board diversity and inclusion policy.
- oversight of the board and committee evaluation process undertaken during the year.
- monitoring sustainability and ESG developments and considering the implications for the group.
- reviewing the TCFD framework and disclosure.

Michael N. Biggs
Chairman

Chair's Overview

Dear Shareholder

On behalf of the board, I am pleased to present the report of the Nomination and Governance Committee for 2022. The report sets out an overview of the Committee's roles and responsibilities and its key activities during the year.

During the year, non-executive succession and recruitment remained an important focus for the Committee as the longer-term succession planning that has been implemented over the past two years culminated in the appointment of Patricia Halliday in August 2021 and Tracey Graham in March 2022. The Committee adopts a proactive and structured approach to succession planning and remained mindful of board changes that will naturally occur in the years ahead, as directors reach the end of their terms, and the need to ensure continuity of knowledge and experience among the board as a whole.

The Committee spent time considering succession planning and talent management for roles below board level. Once again this year, it has monitored activities and initiatives to develop the group's talent pipeline and improve gender and other diversity among senior management. The Committee reviewed the skills and experience of the non-executive directors to ensure that the board continues to be able to perform its role effectively. In light of this and other activities in the year, it recommended to the board that all serving directors with the exception of Lesley Jones and Bridget Macaskill, be reappointed at the 2022 AGM. Lesley and Bridget will retire at the conclusion of the AGM.

The Committee has closely monitored sustainability and environmental, social and governance ("ESG") developments relevant to the group, including consideration of points arising from engagement with shareholders and other stakeholders in these areas. These will continue to be key areas for the Committee and the board as a whole in the coming years.

This year, the annual evaluation of the board and its committees was an internally conducted process and is discussed on page 111.

Corporate Governance Report continued
Composition, succession and evaluation

Overview of Main Activities During the Year
NED succession
Patricia Halliday joined the board on 1 August 2021. The search process for this appointment was described in the Annual Report 2021.

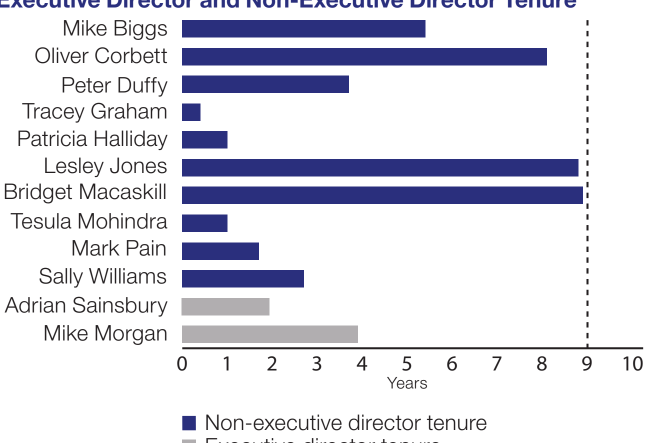
This year, the search continued for a further non-executive director. The Committee oversaw the formal and robust search processes that culminated in the decision by the board to appoint Tracey Graham as an independent non-executive director.

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

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

Following the preparation of a long-list of candidates, a shortlist was selected by the Committee and interviews were held with the involvement of both non-executive and executive members of the board and members of senior management. As part of the process, the Committee considered the other commitments of candidates to ensure that they would have sufficient time to devote to their duties to the group. Following completion of the processes to the Committee's satisfaction and receipt of all necessary regulatory approvals, it recommended Tracey's appointment to the board. The Committee also considered and recommended to the board her appointment to the Remuneration Committee.

Further details on Tracey's experience may be found in her biography on page 96. Tracey brings significant experience from operational roles and financial services and is a strong addition to the existing range of skills and expertise on the board.

Executive Director and Non-Executive Director Tenure


Committee memberships
The Committee will continue to monitor the composition of each of the board's committees. Last year, the committee reviewed the composition of its committees and made a number of changes. The current composition of the committees is as follows:

	Nomination and Governance Committee	Audit Committee	Risk Committee	Remuneration Committee
Mike Biggs[1]	Chair			•
Oliver Corbett	•	Chair	•	
Peter Duffy			•	•
Tracey Graham			•	•
Patricia Halliday		•	•	
Lesley Jones	•	•	Chair	•
Bridget Macaskill	•		•	Chair
Tesula Mohindra		•	•	
Mark Pain	•		•	•
Sally Williams		•	•	

1 Mike Biggs attends all Risk Committee meetings though he is not a member of the committee

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

A summary of the range of skills of the non-executive directors is set out below.

The following chart indicates the number of non-executive directors who possess the broad cross-section of skills set out below on the board.

Skill	Number
Broad financial services	9
Technology/digital/operations	9
Strategy	10
Leadership	9
UK listed company	10
Risk	10
Finance/audit/accounting	10
Regulatory framework	10
ESG	9
People/culture	10

Further information on the background and experience of each of the non-executive directors can be found in their biographies on pages 95 to 97.

All directors are required to undertake the annual PRA fitness and proprietary assessment.

Appointment and reappointment of directors

Tracey Graham joined the Board during the year and will therefore stand for appointment at the AGM.

Prior to the company's AGM each year, the Committee considers, and makes recommendations to the board concerning, the reappointment of directors, having regard to their performance, suitability, time commitment and ability to continue to contribute to the board. Following this year's review in advance of the 2022 AGM, the Committee has recommended to the board that all serving directors, with the exception of Lesley Jones and Bridget Macaskill, be reappointed at the AGM. Lesley and Bridget have served nine years on the board of the company and will retire at the conclusion of the AGM.

Oliver Corbett has served as a director for more than six years. The extension of his term of office has been subject to particularly rigorous review by the Committee, including with respect to his performance, contribution and independence. He did not participate in the discussion on the proposed extension of his term of office. The Committee has noted the significant contribution that he makes, including with respect to the particular responsibilities he undertakes as chair of the Audit Committee. The Committee values the knowledge, experience and continuity that his continued appointment would bring.

Senior management talent development and succession planning

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

During the year, the Committee was updated on the various initiatives in place across the group to support talent development at different levels of the group's operations. Further information in relation to the group's activities in this area can be found on page 38 of the Sustainability Report.

Sustainability

The Committee recognises and welcomes the continuing focus on sustainability and the contribution that business makes to the wider community. On behalf of the board, during the year, the Committee regularly discussed sustainability considerations across a broad range of different areas, including diversity and inclusion and ESG. Further details on each of these areas are set out below.

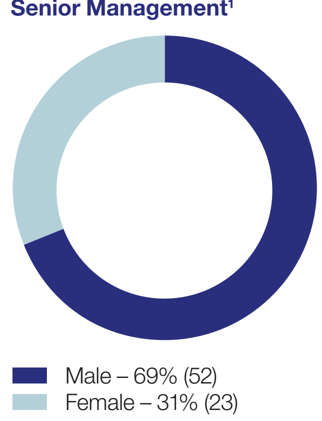
Diversity and inclusion

Diversity and inclusion remain a key focus of the Committee. The Committee recognises the importance of having directors with a range of skills, knowledge and experience and embraces the advantages to be derived from having a diversity of gender and social and ethnic backgrounds represented on the board. Such diversity brings different perspectives and the challenge needed to ensure effective decision-making. Diversity and inclusion have been discussed throughout the year, including in the context of succession planning at both board and senior management level and in the consideration of particular appointments. In addition, the Committee undertook its annual review of the board diversity and inclusion policy, and recommended a number of incremental enhancements. The updated policy was subsequently approved by the board.

Board Diversity

Male – 50% (6)
Female – 50% (6)

Senior Management[1]



Male – 69% (52)
Female – 31% (23)

Workforce Diversity[2]

Male – 56% (2,122)
Female – 44% (1,681)

1 Comprises Executive Committee, Company Secretary and their direct reports
2 Number of employees excluding board and senior management

Corporate Governance Report continued
Composition, succession and evaluation

The Committee considers that the board remains diverse, drawing on the knowledge, skills and experience of directors from a range of backgrounds, but will seek to take opportunities to further improve the diversity of the board, where it is consistent with the skills, experience and expertise required at a particular point in time. The Committee is pleased with the progress made in recent years to ensure that the board comprises individuals from a diverse range of backgrounds. The board supports the recommendations set out in the Parker Review and aims at all times to have at least one director of colour. The group currently meets the target. Diversity and inclusion at board level will continue to be an area of focus for the Committee, particularly as directors reach the end of their nine-year terms in the years ahead and the size of the board reduces.

The Committee takes seriously its role in overseeing the development of a diverse pipeline for senior management positions and the link between diversity and inclusion and delivery of the company's purpose and strategic aims. To that end, it considered updates during the year in relation to diversity and inclusion initiatives across the group. Among other things, the Committee discussed the group's approach to recruitment, training and development programmes for employees, management's work with diversity and inclusion campaign groups, and activities of discrete employee networks including in the areas of gender, ethnic diversity, disability, LGBTQ+, working parents and carers, mental wellbeing and social mobility. The group is a member of Moving Ahead, Mission Include and is a signatory to the Women in Finance Charter, the Race at Work Charter and the Business Disability Forum. The Committee recognises the importance, and the benefits to the group, of developing a diverse pipeline and it will continue to work with senior management in this area.

In line with the Code, see the charts on page 115 for the breakdown of the group's gender diversity. More detail on the group's approach to diversity and inclusion can be found in the Sustainability Report on pages 37 to 38.

Environmental, social and governance

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

Further information on the group's approach to sustainability can be found in the Sustainability Report starting on page 35 of this Annual Report.

Committee Effectiveness

As described in more detail on page 111, an internal evaluation of the effectiveness of the board and its committees was undertaken during the year in line with the requirements of the UK Corporate Governance Code.

The Committee considers that, during the year, it continued to have access to sufficient resources to enable it to carry out its duties and has continued to perform effectively. During the year, the Committee reviewed its terms of reference to ensure that they remain appropriate.

Michael N. Biggs
Chair of the Nomination and Governance Committee

27 September 2022

Audit, risk and internal control

Risk Committee

Membership
Lesley Jones (Chair)
Oliver Corbett
Patricia Halliday
Tesula Mohindra
Sally Williams
Peter Duffy
Bridget Macaskill
Tracey Graham
Mike Pain

The chairman of the board, the executive directors, the group chief risk officer, the group head of compliance and the group head of internal audit attend by invitation.

Meetings
Five scheduled meetings held
100% attendance (see also page 103)

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

2022 Highlights
- further strengthening of the risk infrastructure through the recruitment and development of additional skills and resource.
- enhanced our conduct and compliance operating model to strengthen second line review and improve the quality of information that the Committee and board receive on the effectiveness of our customer processes.
- increased usage of quantitative analysis to support our risk appetite decisioning.
- monitoring the risk posed by cyber crime, with regular updates provided over the course of the year.
- oversight of broader operational resilience, including a review of entity-specific self-assessments, approval of standards adopted for delivery of its important business services, and a data centre failover simulation exercise.
- increased focus on the risks faced by climate change with regular updates received on our progress in developing a regulatorily-compliant climate risk framework.
- challenge on expected credit losses and bad debt as a result of estimated increased stress in an inflationary environment.
- periodic reviews of the Property and Motor businesses covering performance, credit quality in the loan book and notable developments.

The Committee's terms of reference are available at www.closebrothers.com.

Lesley Jones
Chair of the Risk Committee

Chair's Overview
On behalf of the board, I am pleased to introduce the Risk Committee Report for the year ended 31 July 2022. The report sets out an overview of the Committee's key responsibilities and the principal areas of risk upon which we have focused during the year.

Looking back over the last 12 months, I am pleased with the way in which the group has been able to manage risk effectively, and in particular our evolving approach to the new hybrid working patterns that we and the whole banking industry are adjusting to post the pandemic shutdown. We are confident in the strength of our control environment but we will need to keep a close eye in coming months on the people and operational risk aspects of these new working practices. Further detail on our approach to risk and the internal controls for risk management are provided in the Risk Report on pages 74 to 77.

While the immediate risks associated with Covid have now begun to recede, challenges of a different kind have arisen. The advent of war in Ukraine has heightened the UK's geopolitical risk environment, and while our UK-focused model protects us from material direct impacts, we must remain alert to the indirect impact on our customers and wider stakeholders, as well as disruption to key suppliers and third parties.

Turbulence in the UK political environment and the exceptional challenge posed by the trajectory for inflation and increased cost of living, predominantly driven by a continued rise in energy costs, pose additional risks for the group. The Committee has received regular updates on the risk areas most impacted: credit risk, where bad debt is likely to rise in the short to medium term; interest rate risk, where the benefit of embedded optionality in some of our lending businesses decreased as base rates increased; and operational risk, given the traditionally strong linkage between recessionary economic cycles and instances of fraud as well as the challenge to operational capacity should bad debt case volumes increase.

The group is well prepared to face into each of these challenges. We have for some time been preparing for the next credit downturn and continue to refine our business-tailored playbooks to ensure that we are ready for a range of economic scenarios.

Corporate Governance Report continued

Audit, risk and internal control

We also continue to progress against the broader regulatory agenda, in particular with regard to climate risk, conduct risk, new Consumer Duty regulation, operational resilience, cyber risk and outsourcing/third party risk. The Committee has received regular updates on each of these areas and I remain confident that we are well positioned to meet the challenges and uncertainties that each of these will pose.

In addition, the Committee has regularly reviewed reports from the risk and compliance functions on the effectiveness of the processes that support the management and mitigation of both principal and emerging risks. The board also engages in this process through its annual assessment of the principal risks and uncertainties that might threaten its business model, future profitability, solvency or liquidity. A summary of these principal and emerging risks and uncertainties is set out on pages 78 to 92.

Membership and Meetings

The Committee comprises all Close Brothers Group independent non-executive directors and myself as chair.

Six meetings were held during the year (five scheduled and one ad hoc). Full details of attendance by the non-executive directors at scheduled meetings are set out on page 103.

Members of the Committee are regularly joined by the chairman of the board, the executive directors, the group chief risk officer, the group head of compliance and the group head of internal audit, all of whom receive standing invitations to attend.

Other executives, subject matter experts, risk team members and external advisers are invited to attend the Committee from time to time as required, to present and advise on reports commissioned.

I continue to meet frequently with the group chief risk officer and his risk team in a combination of formal and informal sessions, and with senior management across all divisions of the group, to discuss the business environment and to gather their views on emerging risks, business performance and the competitive environment.

Committee Effectiveness

As described in more detail on page 111, an evaluation of the effectiveness of the board and its committees was undertaken during the year in line with the requirements of the UK Corporate Governance Code. The results confirm that the Committee is operating effectively. The Committee considers that during the year it continued to have access to sufficient resources to enable it to carry out its duties and has continued to perform effectively.

Activity in the 2022 Financial Year

The mandate and scope of the risk function continues to evolve, with the three lines of defence model now well established and a mature and effective risk management framework in place. Over the course of the last year, the risk infrastructure has been strengthened further through the recruitment and development of additional skills and resource. The fair treatment of customers and good outcomes has long been important to the group and as the regulatory agenda continues to deepen in this area, we have responded by enhancing our conduct and compliance operating model to strengthen second line review and improve the quality of information that the Committee and board receive on the effectiveness of our customer processes. The Committee believes strongly in the value of good management information and as the risk framework has continued to mature, we have seen increased usage of quantitative analysis to support our risk appetite decisioning. This has allowed us to understand our portfolios at an increasingly granular level and to anticipate areas where controls and limits may be appropriate for tightening or growth.

The group's use of finance and risk models has evolved further with the continued development of our credit and impairment models. Following the submission of our IRB application in the previous financial year, we continue to work closely with the PRA as we progress through the regulatory approval process. Our model risk framework and supporting model governance infrastructure are operating well and in line with regulatory expectations. Notwithstanding this, we continue to refine our processes and approach, both to reflect the increasing maturity of our model suite and the awareness/understanding of the board and senior management. We are also closely monitoring developments in the regulatory landscape to ensure we remain aligned with expectations in this area. Given recent developments in the macroeconomic environment, we are also looking closely at the behaviour of our models to monitor their performance as we move through a more testing economic cycle.

The Committee also remains alert to the risk posed by cyber crime, with regular updates provided over the course of the year. The group continues to invest in its detection and monitoring capabilities and is making good progress with its cyber maturity plan. In addition, the Committee has raised the bar on the standards the group needs to be able to demonstrate on its broader operational resilience. This has included a review of entity-specific self-assessments and approval of standards adopted for delivery of its important business services. In November, the Committee reviewed the results of a data centre failover simulation exercise in the Bank which further informed the group's disaster recovery strategy.

As the threat of climate change increasingly dominates our daily lives, we have increased our Committee focus on the risks we as a group will face and have received regular updates on our progress in developing a regulatorily-compliant climate risk framework. Specifically, these have included the evolution of credit risk climate MI and reporting, and a review of outputs from the Bank's inaugural long-term scenario analysis exercise which focused on our Motor and Asset and Leasing portfolios. The Committee heard plans for the group's first TCFD report which is included in our Annual Report this year (see pages 42 to 57. While we have made strong progress as a firm in building out our risk management approach to climate risk, we know that we, along with the broader industry, have much more to do and we remain committed to enhancing our disclosures over the coming years.

Over the course of 2022, the Committee has also continued to exercise robust oversight of Novitas as it navigates the legal, regulatory and commercial challenges of wind down whilst continuing to deliver good customer outcomes. This has included oversight of the assessment of customer outcomes and relevant remediation where necessary and ongoing review of the effectiveness of local and group-level risk and control governance, together with challenge and discussion on both the financial and non-financial risks in the business.

Remuneration

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

Looking Ahead to 2023

Given the forecast macro environment, and in particular the threat posed by inflation and higher interest rates, the year ahead promises to be another challenging one, with a need to balance the Committee's time between management of emerging threats and fulfilment of its normal duties.

Notwithstanding, we will not lose sight of the longer-term focus areas we have identified for further focus and challenge in FY2023, namely:

- Review and refinement of the Bank's credit playbooks, noting they may need to be utilised as we move through the economic cycle.
- Greater use of scenario analysis and other quantitative analysis tools and techniques to support the modelling of potential financial impacts.
- Continued oversight of the group's evolving climate risk framework, including review and challenge of the next stage of long-term scenario analysis.
- Enhancement of our conduct risk framework with a view to ensuring the group continues to ensure positive customer outcomes.
- Review and challenge of the firm's plans to address new Consumer Duty requirements.
- Continued focus on the group's operational resilience framework, and the planned maturation of its cyber risk framework.
- As part of the IRB programme, continued review and assessment of the group's modelling capabilities, including the further development of our models strategy.

Finally, I extend my thanks to my fellow members of the Risk Committee, whose engagement and contribution have been of great support to me over the past 8 years as Chair. At the AGM I will be stepping down from both the board and as Chair of the Risk Committee, to be replaced by Patricia Halliday. Patricia brings with her substantial experience in similar roles and I am sure the Committee will benefit from this in the years to come.

Lesley Jones
Chair of the Risk Committee

27 September 2022

Corporate Governance Report continued
Audit, risk and internal control

Audit Committee

Membership
Oliver Corbett (Chair)
Lesley Jones
Patricia Halliday
Tesula Mohindra
Sally Williams

Meetings
Five scheduled meetings held
100% attendance (see also page 103)

Key responsibilities
- monitoring the integrity of the financial statements and any other formal announcements relating to the group's financial performance;
- reviewing the annual report and accounts including significant financial reporting judgements and recommending to the Board whether it is fair, balanced and understandable;
- reviewing and monitoring the group's internal controls and the effectiveness of the group internal audit function;
- monitoring and reviewing the effectiveness and quality of the external audit process and the independence of the external auditor;
- recommending the appointment, re-appointment and removal of the external auditor of the group or any of its subsidiary companies, and of their fees;
- reviewing the findings of the audit with the external auditors; and
- reviewing and challenging the group's Recovery and Resolution Plans.

The Committee's terms of reference are available at www.closebrothers.com.

2022 highlights
- discussing and challenging key accounting judgements made by management, with a particular focus on expected credit loss ("ECL") provisioning, and revenue recognition;
- regular meetings with key business areas to review and challenge;
- assisting with the determination of the appropriateness of adopting the going concern basis of accounting and in performing the assessment of the viability of the group;
- reviewing, challenging and approving the annual internal audit plan and internal audit reports; and
- overseeing the relationship with PricewaterhouseCoopers LLP and evaluating its independence, objectivity, qualifications and effectiveness.

Oliver Corbett
Chair of the Audit Committee

Chair's overview
The work undertaken by the Committee to discharge its responsibilities is set out below.

During the year the Committee has again had a full agenda and continued to focus on its principal roles and responsibilities. A key area of discussion over the past 12 months has been on the level of ECL provisioning, including assessing the impact of the war in Ukraine and of increasing inflation especially energy costs on our customer base, particularly within the bank. There has been a review of the BEIS proposals on audit reform and on the increasing disclosure relating to climate change. We have focused on challenging the key accounting judgements across the group, assessing the integrity and fair presentation of the group's external financial reporting and reviewing the maintenance and effectiveness of the group's internal control framework. The Committee monitored and reviewed the activities and performance of internal and external audit, along with oversight of non-audit services provided by the external auditor.

Further details of work in respect of these and other key areas are set out in the sections below.

The Committee members bring a diverse range of experience in finance, risk, control and business, with particular experience in the financial services sector. The board has confirmed that the members of the Committee have the necessary expertise required to provide effective challenge to management. The board also considers that I have appropriate recent and relevant experience. The qualification for each of the members is outlined on pages 95 to 97.

In addition to the Committee members, standing invitations are extended to the chairman of the board and all other directors. The Group Financial Controller, the Group Head of Operational Risk and Compliance, the Group Chief Risk Officer and the Group Head of Internal Audit attend meetings by invitation. I meet with this group as well as the Group Finance Director ahead of each meeting to agree the agenda and to receive a full briefing on all relevant issues.

Invitations to attend are extended to other members of management to brief the Committee on specific issues as necessary. The external auditor attends each meeting and I had regular contact with the lead audit partner during the year. The Committee holds private sessions with internal and external audit following each meeting of the Committee, without members of management.

Committee Effectiveness

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

Activity in the 2022 Financial Year

Key accounting judgements

The Committee spent considerable time reviewing the interim report and Annual Report. The Committee discussed and challenged the key areas of accounting judgement taken by management in preparing the financial statements and the external auditor's work. This also included consideration of the internal controls over financial reporting. The Committee noted that there were no new standards, or amendments to standards, relevant to the group that had become effective for the reporting period.

The key judgement areas were largely unchanged from the prior year, reflecting the group's adherence to its business model and consistency of its approach to financial reporting. A more pessimistic economic outlook has led to a particular focus by the Committee in challenging expected credit loss provisioning with management.

The main areas of focus are outlined below. Each of these matters was discussed with the external auditor and, where appropriate, have been addressed in the external auditor's report.

IFRS 9

Given the materiality of the group's loan book, ensuring that the group's ECL models and related IFRS 9 judgements and disclosures are appropriate, remains a key priority for the Committee. Regular updates were provided to the Committee throughout the year.

The Committee challenged the level of provisions held by the group, and the judgements and estimates used to calculate these provisions. Particular focus was given to:

- the August Monetary Policy Committee Report sets out the economic analysis and inflation predictions which will form part of the decision-making process for future interest rate decisions
- the ongoing use and approval of model adjustments, and the evolution of these adjustments as the impact of Covid-19 moderates
- impact of increasing interest rates and inflation on the group's client base and the extent to which models are able to capture the risks, such as inflation.
- the high level of estimation uncertainty in setting forward-looking macroeconomic assumptions; and associated weights;
- management's model enhancement plans;
- provisioning levels for Novitas and key assumptions.

Credit risk and provisions disclosures were discussed to ensure they were clear and gave a transparent articulation of the group's credit risk profile, and key drivers of the expected credit loss charge. In the next financial year, the Committee will continue to monitor IFRS 9 provisions and disclosures with a focus on a deterioration in the broader financial outlook.

Revenue recognition

The Committee reviewed management's approach to revenue recognition, highlighting the key areas where judgement is required across interest, fee and commission income. The Committee noted the consistency of approach with prior years and concluded that revenue recognition for each of the group's key businesses is appropriate.

Other Financial Reporting and Control

Going concern and viability statement

The Committee assisted the board in determining the appropriateness of adopting the going concern basis of accounting and in performing the assessment of the viability of the group. The Committee reviewed a paper from management in support of the going concern basis and the longer-term viability of the group.

The Committee assessed the proven stability of the group's business model which is supported by a diverse portfolio of businesses, resilience when subjected to internal stress testing, and a strong capital base with adequate access to liquidity.

The Committee discussed the group's principal risks which may affect future development, performance, and financial position. The Committee considered projected profitability and capital ratios, over a period of three years; in addition it considered changes in the economic, technological and regulatory environment.

Overall the Committee concluded that it remained appropriate to prepare the accounts on a going concern basis, advised the board that three years was a suitable period of review for the viability statement, and recommended the viability statement to the board for approval, set out on page 94.

Fair, balanced and understandable

On behalf of the board, the Committee reviewed the financial statements as a whole to assess whether they were fair, balanced and understandable. The group's performance was reviewed in light of the risks associated with current economic environment and relative to peers. The Committee discussed and challenged the balance and fairness of the overall report with the executive directors and considered the views of the external auditor. During this review the Committee carefully considered the clarity and coherence of disclosures, in particular in respect of the impact of ECL's and climate risk.

The Committee considered the overall presentation of the financial statements and was satisfied that the Annual Report could be regarded as fair, balanced and understandable and proposed that the board approves the Annual Report in that respect.

Risk Management and Internal Controls

In conjunction with the Risk Committee, we have satisfied ourselves that the group's internal control framework is effective and adequately aligned with the groups risk profile. We are satisfied that the internal controls in relation to the financial reporting process is appropriately designed and effective in identifying risks faced by the group. Full details of the internal control framework are given within the risk management section on pages 76 and 77.

At each meeting we receive a report from the Head of Internal Audit, and we review major findings into control weaknesses and management's response. We actively follow-up with management the rectification of identified control weaknesses.

Impairment of Goodwill and Intangible Assets Acquired on Acquisition

The Committee was presented with the annual goodwill impairment review and was satisfied that there were no impairment indicators. The Committee challenged the appropriateness of the assessment, including discussing the outcome with the group's auditor, and concluded the approach was reasonable.

Whistleblowing champion

I act as the group's Whistleblowing Policy champion. The group continues to place a high priority on employees' understanding of the process to enable them to speak out with confidence when appropriate. Further information on the board's activities in this area can be found on page 110 of the Corporate Governance Report.

Restoring trust in audit and corporate governance

The committee has, and will continue to, evaluate the impact of the Department for Business, Energy and Industry Strategy ("BEIS") consultation and resulting proposals for restoring trust in audit and corporate governance on the group.

Corporate Governance Report continued
Audit, risk and internal control

Other policies
The Committee has also reviewed and approved the approach to hedging for share awards and the policy for the provision of non-audit services by the external auditor. It considered that the group's tax policy continued to be appropriate.

Internal Audit
The Committee reviewed, challenged, and approved the annual internal audit plan and amendments made during the year. It received regular reports on internal audit activities across the group detailing areas identified during audits for strengthening across the group's risk management and internal control framework. 31 audits were distributed to the Committee during the financial year. All audits were summarised at meetings of the Committee together with an update on the status of issues identified by internal audit.

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

The Committee completed its annual review of the effectiveness of the internal audit function and its level of independence. The evaluation for the year under review was completed internally and supported by feedback from stakeholders across the group. The internal audit function was found to be working to all applicable internal auditing standards.

In addition to reviewing the internal audit function's effectiveness, the Committee assessed the level of internal audit resource and the appropriateness of the skills and experience of the internal audit function. I was also involved during the year in the recruitment of a new head of the group's internal audit function and ensured that during the period prior to his starting in role the function performed in line with expectations.

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

PwC has been auditor to the group since August 2017. Mark Hannam stood down as the group's lead audit partner in March 2022 at which time Heather Varley replaced him. Either Heather or Mark attended all meetings of the Committee.

During the year the Committee reviewed the external audit plan as well as the resulting findings. Principal matters discussed with PwC are set out in their report on pages 144 to 150.

The Committee assesses the independence and objectivity, qualifications and effectiveness of the external auditor on an annual basis as well as making a recommendation on the reappointment of the auditor to the board. This year our evaluation focused on the following key areas:
- the quality of audit expertise, judgement and dialogue with the Committee and senior management;
- the independence and objectivity demonstrated by the audit team;
- change of PwC audit partner and ensuring effective handover
- the senior leadership of the audit team; and
- the quality of service including consistency of approach and responsiveness;

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

Statutory Audit Services Compliance
The company confirms compliance with the provisions of the Statutory Audit Services for Large Companies Market Investigation (Mandatory Use of Competitive Tender Processes and Audit Committee Responsibilities) Order 2014 for the year to 31 July 2022.

Subject to shareholder approval, PwC will undertake the audit of the company and the group for the year ended 31 July 2023. In conformance with the required rules, provisions, and good corporate governance in respect of audit tendering and rotation the group will be required to tender for the external audit in the 2027 financial year end. The Committee will consider in due course its plan for the external auditing tendering ahead of 2027 but there is no mandatory rotation point.

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

The group's policy is that permission to engage the external auditor will always be refused where there is an actual or potential threat to independence. However, the Committee will give permission where the service complies with the group policy and where:
- work is closely related to the audit;
- a detailed understanding of the group is required; and
- the external auditor can provide a higher quality and/or better value service.

The regulatory cap on the annual value of non-audit services of 70% of the average of three years' audit fees has become mandatory, following the fourth financial year following the change of auditor.

During the year, total audit fees amounted to £2.9 million (2021: £2.6 million) while total non-audit fees including those relating to services required by legislation amounted to £0.8 million (2021: £0.7 million) representing 28% (2021: 27%) of the current year audit fee. This includes non-audit services not required by legislation of £0.3 million (2021: £0.3 million), 10% (2021: 12%) of the audit fee, predominantly relating to the review of the group's interim financial statements and funding assurance work. The Committee was satisfied that these fees, individually and in aggregate, were consistent with the non-audit services policy and did not believe that they posed a threat to the external auditors' independence.

Oliver Corbett
Chair of the Audit Committee

27 September 2022

Directors' Remuneration Report

Remuneration Committee

Membership
Bridget Macaskill (Chair)
Mike Biggs
Peter Duffy
Lesley Jones
Mark Pain
Tracey Graham

The chief executive, group head of human resources and the head of reward and HR operations also attend meetings by invitation.

Meetings
Five scheduled meetings held
Two additional ad-hoc meetings held
100% attendance (see page 103)

Key responsibilities
- Determine the overarching principles and parameters of the Remuneration Policy on a group-wide basis.
- Establish and maintain a competitive remuneration package to attract, motivate and retain high-calibre executive directors and senior management across the group.
- Align senior executives' remuneration with the interests of shareholders.
- Promote the achievement of the group's annual plans and strategic objectives by providing a remuneration package that contains appropriately motivating targets that are consistent with the group's risk appetite.
- Provide oversight of all the group's remuneration policies and practices, to ensure fair and equitable pay for all employees.

This report sets out our approach to remuneration for the group's employees and directors for the 2022 financial year.

The Directors' Remuneration Report is divided into three sections:

Section	Pages
Annual Statement from the Remuneration Committee Chair	Pages 123 to 125
Directors' Remuneration Policy	Pages 126 to 128
Annual Report on Remuneration	Pages 129 to 140

Bridget Macaskill
Chair of the Remuneration Committee

Annual Statement from the Remuneration Committee Chair

On behalf of the board and the Remuneration Committee, I am pleased to present the Directors' Remuneration Report for the 2022 financial year. This sets out our pay decisions for the year, including how we implemented the Remuneration Policy approved by shareholders at the 2021 AGM.

How the group performed during the 2022 financial year

Close Brothers has a well-established business model that enables us to support our clients and deliver strong returns for shareholders in a wide range of market conditions. Our model is focused on sustainable lending, with a strong net interest margin and disciplined underwriting, supported by a clearly defined risk appetite and a prudent approach to managing our business and financial resources.

As described in the Chairman's and Chief Executive's Statements, in 2022 the group performed solidly despite a backdrop of continued market uncertainty. Adjusted operating profit was down 13% to £234.8 million (2021: £270.7 million) and we achieved a return on opening equity ("RoE") of 10.6% (2021: 14.5%). The group maintained strong capital, funding and liquidity positions. The common equity tier 1 ("CET1") capital ratio decreased to 14.6% (2021: 15.8%), but remained well ahead of the applicable minimum regulatory requirements.

The Banking division performed well reflecting continued good demand across our lending businesses, with loan book growth of 5%, and strong net interest margin of 7.8%. Adjusted operating profit in the Banking division increased 7% to £227.2 million (2021: £212.5 million). While our market-facing businesses were negatively impacted by volatility and falling markets, we continued to attract client assets in CBAM, with net inflows of 5%. CBAM's adjusted operating profit was down 8% to £21.7 million (2021: £23.7 million). Winterflood's performance was adversely impacted by cyclicality in the trading business, with a market wide slowdown in trading activity and periods of volatility in falling markets. Winterflood's operating profit was down 77% to £14.1 million (2021: £60.9 million), following the exceptionally strong trading performance in the prior year.

Following the group's solid financial performance in the year and strong capital position, and to reflect our continued confidence in business model, the board is proposing a final dividend of 44.0p per share. This will result in a full-year dividend per share of 66.0p (2021: 60.0p), returning to the pre-pandemic level.

Directors' Remuneration Report continued

The table below sets out an overview of our one-year and three-year key performance indicators which provide context for the Remuneration Committee's decisions taken this year.

Key performance indicator	2022	2021
Return on opening equity	**10.6%**	14.5%
Average return on opening equity over three years[1]	**11.0%**	12.7%
CET1 capital ratio	**14.6%**	15.8%
Adjusted operating profit (£ million)	**234.8**	270.7
Adjusted earnings per share growth over three years[1]	**(18.4)%**	0.1%
Distributions to shareholders (£ million)[2]	**98.4**	89.5

1 For the three-year periods ended 31 July 2022 and 31 July 2021.
2 For the 2022 financial year, interim dividend paid and proposed final dividend.

Executive director remuneration outcomes for the 2022 financial year

Last year, as required by new regulations, we introduced a new capital requirement directive V ("CRD V") compliant Remuneration Policy (the "Policy"). I am pleased that this was widely supported by our shareholders, receiving an 84.2% vote in favour at the AGM. The 2021 Policy included much-reduced maximum incentive opportunities to reflect requirements that the group adopt the maximum 2:1 variable: fixed pay cap required for Level 3 banks under CRD V. Under the new Policy, the maximum opportunities for both directors under the annual bonus and long-term incentive plan ("LTIP") are 95% and 125% of salary respectively.

In determining executive director outcomes for the year, which are the first under the new Policy, the Remuneration Committee considered the need to maintain a fair balance between the interests of all our stakeholders, while rewarding the management team for delivery of good performance, including on culture and conduct aspects.

For 2022, the overall bonus outcome was 46.7% of maximum for both directors. The financial element of the executive directors' bonus, which is linked to RoE and the CET1 capital ratio, paid out at 41.1% of maximum. Performance against the strategic scorecard was assessed at the year end, and an outcome of 55% of maximum was approved for this element. This scorecard outcome reflects progress against key strategic, people, customer and risk priorities, including completion of a strategic review of the group, maintaining good employee engagement, delivering strong customer satisfaction and improving on risk objectives. Full details, including detail on performance against the balanced scorecard, is set out on pages 131 to 133.

The 2019 LTIP vested at 27.5% of maximum. The award was based on adjusted EPS growth, average RoE and a scorecard of risk management objectives assessed over the three-year performance period. Unfortunately, neither the EPS nor the RoE financial metrics achieved the threshold target, due to the difficult conditions following the pandemic, which have depressed our performance over the past three years. Adjusted EPS growth over the three-year period declined by 18.4% against a performance threshold of 10%, while average annual RoE over the performance period was 11.0% against a performance threshold of 12%. The risk management objectives element scored 27.5% out of a maximum 30%, based on executives demonstrating prudent capital management and strong performance in risk, compliance and controls and capital management across the period.

Although acknowledging that there have been a number of headwinds over which our executives had no control, the Committee decided after careful consideration that the risk management objectives, and therefore the LTIP outcome, should be reduced by 25% to align better with the returns our shareholders experienced over the three years of the vesting period. The total award that will vest is therefore 20.6%.

The Committee decided to apply no reduction to the annual bonus outcome as it considered that the outcome appropriately reflects performance achieved in the year, with significant progress made in key strategic areas. While continued pressure on the share price over the last year is disappointing, the Committee believed it appropriate to reflect this through the discretionary LTIP adjustment, rather than an adjustment to the annual bonus. Both the LTIP and annual bonus vesting outcomes are lower than those achieved last year, which the Committee judged as appropriate in light of group performance.

Proposed implementation of the Policy for the 2023 financial year

For the 2023 financial year, the Committee has decided to apply no increase to the executive directors' salaries. There will be no change to the incentive opportunities available to the executive directors, which will remain at 95% and 125% of salary for both directors under the annual bonus and LTIP respectively. There will also be no change to the level of pension provision, which will remain aligned with the wider workforce at 10% of salary.

Over the last year, the Committee has reviewed the performance metrics in the annual bonus and LTIP to ensure they continue to reflect the group's strategy, incentivise outperformance and reflect group objectives around risk and conduct.

The Committee determined that the current metrics in the annual bonus remain appropriate, and therefore the annual bonus for the 2023 financial year will continue to be based on RoE (40%), CET1 (20%) and a strategic scorecard (40%). The Committee decided to retain the current target range on the RoE and CET1 measures for 2023 (10% to 18% and 12.6% to 15.6% respectively). The Committee has also refreshed the strategic scorecard to align with the forward-looking objectives for the group. Detail on performance against the scorecard will be provided in next year's report. Further detail on the targets for 2023 is set out on page 135.

The Committee also decided to retain the current balance of metrics in the LTIP, and so the award will continue to be based on average three-year RoE (35%), adjusted EPS growth (35%) and risk management objectives (30%). Further detail on the targets for this year's award is set out on page 136.

Environmental, social and governance metrics

The Committee is conscious that shareholders are increasingly expecting environmental, social and governance measures ("ESG") to be embedded within remuneration frameworks for senior management. As part of the review of performance objectives for 2023, the Committee considered how ESG is reflected within our incentives, and whether there are additional ESG metrics that should be introduced. Customer, people and risk metrics already feature in the strategic scorecard for directors in the annual bonus, and risk management objectives, including sustainability, form a significant part of the LTIP. Close Brothers is currently reviewing its broader ESG strategy, and the Committee expects to reflect any key outputs from that in the remuneration framework in the 2023 financial year and future years.

Group-wide employee remuneration

The Committee is also responsible for determining the reward practices on a group-wide basis. As in previous years, the Committee continues to direct effort into reviewing and approving the overall remuneration for all levels of employees across the group. For further details, please see the Remuneration Committee activity table on page 129.

During the 2022 financial year, the average salary increase for the general population was 5.7%, which included a 3% mid-year salary increase for all Banking employees, excluding executive directors and group Executive Committee members. At the start of the 2023 financial year a further average salary increase of 4.3% was awarded across the group with base salary uplifts focused on more junior staff. These increases reflect the continuing pressures on wages and the cost of

living, driven by the current inflationary environment and ensures those most susceptible to the economic environment are best protected. The group continues to pay all staff at or above the national living wage, which is in excess of the national minimum wage.

During the year, the Committee also reviewed the approach to remuneration within group subsidiaries Close Brothers Asset Management ("CBAM") and Winterflood Securities ("WINS") to ensure that the remuneration policies within each comply with requirements under the new Investment Firms Prudential Regime ("IFPR") and the associated MIFIDPRU remuneration code. While the executive directors are identified as Material Risk Takers under the MIFIDPRU code for both CBAM and WINS, no changes to their remuneration will be required given the existing directors' remuneration policy reflects the necessary remuneration features. As WINS is an Extended firm for MIFIDPRU purposes, changes have been made to the remuneration for some affected staff to reflect new deferral and payment in instruments requirements.

Diversity and inclusion

The FCA has introduced new listing rules that include reporting requirements around diversity. While these will only take effect for Close Brothers for the 2023 financial year, with the first mandatory comply-or-explain reporting in next year's report, Close Brothers currently meets the requirements that more than 40% of the board are women and one board member is from a minority ethnic background.

This year the Remuneration Committee has again overseen the publication of our gender pay gap report, which is published on our website. We are confident that men and women are paid equally for performing equivalent roles across our businesses and are committed to taking steps to reduce our gender pay gap, which is primarily driven by a lower proportion of women in senior and front office roles where market rates are higher. Our focus on closing the gender pay gap is through increasing female representation at all levels by setting representation targets and supporting development programmes.

Whilst gender pay provides the most direct link to remuneration, our broader focus on inclusion ensures we prioritise fairness and equality for all colleagues. We are signatories of the Social Mobility Pledge and of the Race at Work Charter to help direct our actions around race equality.

Objectives to support inclusion are linked to executive pay through risk management objectives within our executives' long-term incentive plan. We are pleased that our employees continue to feel that we are an inclusive organisation, as demonstrated by responses in the employee opinion survey, and we continue to push forward and implement activities and initiatives in this sphere to ensure we are building an inclusive environment where all our colleagues feel proud to work for us.

Concluding remarks

I would like to again thank shareholders who supported our new Remuneration Policy at the 2021 AGM. Though passed with a strong vote in favour, I am conscious that some shareholders felt unable to support our proposals. The Committee undertook significant shareholder consultation in advance of the new Policy and we remain committed to ongoing dialogue with our shareholders on remuneration matters. I hope that you will find this report on the directors' remuneration accessible and clear, and that you agree with the decisions we have taken, which balance the interests of all stakeholders.

Finally, I would like to thank my fellow members of the Remuneration Committee for their commitment and engagement in the last year. After nine years on the Board of Close Brothers, at the AGM, I will be stepping down from the Board and as Chair of the Remuneration Committee.

Bridget Macaskill
Chair of the Remuneration Committee

27 September 2022

Directors' Remuneration Report continued

Directors' Remuneration Policy

The directors' Remuneration Policy was approved by shareholders at the 2021 AGM on 18 November 2021. It is intended that the policy will apply for three years up to the 2024 AGM, unless amendments are required, in which case further shareholder approval will be sought.

The policy can be read in full on pages 100 to 110 of the 2021 Annual Report, which is available on our website at www.closebrothers.com. A summary of the main elements of the Remuneration Policy is set out in the table below.

Information on how the Remuneration Policy will be applied in 2023 is included in the Annual Report on Remuneration section, on pages 135 to 136.

Remuneration Policy for executive directors

Element and how it supports the group's short-term and long-term strategic objectives	Operation and maximum payable	Performance framework, recovery and withholding
Base salary Attracts and retains high calibre employees.	Reflects the individual's role and experience and external factors, as applicable. Paid monthly in cash. Increases will generally not exceed those for the broader employee population unless there is a change in role, responsibility or the regulatory environment.	Not applicable.
Benefits Enables the EDs to perform their roles effectively by contributing to their wellbeing and security. Provides competitive benefits consistent with the role.	Benefits may include private medical cover, health screening, life assurance, income protection cover and an allowance in lieu of a company car. Other benefits may also be provided in certain circumstances, such as relocation expenses.	Not applicable.
Pension Provides an appropriate and competitive level of personal and dependant retirement benefits.	EDs receive a level of pension contribution (in the form of a cash allowance or contribution to a pension arrangement) that is in line with the wider workforce.	Not applicable.
Annual bonus Rewards good performance. Motivates executives to support the group's goals, strategies and values over both the medium and long term. Aligns the interests of senior employees and executives with those of key stakeholders, including shareholders, and increases retention for senior employees, through the use of deferrals.	60% of the annual bonus will usually be deferred into shares (in the form of nil cost options or conditional awards) and will usually vest in equal tranches over three years, subject to remaining in service. The remaining annual bonus will be delivered immediately in cash. The annual bonus is capped at 95% of base salary. At the Remuneration Committee's discretion, dividend equivalents will usually be paid in cash or additional shares when the deferred awards vest.	Individual bonuses are determined based on both financial and non-financial performance measures in the financial year, including adherence to relevant risk and control frameworks. At the Remuneration Committee's discretion, an element of the bonus may also be based on personal performance. At least 60% of the annual bonus opportunity will be based on financial performance. The non-financial element will be determined based on performance measured against a balanced scorecard, including (but not limited to): • strategic objectives; and/or • people and customer metrics; and/or • risk, conduct and compliance measures. The Remuneration Committee has overriding discretion to adjust vesting outcomes where it considers appropriate. The cash element is subject to clawback and the deferred element is subject to malus and clawback conditions.

Element and how it supports the group's short-term and long-term strategic objectives	Operation and maximum payable	Performance framework, recovery and withholding
Long-Term Incentive Plan Motivates executives to achieve the group's longer-term strategic objectives and aligns their interests with those of shareholders. Aids the attraction and retention of key staff.	Awards are made in the form of nil cost options or conditional awards and usually vest after three years subject to achieving performance conditions and remaining in service. On vesting, awards will usually be subject to a further two-year post-vesting retention period before options can be exercised by, or conditional awards paid to, EDs. EDs are eligible to receive an annual award of shares with a face value of up to 125% of base salary, excluding dividend equivalents.	Individual awards vest based on performance against both financial and non-financial performance measures. At least 70% of the award will be based on performance against financial measures. The remainder will be based on non-financial performance. The Remuneration Committee has overriding discretion to adjust vesting outcomes where it considers appropriate. LTIP awards are subject to malus and clawback provisions.
Shareholding requirement Aligns the interests of executives with those of shareholders.	EDs are expected to build and maintain a holding of company shares equal to at least 200% of base salary. EDs will normally be expected to maintain a minimum shareholding of 200% of base salary for the first two years after stepping down as an ED.	Not applicable.
Other	The group will pay legal, training and other reasonable and appropriate fees, including any relevant tax liabilities, incurred by the EDs as a result of doing their job. The EDs are also permitted to participate in the group-wide Save As You Earn schemes and Share Incentive Plan.	
Legacy arrangements	Share awards granted under the previous Remuneration Policy will continue to vest and be released on their usual timescales. These awards to executive directors are also subject to a three-year performance period and usually post-vesting to a two-year retention period. The single figure for 2022 includes values relating to the 2019 LTIP grant.	
Additional details on the directors' Remuneration Policy	The Remuneration Committee has discretion to amend performance conditions in appropriate circumstances, provided that the performance condition is not made either materially easier or materially more difficult to achieve. The Committee also has discretion to adjust vesting outcomes where it considers the application of formulaic performance conditions to be inappropriate. The Remuneration Committee may make minor amendments to this Policy (for regulatory, exchange control, tax or administrative purposes, to correct clerical errors or to take account of a change in legislation) without obtaining shareholder approval for that amendment.	
Rationale for choice of performance conditions	The Remuneration Committee selects financial and non-financial performance measures that strengthen the alignment of the remuneration arrangements to the business model and the interests of our shareholders. The Committee believes the current combination of metrics provides a good balance between financial and non-financial measures, and supports the medium and long-term strategic objectives of the group.	
Malus and clawback	Malus and clawback provisions apply to the variable pay that can be earned by executive directors. The specific circumstances in which malus and clawback can be applied are set out in our full Policy on pages 105 and 106 of the 2021 Annual Report, which is available on our website.	

Directors' Remuneration Report continued

Dates of EDs' service contracts

Name	Date of service contract
Adrian Sainsbury	1 May 2020
Mike Morgan	15 November 2018

Remuneration Policy for the chairman and non-executive directors

Element and how it supports the group's short-term and long-term strategic objectives	Operation and maximum payable
Fees Attract and retain a chairman and independent non-executive directors who have the requisite skills and experience to determine the strategy of the group and oversee its implementation.	Fees are paid in cash and are reviewed periodically. Fees for the chairman and non-executive directors are set by the board. The non-executive directors do not participate in decisions to set their own remuneration. The chairman of the board receives a fee as chairman but receives no other fees for chairmanship or membership of any committees. Non-executive directors receive a base fee. The senior independent director receives an additional fee for this role. Additional fees are paid for chairmanship of each of the Audit, Remuneration and Risk Committees. Additional fees are paid for membership of committees, with the exception of the Nomination and Governance Committee, for which no additional fees are payable. Additional fees may be payable for other additional board responsibilities and/or time commitments. The chairman and non-executive directors are entitled to claim reimbursement for reasonable expenses and associated tax liabilities incurred in connection with the performance of their duties for the company, including travel expenses. Overall aggregate fees will remain within the £1.25 million authorised by our articles of association. There is no performance framework, recovery or withholding.

Non-executive directors' appointment letters

Name	Date of appointment	Current letter of appointment start date
Mike Biggs	14 March 2017	21 September 2020
Lesley Jones	23 December 2013	21 November 2019
Bridget Macaskill	21 November 2013	21 November 2019
Oliver Corbett	3 June 2014	21 November 2019
Peter Duffy	1 January 2019	21 November 2019
Sally Williams	1 January 2020	1 January 2020
Mark Pain	1 January 2021	1 January 2021
Tesula Mohindra	15 July 2021	15 July 2021
Patricia Halliday	1 August 2021	1 August 2021
Tracey Graham	22 March 2022	22 March 2022

Consideration of shareholders' and employees' views

The chairman of the board consults our major shareholders on a regular basis on key issues, including remuneration. A formal consultation exercise was undertaken during 2021 with our major shareholders and shareholder advisory bodies as part of the process of reviewing this Policy.

The pay and terms and conditions of employment of employees within the group are taken into consideration when setting the Directors' Remuneration Policy and pay of the EDs. The Remuneration Committee does not formally consult with employees when setting the Policy, although the employee opinion survey conducted every year includes remuneration as one of the topics surveyed. The Remuneration Committee also receives feedback from engagement with, and communication to, employees on matters relating to remuneration issues, which it uses to inform its broader approach to remuneration, including with respect to the alignment between executive remuneration and the approach to compensation for employees across the group. At each scheduled meeting, the Remuneration Committee reviews a 'Remuneration Dashboard' containing metrics, analysis and other information, which the Committee uses as part of its decision-making, including as part of the annual compensation process. It covers a wide range of areas throughout the year, such as workforce demographics, pay and reward at different levels across the group, gender pay and SAYE participation.

Annual Report on Remuneration

Remuneration Committee

The Committee's main responsibilities are to:

- review and determine the total remuneration packages of executive directors and other senior executives, including group material risk-takers and senior control function staff in consultation with the chairman and chief executive and within the terms of the agreed policy;
- approve the design and targets of any performance-related pay schemes operated by the group;
- review the design of all-employee share incentive plans;
- ensure that contractual terms on termination and any payments made are fair to the individual and the group, that failure is not rewarded and that a duty to mitigate risk is fully recognised;
- review any major changes in employee benefits structures throughout the group;
- ensure that the remuneration structures in the group are compliant with the rules and requirements of regulators, and all relevant legislation;
- ensure that provisions regarding disclosure of remuneration are fulfilled; and
- seek advice from group control functions to ensure remuneration structures and annual bonuses are appropriately aligned to the group's risk appetite.

Membership activity in the 2022 financial year

There were seven meetings of the Committee held during the year. There is a standing calendar of items which is supplemented by other significant issues that arise during the year. The key matters addressed during the year were as follows:

	September 2021	Additional September 2021	Additional September 2021	January 2022	April 2022	June 2022	July 2022
Remuneration policy and disclosures							
Review and approval of Remuneration Policy Statement for 2021	•						
Review and approval of Directors' Remuneration Report for 2021	•						
Review and approval of the remuneration section of the Pillar 3 disclosure for 2021	•						
Annual remuneration governance review				•			
Annual review of Total Reward Principles					•		
Risk and reward							
Review and approve risk-adjustment process/outcomes		•			•	•	•
Annual review whether to apply malus and clawback to remuneration	•						
Annual remuneration discussions							
Approval of LTIP performance targets for 2022 awards	•						
Final review and approval of EDs' annual bonus targets and objectives	•						
Review of performance testing results for vesting 2018 LTIP awards	•						
Review EDs' performance against their annual bonus targets and objectives	•		•	•		•	•
Review and approval of approach to year-end compensation					•		
Year-end all-employee group-wide salary and bonus analysis/ proposals for 2022						•	•
Governance review of the sales incentive schemes					•		
Review and approval of the risk management objectives for the 2019 LTIP vesting						•	•
Review of the risk management objectives for the 2023 LTIP							•
Review proposed 2022 compensation for Material Risk Takers						•	•
Initial review of EDs' annual bonus targets and objectives for 2023							•
Review of sales incentive schemes and approval of schemes for 2023							•
Regulatory and external developments							
Material Risk Takers identification for 2022	•			•			
MIFIDPRU impact on CBAM's and Winterflood's remuneration				•	•	•	•
Gender pay gap review				•			
Special business							
Approve Save As You Earn plan rules	•						
Approve Omnibus Scheme rules changes	•			•			
Review and approve mid-year salary increases, including Material Risk Takers in group and central functions				•			
Committee remit and effectiveness							
Review terms of reference							•

UK Corporate Governance Code

We continue to be compliant with the executive pay provisions of the 2018 UK Corporate Governance Code. Our pay arrangements are also consistent with the following principles set out in the Code:

Directors’ Remuneration Report continued

- Clarity – this Directors’ Remuneration Report provides open and transparent disclosure of our executive remuneration arrangements for our internal and external stakeholders.
- Simplicity and alignment to culture – incentive arrangements for our executives are straightforward, with individuals eligible for an annual bonus and, at more senior levels, a single long-term incentive plan. Performance measures used in these plans are designed to support delivery of the group’s key strategic priorities and our commitment to adopt a responsible, sustainable business model, in line with our purpose and values.
- Predictability – our incentive arrangements contain maximum opportunity levels with outcomes varying depending on the level of performance achieved against specific measures. The charts on page 107 of the 2021 annual report provide estimates of the potential total reward opportunity for the executive directors under the Policy.
- Proportionality and risk – our variable remuneration arrangements are designed to provide a fair and proportionate link between group performance and reward. In particular, partial deferral of the annual bonus into shares, five-year release periods for LTIP awards and stretching shareholding requirements that apply during and post-employment provide a clear link to the ongoing performance of the group and therefore long-term alignment with stakeholders. We are also satisfied that the variable pay structures do not encourage inappropriate risk-taking. Notwithstanding this, the Remuneration Committee retains an overriding discretion that allows it to adjust formulaic annual bonus and/or LTIP outcomes so as to guard against disproportionate out-turns. Malus and clawback provisions also apply to both the annual bonus and LTIP and can be triggered in circumstances outlined in the Policy.

Advice

During the year under review and up to the date of this report, the Remuneration Committee consulted and received input from the chairman of the board, the chief executive, the group head of HR, the head of reward and HR operations, the group chief risk officer and the company secretary. Where the Remuneration Committee seeks advice from employees, this never relates to their own remuneration.

The Remuneration Committee’s remuneration advisers are Deloitte LLP (a member of the Remuneration Consultants Group) who were appointed by the Remuneration Committee following a competitive tendering process. During the year, separate teams within Deloitte provided advice to the group on risk, cyber, IT, internal audit and related projects. The Remuneration Committee is satisfied that the provision of these other services does not affect the objectivity and independence of the remuneration advice provided by Deloitte as the other services are unrelated to reward matters. Total fees paid to Deloitte were £112,750 during the 2022 financial year, calculated on a time and material basis.

Slaughter and May provided legal advice on the company’s equity scheme rules. Fees paid to Slaughter and May were £46,800, calculated on a time and material basis.

Statement of voting on the Directors’ Remuneration Policy at the 2021 AGM

	For	Against	Number of abstentions
Directors’ Remuneration Policy	84.2%	15.8%	3,218,903

Statement of voting on the Directors’ Remuneration Report at the 2021 AGM

	For	Against	Number of abstentions
Annual Report on Remuneration	97.8%	2.2%	386,154

Implementation of the Policy in 2022

Single total figure of remuneration for executive directors 2022 (Audited)

	Salary		Benefits		Pension		Total fixed remuneration		Annual bonus[1]		Performance awards[2,3]		Total variable remuneration		Total remuneration	
	2022	2021	**2022**	2021	**2022**	2021	**2022**	2021	**2022**	2021	**2022**	2021	**2022**	2021	**2022**	2021
Name	**£’000**	£’000	**£’000**	£’000	**£’000**	£’000	**£’000**	£’000	**£’000**	£’000	**£’000**	£’000	**£’000**	£’000	**£’000**	£’000
Adrian Sainsbury[4,5,6]	**930**	475	**37**	30	**93**	47	**1,060**	552	**412**	843	**146**	325	**558**	1,168	**1,618**	1,720
Mike Morgan[6]	**560**	400	**8**	14	**56**	35	**624**	449	**248**	551	**136**	263	**384**	814	**1,008**	1,263

1 60% of Adrian Sainsbury’s and Mike Morgan’s annual bonus is deferred into shares.
2 The figures for the performance awards for 2021, granted in 2018, have been recalculated using the actual share price on the date of vesting for the LTIP of £15.27. The three-month average to 31 July 2021 was used for the 2021 report given that the awards were vesting after publication of the report.
3 The figures for the performance award for 2022, granted in 2019, have been calculated using the three-month average to 31 July 2022. As this share price is lower than the grant date share price, none of this value relates to share price appreciation.
4 Adrian Sainsbury was appointed chief executive on 21 September 2020. His 2021 salary, benefits, bonus and pension relate to the period he was an executive director.
5 Adrian Sainsbury’s performance awards for 2021 and 2022 were granted before he was appointed to the board. The full awards relate to vested LTIPs that were subject to the performance criteria outlined in the 2021 annual report on page 117 and in this report on page 133 respectively.
6 Benefits for 2021 have been restated to include additional taxable expenses. Adrian Sainsbury’s benefit figure has changed from £22,463 to £29,587 and Mike Morgan’s from £9,091 to £13,674.

Link between reward and performance

The group delivered a solid performance in the 2022 financial year, with strong income growth in Banking, offset by reduced income in Winterflood. Group adjusted operating profit reduced 13% to £234.8 million (2021: £270.7 million). The board is proposing a final dividend of 44.0p per share. This will result in a full-year dividend per share of 66.0p (2021: 60.0p), returning to the pre-pandemic level. This reflects the group’s financial performance in the year and strong capital position, as well as the board’s continued confidence in the business model.

The group achieved an RoE of 10.6% (2021: 14.5%), reflecting the reduction in Winterflood’s profit and continued growth in the equity base. This has been reflected in the ED’s bonuses, with this element vesting at 36.7% of the potential maximum. The CET1 measure, introduced in the 2021 financial year, has decreased to 14.6% (2021: 15.8%) and is vesting at 50.0%. The resulting combined overall vesting of the two financial measures is 41.1% of the potential maximum. The executive directors demonstrated a strong level of progress against specified objectives, and this resulted in performance scores against the strategic scorecard of 55% (see pages 131 to 133 for further details).

For the 2019 Long-Term Incentive plan vesting this year, 70% of the vesting is based on financial goals and 30% is based on risk, compliance and control objectives. For the financial goals, the adjusted earnings per share growth, which decreased by 18.4% over the last three years,

and the average annual return on equity of 11.0% per annum, were below the threshold targets of 10% and 12.0% per annum, respectively. The continued prudent approach to capital management combined with a good performance in risk, compliance and controls mean that the risk management objectives element vested at 91.7%, contributing 27.5% to the overall vesting. Acknowledging the returns to shareholders over the past three years, which were depressed by the pandemic, the Committee decided after careful consideration to reduce the risk management objectives, and therefore the LTIP vesting by 25%. The total award that shall vest is therefore 20.6%.

Additional disclosures on the single total remuneration figure for executive directors table (Audited)

Salary

The per annum salaries paid during the year are as shown in the single total remuneration figure table on the previous page. When reviewing salary levels, the Remuneration Committee takes into account the individual's role and experience, pay for the broader employee population, market and external factors, where applicable. No merit-base or cost of living increases were given to the executive directors, although base salaries did increase from £550,000 to £930,000 for the group chief executive and £400,000 to £560,000 for the group finance director as part of a compensation mix adjustment in response to the implementation of the bonus cap introduced as part of CRD V during the 2022 financial year. The compensation mix adjustments received shareholder approval at the 2021 AGM. The average increase for the general employee population was 5.7%; this includes the 3% mid-year salary increase given to all Banking employees.

Benefits

Adrian Sainsbury received an £18,000 allowance in lieu of a company car. Mike Morgan does not receive an allowance in lieu of a company car. They also received private health cover. The discount to the share price on grant of SAYE options is included in the year of grant.

Pension

Adrian Sainsbury and Mike Morgan received a pension allowance equivalent to 10% of base salary, the maximum percentage the general employee population are eligible to receive.

Annual bonus

Maximum bonus potential for the 2022 financial year was 95% of salary for Adrian Sainsbury and Mike Morgan. The bonuses for executive directors were determined with reference to RoE and CET1 targets and a group-wide strategic scorecard. Details of the achievements and targets are outlined below.

Summary of annual bonus achievement

	Financial Target (RoE)				Financial Target (CET1)				Group-wide strategic scorecard				Overall total	
	Weighting	Potential maximum £'000	**Actual percent of maximum**	**Actual amount awarded £'000**	Weighting	Potential maximum £'000	**Actual percent of maximum**	**Actual amount awarded £'000**	Weighting	Potential maximum £'000	**Actual percent of maximum**	**Actual amount awarded £'000**	**Total bonus percent awarded**	**Total bonus awarded £'000**
Adrian Sainsbury	40%	353	**36.7%**	**130**	20%	177	**50.0%**	**88**	40%	353	**55.0%**	**194**	**46.7%**	**412**
Mike Morgan	40%	213	**36.7%**	**78**	20%	106	**50.0%**	**53**	40%	213	**55.0%**	**117**	**46.7%**	**248**

The RoE for the 2022 financial year was 10.6% against a target range of 10% to 18%, warranting an award of 36.7% of the potential maximum bonus for this element.

The CET1 capital ratio for the 2022 financial year was 14.6% against a target range of 12.6% to 15.6%, warranting an award of 50% of the potential maximum bonus for this element.

Financial measures

Financial measure	Threshold 33.3% of maximum potential	Target 50% of maximum potential	Maximum 100% of maximum potential	**Actual financial element achieved**	**Percentage of financial element paid**
RoE	10.0%	13.0%	18.0%	**10.6%**	**36.7%**
CET1 capital ratio	12.6%	14.6%	15.6%	**14.6%**	**50.0%**

For Adrian Sainsbury and Mike Morgan, 60% of any annual bonus is deferred into group shares vesting in equal tranches over three years in line with the 2021 Remuneration Policy.

Group-wide performance and executive directors' objectives for the 2022 financial year (Audited)

Annual performance objectives are determined by the Remuneration Committee at the start of each financial year, and are designed to support the group's wider strategic priorities to "Protect", "Grow" and "Sustain" our business model.

The table on pages 132 to 133 sets out examples of the strategic scorecard objectives which were in place in 2022, performance metrics against these objectives where appropriate, and an overview of the factors that the Remuneration Committee has taken into account when assessing the performance of the executives.

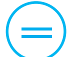
The Remuneration Committee determines the overall outcome of the balanced scorecard and, if appropriate, adjusts the final individual rating to take into account the individual contributions to successful outcomes of the scorecard objectives. This year, overall performance against the strategic scorecard was rated at target or above target for most goals, with some delays in the implementation of risk programmes. There was no adjustment on the final individual rating.

For reasons of commercial sensitivity, not all performance criteria and factors taken into consideration by the Committee have been disclosed.

Directors' Remuneration Report continued

Key: Performance objective has been achieved Satisfactory outcome, further progress to be made

Performance objective has not been met

Objective	Assessment of performance against objectives including performance metrics
Embed and deliver on the evolved "Protect, Grow, Sustain" strategy	Performance metrics • Net interest margin at 7.8% (2021: 7.7%) • Bad debt ratio of 1.2% (2021: 1.1%) • Good loan book growth of 5% (10-year range: 0%-14%) • Return on net loan book of 2.6% (10-year range: 1.3%-3.7%) • RoE of 10.6% (2021: 14.5%) • Over 90% of the loan book is secured or has some form of structural protection • Average loan book maturity of 17 months (31 July 2021: 17 months) • Average maturity of funding allocated to loan book of 21 months (31 July 2021: 24 months) • £1.9 billion of treasury assets (31 July 2021: £1.8 billion), predominantly held on deposit with the Bank of England • CET1 capital ratio of 14.6% (31 July 2021: 15.8%) • Leverage ratio of 12.0% (31 July 2021: 11.8%) • Group's strong credit ratings have been affirmed by Moody's Investors Services ("Moody's") and Fitch Ratings ("Fitch") in the 2022 financial year
	Assessment • The Banking division performed well while the market-facing businesses were negatively impacted by extreme volatility and falling markets • Strong net interest margin at 7.8% • Bad debt ratio of 1.2% included the impact of updated assumptions for the Novitas loan book, which resulted in further impairment charges related to this business. Excluding Novitas, the bad debt ratio was 0.5% (2021: 0.2%) • The group achieved an RoE of 10.6% (2021: 14.5%), reflecting the reduction in Winterflood's profit and continued growth in the equity base • Continued focus on delivering disciplined growth. For example, the asset coverage in Asset Finance has been expanded with the hiring of agricultural equipment and materials handling teams, with further initiatives identified for future development • Significant progress has been made developing our climate strategy, covering not just our operational impacts, but also understanding the implications across our financed activities
Complete a further review of the group's growth prospects 	Assessment • Completed an in-depth further review of existing businesses focusing on potential growth prospects, with a pipeline of identified target areas that are aligned with the group's model • Examples of growth initiatives can be found on page 27
People Maintain strong employee engagement and reinforce position as employers of choice	Performance metrics • 86% employee engagement, closely aligned to pre-pandemic engagement score • 97% of colleagues believe their immediate team work well together • 92% see colleagues go the extra mile to meet the needs of customers and clients • 96% of colleagues believe our culture encourages them to treat customers and clients fairly • 94% of colleagues feel included and that they are treated with respect • Organisational culture particularly strong when compared to other financial services firms, with all scores aligned or higher than the Financial Services Culture Board ("FSCB")
	Assessment • Employee opinion survey confirms the group's continued strong employee engagement scores, above external benchmark • Strong organisational culture scores, particularly when compared to industry benchmarks
Embed hybrid working model	Assessment • Hybrid working model implemented where appropriate, aimed at maintaining an effective balance of customer service, operational risk, collaborative culture and turnover

Objective	Assessment of performance against objectives including performance metrics
Customers Deliver strong customer satisfaction	Performance metrics • All businesses scored above average net promoter score ("NPS") benchmark performance for the broad financial services sector (+50), with scores ranging from +73 to +87 in the 2022 financial year
	Assessment • In Banking, customer satisfaction scores are well above industry averages, with complaints remaining at low levels • Fund performance over the 12 months since 31 July 2021 at CBAM has been mixed, reflecting volatile markets across asset classes since the start of 2022. In relative terms, eight of our 15 funds have outperformed their relevant peer group averages • Winterflood continued to deliver high quality execution services to clients, with a very strong execution success rate
Enhance customer choice by delivering new digital platforms	Assessment • Enhanced digital capabilities in Banking, CBAM and Winterflood, leading to improved customer journeys and new business acquisition • Investment in the Motor Finance transformation programme enabled the business to further broaden its offering, improve customer journey and take advantage of heightened demand for used cars. This included the introduction of an e-sign functionality and the development of APIs that enable the business to connect into strategic partners and provide finance offering at various points of the customer journey • Technology transformation projects in CBAM included the delivery of a CRM platform, which was integrated into CBAM's client portal and supported an improved digital engagement with clients • Further details on the group's investment in digital can be found on page 13
Risk, conduct and compliance Operate within risk appetite, preserve compliance with legal and regulatory obligations, maintain strong control framework and overall operational resilience	Assessment • Continued strengthening of operational risk and compliance framework although risk mitigation needs to be implemented in certain areas to align with evolving environment and standards • Maintained key regulatory and compliance controls • Continued progress on the implementation of the enhanced cyber security strategy agreed with the Board Risk Committee, with improved cyber risk measurement and reporting across all of the group's divisions

Long-term performance awards (Audited)

The performance awards in the single total figure of remuneration include the 2019 LTIP grant. This will vest on 1 October 2022, and the overall vesting is outlined in the table below.

Details of the overall vesting for the LTIP

Performance measure	Threshold target[1]	Maximum target	Actual achieved	Overall vesting
Adjusted EPS growth[2] (35% weighting)	10%	30%	**(18.4)%**	**0.0%**
RoE[3] (35% weighting)	12%	20%	**11.0%**	**0.0%**
Risk management objectives ("RMO") (30% weighting)	n/a	n/a	**91.7%**	**27.5%**
Assessed outcome (before discretion)				**27.5%**
Discretionary adjustment (-25%)				**(6.9)%**
Overall vesting (including application of discretion)				**20.6%**

1 25% of the awards vest for satisfying the threshold target.
2 Over three years.
3 Average over three-year performance period.

The Committee decided after careful consideration that the risk management objectives, and therefore the LTIP outcome, should be reduced by 25% to align better with the returns our shareholders experienced over the three years of the vesting period. In addition to the overall vesting of the performance measures, both share price and dividend equivalents affect the payout from the LTIP.

The share price during the relevant performance period for the LTIP decreased by 22.7% over the three-year period from the date of grant to the end of the performance period. The average share price used to value the awards due to vest in October 2022 was 1,056.6p from 1 May 2022 to 31 July 2022, which was the performance measurement period. The 2019 LTIP award was originally granted at 1,366.4p.

The performance awards also include the amount (in cash or shares) equal to the dividend which would have been paid during the period from the beginning of the performance period to the time that the awards vest.

Details of the assessment of the risk management objectives for the LTIP

The Committee considers it to be of critical importance that remuneration arrangements continue to incentivise discipline in the management of the firm's capital and balance sheet and in the delivery of the business model.

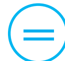
The Committee undertakes a robust assessment of performance against the risk management objectives to ensure that payments to executive directors are fair and appropriate with consideration for individual and corporate performance. In doing so, the Committee assesses performance against a number of key measures in making its determination.

Directors' Remuneration Report continued

Performance was assessed after each of the three years of the LTIP performance period, with each year's review carrying a weighting of one-third towards the overall vesting for the award, ensuring a fair assessment of progress over the three-year period.

Year one and year two assessments were set out in the 2020 and 2021 Directors' Remuneration Reports respectively. The year three performance assessment is detailed below.

Year three performance assessment against risk management objectives

Key: Performance objective has been achieved  Satisfactory outcome, further progress to be made

Performance objective has not been met

Element	Measure	Extent to which the Committee determined the target has been met
Capital and balance sheet management	Capital requirements	• CET1 capital ratio of 14.6% (31 July 2021: 15.8%) providing significant headroom above the applicable minimum regulatory requirement of 7.6% excluding any PRA buffers
	Dividend	• Interim dividend in 2022 of 22.0p declared and paid, reflecting the group's strong underlying performance • The board is proposing a final dividend of 44.0p per share, which will result in a full-year dividend per share of 66.0p (2021: 60.0p), returning to the pre-pandemic level. This follows the group's solid financial performance in the year and strong capital position, and reflects the board's continued confidence in the business model
	Funding	• Average maturity of funding allocated to loan book was 21 months, well in excess of the loan book at 17 months
	Liquidity	• Continued to comfortably meet the liquidity coverage ratio requirement ("LCR") with a 12-month average LCR to 31 July 2022 of 924% (12 month average to 31 July 2021: 1,003%)
Risk, compliance and controls	Internal Ratings Based approach	• Continued to make good progress on the preparations for a transition to the IRB approach • Following the submission of the initial application to the PRA in December 2020, the group received confirmation that the application has successfully transitioned to Phase 2 in the second half of the year • While all key objectives and milestones were achieved, the timetable for the next phase of formal review remains under the direction of the regulator
	Culture	• Continued enhancement of the group's Conduct Risk Framework with a group-wide roll out commenced this financial year, with a view to ensure the group continues to achieve positive customer outcomes • Overall cultural assessment for the group remains positive with strong scores on culture achieved in the latest employee opinion survey completed • Remain on track to achieve target of 36% of senior manager roles being held by a female by 2025. At 31 July 2022, 33% of our senior managers were female (31 July 2021: 32%) • The group's ethnicity data disclosure has materially increased from 75% at the end of the 2021 financial year to 83% as of 31 July 2022, allowing a more accurate measurement of the group's ethnic balance • At 31 July 2022, 10% of our managers identified as being from an ethnic minority background, versus our target of 14% by 2025
	Sustainability	• Sustainability targets met, exceeded or on track. These include the achievement of a 44.8% reduction in group-wide overall Scope 1 and 2 emissions since the 2019 financial year, maintenance of strong customer satisfaction scores across all our businesses, and a 42.6% improvement in fleet vehicle emissions. Our fleet of 639 cars is now almost wholly battery, electric or hybrid and we anticipate the majority of the vehicles to be battery, electric later in calendar year 2022 • Significant progress was made during the year in developing the group's climate strategy, with a comprehensive assessment of the group's indirect Scope 3 emissions across all categories of operational emissions as well as an initial assessment of financed emissions, focusing on the loan book • The group set wider and longer-term ambition to align all of our operational and attributable GHG emissions from our lending and investment portfolios on a path to net zero by 2050. To this end, Close Brothers joined over 115 banks globally, as a signatory to the Net Zero Banking Alliance in September 2022

Element	Measure	Extent to which the Committee determined the target has been met
	Operational resilience	• The group's operational resilience framework and strategy have been fully built out in the financial year • Self-assessment completed by businesses and functions, in line with regulatory compliance timelines, with an external review confirming the appropriateness of the group's approach • Remediation plans established for vulnerabilities identified, with remediation work underway • Important business services and impact tolerances agreed with the Board Risk Committee

The table below summarises the Remuneration Committee's assessment of performance against the risk management objectives after each of the three years of the LTIP performance period.

Element	Year one assessment	Year two assessment	Year three assessment	Overall vesting
Capital and balance sheet management	95%	100%	95%	96.7%
Risk, compliance and controls	95%	90%	75%	86.7%
Overall vesting				**91.7%**

Implementation of the Policy in 2023

Base salary

	Salary effective from 1 August 2022	Increase
Chief executive – Adrian Sainsbury	£930,000	0.0%
Group finance director – Mike Morgan	£560,000	0.0%

Base salaries were determined with reference to the executive director's role, increases for the broader population and external factors. The Remuneration Committee determined that it was appropriate for the executive directors' salaries not to be increased. The average salary increase approved in July 2022 across the wider employee population was 4.3%.

Adrian Sainsbury and Mike Morgan's allowance in lieu of pension will be 10% of base salary, which is in line with the maximum level of benefit offered to the general employee population.

The executive directors will receive benefits in line with those outlined in the Remuneration Policy table on page 126. There will be no other increases to allowances or benefits other than any potential increase in the cost of providing them.

2023 annual bonus (i.e. bonus awarded in respect of the 2023 performance year)

RoE continues to be a long-standing metric for the financial element of the executive directors' remuneration framework. The Remuneration Committee considers it to be a significant key performance indicator, as it provides strong evidence of adherence to the group's business model. At the start of the 2022 financial year, the Remuneration Committee reduced the weighting of CET1 capital ratio from 30% to 20% of the bonus opportunity and have decided to maintain this weighting for 2023.

Nature of measures	Choice of measures	Targets	Percentage of bonus opportunity	Vesting ranges
Financial	RoE	10% to 18%	40%	Threshold – 33%[2]
	CET1	12.6% to 15.6%	20%	Maximum – 100%
Non-financial	Strategic scorecard: Strategic, People, Customers and Risk, Conduct and Compliance objectives	Discretionary assessment[1]	40%	Minimum – 0% Maximum – 100%

1 Due to commercial sensitivity, the details of the performance targets and achievement against those will be outlined in the 2023 Annual Report on Remuneration.
2 Performance below threshold in the financial measures would result in zero vesting of the financial measure.

The Committee retains discretion to adjust the targets if the Board gives approval for a material transaction, to ensure that performance is measured on a fair and consistent basis. The level of pay-out under the CET1 element may also be adjusted based on an assessment of how the CET1 has been achieved and whether this is aligned with the capital strategy set out on page 8.

2022 LTIP (i.e. LTIP awarded in respect of the 2023 to 2025 cycle)

The 2022 LTIP awards due to be granted in October 2022 are shown in the table below.

	Chief executive **Adrian Sainsbury**	Group finance director **Mike Morgan**
2022 LTIP award	£1,162,500	£700,000
Percentage change in LTIP award from 2021	0%	0%
2022 LTIP award as a percentage of 2022 salary	125%	125%

The Remuneration Committee determined that it was appropriate to grant the executive directors an LTIP award at the maximum level of 125% of their base salary, in line with their 2021 LTIP award. The Committee will review the level of vesting upon completion of the performance period, being particularly mindful of windfall gains, and apply an adjustment to the vesting outcome if appropriate.

Directors' Remuneration Report continued

The 2022 LTIP targets are detailed in the table below.

Nature of measures	Choice of measures	Targets	Weightings	Vesting ranges
Financial	Adjusted EPS growth	10% to 30% over 3 years	35%	Threshold – 25% Maximum – 100%
	RoE	10% to 18%[1]	35%	Threshold – 25% Maximum – 100%
Non-financial	Risk management objectives	Discretionary assessment against specific goals	30%	Threshold – 25% Maximum – 100%

1 Average over three-year performance period.

The Remuneration Committee believes these targets are appropriately stretching and effectively align the executive directors' interests with those of shareholders.

The four risk, compliance and control measures within the risk management objectives for the 2023 financial year are detailed in the following table.

Measure
Continue to enhance Risk, Compliance, and Control Infrastructure
Continue to develop the effectiveness of our operational risk and resilience control environment
Continue to evolve the oversight of the conduct and culture and progress towards 2025 diversity representation targets
Develop transition plans and meet targets set against climate strategy

Due to commercial sensitivity, the full details of the milestones for the risk objectives will be outlined in the Directors' Remuneration Report throughout the performance period rather than prospectively.

Relative spend on pay

The following table shows the total remuneration paid compared to the total distributions to shareholders.

	2022 £ million	2021 £ million
Remuneration paid	**344.5**	363.2
Distributions to shareholders[1]	**98.4**	89.5

1 Interim dividend paid and final dividend proposed for the financial year.

Changes in remuneration of the directors and all employees

The following table shows how the remuneration of the directors changed compared to the average employee population for the 2022 financial year. The year-on-year movement in fees and salary for the directors and employees reflects the annual review implemented in August 2021 and changes throughout the financial year ending 31 July 2022, including the mid-year salary review conducted for Banking employees in January 2022. There were a number of changes to the board and committees which are reflected in the salary figures below. The year-on-year salary increase for the executive directors relates to the compensation mix adjustments made in response to CRD V, which contributed to a reduction in the bonus opportunity. Details of the annual bonus decrease for the executive directors is outlined on page 131. The average decrease in bonus for the general population is largely driven by the reduction in average bonuses for Winterflood employees due to business performance. Tesula Mohindra was appointed a director at the end of the 2021 financial year, however no remuneration was paid until the 2022 financial year and has therefore been omitted from the table below. Patricia Halliday and Tracey Graham were appointed directors during the 2022 financial year and have been omitted from the table below as there are no year-on-year remuneration comparisons.

	2022			2021			2020		
	Salary	**Benefits**	**Bonus**	Salary	Benefits	Bonus	Salary	Benefits	Bonus
Average Employee[1]	**5.7%**	**5.7%**	**(32.7)%**	0.0%	0.0%	21.2%	1.8%	1.8%	13.1%
Executive Directors[2]									
Adrian Sainsbury[3]	**95.7%**	**68.5%**	**(51.1)%**	–	–	–	–	–	–
Mike Morgan[4]	**40.0%**	**30.7%**	**(54.9)%**	0.0%	32.7%	152.2%	0.0%	0.0%	(54.7)%
Chairman & Non-Executive Directors[5]									
Mike Biggs[6]	**0.0%**	**159.9%**	**–**	0.0%	119.5%	–	0.0%	(25.7)%	–
Lesley Jones[7]	**3.5%**	**0.4%**	**–**	0.0%	(0.4)%	–	5.6%	(57.0)%	–
Bridget Macaskill[7,8]	**0.1%**	**125.3%**	**–**	(1.8)%	33.5%	–	5.6%	(50.5)%	–
Oliver Corbett[9]	**(1.7)%**	**87.3%**	**–**	(0.1)%	0.0%	–	5.6%	0.0%	–
Peter Duffy[7]	**7.7%**	**(77.3)%**	**–**	2.8%	0.0%	–	0.0%	0.0%	–
Sally Williams[10]	**3.8%**	**1,165.6%**	**–**	0.0%	(85.3)%	–	–	–	–
Mark Pain[11]	**27.5%**	**0.0%**	**–**	–	–	–	–	–	–

1 Calculated by dividing staff cost related to salaries, bonus and benefits by the average number of employees.
2 Calculated using the data from the single figure table in the annual report on remuneration.
3 Adrian Sainsbury was appointed as Group CEO in September 2020 and his 2021 figures are pro-rated based on part-year. Adrian's salary and benefits have increased year-on-year and this is driven by the part-year in 2021 and the compensation mix adjustment awarded during the 2022 financial year.
4 Mike Morgan's 2022 benefits increased 30.7%, this is driven by an increase in pension allowance based on the compensation mix adjustment awarded during the 2022 financial year.
5 Calculated using the fees and taxable benefits from the single figure table for non-executive directors on page 140.
6 Mike Biggs' 2022 benefits increased by £13,245, this related to additional travel and entertainment expenses.
7 Lesley Jones', Bridget Macaskill, Peter Duffy and Sally Williams 2022 fees increased as the fees for standard non-executive director, committee chair and committee member increased.
8 Bridget Macaskill's 2022 benefits increased by £8,000, this related to reimbursement of travel expenses.
9 Oliver Corbett's 2022 fees reduced as they are no longer in a senior independent director role.
10 Sally Williams' 2022 benefits increased from £75 in 2021 to £953 in 2022.
11 Mark Pain's 2022 fees increased as they joined during 2021 and was paid a part year fee.

Pay ratios

The table below compares the chief executive's single total remuneration figure to the remuneration of the group's UK employees as at 31 July, over the last three financial years. The Remuneration Committee is satisfied that the median ratio is consistent with the pay, reward and progression policies for our employee population.

The ratio for 2022 has declined on the previous year. Largely this relates to lower variable pay outcomes for the executive directors having a corresponding impact on the pay ratio, as well as structural changes to pay introduced last year for CRD V purposes having an impact on the single figure value.

Year	Method	25th percentile	Median	75th percentile
2022	Option A	48 : 1	28 : 1	17 : 1
2021	Option A	79 : 1	37 : 1	29 : 1
2020	Option A	64 : 1	38 : 1	23 : 1

Our ratios have been calculated using the most robust methodology option "A" prescribed under the UK Companies (Miscellaneous Reporting) Regulations 2018. Under this option, the ratios are calculated using the following:
- the full-time equivalent salaries and allowances for employees in the UK;
- pensions and benefits paid during the financial years;
- annual bonus awarded for the financial years;
- actual and projected gains realised from exercising awards from taxable employee share plans;
- sales incentives paid during the financial years; and
- projection of vested performance awards.

The 2022 total remuneration value for the employee at the 25th percentile, median and 75th percentile was £33,571, £56,952 and £93,459 respectively, of which the salary component made up £26,780, £30,000 and £85,000 respectively.

Chief executive: Historical information

	2013	2014	2015	2016	2017	2018	2019	2020	2021[1,2]	**2022**
Preben Prebensen										
Single figure of total remuneration ('000)[3]	£5,748	£7,411	£5,962	£3,995	£3,337	£2,541	£2,770	£2,043	£860	**–**
Annual bonus against maximum opportunity	100%	100%	98%	95%	91%	86%	82%	40%	78%	**–**
LTIP, SMP and Matching Share Award vesting[4]	79%	95%	97%	68%	51%	19%	30%	42%	40%	**–**

1 The figures for the performance awards for 2021 have been recalculated using the actual share price on the dates of vesting for the LTIP of £15.27. In the 2021 report, the three-month average to 31 July 2021 was used, given that the awards were vesting after publication of the report.
2 Preben Prebensen's remuneration for the 2021 financial year has been time pro-rated to 21 September 2020, the day he stepped down as chief executive.
3 The figures for 2012 to 2014 include the Matching Share Awards that were granted in 2009 at the time of Preben Prebensen's appointment as chief executive.
4 SMP and Matching Share Awards were last granted in the 2016 financial year.

	2021[1,2]	**2022**
Adrian Sainsbury		
Single figure of total remuneration ('000)	£1,720	**£1,618**
Annual bonus against maximum opportunity	78%	**47%**
LTIP, SMP and Matching Share Award vesting	40%	**21%**

1 The figures for the performance awards for 2021 have been recalculated using the actual share price on the dates of vesting for the LTIP of £15.27. In the 2021 report, the three-month average to 31 July 2021 was used, given that the awards were vesting after publication of the report.
2 Adrian Sainsbury was appointed chief executive on 21 September 2020 and his remuneration included in the single figure has been time pro-rated accordingly.

LTIP vesting for the last nine years

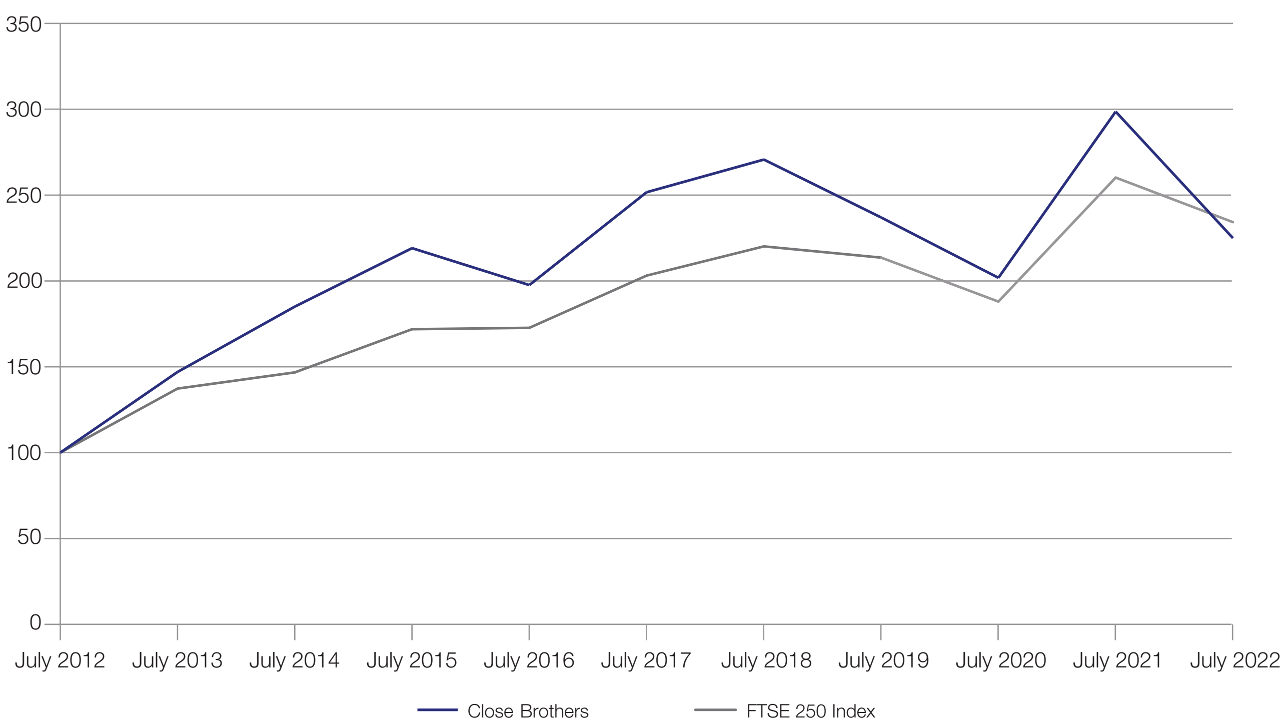
		Vesting percentage				
Year awarded	Year vested	Adjusted EPS	TSR	RoE	RMO	Total
2011[1]	2014	100%	100%	–	85%	95%
2012[2]	2015	100%	100%	–	87%	97%
2013[2]	2016	100%	25%	–	89%	68%
2014[2]	2017	56%	26%	–	92%	51%
2015[2]	2018	0%	0%	–	93%	19%
2016[2]	2019	0%	28%	–	94%	30%
2017[3]	2020	0%	–	38%	94%	42%
2018[3]	2021	0%	–	32%	95%	40%
2019[3,4]	2022	0%	–	0%	92%	28%

1 Vesting was subject to one-third adjusted EPS, one-third absolute TSR and one-third strategic goals for all awards granted for 2011.
2 Vesting was subject to 40% adjusted EPS, 40% absolute TSR and 20% risk management objectives for the 2012 to 2016 awards.
3 Vesting was subject to 35% adjusted EPS, 35% RoE and 30% risk management objectives for the 2017, 2018 and 2019 awards.
4 Including the 25% discretionary reduction, the 2019 LTIP award vested at 20.6%.

Directors' Remuneration Report continued

Performance graph

The graph below shows a comparison of TSR for the company's shares for the 10 years ended 31 July 2022 against the TSR for the companies comprising the FTSE 250 Index.



Note:
This graph shows the value, by 31 July 2022, of £100 invested in Close Brothers Group plc on 31 July 2012 compared with the value of £100 invested in the FTSE 250 Index. The other points plotted are the intervening financial year ends. TSR has been calculated assuming that all dividends are reinvested on their ex-dividend date. The index has been selected because the company has been a constituent of the index throughout the period. The closing mid-market price of the company's shares on 29 July 2022 was 1,110p and the range during the year was 987p to 1,602p.

Scheme interests awarded during the year (Audited)

The face value and key details of the share awards granted in the 2022 financial year are shown in the table below. These were all delivered as nil cost options. The Deferred Share Award ("DSA") is a mandatory deferral of a portion of the annual bonus. The share price used to calculate the number of shares awarded was £15.46, the average mid-market closing price for the five days prior to grant (5 October 2021).

Name	Award type[1]	Vesting period	Performance conditions	Face value '000	Percentage vesting at threshold	Number of shares	Vesting/ performance period end date
Adrian Sainsbury	DSA[2]	1-3 years	No	£527	n/a	34,076	05-Oct-24
	LTIP[3,4]	3 years	Yes	£1,163	25%	75,204	05-Oct-24
Mike Morgan	DSA[2]	1-3 years	No	£331	n/a	21,384	05-Oct-24
	LTIP[3,4]	3 years	Yes	£700	25%	45,284	05-Oct-24

1 The awards are all delivered as nil cost options.
2 The DSA vests in equal tranches over three years.
3 Performance conditions are detailed in the 2021 Annual Report on page 119.
4 LTIPs vested from 2020 have an additional two-year holding period.

External appointments

No external appointments.

Payments to departing and past directors (Audited)

There were no payments for loss of office, or payments to past directors during the year other than vesting of outstanding share awards as disclosed in previous remuneration reports.

Executive directors' shareholding and share interests (Audited)

The interests of the directors in the ordinary shares of the group at 31 July 2022 are set out below:

Name	Shareholding requirement at 31 July 2022[1]	**Number of shares owned outright[2] 2022**	Outstanding share awards not subject to performance conditions[3] **2022**	2021	Outstanding share awards subject to performance conditions[4] **2022**	2021	Outstanding options[5] **2022**	2021
Adrian Sainsbury	167,568	**96,797**	**44,289**	22,784	**322,287**	275,596	**2,146**	2,146
Mike Morgan	100,901	**82,796**	**35,223**	23,573	**194,802**	172,632	**3,778**	3,778

1 Based on the closing mid-market share price of 1,110p on 29 July 2022.
2 This includes shares owned outright by closely associated persons.
3 This includes DSA.
4 This includes LTIP awards.
5 These are comprised of SAYE options.

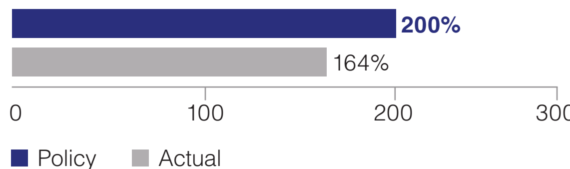
No executive directors held shares that were vested but unexercised at 31 July 2022. There were no changes in notifiable interests between 1 August 2022 and 6 September 2022, other than the purchase of shares by Adrian Sainsbury within the SIP which increased his shareholding to 96,825 shares.

Executive directors' shareholding

The chart below compares the current executive directors' shareholding versus shareholding policy, as a percentage of salary. At the end of the 2021 financial year, both executive directors exceeded the minimum requirement under the Directors' Remuneration Policy. Following the implementation of the compensation mix adjustments in response to CRD V, Adrian Sainsbury and Mike Morgan are building up their shareholding over a reasonable time frame to meet the revised minimum requirement.

Adrian Sainsbury

Mike Morgan



Policy   Actual

Details of executive directors' share exercises during the year (Audited)

Name	Award type	Held at 1 August 2021	Called[1]	Lapsed	Market price on award p	Market price on calling p	Total value on calling[1] £	Dividends paid on vested shares £
Adrian Sainsbury	2018 DSA	4,720	4,720	–	1,588.8	1,544.0	72,877	7,835
	2019 DSA	5,489	5,489	–	1,366.4	1,544.0	84,750	5,599
	2020 DSA	2,362	2,362	–	987.9	1,544.0	36,469	1,370
Mike Morgan	2018 DSA	315	315	–	1,588.8	1,524.0	4,801	523
	2019 DSA	4,997	4,997	–	1,366.4	1,524.0	76,154	5,097
	2020 DSA	4,422	4,422	–	987.9	1,524.0	67,391	2,565

1 These are the actual number of shares and values realised on calling. Any variances in totals are due to rounding.

Notes to the details of executive directors' share exercises during the year

The DSA is a mandatory deferral of a portion of the annual bonus.

The DSA and LTIP give executive directors the right to call for shares in the company from the employee benefit trust or Treasury Shares, at nil cost, together with a cash amount representing accrued notional dividends thereon. They may be called for at any time up to 12 months from the date of vesting. The DSA and LTIP awards may be forfeited in certain circumstances if the executive director leaves employment before the vesting date. The value of the awards is charged to the group's income statement in the year to which the award relates for the DSA and spread over the vesting period for the LTIP award.

Details of executive directors' option exercises during the year (Audited)

No executive director exercised options during the 2022 financial year.

Directors' Remuneration Report continued

Single total figure of remuneration for non-executive directors (Audited)

	2022						2021					
Name	Basic fee[1] £'000	Committee chair £'000	Committee member £'000	Senior independent director £'000	Benefits[2] £'000	Total £'000	Basic fee[1] £'000	Committee chair £'000	Committee member £'000	Senior independent director £'000	Benefits[2] £'000	Total £'000
Mike Biggs	**300**	**–**	**–**	**–**	**22**	**322**	300	–	–	–	8	308
Lesley Jones	**71**	**34**	**12**	**–**	**1**	**118**	70	33	10	–	1	114
Bridget Macaskill	**71**	**34**	**6**	**–**	**16**	**127**	70	33	8	–	7	118
Oliver Corbett	**71**	**34**	**6**	**–**	**–**	**111**	70	33	8	2	–	113
Peter Duffy	**71**	**–**	**12**	**–**	**–**	**83**	70	–	7	–	–	77
Sally Williams	**71**	**–**	**12**	**–**	**1**	**84**	70	–	10	–	–	80
Mark Pain	**71**	**–**	**12**	**34**	**–**	**117**	41	–	5	19	–	65
Tesula Mohindra[3]	**74**	**–**	**12**	**–**	**–**	**86**	–	–	–	–	–	–
Patricia Halliday[4]	**71**	**–**	**12**	**–**	**–**	**83**	–	–	–	–	–	–
Tracey Graham[5]	**26**	**–**	**4**	**–**	**–**	**30**	–	–	–	–	–	–

1 Non-executive director fees were last increased with effect from 1 August 2021.
2 Benefits include travel-related expenses in respect of attendance at board meetings which are taxable. Amounts disclosed have been grossed up using the appropriate tax rate as the company pays the non-executive directors' tax.
3 Tesula Mohindra was appointed a non-executive director on 15 July 2021 and fees relating to the 2021 financial year (15 July 2021 to 31 July 2021) were paid in the 2022 financial year.
4 Patricia Halliday was appointed a non-executive director on 1 August 2021.
5 Tracey Graham was appointed a non-executive director on 22 March 2022.

Notes to the single total figure of remuneration for non-executive directors

The fees payable to non-executive directors for the 2022 and 2023 financial years are as follows.

Role	2023	2022
Chairman[1]	**£300,000**	£300,000
Non-executive director	**£71,000**	£71,000
Supplements		
Senior independent director	**£34,000**	£34,000
Chair of Audit Committee	**£34,000**	£34,000
Chair of Remuneration Committee	**£34,000**	£34,000
Chair of Risk Committee	**£34,000**	£34,000
Committee membership[2]	**£6,000**	£6,000

1 The chairman receives no other fees for chairmanship or membership of board committees.
2 No fees are payable to the chairman, or for membership, of the Nomination and Governance Committee.

Non-executive directors' share interests (Audited)

The interests of the non-executive directors in the ordinary shares of the company are set out below:

Name	Shares held beneficially at 31 July 2022	Shares held beneficially at 31 July 2021
Mike Biggs	**1,500**	500
Lesley Jones	**–**	–
Bridget Macaskill	**2,500**	2,500
Oliver Corbett	**–**	–
Peter Duffy	**848**	848
Sally Williams	**–**	–
Mark Pain	**–**	–
Tesula Mohindra	**–**	–
Patricia Halliday	**–**	–
Tracey Graham	**–**	–

There were no changes in notifiable interests between 1 August 2022 and 22 September 2022.

This report was approved by the board of directors on 27 September 2022 and signed on its behalf by:

Bridget Macaskill
Chair of the Remuneration Committee

Directors' Report

The directors of Close Brothers Group plc (the "company") present their report for the year ended 31 July 2022.

The Strategic Report set out on pages 1 to 94 of this Annual Report, and the Corporate Governance Report, the committee reports and the Directors' Remuneration Report set out on pages 123 to 140 of this Annual Report include information that would otherwise need to be included in this Directors' Report. Readers are also referred to the cautionary statement on page 211 of this Annual Report.

Disclosures by Reference

Additional information, which is incorporated into this Directors' Report by reference, including information required by the Companies Act 2006, Disclosure and Transparency Rule 7.2, and Listing Rule 9.8.4R, can be located by page reference elsewhere in this Annual Report as follows:

Content	Page reference
Strategic report	
Business activities	4 to 5
Likely future developments	9 and 13
Business relationships	14 to 16
Employment, human rights and environmental matters	
Assessing and monitoring culture	22 to 23
Employment practices and approach to disabled employees	36 to 39 and 41
Employee engagement	14, 17 and 36 to 37
Approach to diversity and inclusion	36 to 38
Investing in and rewarding the workforce	38
Charitable donations	39
Greenhouse gas emissions	54 to 56
Climate-related financial disclosures	56
Directors	
Biographical details	95 to 97
Powers and appointment	109
Induction and continuing professional development	109
Agreements for loss of office	138
Remuneration, including waiver of emoluments	123 to 140
Contracts or service agreements	108 and 128
Interests in share capital	140
Miscellaneous	
Section 172 statement	17
Going concern	93
Viability statement	94
Corporate governance statement	148
Risk management objectives and policies	74 to 92
Credit, market and liquidity risks	81 to 86
Financial instruments	Note 14 on pages 177 to 179
Shareholder dividend waivers	142

Results and Dividends

The consolidated results for the year are shown on page 151 of the financial statements. The directors recommend a final dividend for the year of 44p (2021: 42p) on each ordinary share which, together with the interim dividend of 22p (2021: 18p) paid in April 2022, makes an ordinary distribution for the year of 66p (2021: 60p) per share. The final dividend, if approved by shareholders at the 2022 Annual General Meeting ("AGM"), will be paid on 22 November 2022 to shareholders on the register on 14 October 2022. Further information on the final dividend recommended by the directors can be found on page 63 of this Annual Report.

Directors

The names of the directors of the company at the date of this report, together with biographical details, are given on pages 95 to 97 of this Annual Report. All the directors listed on those pages were directors of the company throughout the year, apart from Tracey Graham, who was appointed as a director on 22 March 2022.

In accordance with the UK Corporate Governance Code, each of the current directors will retire at the 2022 AGM and offer themselves for appointment or reappointment at that meeting.

Directors' indemnities and insurance

In accordance with its articles of association, 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 directors 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.

Share Capital

The company's share capital comprises one class of ordinary share with a nominal value of 25p per share.

At 31 July 2022, 152,060,290 ordinary shares were in issue, of which 1,605,100 were held by the company in treasury.

Under section 551 of the Companies Act 2006, the directors may allot equity securities only with the express authorisation of shareholders which may be given in general meeting, but which cannot last more than five years. Under section 561 of the Companies Act, the board may not allot shares for cash (otherwise than pursuant to an employee share scheme) without first making an offer to existing shareholders to allot such shares to them on the same or more favourable terms in proportion to their respective shareholdings, unless this requirement is waived by a special resolution of the shareholders.

Details of directors' authorities approved by shareholders at the 2021 AGM can be found in the 2021 Notice of Meeting and subsequent results announcement.

Since the date of the company's 2021 AGM, with the exception of the authority to make market purchases, the directors have not used these authorities. Details of market purchases of the company's ordinary shares during the year can be found on page 142 in the section headed "Purchase of own shares".

The existing authorities given to the company at the last AGM to allot and purchase shares will expire at the conclusion of the forthcoming AGM. At the AGM, shareholders will be asked to renew these authorities. Details of the relevant resolutions to be proposed will be included in the Notice of AGM.

New issues of share capital

No ordinary shares were allotted and issued during the year. Specifically, no ordinary shares were allotted and issued during the year to satisfy option exercises. Full details of options exercised, the weighted average option exercise price and the weighted average market price at the date of exercise can be found in note 26 on pages 189 to 190 of the financial statements.

Rights attaching to shares

The company's articles of association set out the rights and obligations attaching to the company's ordinary shares. All of the ordinary shares rank equally in all respects.

On a show of hands, each member has the right to one vote at general meetings of the company. On a poll, each member would be entitled to one vote for every share held. 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.

The articles of association and applicable legislation provide that the company can decide to restrict the rights attaching to ordinary shares in certain circumstances (such as the right to attend or vote at a shareholders' meeting), including where a person has failed to comply with a notice issued by the company under section 793 of the Companies Act 2006.

Restrictions on the transfer of shares

There are no specific restrictions on the transfer of the company's shares which are governed by the general provisions of the articles of association and prevailing legislation. The articles of association set

Directors' Report continued

out certain circumstances in which the directors of the company can refuse to register a transfer of ordinary shares.

The company is not aware of any arrangements between its shareholders that may result in restrictions on the transfer of shares and/or voting rights.

Directors and employees of the group are required to comply with applicable legislation relating to dealing in the company's shares as well as the company's share dealing rules. These rules restrict employees' and directors' ability to deal in ordinary shares at certain times, and require the employee or director to obtain permission prior to dealing. Some of the group's employee share plans also contain restrictions on the transfer of shares held within those plans.

Purchase of own shares

Under section 724 of the Companies Act 2006, a company may purchase its own shares to be held in treasury ("Treasury Shares").

The existing authority given to the company at the last AGM to purchase Treasury Shares of up to 10% of its issued share capital will expire at the conclusion of the next AGM.

The board considers it would be appropriate to renew this authority and intends to seek shareholder approval to purchase Treasury Shares of up to 10% of its issued share capital at the forthcoming AGM in line with current investor sentiment. Details of the resolution renewing the authority will be included in the Notice of AGM.

Awards under the company's employee share plans are met from shares purchased in the market (and held either in treasury or in the employee share trust).

During the year, the company made market purchases of 415,000 Treasury Shares with an aggregate nominal value of £103,750 and representing 3.96% of its issued share capital, for an aggregate consideration of £6.0 million. It transferred 70,978 shares out of treasury to satisfy share option awards, with an aggregate nominal value of £17,745 and representing 0.05% of the Company's issued share capital, for a total consideration of £0.84 million.

At 31 July 2022, the company held 1,605,100 Treasury Shares with a nominal value of £0.4 million and representing 1.07% of its issued share capital. The maximum number of Treasury Shares held at any time during the year was 1,669,288 with a nominal value of £0.4 million and representing 1.11% of its issued share capital.

Significant Shareholdings

The table below sets out details of the interests in voting rights notified to the company under the provisions of the FCA's Disclosure Guidance and Transparency Rules. Information provided by the company pursuant to the Disclosure Guidance and Transparency Rules is publicly available via the regulatory information services and on the company's website.

	20 September 2022 Voting rights	31 July 2022 Voting rights
abrdn plc	12.42%	12.07%
BlackRock, Inc.	5.11%	5.83%
FIL Limited	5.06%	5.06%
Royal London Asset Management	4.99%	4.99%
M&G plc	4.83%	4.83%

Substantial shareholders do not have different voting rights from those of other shareholders.

Employee Share Trust

Ocorian Trustees (Jersey) Limited is the trustee of the Close Brothers Group Employee Share Trust, an independent trust which holds shares for the benefit of employees and former employees of the group. The trustee will only vote on those shares in accordance with the instructions given to the trustee and in accordance with the terms of the trust deed. The trustee has agreed to satisfy a number of awards under the employee share plans. As part of these arrangements the company funds the trust from time to time, to enable the trustee to acquire shares to satisfy these awards, details of which are set out in note 26 on pages 189 to 190 of the financial statements. The trustee has waived its right to dividends on all shares held within the trust.

During the year, the employee share trust made market purchases of 231,544 ordinary shares.

Auditor

PricewaterhouseCoopers LLP ("PwC") has expressed its willingness to continue in office as the company's external auditor. Resolutions to reappoint PwC and to determine their remuneration will be proposed at the forthcoming AGM. The full text of the relevant resolutions will be set out in the Notice of AGM.

Significant Agreements Affected by a Change of Control

A change of control of the company, following a takeover bid, may cause a number of agreements to which the company is a party to take effect, alter or terminate. These include certain insurance policies, bank facility agreements and employee share plan rules.

The group had committed facilities totalling £1.8 billion at 31 July 2022 which contain clauses requiring lender consent for any change of control. Should consent not be given, a change of control would trigger mandatory repayment of those facilities.

All of the company's employee share plan rules contain provisions relating to a change of control. Outstanding awards and options may vest and become exercisable on a change of control, subject, where applicable, to the satisfaction of any performance conditions at that time and pro-rating of awards.

Research and Development Activities

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

Post-Balance Sheet Events

There were no material post-balance sheet events.

Political Donations

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

Branches

The Company has no branches outside the United Kingdom.

Disclosure of Information to the Auditor

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 auditor is 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 auditor is 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.

The Directors' Report has been approved by the board and signed on its behalf by:

Penny Thomas
Company Secretary

27 September 2022

Statement of Directors' Responsibilities in Respect of the Financial Statements

The directors, whose names and functions are listed on pages 95 to 97, are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulation.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the group financial statements in accordance with UK-adopted international accounting standards and the company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law).

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

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

- select suitable accounting policies and then apply them consistently;
- state whether applicable UK-adopted international accounting standards and IFRSs issued by IASB have been followed for the group financial statements and United Kingdom Accounting Standards, comprising FRS 102 have been followed for the company financial statements, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the group and company financial statements on the going concern basis unless it is inappropriate to presume that the group and company will continue in business.

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

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

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

Directors' Confirmations

Each of the current directors, whose names and functions are listed on pages 95 to 97, confirm that, to the best of their knowledge:

- the group financial statements, which have been prepared in accordance with UK-adopted international accounting standards and IFRSs issued by IASB, give a true and fair view of the assets, liabilities, financial position and profit of the group;
- the company financial statements, which have been prepared in accordance with United Kingdom Accounting Standards, comprising FRS 102, give a true and fair view of the assets, liabilities, financial position and profit of the company;
- the Strategic Report, together with the Directors' Report and the Corporate Governance Report, includes a fair review of the development and performance of the business and the position of the group and 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 and company's position and performance, business model and strategy.

By order of the board

Adrian Sainsbury
Chief Executive

Mike Morgan
Group Finance Director

27 September 2022

Independent Auditors' Report to the Members of Close Brothers Group plc

Report on the audit of the financial statements

Opinion

In our opinion:

- Close Brothers Group plc's group financial statements and company financial statements (the "financial statements") give a true and fair view of the state of the group's and of the company's affairs as at 31 July 2022 and of the group's profit and the group's cash flows for the year then ended;
- the group financial statements have been properly prepared in accordance with UK-adopted international accounting standards;
- the company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law); and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report, which comprise: the consolidated and company balance sheets as at 31 July 2022; the consolidated income statement, the consolidated statement of comprehensive income, the consolidated cash flow statement and the consolidated and company statements of changes in equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Our opinion is consistent with our reporting to the Audit Committee.

Separate opinion in relation to IFRSs as issued by the IASB

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

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

Basis for opinion

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

Independence

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

To the best of our knowledge and belief, we declare that non-audit services prohibited by the FRC's Ethical Standard were not provided. Other than those disclosed in Note 5, we have provided no non-audit services to the company or its controlled undertakings in the period under audit.

Our audit approach

Overview

Audit scope

- The scope of our audit and the nature, timing and extent of audit procedures performed were determined by our risk assessment, the financial significance of components and other qualitative factors (including history of misstatement through fraud or error).
- We performed audit procedures over components considered financially significant in the context of the group (full scope audit) or in the context of individual primary statement account balances (audit of specific account balances).
- We performed other procedures including testing relevant controls and analytical review procedures to mitigate the risk of material misstatement in the residual components.

Key audit matters

- Determination of expected credit loss ('ECL') provisions on loans and advances to customers (Group)
- Evaluation of the carrying value of investment in subsidiaries (Company)

Materiality

- Overall group materiality: £11.6m (2021: £13.2m) based on 5% of Profit Before Tax.
- Overall company materiality: £11.1m (2021: £11.1m) based on 1% of Total Assets.
- Performance materiality: £8.7m (2021: £9.9m) (Group) and £8.3m (2021: £8.3m) (Company).

The scope of our audit

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

Key audit matters

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

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

Evaluation of the carrying value of investment in subsidiaries (Company) is a new key audit matter this year.

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

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

Key audit matter	How our audit addressed the key audit matter
Determination of expected credit loss ('ECL') provisions on loans and advances to customers (Group) As at 31 July 2022, the Group has gross loans and advances to customers of £9,144.5m, with ECL provisions of £285.6m held against them. The determination of ECL provisions is inherently judgemental and involves setting assumptions using forward looking information reflecting the Group's view of potential future economic events. This can give rise to increased estimation uncertainty. There continues to be uncertainty in the determination of ECL provisions in relation to economic factors, including assessing how a high inflation environment coupled with the cost of energy, supply chain and other economic developments may impact the credit performance of the lending book. Experience continues to develop in relation to the Novitas Loans business, which the Group has used to update the determination of the ECL. This remains subjective and the ECL is sensitive to potential outcomes. Models are used to collectively assess and determine ECL allowances on loans and advances which are not classified as being credit impaired at the reporting date, or are individually small. We consider the following elements of the determination of modelled ECL to be significant: • The application of forward-looking economic scenarios used in the models and the weightings assigned to those scenarios; • The completeness and appropriateness of post-model adjustments that are recorded to take into account latent risks and known model limitations; and • The appropriateness of assumptions used in the determination of the probability of case failure and loss given case failure in relation to Novitas. Individually large exposures to counterparties who are in default at the reporting date are estimated on an individual basis. We consider the following elements of the determination of ECL to be significant: • Estimating the amount and timing of the expected future cash flows under multiple, probability weighted, scenarios. Relevant references: • Note 2, critical accounting estimates and judgements on page 162; • Note 11, Loans and advances to customers on page 172, and • note 28c, financial risk management on page 195.	With the support of our credit risk modelling specialists and economics experts, we performed the following procedures: For collectively assessed provisions: • We understood and critically assessed the appropriateness of the ECL accounting policy and model methodologies used by management. • We tested model performance by replicating key model components and comparing actual outcomes with those previously predicted by the models. We assessed management's judgement as to whether the results of these activities indicated whether the models continued to perform appropriately or if any post-model adjustments were required. • We critically assessed the reasonableness of management's selected economic scenarios and associated scenario weightings, giving specific consideration to current and future economic uncertainty. We assessed their reasonableness against known or likely economic, political and other relevant events including the potential future economic impact of developments in prolonged inflation. • We compared the severity and magnitude of the assumptions used in the base scenario to external forecasts and historic trends. • Based on our knowledge and understanding of the limitations in management's models and emerging industry risks, we evaluated the completeness of the post model adjustments proposed by management. • We tested the valuation of in-scope post model adjustments by critically assessing the methodology and testing the underlying assumptions used in the calculation to supporting evidence. • We evaluated management's model to derive the Novitas Loans ECL, we critically assessed the assumptions used by management and we performed our own sensitivity analysis using plausible scenarios derived from available experience. From the evidence we obtained we found that the application of forward-looking economic assumptions and the completeness and appropriateness of the post model adjustments as they relate to the ECL provision to be reasonable.

Independent Auditors' Report to the Members of Close Brothers Group plc continued

Key audit matter	How our audit addressed the key audit matter
	Individually assessed provisions: For a sample of individually assessed loans in default and related ECL allowances, we: • Evaluated the basis on which the allowances were determined, and the evidence supporting the analysis performed by management; • Independently challenged whether the key assumptions used, such as the recovery strategies, collateral values and ranges of potential outcomes were appropriate given the borrower's circumstances; • Re-performed management's provision calculation, critically assessing key inputs including expected future cash flows, discount rates, valuations of collateral held and the weightings applied to scenario outcomes; and • Considered the extent to which the exposure is impacted by the economic conditions including high inflation levels and whether these factors had been appropriately reflected in the ECL provision. We tested and evaluated the reasonableness of the disclosures made in the financial statements. Based on the evidence obtained, we concluded that the methodologies, modelled assumptions, management judgements and collective and individually assessed expected credit losses to be appropriate.
Evaluation of the carrying value of investment in subsidiaries (Company) Identifying and measuring any impairment of investments in subsidiaries is subjective and is based on an assessment of impairment indicators in the underlying investments at the year end. Management determined that there are no indicators of impairment. See note 30 for the relevant disclosure.	We tested management's impairment assessment, including evaluating the key inputs and assumptions. Based on the evidence obtained, we concluded that the methodology, inputs and assumptions were appropriate.

How we tailored the audit scope

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

The group is structured into four primary segments being the Close Brothers Group plc company and Bank, Winterflood Securities and Asset Management components. The Bank is subsequently divided into Retail, Commercial and Property segments. The consolidated financial statements are a consolidation of these components.

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

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

Any components which were considered individually financially significant in the context of the group's consolidated financial statements (defined as components which represent more than or equal to 10% of the total profit before tax of the consolidated group) were considered full scope components. We considered the individual financial significance of other components in relation to primary statement account balances. Our scoping also considered the presence of any significant audit risks and other qualitative factors (including history of misstatements through fraud or error). Certain account balances were audited centrally by the group engagement team.

As part of considering the impact of climate change in our risk assessment, we evaluated management's assessment of the impact of climate risk, which is set out in the Sustainability Report, including their conclusion that there is no material impact on the financial statements. In particular, we considered management's assessment of the impact on ECL on loans and advances to customers, the financial statement line item we determined to be most likely to be impacted by climate risk. Management's assessment gave consideration to a number of matters, including the exposure of underlying portfolios to transition risk. Management's conclusion that there is no material impact is consistent with our audit findings.

Materiality

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

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

	Financial statements – group	**Financial statements – company**
Overall materiality	£11.6m (2021: £13.2m).	£11.1m (2021: £11.1m).
How we determined it	5% of profit before tax	1% of Total Assets
Rationale for benchmark applied	Profit before tax is a primary measure used by the shareholders in assessing the performance of the group and is a generally accepted benchmark for determining audit materiality.	We have selected total assets as an appropriate benchmark for company materiality, as it is an investment holding company.

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 £4.0 million and £10.4 million. Certain components were audited to a local statutory audit materiality that was also less than our overall group materiality.

We use performance materiality to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds overall materiality. Specifically, we use performance materiality in determining the scope of our audit and the nature and extent of our testing of account balances, classes of transactions and disclosures, for example in determining sample sizes. Our performance materiality was 75% (2021: 75%) of overall materiality, amounting to £8.7m (2021: £9.9m) for the group financial statements and £8.3m (2021: £8.325m) for the company financial statements.

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

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £500,000 (group audit) (2021: £500,000) and £500,000 (company audit) (2021: £500,000) as well as misstatements below those amounts that, in our view, warranted reporting for qualitative reasons.

Conclusions relating to going concern

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

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

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

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

In relation to the directors' reporting on how they have applied the UK Corporate Governance Code, we have nothing material to add or draw attention to in relation to the directors' statement in the financial statements about whether the directors considered it appropriate to adopt the going concern basis of accounting.

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

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information, which includes reporting based on the Task Force on Climate-related Financial

Independent Auditors' Report to the Members of Close Brothers Group plc continued

Disclosures (TCFD) recommendations. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

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

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

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

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

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

Directors' Remuneration
In our opinion, the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006.

Corporate governance statement
The Listing Rules require us to review the directors' statements in relation to going concern, longer-term viability and that part of the corporate governance statement relating to the company's compliance with the provisions of the UK Corporate Governance Code specified for our review. Our additional responsibilities with respect to the corporate governance statement as other information are described in the Reporting on other information section of this report.

Based on the work undertaken as part of our audit, we have concluded that each of the following elements of the corporate governance statement is materially consistent with the financial statements and our knowledge obtained during the audit, and we have nothing material to add or draw attention to in relation to:
- The directors' confirmation that they have carried out a robust assessment of the emerging and principal risks;
- The disclosures in the Annual Report that describe those principal risks, what procedures are in place to identify emerging risks and an explanation of how these are being managed or mitigated;
- The directors' statement in the financial statements about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them, and their identification of any material uncertainties to the group's and company's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements;
- The directors' explanation as to their assessment of the group's and company's prospects, the period this assessment covers and why the period is appropriate; and
- The directors' statement as to whether they have a reasonable expectation that the company will be able to continue in operation and meet its liabilities as they fall due over the period of its assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

Our review of the directors' statement regarding the longer-term viability of the group was substantially less in scope than an audit and only consisted of making inquiries and considering the directors' process supporting their statement; checking that the statement is in alignment with the relevant provisions of the UK Corporate Governance Code; and considering whether the statement is consistent with the financial statements and our knowledge and understanding of the group and company and their environment obtained in the course of the audit.

In addition, based on the work undertaken as part of our audit, we have concluded that each of the following elements of the corporate governance statement is materially consistent with the financial statements and our knowledge obtained during the audit:
- The directors' statement that they consider the Annual Report, taken as a whole, is fair, balanced and understandable, and provides the information necessary for the members to assess the group's and company's position, performance, business model and strategy;
- The section of the Annual Report that describes the review of effectiveness of risk management and internal control systems; and
- The section of the Annual Report describing the work of the Audit Committee.

We have nothing to report in respect of our responsibility to report when the directors' statement relating to the company's compliance with the Code does not properly disclose a departure from a relevant provision of the Code specified under the Listing Rules for review by the auditors.

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

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

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

Auditors' responsibilities for the audit of the financial statements

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

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

Based on our understanding of the group and industry, we identified that the principal risks of non-compliance with laws and regulations related to breaches of laws and regulations, principally those determined by the Prudential Regulatory Authority ("PRA") and the Financial Conduct Authority ("FCA"), and we considered the extent to which non-compliance might have a material effect on the financial statements. We also considered those laws and regulations that have a direct impact on the financial statements such as the Companies Act 2006, UK tax legislation and the Listing Rules of the FCA. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to posting manual journal entries to manipulate financial performance, management bias through judgements and assumptions in significant accounting estimates and significant one-off or unusual transactions. The group engagement team shared this risk assessment with the component auditors so that they could include appropriate audit procedures in response to such risks in their work. Audit procedures performed by the group engagement team and/or component auditors included:

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

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

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

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

Use of this report

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

Independent Auditors' Report to the Members of Close Brothers Group plc continued

Other required reporting

Companies Act 2006 exception reporting

Under the Companies Act 2006 we are required to report to you if, in our opinion:
- we have not obtained all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the company, or returns adequate for our audit have not been received from branches not visited by us; or
- certain disclosures of directors' remuneration specified by law are not made; or
- the company financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Appointment

Following the recommendation of the Audit Committee, we were appointed by the directors on 17 May 2017 to audit the financial statements for the year ended 31 July 2018 and subsequent financial periods. The period of total uninterrupted engagement is 5 years, covering the years ended 31 July 2018 to 31 July 2022.

Other matter

In due course, as required by the Financial Conduct Authority Disclosure Guidance and Transparency Rule 4.1.14R, these financial statements will form part of the ESEF-prepared annual financial report filed on the National Storage Mechanism of the Financial Conduct Authority in accordance with the ESEF Regulatory Technical Standard ("ESEF RTS"). This auditors' report provides no assurance over whether the annual financial report will be prepared using the single electronic format specified in the ESEF RTS.

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

27 September 2022

Consolidated Income Statement
for the year ended 31 July 2022

	Note	2022 £ million	2021 £ million
Interest income	4	**690.0**	656.8
Interest expense	4	**(112.0)**	(119.3)
Net interest income		**578.0**	537.5
Fee and commission income	4	**259.5**	246.1
Fee and commission expense	4	**(17.2)**	(16.1)
Gains less losses arising from dealing in securities		**81.6**	165.2
Other income	4	**106.1**	89.4
Depreciation of operating lease assets and other direct costs	16	**(71.9)**	(69.5)
Non-interest income		**358.1**	415.1
Operating income		**936.1**	952.6
Administrative expenses	4	**(598.0)**	(592.1)
Impairment losses on financial assets	11	**(103.3)**	(89.8)
Total operating expenses before amortisation and impairment of intangible assets on acquisition, goodwill impairment and exceptional item		**(701.3)**	(681.9)
Operating profit before amortisation and impairment of intangible assets on acquisition, goodwill impairment and exceptional item		**234.8**	270.7
Amortisation and impairment of intangible assets on acquisition	15	**(2.0)**	(14.2)
Goodwill impairment	15	**–**	(12.1)
Exceptional item: HMRC VAT refund	6	**–**	20.8
Operating profit before tax		**232.8**	265.2
Tax	7	**(67.6)**	(63.1)
Profit after tax		**165.2**	202.1
Profit attributable to shareholders		**165.2**	202.1
Basic earnings per share	8	**110.4p**	134.8p
Diluted earnings per share	8	**109.9p**	133.6p
Interim dividend per share paid	9	**22.0p**	18.0p
Final dividend per share	9	**44.0p**	42.0p

Consolidated Statement of Comprehensive Income
for the year ended 31 July 2022

	2022 £ million	2021 £ million
Profit after tax	**165.2**	202.1
Items that may be reclassified to income statement		
Currency translation losses	**(0.5)**	(1.1)
Gains on cash flow hedging	**30.6**	7.4
(Losses)/gains on financial instruments classified at fair value through other comprehensive income:		
Sovereign and central bank debt	**(1.1)**	0.9
Tax relating to items that may be reclassified	**(7.9)**	(1.2)
	21.1	6.0
Items that will not be reclassified to income statement		
Defined benefit pension scheme (losses)/gains	**(0.1)**	0.5
Tax relating to items that will not be reclassified	**0.3**	(0.6)
	0.2	(0.1)
Other comprehensive income, net of tax	**21.3**	5.9
Total comprehensive income	**186.5**	208.0
Attributable to		
Shareholders	**186.5**	208.0

Consolidated Balance Sheet
at 31 July 2022

	Note	31 July 2022 £ million	31 July 2021 £ million
Assets			
Cash and balances at central banks		**1,254.7**	1,331.0
Settlement balances		**799.3**	699.6
Loans and advances to banks	10	**165.4**	136.3
Loans and advances to customers	11	**8,858.9**	8,444.5
Debt securities	12	**612.8**	477.3
Equity shares	13	**28.4**	31.9
Loans to money brokers against stock advanced		**48.4**	51.1
Derivative financial instruments	14	**71.2**	18.3
Intangible assets	15	**252.0**	232.6
Property, plant and equipment	16	**322.5**	309.9
Current tax assets		**47.0**	36.4
Deferred tax assets	7	**32.5**	56.0
Prepayments, accrued income and other assets	17	**185.2**	209.6
Total assets		**12,678.3**	12,034.5
Liabilities			
Settlement balances and short positions	18	**796.1**	690.6
Deposits from banks	19	**160.5**	150.6
Deposits from customers	19	**6,770.4**	6,634.8
Loans and overdrafts from banks	19	**622.7**	512.7
Debt securities in issue	19	**2,060.9**	1,865.5
Derivative financial instruments	14	**89.2**	21.3
Accruals, deferred income and other liabilities	17	**334.5**	367.0
Subordinated loan capital	20	**186.5**	222.7
Total liabilities		**11,020.8**	10,465.2
Equity			
Called up share capital	21	**38.0**	38.0
Retained earnings		**1,628.4**	1,555.5
Other reserves		**(8.9)**	(23.2)
Total shareholders' equity		**1,657.5**	1,570.3
Non-controlling interests		**–**	(1.0)
Total equity		**1,657.5**	1,569.3
Total equity and liabilities		**12,678.3**	12,034.5

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

Michael N. Biggs
Chairman

Adrian J. Sainsbury
Chief Executive

Registered number: 520241

Consolidated Statement of Changes in Equity
for the year ended 31 July 2022

			Other reserves						
	Called up share capital £ million	Retained earnings £ million	FVOCI reserve £ million	Share-based payments reserve £ million	Exchange movements reserve £ million	Cash flow hedging reserve £ million	Total attributable to equity holders £ million	Non-controlling interests £ million	Total equity £ million
At 1 August 2020	38.0	1,435.0	0.2	(15.6)	(1.3)	(5.7)	1,450.6	(1.0)	1,449.6
Profit for the year	–	202.1	–	–	–	–	202.1	–	202.1
Other comprehensive (expense)/income	–	(0.1)	0.6	–	–	5.4	5.9	–	5.9
Total comprehensive income for the year	–	202.0	0.6	–	–	5.4	208.0	–	208.0
Dividends paid (note 9)	–	(86.6)	–	–	–	–	(86.6)	–	(86.6)
Shares purchased	–	–	–	(12.1)	–	–	(12.1)	–	(12.1)
Shares released	–	–	–	10.0	–	–	10.0	–	10.0
Other movements	–	3.7	–	(4.7)	–	–	(1.0)	–	(1.0)
Income tax	–	1.4	–	–	–	–	1.4	–	1.4
At 31 July 2021	38.0	1,555.5	0.8	(22.4)	(1.3)	(0.3)	1,570.3	(1.0)	1,569.3
Profit for the year	–	165.2	–	–	–	–	165.2	–	165.2
Other comprehensive (expense)/income	–	0.2	(0.7)	–	(0.2)	22.0	21.3	–	21.3
Total comprehensive income for the year	–	165.4	(0.7)	–	(0.2)	22.0	186.5	–	186.5
Dividends paid (note 9)	–	(95.5)	–	–	–	–	(95.5)	–	(95.5)
Shares purchased	–	–	–	(9.5)	–	–	(9.5)	–	(9.5)
Shares released	–	–	–	4.9	–	–	4.9	–	4.9
Other movements	–	4.1	–	(2.2)	–	–	1.9	1.0	2.9
Income tax	–	(1.1)	–	–	–	–	(1.1)	–	(1.1)
At 31 July 2022	**38.0**	**1,628.4**	**0.1**	**(29.2)**	**(1.5)**	**21.7**	**1,657.5**	**–**	**1,657.5**

Consolidated Cash Flow Statement
for the year ended 31 July 2022

	Note	**2022 £ million**	2021 £ million
Net cash inflow from operating activities	27(a)	**158.7**	119.1
Net cash (outflow)/inflow from investing activities			
Purchase of:			
Property, plant and equipment		**(7.1)**	(8.9)
Intangible assets – software		**(51.3)**	(47.9)
Subsidiaries	27(b)	**(0.1)**	(2.9)
Sale of:			
Subsidiaries	27(c)	**0.1**	2.3
		(58.4)	(57.4)
Net cash inflow before financing activities		**100.3**	61.7
Financing activities			
Purchase of own shares for employee share award schemes		**(9.5)**	(12.1)
Equity dividends paid		**(95.5)**	(86.6)
Interest paid on subordinated loan capital and debt financing		**(10.4)**	(13.6)
Payment of lease liabilities		**(15.1)**	(14.7)
Net (redemption)/issuance of subordinated loan capital		**(23.4)**	40.6
Net decrease in cash		**(53.6)**	(24.7)
Cash and cash equivalents at beginning of year		**1,436.6**	1,461.3
Cash and cash equivalents at end of year	27(d)	**1,383.0**	1,436.6

Company Balance Sheet
at 31 July 2022

	Note	**2022 £ million**	2021 £ million
Fixed assets			
Intangible assets	15	**–**	–
Property, plant and equipment	16	**10.2**	11.5
Investment in subsidiary	30	**287.0**	287.0
		297.2	298.5
Current assets			
Amounts owed by subsidiaries due within one year		**450.4**	434.8
Amounts owed by subsidiaries due after more than one year		**340.8**	363.4
Corporation tax receivable		**3.3**	4.6
Other debtors		**13.6**	8.9
Cash at bank		**1.9**	1.2
		810.0	812.9
Creditors: Amounts falling due within one year			
Debt securities in issue	19	**1.8**	1.8
Subordinated loan capital		**1.6**	0.6
Provisions	17	**1.4**	1.2
Deferred tax liability	7	**0.2**	0.8
Other creditors		**1.0**	0.8
Accruals		**8.3**	9.5
		14.3	14.7
Net current assets		**795.7**	798.2
Total assets less current liabilities		**1,092.9**	1,096.7
Creditors: Amounts falling due after more than one year			
Debt securities in issue	19	**249.7**	249.3
Subordinated loan capital		**198.5**	221.5
Provisions	17	**2.0**	1.8
Net assets		**642.7**	624.1
Capital and reserves			
Called up share capital	21	**38.0**	38.0
Profit and loss account		**633.9**	608.5
Other reserves		**(29.2)**	(22.4)
Shareholders' funds		**642.7**	624.1

The company reported a profit for the financial year ended 31 July 2022 of £116.0 million (2021: £116.0 million).

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

Michael N. Biggs
Chairman

Adrian J. Sainsbury
Chief Executive

Company Statement of Changes in Equity
for the year ended 31 July 2022

	Share capital £ million	Profit and loss account £ million	Other reserves: Share-based payments reserve £ million	Shareholders' funds £ million
At 1 August 2020	38.0	576.8	(15.6)	599.2
Profit for the year	–	116.0	–	116.0
Other comprehensive expense	–	(0.1)	–	(0.1)
Total comprehensive income for the year	–	115.9	–	115.9
Dividends paid (note 9)	–	(86.6)	–	(86.6)
Shares purchased	–	–	(12.1)	(12.1)
Shares released	–	–	10.0	10.0
Other movements	–	2.4	(4.7)	(2.3)
At 31 July 2021	38.0	608.5	(22.4)	624.1
Profit for the year	–	116.0	–	116.0
Other comprehensive income	–	0.2	–	0.2
Total comprehensive income for the year	–	116.2	–	116.2
Dividends paid (note 9)	–	(95.5)	–	(95.5)
Shares purchased	–	–	(9.5)	(9.5)
Shares released	–	–	4.9	4.9
Other movements	–	4.7	(2.2)	2.5
At 31 July 2022	**38.0**	**633.9**	**(29.2)**	**642.7**

The Notes

1. Significant Accounting Policies

(a) Reporting entity

Close Brothers Group plc ("the company"), a public limited company incorporated and domiciled in the UK, together with its subsidiaries (collectively, "the group"), operates through five (2021: five) operating segments: Commercial, Retail, Property, Asset Management and Securities, 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 102 ''The Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland'' (''FRS 102'') and the Companies Act 2006, under the provision of the Large and Medium-sized Companies and Groups (Accounts and Financial Instruments: Recognition and Measurement Reports) Regulations 2008 (SI 2008/410).

As permitted by FRS 102, the company has chosen to adopt IFRS 9 Financial Instruments where applicable and taken advantage of the disclosure exemptions available under that standard in relation to the presentation of a cash flow statement, share-based payments and related party transactions. Where required, equivalent disclosures are given in the consolidated financial statements of the group. The company has also taken advantage of the exemption in section 408 of the Companies Act 2006 not to present its company income statement and related notes.

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

(b) Compliance with International Financial Reporting Standards

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

Standards adopted during the year

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

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

Future accounting developments

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

(c) Basis of preparation

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

The consolidated accounts have been prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006.

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

(d) Consolidation and investment in subsidiary

Subsidiaries

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

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

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

(e) Foreign currency translation

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

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

(f) Revenue recognition

Interest income

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

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

Fees and commissions

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

Dividends

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

Gains less losses arising from dealing in securities
Net realised and unrealised gains arising from both buying and selling securities and from positions held in securities, including related interest income and dividends.

(g) Adjusted measures

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

(h) Financial assets and liabilities (excluding derivatives)

Classification and measurement
Financial assets are classified at initial recognition on the basis of the business model within which they are managed and their contractual cash flow characteristics. The classification categories are amortised cost, fair value through other comprehensive income ("FVOCI") and fair value through profit or loss ("FVTPL").

Financial assets that are held to collect contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Initial recognition is at fair value plus directly attributable transaction costs. Interest income is accounted for using the effective interest rate method.

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

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

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

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

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

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

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

(i) Impairment of financial assets

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

At initial recognition, financial assets are considered to be in Stage 1 and a provision is recognised for 12 months of expected credit losses. If a significant increase in credit risk since initial recognition occurs, these financial assets are considered to be in Stage 2 and a provision is made for the lifetime expected credit losses. As a backstop, all financial assets 30 days past due are considered to have experienced a significant increase in credit risk and are transferred to Stage 2.

A financial asset will remain classified as Stage 2 until the credit risk has improved and it can be returned to Stage 1 or until it deteriorates such that it meets the criteria to move to Stage 3.

Where a financial asset no longer represents a significant increase in credit risk since origination it can move from Stage 2 back to Stage 1. As a minimum this means that all payments must be up-to-date, the quantitative probability of default assessment trigger is no longer met, and the account is not evidencing qualitative assessment triggers.

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

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

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

The Notes continued

1. Significant Accounting Policies continued

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

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

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

Probability of Default

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

Exposure at Default

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

Loss Given Default

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

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

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

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

(j) Settlement accounts

Settlement balance debtors and creditors are the amounts due to and from counterparties in respect of the group's market-making activities and are carried at amortised cost. The balances are short term in nature, do not earn interest and are recorded at the amount receivable or payable.

(k) Loans to and from money brokers against stock advanced

Loans to money brokers against stock advanced is the cash collateral provided to these institutions for stock borrowing by the group's market-making activities and is carried at amortised cost. Interest is paid on the stock borrowed and earned on the cash deposits advanced. The stock borrowing to which the cash deposits relate is short term in nature and is recorded at the amount receivable. Loans from money brokers against stock collateral provided are recorded at the amount payable. Interest is paid on the loans.

(l) Leases

Lessor

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

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

Lessee

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

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

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

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

(n) Securitisation transactions

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

(o) 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.

(p) Derivatives and hedge accounting

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

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

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

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

(q) 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.

(r) Property, plant and equipment

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

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

(s) 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.

(t) Employee benefits

The group 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 the group's assets. Contributions are charged in the consolidated income statement when they become payable.

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

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

(u) Share-based payments to employees

At 31 July 2022, the group operates three (31 July 2021: three) share-based award schemes: the Deferred Share Awards ("DSA") scheme, the Long Term Incentive Plan ("LTIP"), and the HMRC approved Save As You Earn ("SAYE") scheme.

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

The costs of LTIP and SAYE are based on the fair value of awards on the date of grant. Fair values of share-based awards are determined using the Black-Scholes pricing model, with the exception of fair values for market-based performance conditions, which are determined using Monte Carlo simulation. Both models take into account the exercise price of the option, the current share price, the risk-free interest rate, the expected volatility of the company's share price over the life of the option award and other relevant factors. For non-market-based performance conditions, vesting conditions are not taken into account when measuring fair value, but are reflected by adjusting the number of shares in each award such that the amount recognised reflects the number that are expected to, and then actually do, vest. The fair value is expensed in the consolidated 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 26 and in the Directors' Remuneration Report.

(v) 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.

The Notes continued

1. Significant Accounting Policies continued

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.

(w) 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.

(x) 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.

(y) 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.

2. Critical Accounting Estimates and Judgements

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

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

Critical accounting judgements

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

Expected credit losses

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

Significant increase in credit risk

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

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

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

Definition of default

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

Key sources of estimation uncertainty

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

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

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

A representation of the core drivers of the macroeconomic scenarios that are deployed in our models are outlined on page 164. In some instances, our underlying business expected credit loss models use a range of other macroeconomic metrics and assumptions which are linked to the underlying characteristics of the business.

Model estimates

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

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

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

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

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

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

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

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

Forward-looking information

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

In order to calculate forward-looking provisions, economic scenarios are sourced from Moody's Analytics, which are then used to project potential credit conditions for each portfolio. An overview of these scenarios using key macroeconomic indicators is provided on page 165. Benchmarking to other economic providers is carried out to provide management comfort on Moody's Analytics scenario paths.

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

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

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

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

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

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

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

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

The table on page 164 shows economic assumptions within each scenario, and the weighting applied to each at 31 July 2022. The metrics below are key UK economic indicators, chosen to describe the economic scenarios. These are the main metrics used to set scenario paths which then influence a wide range of additional metrics that are used in expected credit loss models. The first tables show the forecasts of the key metrics for the scenarios utilised for calendar years 2022 and 2023. The subsequent tables show averages and peak to trough ranges for the same key metrics over the five-year period from 2022 to 2026.

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

The Notes continued

2. Critical Accounting Estimates and Judgements continued

FY22 and FY21 scenario forecasts and weights

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

The Notes continued

3. Segmental Analysis

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

In the segmental reporting information that follows, Group consists of central functions as well as various non-trading head office companies and consolidation adjustments and is presented in order that the information presented reconciles to the consolidated income statement. The Group balance sheet primarily includes treasury assets and liabilities comprising cash and balances at central banks, debt securities, customer deposits and other borrowings.

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

	Banking						
	Commercial £ million	Retail £ million	Property £ million	Asset Management £ million	Securities £ million	Group £ million	Total £ million
Summary income statement for the year ended 31 July 2022							
Net interest income/(expense)	**257.1**	**210.8**	**112.1**	**(0.7)**	**(1.1)**	**(0.2)**	**578.0**
Non-interest income	**86.3**	**26.2**	**0.6**	**148.7**	**96.3**	**–**	**358.1**
Operating income/(expense)	**343.4**	**237.0**	**112.7**	**148.0**	**95.2**	**(0.2)**	**936.1**
Administrative expenses	**(158.3)**	**(131.3)**	**(27.0)**	**(120.7)**	**(77.2)**	**(25.8)**	**(540.3)**
Depreciation and amortisation	**(21.7)**	**(20.3)**	**(4.0)**	**(5.6)**	**(3.9)**	**(2.2)**	**(57.7)**
Impairment losses on financial assets	**(72.4)**	**(24.4)**	**(6.5)**	**–**	**–**	**–**	**(103.3)**
Total operating expenses before amortisation and impairment of intangible assets on acquisition, goodwill impairment and exceptional item	**(252.4)**	**(176.0)**	**(37.5)**	**(126.3)**	**(81.1)**	**(28.0)**	**(701.3)**
Adjusted operating profit/(loss)[1]	**91.0**	**61.0**	**75.2**	**21.7**	**14.1**	**(28.2)**	**234.8**
Amortisation and impairment of intangible assets on acquisition	**(0.1)**	**–**	**–**	**(1.9)**	**–**	**–**	**(2.0)**
Goodwill impairment	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Exceptional item: HMRC VAT refund	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Operating profit/(loss) before tax	**90.9**	**61.0**	**75.2**	**19.8**	**14.1**	**(28.2)**	**232.8**
External operating income/(expense)	**391.7**	**268.3**	**129.4**	**148.1**	**95.2**	**(96.6)**	**936.1**
Inter segment operating (expense)/income	**(48.3)**	**(31.3)**	**(16.7)**	**(0.1)**	**–**	**96.4**	**–**
Segment operating income/(expense)	**343.4**	**237.0**	**112.7**	**148.0**	**95.2**	**(0.2)**	**936.1**

1 Adjusted operating profit/(loss) is stated before amortisation and impairment of intangible assets on acquisition, goodwill impairment, exceptional item and tax.

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

	Banking						
	Commercial £ million	Retail £ million	Property £ million	Asset Management £ million	Securities £ million	Group[2] £ million	Total £ million
Summary balance sheet information at 31 July 2022							
Total assets[1]	**4,561.4**	**3,064.0**	**1,473.5**	**172.8**	**972.3**	**2,434.3**	**12,678.3**
Total liabilities	**–**	**–**	**–**	**70.5**	**880.6**	**10,069.7**	**11,020.8**

1 Total assets for the Banking operating segments comprise the loan book and operating lease assets only. The Commercial operating segment includes the net loan book of Novitas of £159.4 million.
2 Balance sheet includes £2,425.0 million assets and £10,181.9 million liabilities attributable to the Banking division primarily comprising the treasury balances described in the second paragraph of this note.

Equity is allocated across the group as set out below. Banking division equity, which is managed as a whole rather than on a segmental basis, reflects loan book and operating lease assets of £9,098.9 million, in addition to assets and liabilities of £2,425.0 million and £10,181.9 million respectively primarily comprising treasury balances which are included within the Group column above.

	Banking £ million	Asset Management £ million	Securities £ million	Group £ million	Total £ million
Equity	**1,342.0**	**102.3**	**91.7**	**121.5**	**1,657.5**

	Banking						
	Commercial	**Retail**	**Property**	**Asset Management**	**Securities**	**Group**	**Total**
Other segmental information for the year ended 31 July 2022							
Employees (average number)[1]	**1,348**	**1,153**	**190**	**722**	**318**	**79**	**3,810**

1 Banking segments are inclusive of a central function headcount allocation.

	Banking						
	Commercial £ million	Retail £ million	Property £ million	Asset Management £ million	Securities £ million	Group £ million	Total £ million
Summary income statement for the year ended 31 July 2021							
Net interest income/(expense)	218.1	198.8	122.6	(0.1)	(1.4)	(0.5)	537.5
Non-interest income	70.8	21.0	0.4	139.5	183.4	–	415.1
Operating income/(expense)	288.9	219.8	123.0	139.4	182.0	(0.5)	952.6
Administrative expenses	(139.1)	(118.6)	(29.1)	(110.8)	(118.1)	(24.1)	(539.8)
Depreciation and amortisation	(19.1)	(19.4)	(3.8)	(5.1)	(3.1)	(1.8)	(52.3)
Impairment (losses)/gains on financial assets	(77.9)	(9.9)	(2.3)	0.2	0.1	–	(89.8)
Total operating expenses before amortisation and impairment of intangible assets on acquisition, goodwill impairment and exceptional item	(236.1)	(147.9)	(35.2)	(115.7)	(121.1)	(25.9)	(681.9)
Adjusted operating profit/(loss)[1]	52.8	71.9	87.8	23.7	60.9	(26.4)	270.7
Amortisation and impairment of intangible assets on acquisition	(12.2)	(0.7)	–	(1.3)	–	–	(14.2)
Goodwill impairment	(12.1)	–	–	–	–	–	(12.1)
Exceptional item: HMRC VAT refund	7.4	12.3	–	–	–	1.1	20.8
Operating profit/(loss) before tax	35.9	83.5	87.8	22.4	60.9	(25.3)	265.2
External operating income/(expense)	343.1	258.7	142.3	139.4	182.0	(112.9)	952.6
Inter segment operating (expense)/income	(54.2)	(38.9)	(19.3)	–	–	112.4	–
Segment operating income/(expense)	288.9	219.8	123.0	139.4	182.0	(0.5)	952.6

1 Adjusted operating profit/(loss) is stated before amortisation and impairment of intangible assets on acquisition, goodwill impairment, exceptional item and tax.

	Banking						
	Commercial £ million	Retail £ million	Property £ million	Asset Management £ million	Securities £ million	Group[2] £ million	Total £ million
Summary balance sheet information at 31 July 2021							
Total assets[1]	4,191.0	2,974.3	1,502.1	139.7	897.9	2,329.5	12,034.5
Total liabilities	–	–	–	78.1	806.5	9,580.6	10,465.2

1 Total assets for the Banking operating segments comprise the loan book and operating lease assets only. The Commercial operating segment includes the net loan book of Novitas of £181.5 million.
2 Balance sheet includes £2,299.0 million assets and £9,677.8 million liabilities attributable to the Banking division primarily comprising the treasury balances described in the second paragraph of this note.

Equity is allocated across the group as set out below. Banking division equity, which is managed as a whole rather than on a segmental basis, reflects loan book and operating lease assets of £8,667.4 million, in addition to assets and liabilities of £2,299.0 million and £9,677.8 million respectively primarily comprising treasury balances which are included within the Group column above.

	Banking £ million	Asset Management £ million	Securities £ million	Group £ million	Total £ million
Equity	1,288.6	61.6	91.4	127.7	1,569.3

	Banking						
	Commercial	Retail	Property	Asset Management	Securities	Group	Total
Other segmental information for the year ended 31 July 2021							
Employees (average number)[1]	1,276	1,163	187	706	300	77	3,709

1 Banking segments are inclusive of a central function headcount allocation.

The Notes continued

4. Operating Profit before Tax

	2022 £ million	2021 £ million
Interest income[1]		
Cash and balances at central banks	**5.9**	1.6
Loans and advances to banks	**0.3**	–
Loans and advances to customers	**680.4**	652.9
Other interest income	**3.4**	2.3
	690.0	656.8
Interest expense		
Deposits by banks	**(0.1)**	–
Deposits by customers	**(64.1)**	(66.3)
Borrowings	**(33.2)**	(38.7)
Other interest expense	**(14.6)**	(14.3)
	(112.0)	(119.3)
Net interest income	**578.0**	537.5

1 Interest income calculated using the effective interest method.

	2022 £ million	2021 £ million
Fee and commission income		
Banking	**98.1**	88.2
Asset Management	**148.8**	141.2
Securities	**12.6**	16.7
	259.5	246.1
Fee and commission expense	**(17.2)**	(16.1)
Net fee and commission income	**242.3**	230.0

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

Fee income and expense arising from trust and other fiduciary activities amounted to £148.8 million (2021: £141.2 million) and £1.8 million (2021: £1.9 million) respectively.

	2022 £ million	2021 £ million
Other income		
Operating lease assets rental income	**85.4**	75.4
Other	**20.7**	14.0
	106.1	89.4

	2022 £ million	2021 £ million
Administrative expenses		
Staff costs:		
Wages and salaries	**283.9**	297.0
Social security costs	**38.8**	44.7
Share-based awards	**4.9**	5.7
Pension costs	**16.9**	15.8
	344.5	363.2
Depreciation and amortisation	**57.7**	52.3
Other administrative expenses	**195.8**	176.6
	598.0	592.1

5. Information Regarding the Auditor

	2022[1] £ million	2021 £ million
Fees payable		
Audit of the company's annual accounts	**0.6**	0.4
Audit of the company's subsidiaries pursuant to legislation	**2.3**	2.2
Audit related services	**0.5**	0.5
Other services	**0.3**	0.2
	3.7	3.3

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

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

6. Exceptional Item

In the prior year ended 31 July 2021, the group recorded an exceptional gain of £20.8 million, reflecting a VAT refund from HMRC in relation to hire purchase agreements in the Motor Finance and Asset Finance businesses. This followed HMRC's policy in Revenue and Customs Brief 8 (2020) published in June 2020. The Brief advised businesses who supply goods by way of hire purchase agreements of HMRC's suggested method for apportionment of VAT incurred on overheads (and so the reclaimable portion of such VAT). This followed the Court of Justice of the European Union's judgement regarding Volkswagen Financial Services (UK) Ltd.

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

7. Taxation

	2022 £ million	2021 £ million
Tax charged/(credited) to the income statement		
Current tax:		
UK corporation tax	**53.7**	75.1
Foreign tax	**1.9**	1.5
Adjustments in respect of previous years	**(2.8)**	(3.4)
	52.8	73.2
Deferred tax:		
Deferred tax charge/(credit) for the current year	**11.8**	(13.6)
Adjustments in respect of previous years	**3.0**	3.5
	67.6	63.1
Tax on items not charged/(credited) to the income statement		
Deferred tax relating to:		
Cash flow hedging	**8.6**	2.0
Defined benefit pension scheme	**(0.3)**	0.6
Financial instruments classified as fair value through other comprehensive income	**(0.4)**	0.3
Share-based payments	**1.1**	(1.4)
Currency translation losses	**(0.3)**	(1.1)
Acquisitions	**–**	1.0
	8.7	1.4
Reconciliation to tax expense		
UK corporation tax for the year at 19.0% (2021: 19.0%) on operating profit before tax	**44.2**	50.4
Effect of different tax rates in other jurisdictions	**(0.3)**	(0.3)
Disallowable items and other permanent differences	**0.9**	2.9
Banking surcharge	**14.9**	19.8
Deferred tax impact of decreased/(increased) tax rates	**7.7**	(9.8)
Prior year tax provision	**0.2**	0.1
	67.6	63.1

The Notes continued

7. Taxation continued

The standard UK corporation tax rate for the financial year is 19.0% (2021: 19.0%). However, an additional 8% surcharge applies to banking company profits as defined in legislation. The effective tax rate of 29.0% (2021: 23.8%) is above the UK corporation tax rate primarily due to the surcharge applying to most of the group's profits and to a write-down in deferred tax assets reflecting a reduction in the banking surcharge applying from April 2023 from 8% to 3% passed into law in the year.

On 23 September 2022, the Chancellor of the Exchequer announced as part of his Growth Plan that the corporation tax rate increase from 19% to 25% from April 2023 will be cancelled, and that the banking surcharge rate will remain at 8%. The relevant legislation is expected to be enacted in the year ending 31 July 2023 and is a non-adjusting post balance sheet event. Had this change been enacted before 31 July 2022, the group's deferred tax asset balance at 31 July 2022 would have decreased by approximately £1.5 million, with a corresponding tax charge recognised in the income statement, net of a smaller credit to other comprehensive income.

Movements in deferred tax assets and liabilities were as follows:

	Capital allowances £ million	Pension scheme £ million	Share-based payments and deferred compensation £ million	Impairment losses £ million	Cash flow hedging £ million	Intangible assets £ million	Other £ million	Total £ million
Group								
At 1 August 2020	31.5	(1.7)	8.9	9.5	2.1	(3.2)	0.2	47.3
Credit/(charge) to the income statement	3.5	0.1	5.2	(0.7)	–	2.5	(0.5)	10.1
Credit/(charge) to other comprehensive income	1.1	(0.6)	–	–	(2.0)	–	(0.3)	(1.8)
Credit to equity	–	–	1.4	–	–	–	–	1.4
Acquisitions	–	–	–	–	–	(1.0)	–	(1.0)
At 31 July 2021	36.1	(2.2)	15.5	8.8	0.1	(1.7)	(0.6)	56.0
(Charge)/credit to the income statement	(10.9)	–	(1.5)	(3.0)	–	0.4	0.2	(14.8)
Credit/(charge) to other comprehensive income	0.3	0.3	–	–	(8.6)	–	0.4	(7.6)
Charge to equity	–	–	(1.1)	–	–	–	–	(1.1)
Acquisitions	–	–	–	–	–	–	–	–
At 31 July 2022	**25.5**	**(1.9)**	**12.9**	**5.8**	**(8.5)**	**(1.3)**	**–**	**32.5**

	Capital allowances £ million	Pension scheme £ million	Share-based payments and deferred compensation £ million	Total £ million
Company				
At 1 August 2020	–	(1.7)	1.8	0.1
(Charge)/credit to the income statement	(0.6)	0.1	0.2	(0.3)
Charge to other comprehensive income	–	(0.6)	–	(0.6)
At 31 July 2021	(0.6)	(2.2)	2.0	(0.8)
Credit/(charge) to the income statement	0.3	–	–	0.3
Credit to other comprehensive income	–	0.3	–	0.3
At 31 July 2022	**(0.3)**	**(1.9)**	**2.0**	**(0.2)**

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

8. Earnings per Share

The calculation of basic earnings per share is based on the profit attributable to shareholders and the number of basic weighted average shares. When calculating the diluted earnings per share, the weighted average number of shares in issue is adjusted for the effects of all dilutive share options and awards.

	2022	2021
Basic	**110.4p**	134.8p
Diluted	**109.9p**	133.6p
Adjusted basic[1]	**111.5p**	140.4p
Adjusted diluted[1]	**111.0p**	139.1p

1 Excludes amortisation and impairment of intangible assets on acquisition, goodwill impairment, exceptional item and their tax effects.

	2022 £ million	2021 £ million
Profit attributable to shareholders	**165.2**	202.1
Adjustments:		
Amortisation of intangible assets on acquisition	**2.0**	14.2
Goodwill impairment	**–**	12.1
Exceptional item: HMRC VAT refund	**–**	(20.8)
Tax effect of adjustments and exceptional item	**(0.4)**	2.9
Adjusted profit attributable to shareholders	**166.8**	210.5

	2022 million	2021 million
Average number of shares		
Basic weighted	**149.6**	149.9
Effect of dilutive share options and awards	**0.7**	1.4
Diluted weighted	**150.3**	151.3

9. Dividends

	2022 £ million	2021 £ million
For each ordinary share		
Final dividend for previous financial year paid in November 2021: 42.0p (November 2020: 40.0p)	**62.7**	59.8
Interim dividend for current financial year paid in April 2022: 22.0p (April 2021: 18.0p)	**32.8**	26.8
	95.5	86.6

A final dividend relating to the year ended 31 July 2022 of 44.0p, amounting to an estimated £65.6 million, is proposed. This final dividend, which is due to be paid on 22 November 2022 to shareholders on the register at 14 October 2022, is not reflected in these financial statements.

10. Loans and Advances to Banks

	On demand £ million	Within three months £ million	Between three months and one year £ million	Between one and two years £ million	Between two and five years £ million	Total £ million
At 31 July 2022	**147.0**	**1.9**	**10.0**	**2.4**	**4.1**	**165.4**
At 31 July 2021	121.9	1.0	2.2	10.5	0.7	136.3

The Notes continued

11. Loans and Advances to Customers

(a) Maturity analysis of loans and advances to customers

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

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

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

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

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

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

Stage allocation of loans and advances to customers has been applied in line with the definitions set out on page 159.

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

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

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

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

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

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

(c) Adjustments

By their nature, limitations in the group's expected credit loss models or input data may be identified through ongoing model monitoring and validation of models. In certain circumstances, management make appropriate adjustments to model-calculated expected credit losses. These adjustments are based on management judgements or quantitative back-testing to ensure expected credit loss provisions adequately reflect all known information. These adjustments are generally determined by considering the attributes or risks of a financial asset which are not captured by existing expected credit loss model outputs. Management adjustments are actively monitored, reviewed, and incorporated into future model developments where applicable.

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

The Notes continued

11. Loans and Advances to Customers continued

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

	2022 £ million	2021 £ million
Impairment losses relating to loans and advances to customers:		
Charge to income statement arising from movement in impairment provisions	**93.4**	77.7
Amounts written off directly to income statement, net of recoveries and other costs	**8.5**	10.2
	101.9	87.9
Impairment losses relating to other financial assets	**1.4**	1.9
Impairment losses on financial assets recognised in income statement	**103.3**	89.8

Impairment losses on financial assets of £103.3 million (2021: £89.8 million) include £60.7 million in relation to Novitas (2021: £73.2 million).

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

(e) Finance lease and hire purchase agreement receivables

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

The Notes continued

11. Loans and Advances to Customers continued

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

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

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

12. Debt Securities

	Fair value through profit or loss £ million	Fair value through other comprehensive income £ million	Amortised cost £ million	Total £ million
Long trading positions in debt securities	**12.4**	**–**	**–**	**12.4**
Certificates of deposit	**–**	**–**	**185.0**	**185.0**
Sovereign and central bank debt	**–**	**415.4**	**–**	**415.4**
At 31 July 2022	**12.4**	**415.4**	**185.0**	**612.8**

	Fair value through profit or loss £ million	Fair value through other comprehensive income £ million	Amortised cost £ million	Total £ million
Long trading positions in debt securities	20.1	–	–	20.1
Certificates of deposit	–	–	264.7	264.7
Sovereign and central bank debt	–	192.5	–	192.5
At 31 July 2021	20.1	192.5	264.7	477.3

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

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

13. Equity Shares

	31 July 2022 £ million	31 July 2021 £ million
Long trading positions	**27.1**	30.8
Other equity shares	**1.3**	1.1
	28.4	31.9

14. Derivative Financial Instruments

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

	31 July 2022			31 July 2021		
	Notional value £ million	**Assets £ million**	**Liabilities £ million**	Notional value £ million	Assets £ million	Liabilities £ million
Exchange rate contracts	**109.8**	**0.7**	**0.3**	104.5	0.2	0.2
Interest rate contracts	**4,408.7**	**70.5**	**88.9**	3,267.8	18.1	21.1
	4,518.5	**71.2**	**89.2**	3,372.3	18.3	21.3

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

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

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

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

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

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

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

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

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

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

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

The Notes continued

14. Derivative Financial Instruments continued

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

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

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

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

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

	Carrying amount of hedged item £ million	Accumulated amount of fair value adjustment on the hedged item £ million	Changes in fair value of hedged item used for calculating hedge ineffectiveness £ million
At 31 July 2022			
Fair value hedges			
Assets			
Debt securities	**211.1**	**(24.0)**	**(28.5)**
Loans and advances to customers and undrawn commitments	**107.4**	**(4.8)**	**(6.7)**
	318.5	**(28.8)**	**(35.2)**
Liabilities			
Deposits by customers	**–**	**–**	**(0.1)**
Debt securities in issue	**823.3**	**(72.2)**	**(71.6)**
Subordinated loan capital	**186.5**	**(13.0)**	**(13.8)**
	1,009.8	**(85.2)**	**(85.5)**

	Carrying amount of hedged item £ million	Accumulated amount of fair value adjustment on the hedged item £ million	Changes in fair value of hedged item used for calculating hedge ineffectiveness £ million
At 31 July 2021			
Fair value hedges			
Assets			
Debt securities	192.5	4.5	1.2
Loans and advances to customers and undrawn commitments	88.5	1.8	(2.5)
	281.0	6.3	(1.3)
Liabilities			
Deposits by customers	21.2	0.1	1.5
Debt securities in issue	842.6	(0.5)	27.6
Subordinated loan capital	222.7	0.8	1.1
	1,086.5	0.4	30.2

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

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

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

15. Intangible Assets

	Goodwill £ million	Software £ million	Intangible assets on acquisition £ million	Group total £ million	Company software £ million
Cost					
At 1 August 2020	153.0	233.3	67.5	453.8	0.5
Additions	2.0	46.2	4.2	52.4	–
Disposals	(12.1)	(6.7)	(20.7)	(39.5)	(0.1)
At 31 July 2021	142.9	272.8	51.0	466.7	0.4
Additions	–	56.0	–	56.0	–
Disposals	(0.3)	(29.3)	–	(29.6)	–
At 31 July 2022	**142.6**	**299.5**	**51.0**	**493.1**	**0.4**
Amortisation and impairment					
At 1 August 2020	47.9	115.5	50.3	213.7	0.4
Amortisation charge for the year	–	29.4	3.0	32.4	–
Impairment charge for the year	12.1	–	11.2	23.3	–
Disposals	(12.1)	(2.5)	(20.7)	(35.3)	–
At 31 July 2021	47.9	142.4	43.8	234.1	0.4
Amortisation charge for the year	–	34.6	2.0	36.6	–
Impairment charge for the year	–	–	–	–	–
Disposals	–	(29.6)	–	(29.6)	–
At 31 July 2022	**47.9**	**147.4**	**45.8**	**241.1**	**0.4**
Net book value at 31 July 2022	**94.7**	**152.1**	**5.2**	**252.0**	**–**
Net book value at 31 July 2021	95.0	130.4	7.2	232.6	–
Net book value at 1 August 2020	105.1	117.8	17.2	240.1	0.1

Software includes assets under development of £71.1 million (31 July 2021: £60.1 million).

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

In the 2022 financial year, £2.0 million (2021: £3.0 million) of the amortisation charge is included in amortisation of intangible assets on acquisition and £34.6 million (2021: £29.4 million) of the amortisation charge is included in administrative expenses shown in the consolidated income statement. In the prior financial year, an impairment charge of £11.2 million relating to intangible assets on acquisition was excluded from administrative expenses shown in the consolidated income statement.

Impairment tests for goodwill

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

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

The Notes continued

15. Intangible Assets continued

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

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

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

	31 July 2022		31 July 2021	
Cash generating unit	**Goodwill £ million**	**Pre-tax discount rate %**	Goodwill £ million	Pre-tax discount rate %
Close Brothers Asset Management	**39.9**	**10.4**	40.2	7.1
Winterflood Securities	**23.3**	**16.7**	23.3	12.0
Other	**31.5**	**15.4-17.1**	31.5	9.8-10.9
	94.7		95.0	

Impairment of goodwill and intangible assets on acquisition

In the prior year ended 31 July 2021, the group recorded an impairment charge of £12.1 million relating to the full impairment of goodwill allocated to Novitas, a CGU within the group's Commercial segment. In addition, a total impairment charge of £11.2 million was recorded relating to intangible assets on acquisition, of which £10.1 million related to Novitas.

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

16. Property, Plant and Equipment

	Leasehold property £ million	Fixtures, fittings and equipment £ million	Assets held under operating leases £ million	Motor vehicles £ million	Right of use assets[1] £ million	Total £ million
Group						
Cost						
At 1 August 2020	25.5	60.1	341.4	0.1	60.4	487.5
Additions	1.1	17.2	60.6	0.1	17.6	96.6
Disposals	(1.4)	(2.5)	(41.3)	–	(6.3)	(51.5)
At 31 July 2021	25.2	74.8	360.7	0.2	71.7	532.6
Additions	0.6	4.3	67.8	–	13.6	86.3
Disposals	(4.9)	(16.5)	(30.3)	–	(6.8)	(58.5)
At 31 July 2022	**20.9**	**62.6**	**398.2**	**0.2**	**78.5**	**560.4**
Depreciation						
At 1 August 2020	14.8	42.9	119.5	0.1	13.0	190.3
Depreciation and impairment charges for the year	2.3	6.8	44.8	–	13.8	67.7
Disposals	(1.4)	(2.2)	(26.5)	–	(5.2)	(35.3)
At 31 July 2021	15.7	47.5	137.8	0.1	21.6	222.7
Depreciation and impairment charges for the year	2.2	7.6	40.6	0.1	13.2	63.7
Disposals	(4.9)	(18.2)	(20.2)	–	(5.2)	(48.5)
At 31 July 2022	**13.0**	**36.9**	**158.2**	**0.2**	**29.6**	**237.9**
Net book value at 31 July 2022	**7.9**	**25.7**	**240.0**	**–**	**48.9**	**322.5**
Net book value at 31 July 2021	9.5	27.3	222.9	0.1	50.1	309.9
Net book value at 1 August 2020	10.7	17.2	221.9	–	47.4	297.2

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

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

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

	Leasehold property £ million	Fixtures, fittings and equipment £ million	Total £ million
Company			
Cost			
At 1 August 2020	1.1	5.5	6.6
Additions	–	6.7	6.7
Disposals	(0.8)	(0.4)	(1.2)
At 31 July 2021	0.3	11.8	12.1
Additions	–	–	–
Disposals	–	–	–
At 31 July 2022	**0.3**	**11.8**	**12.1**
Depreciation			
At 1 August 2020	0.8	0.4	1.2
Charge for the year	–	0.6	0.6
Disposals	(0.8)	(0.4)	(1.2)
At 31 July 2021	–	0.6	0.6
Charge for the year	0.1	1.2	1.3
Disposals	–	–	–
At 31 July 2022	**0.1**	**1.8**	**1.9**
Net book value at 31 July 2022	**0.2**	**10.0**	**10.2**
Net book value at 31 July 2021	0.3	11.2	11.5
Net book value at 1 August 2020	0.3	5.1	5.4

The net book value of leasehold property comprises:

	Group		Company	
	31 July 2022 £ million	31 July 2021 £ million	31 July 2022 £ million	31 July 2021 £ million
Long leasehold property	**1.3**	1.5	**0.2**	0.3
Short leasehold property	**6.6**	8.0	**–**	–
	7.9	9.5	**0.2**	0.3

The Notes continued

17. Other Assets and Other Liabilities

	31 July 2022 £ million	31 July 2021 £ million
Prepayments, accrued income and other assets		
Prepayments	**115.6**	134.6
Accrued income	**14.9**	15.7
Trade and other receivables	**54.7**	59.3
	185.2	209.6
Accruals, deferred income and other liabilities		
Accruals	**149.0**	182.8
Deferred income	**5.7**	4.1
Trade and other payables	**155.9**	158.3
Provisions	**23.9**	21.8
	334.5	367.0

Provisions movement in the year:

	Claims £ million	Property £ million	Other £ million	Total £ million
Group				
At 1 August 2020	–	6.1	9.7	15.8
Additions	6.2	0.8	5.9	12.9
Utilised	(0.4)	(0.1)	(2.9)	(3.4)
Released	–	–	(3.5)	(3.5)
At 31 July 2021	5.8	6.8	9.2	21.8
Additions	5.8	1.1	2.2	9.1
Utilised	(1.4)	(0.6)	(1.9)	(3.9)
Released	(1.3)	(0.6)	(1.2)	(3.1)
At 31 July 2022	**8.9**	**6.7**	**8.3**	**23.9**

	Property £ million	Other £ million	Total £ million
Company			
At 1 August 2020	0.4	2.9	3.3
Additions	–	0.7	0.7
Utilised	–	(1.0)	(1.0)
Released	–	–	–
At 31 July 2021	0.4	2.6	3.0
Additions	–	1.0	1.0
Utilised	–	(0.4)	(0.4)
Released	–	(0.2)	(0.2)
At 31 July 2022	**0.4**	**3.0**	**3.4**

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

18. Settlement Balances and Short Positions

	31 July 2022 £ million	31 July 2021 £ million
Settlement balances	**780.7**	674.2
Short positions in:		
Debt securities	**7.5**	7.0
Equity shares	**7.9**	9.4
	15.4	16.4
	796.1	690.6

19. 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**
Deposits by banks	**6.1**	**52.0**	**102.4**	**–**	**–**	**–**	**160.5**
Deposits by customers	**120.9**	**1,645.2**	**3,615.6**	**1,058.8**	**329.9**	**–**	**6,770.4**
Loans and overdrafts from banks	**12.1**	**10.7**	**–**	**228.0**	**371.9**	**–**	**622.7**
Debt securities in issue	**–**	**26.7**	**855.3**	**249.4**	**567.0**	**362.5**	**2,060.9**
At 31 July 2022	**139.1**	**1,734.6**	**4,573.3**	**1,536.2**	**1,268.8**	**362.5**	**9,614.5**

	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
Deposits by banks	2.1	37.7	110.8	–	–	–	150.6
Deposits by customers	576.3	1,547.9	3,343.6	729.8	437.2	–	6,634.8
Loans and overdrafts from banks	22.7	–	–	–	490.0	–	512.7
Debt securities in issue[1]	(0.6)	57.0	161.2	655.2	327.5	665.2	1,865.5
At 31 July 2021	600.5	1,642.6	3,615.6	1,385.0	1,254.7	665.2	9,163.6

1 Debt securities in issue of £(0.6) million due on demand includes an adjustment relating to the group's fair value hedges. See note 14 for further information.

At 31 July 2022, the parent company held £251.5 million (31 July 2021: £251.1 million) debt securities in issue.

As discussed in note 28(c) at 31 July 2022 the group accessed £600.0 million cash under the Bank of England's Term Funding Scheme with Additional Incentives for SMEs (31 July 2021: £490.0 million). Cash from the schemes and repurchase agreements is included within loans and overdrafts from banks. Residual maturities of the schemes and repurchase agreements are as follows:

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

20. Subordinated Loan Capital

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

At 31 July 2022, the parent company held £nil million (31 July 2021: £23.5 million) and £186.5 million (31 July 2021: £199.2 million) of subordinated loan capital with final maturity dates of 2027 and 2031 respectively.

The Notes continued

21. Called Up Share Capital and Distributable Reserves

	31 July 2022		31 July 2021	
	million	£ million	million	£ million
Group and company				
Ordinary shares of 25p each (allotted, issued and fully paid)	**152.1**	**38.0**	152.1	38.0

At 31 July 2022, the company's reserves available for distribution under section 830(2) and 831(2) of the Companies Act 2006 were £436.2 million (2021: £417.5 million). The directors have applied the guidance provided by ICAEW TECH 02/17 in determining this.

22. Capital - unaudited

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

The Prudential Regulation Authority ("PRA") supervises the group on a consolidated basis and receives information on the capital adequacy of, and sets capital requirements for, the group as a whole. In addition, a number of subsidiaries are regulated for prudential purposes by either the PRA or the Financial Conduct Authority ("FCA"). 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. The TCR is currently set at 9.0%, of which 5.1% needs to be met with common equity tier 1 ("CET1") capital. This includes the Pillar 1 requirements (4.5% and 8% respectively for CET1 and total capital) and a Pillar 2A component of 1.0%, of which 0.6% needs to be met with CET1 capital. Pillar 3 requires firms to publish a set of disclosures which allow market participants to assess information on that group's capital, risk exposures and risk assessment process. The group's Pillar 3 disclosures, which are unaudited, can be found on the group's website www.closebrothers.com/investor-relations/investor-information/results-reports-and-presentations.

The group maintains a strong capital base to support the development of the business and to ensure the group meets the TCR and additional regulatory buffers at all times. As a result, the group maintains capital adequacy ratios above minimum regulatory requirements, which are currently set at a minimum CET1 capital ratio of 7.6% and a minimum total capital ratio of 11.5%. The minimum capital requirements are inclusive of the capital conservation buffer (currently 2.5% for both CET1 capital and total capital) and the countercyclical buffer (currently 0% effective rate for the group, for both CET1 capital and total capital) and exclusive of any applicable PRA buffer.

A full analysis of the composition of regulatory capital and Pillar 1 risk weighted assets ("RWAs"), a reconciliation between equity and CET1 capital after adjustments and a table showing the movement in CET1 capital during the year are shown on the following pages.

At 31 July 2022, the group's CET1 capital ratio was 14.6% (31 July 2021: 15.8%). CET1 capital decreased to £1,396.7 million (31 July 2021: £1,439.3 million) primarily due to regulatory changes to the treatment of software assets, which are now fully deducted from capital, and a decrease in IFRS 9 transitional arrangements.

RWAs, calculated using the standardised approaches, increased to £9,591.3 million (31 July 2021: £9,105.3 million) driven by growth in the Commercial division loan book, and in derivative exposures, increasing counterparty credit risk and credit valuation adjustments.

	31 July 2022 £ million	31 July 2021 £ million
CET1 capital		
Called up share capital	**38.0**	38.0
Retained earnings	**1,628.4**	1,555.5
Other reserves recognised for CET1 capital	**10.0**	13.1
Adjustments to CET1 capital		
Intangible assets, net of associated deferred tax liabilities[1]	**(250.7)**	(180.7)
Foreseeable dividend[2]	**(65.6)**	(62.7)
Investment in own shares	**(40.6)**	(36.0)
Pension asset, net of associated deferred tax liabilities	**(5.3)**	(5.4)
Prudent valuation adjustment	**(0.5)**	(0.3)
Insufficient coverage for non-performing exposures[3]	**–**	–
IFRS 9 transitional arrangements[4]	**83.0**	117.8
CET1 capital[5]	**1,396.7**	1,439.3
Tier 2 capital[6] – subordinated debt	**200.0**	223.4
Total regulatory capital[5]	**1,596.7**	1,662.7
RWAs (notional)[7]		
Credit and counterparty credit risk	**8,389.0**	7,945.8
Operational risk[7]	**1,085.8**	1,038.5
Market risk[7]	**116.5**	121.0
	9,591.3	9,105.3
CET1 capital ratio[5]	**14.6%**	15.8%
Total capital ratio[5]	**16.6%**	18.3%

1 In line with CRR, effective on 1 January 2022, the CET1 capital ratio no longer includes the benefit related to software assets which were previously exempt from the deduction requirement for intangible assets from CET1.
2 Under the Regulatory Technical Standard on own funds, a deduction has been recognised at 31 July 2022 and 31 July 2021 for a foreseeable dividend, being the proposed final dividend as set out in note 9.
3 In line with CRR, effective on 1 January 2022, the CET1 capital includes a regulatory deduction where there is insufficient coverage for non-performing exposures, amounting to £0.03 million at 31 July 2022.
4 The group has elected to apply IFRS 9 transitional arrangements for 31 July 2022, which allow the capital impact of expected credit losses to be phased in over the transitional period.
5 Shown after applying IFRS 9 transitional arrangements and CRR transitional and qualifying own funds arrangements in force at the time. Without their application, at 31 July 2022 the CET1 capital ratio would be 13.8% and total capital ratio 15.9% (31 July 2021: CET1 capital ratio 14.7% and total capital ratio 17.2%, which includes the benefit related to the previous treatment of software assets).
6 Tier 2 capital decrease represents the redemption on call date of a prior Tier 2 security, most of which had previously been redeemed as part of a tender offer.
7 Operational and market risk include an adjustment at 8% in order to determine notional RWAs.

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

	31 July 2022 £ million	31 July 2021 £ million
Equity	**1,657.5**	1,569.3
Regulatory adjustments to equity:		
Intangible assets, net of associated deferred tax liabilities	**(250.7)**	(180.7)
Foreseeable dividend[1]	**(65.6)**	(62.7)
IFRS 9 transitional arrangements[2]	**83.0**	117.8
Pension asset, net of associated deferred tax liabilities	**(5.3)**	(5.4)
Prudent valuation adjustment	**(0.5)**	(0.3)
Insufficient coverage for non-performing exposures[3]	**–**	–
Other reserves not recognised for CET1 capital:		
Cash flow hedging reserve	**(21.7)**	0.3
Non-controlling interests	**–**	1.0
CET1 capital	**1,396.7**	1,439.3

1 Under the Regulatory Technical Standard on own funds, a deduction has been recognised at 31 July 2022 and 31 July 2021 for a foreseeable dividend, being the proposed final dividend as set out in note 9.
2 The group has elected to apply IFRS 9 transitional arrangements for 31 July 2022, which allow the capital impact of expected credit losses to be phased in over the transitional period.
3 In line with CRR, effective on 1 January 2022, the CET1 capital includes a regulatory deduction where there is insufficient coverage for non-performing exposures, amounting to £0.03 million at 31 July 2022.

The Notes continued

22. Capital - unaudited continued

The following table shows the movement in CET1 capital during the year:

	2022 £ million	2021 £ million
CET1 capital at 1 August	**1,439.3**	1,254.0
Profit in the period attributable to shareholders	**165.2**	202.1
Dividends paid and foreseen	**(98.4)**	(89.5)
Change in software assets treatment[1]	**(50.2)**	50.2
IFRS 9 transitional arrangements	**(34.8)**	17.5
(Increase)/decrease in intangible assets, net of associated deferred tax liabilities	**(19.7)**	6.0
Other movements in reserves recognised for CET1 capital	**0.1**	0.9
Other movements in adjustments to CET1 capital	**(4.8)**	(1.9)
CET1 capital at 31 July	**1,396.7**	1,439.3

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

23. Guarantees and Commitments

Guarantees

	Group		Company	
	31 July 2022 £ million	31 July 2021 £ million	31 July 2022 £ million	31 July 2021 £ million
Earliest period in which guarantee could be called				
Within one year	**109.3**	112.5	**106.0**	107.0
More than one year	**3.3**	–	**–**	–
	112.6	112.5	**106.0**	107.0

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

Commitments

Undrawn facilities, credit lines and other commitments to lend

	31 July 2022 £ million	31 July 2021 £ million
Within one year[1]	**1,223.4**	1,310.3

1 Includes both revocable and irrevocable commitments.

Other commitments

Subsidiaries had contracted capital and other financial commitments of £119.7 million (2021: £88.4 million).

24. Related Party Transactions

Transactions with key management

Details of directors' remuneration and interests in shares are disclosed in the Directors' Remuneration Report on pages 123 to 140.

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 Executive Committee, which includes all executive directors, together with its non-executive directors.

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

	2022 £ million	2021 £ million
Emoluments		
Salaries and fees	**5.8**	4.6
Benefits and allowances	**0.5**	0.4
Performance related awards in respect of the current year:		
Cash	**3.1**	5.3
Deferred	**0.8**	2.5
	10.2	12.8
Share-based awards	**2.3**	2.6
	12.5	15.4

Gains upon exercise of options by key management personnel, expensed to the income statement in previous years, totalled £1.1 million (2021: £3.5 million).

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

25. Pensions

The group 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 the group.

Defined contribution schemes

During the year the charge to the consolidated income statement for the group's defined contribution pension schemes was £16.9 million (2021: £15.5 million), representing contributions payable by the group and is included in administrative expenses.

Defined benefit pension scheme

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

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

Funding position

The scheme's most recent triennial actuarial valuation at 31 July 2021 showed that the scheme was fully funded. As such, no further contributions are scheduled.

IAS 19 valuation

The following disclosures are reported in accordance with IAS 19. Significant actuarial assumptions are as follows:

	2022 %	2021 %
Inflation rate (Retail Price Index)	**3.5**	3.6
Inflation rate (Consumer Price Index)	**3.1**	3.2
Discount rate for scheme liabilities[1]	**3.4**	1.6
Expected interest/expected long-term return on plan assets	**3.4**	1.6
Mortality assumptions[2]:		
Existing pensioners from age 65, life expectancy (years):		
Men	**23.5**	24.0
Women	**25.3**	25.7
Non-retired members currently aged 50, life expectancy from age 65 (years):		
Men	**24.3**	24.9
Women	**26.6**	27.0

1 Based on market yields at 31 July 2022 and 2021 on high quality sterling-denominated corporate bonds, adjusted to be consistent with the estimated term of the post-employment benefit obligation, using the Willis Towers Watson model "Global RATE:Link".
2 Based on standard tables SAPS S2 Light (2021: SAPS S2 Light) produced by the CMI Bureau of the Institute and Faculty of Actuaries with adjusted mortality multipliers for pensioners and non-pensioners, together with projected future improvements in line with the CMI 2020 (2021: CMI 2017) core projection model with a long-term trend of 1.5% per annum.

The scheme has been accounted for in the company and the surplus has been recognised as an asset on the company and group's balance sheet within "Trade and other receivables".

The group has the unconditional right to any surpluses that arise within the scheme once all benefits have been secured in full. As such no asset ceiling has been applied, and accordingly the scheme surplus is recognised on the consolidated balance sheet.

	2022 £ million	2021 £ million	2020 £ million	2019 £ million	2018 £ million
Fair value of scheme assets[1]:					
Equities	**0.0**	9.4	14.0	13.1	12.7
Bonds	**30.3**	33.6	32.3	29.9	28.7
Cash	**3.5**	0.2	0.3	0.2	0.1
Insured annuities	**1.0**				
Total Assets	**34.8**	43.2	46.6	43.2	41.5
Fair value of liabilities	**(27.6)**	(35.6)	(39.2)	(36.5)	(36.4)
Surplus	**7.2**	7.6	7.4	6.7	5.1

1 There are no amounts included within the fair value of scheme assets relating to the financial instruments of Close Brothers Group plc.

The Notes continued

25. Pensions continued

Movement in the present value of scheme liabilities during the year:

	2022 £ million	2021 £ million
Carrying amount	**(35.6)**	(39.2)
Interest expense	**(0.6)**	(0.5)
Past service cost	**–**	(0.1)
Benefits paid	**1.0**	5.6
Actuarial gain/(losses)	**8.6**	(1.4)
Other	**(1.0)**	–
Total carrying value as on 31 July	**(27.6)**	(35.6)

Movement in the fair value of scheme assets during the year:

	2022 £ million	2021 £ million
Carrying value	**43.2**	46.6
Interest income	**0.7**	0.6
Benefits paid	**(1.0)**	(5.6)
Administrative costs	**(0.4)**	(0.3)
Return on assets excluding interest income	**(8.7)**	1.9
Other	**1.0**	–
Total carrying value	**34.8**	43.2

Historical experience of actuarial gains/(losses) are shown below:

	2022 £ million	2021 £ million	2020 £ million	2019 £ million	2018 £ million
Experience gains/(losses) on scheme assets	**(8.7)**	1.9	4.1	3.3	1.3
Experience gains on scheme liabilities	**0.4**	–	–	1.3	–
Impact of changes in assumptions	**8.2**	(1.4)	(3.2)	(2.7)	0.4
Total actuarial changes in liabilities	**8.6**	(1.4)	(3.2)	(1.4)	0.4
Total actuarial gain/(losses)	**(0.1)**	0.5	0.9	1.9	1.7

Total actuarial gains have been recognised in other comprehensive income. Income of £0.1 million (2021: £0.1 million) from the interest on the scheme surplus has been recognised within administrative expenses in the consolidated income statement. The group's policy is not to allocate the net defined benefit cost between group entities participating in the scheme.

The valuation of the scheme's liabilities is sensitive to the key assumptions used in the valuation. The effect of a change in those assumptions in 2022 and 2021 is set out below. The analysis reflects the variation of the individual assumptions. The variation in price inflation includes all inflation-linked pension increases in deferment and in payment.

		Impact on defined benefit obligation increase/(decrease)			
		2022		2021	
Key assumption	Sensitivity	%	£ million	%	£ million
Discount rate	0.25% increase	**(3.2)**	**(0.9)**	(4.4)	(1.6)
Price inflation	0.25% increase	**1.6**	**0.4**	1.8	0.6
Mortality	Increase in life expectancy at age 65 by one year	**3.0**	**0.8**	4.0	1.4

Changes in the assumptions used in the valuation due to external factors would affect the carrying value of the scheme. The most significant risks are:

- Market factors (movements in equity and bond markets): The scheme's assets are invested 0% in global quoted equities, 87% in quoted bonds, 10% in cash and 3% in insured annuities (2021: 22% global quoted equities and 78% quoted bonds) and the scheme's liabilities are measured with reference to corporate bond yields. The performance of these asset classes can be volatile. Underperformance of either of these markets would have an adverse impact on the carrying value of the scheme.
- Inflation: Deferred pensions and pensions in payment increase at specified periods in line with inflation, subject to certain caps and floors in place. Changes in inflation may impact scheme liabilities.
- Life expectancy: Change in the life expectancy of the scheme's members may impact scheme liabilities.

The weighted average duration of the benefit payments reflected in the scheme liabilities is 14 years (2021: 17 years).

26. Share-based Awards

The Save As You Earn ("SAYE"), Long Term Incentive Plan ("LTIP") and Deferred Share Awards ("DSA") share-based awards have been granted under the group's share schemes. The general terms and conditions for these share-based awards are described in the Directors' Remuneration Report on pages 126 to 128.

In order to satisfy a number of the awards below the company has purchased company shares into Treasury and the Close Brothers Group Employee Share Trust has purchased company shares. At 31 July 2022, 1.6 million (31 July 2021: 1.3 million) and 1.4 million (31 July 2021: 1.5 million) of these shares were held respectively and in total £40.6 million (2021: £36.0 million) was recognised within the share-based payments reserve. During the year £4.9 million (2021: £10.0 million) of these shares were released to satisfy share-based awards to employees. The share-based payments reserve as shown in the consolidated statement of changes in equity also includes the cumulative position in relation to unvested share-based awards charged to the consolidated income statement of £11.4 million (2021: £13.6 million). The share-based awards charge of £4.9 million (2021: £5.7 million) is included in administrative expenses shown in the consolidated income statement.

Movements in the number of share-based awards outstanding and their weighted average share prices are as follows:

	SAYE		LTIP		DSA	
	Number	Weighted average exercise price	Number	Weighted average exercise price	Number	Weighted average exercise price
At 1 August 2020	1,921,106	–	1,373,119	–	836,819	–
Granted	1,385,804	829.5p	502,283	–	146,223	–
Exercised	(208,013)	1174.2p	(147,807)	–	(423,915)	–
Forfeited	(801,716)	923.9p	(213,100)	–	(4,697)	–
Lapsed	(61,176)	1208.5p	(260,721)	–	(6,932)	–
At 31 July 2021	**2,236,005**	**–**	**1,253,774**	**–**	**547,498**	**–**
Granted	**420,863**	**1,042.6p**	**326,540**	**–**	**196,576**	**–**
Exercised	**(71,478)**	**1,180.6p**	**(19,549)**	**–**	**(267,051)**	**–**
Forfeited	**(288,729)**	**969.8p**	**(13,274)**	**–**	**(10,211)**	**–**
Lapsed	**(26,290)**	**1,158.8p**	**(189,633)**	**–**	**8,191**	**–**
At 31 July 2022	**2,270,371**	**–**	**1,357,858**	**–**	**475,003**	**–**
Exercisable at:						
31 July 2022	**48,978**	**1,184.4p**	**202,528**	**–**	**74,008**	**–**
31 July 2021	11,336	1,141.0p	73,936	–	9,645	–

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

	2022	2021
SAYE	**1,319.2p**	1,451.2p
LTIP	**1,460.4p**	1,286.9p
DSA	**1,402.9p**	1,291.3p

The Notes continued

26. Share-based Awards continued

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

	2022 Options outstanding		2021 Options outstanding	
	Number outstanding	Weighted average remaining contractual life Years	Number outstanding	Weighted average remaining contractual life Years
SAYE				
Between £7 and £8	**1,131,601**	**2.6**	1,244,571	3.5
Between £8 and £9	**525,818**	**1.7**	610,912	2.7
Between £9 and £10	**282,400**	**3.7**	114,155	2.3
Between £10 and £11	**102,790**	**1.3**	—	—
Between £11 and £12	**70,081**	**0.9**	107,211	1.5
Between £12 and £13	**94,729**	**2.9**	68,999	1.1
Between £13 and £14	**62,952**	**2.7**	90,157	3.7
LTIP				
Nil	**1,357,858**	**3.4**	1,253,774	3.7
DSA				
Nil	**475,003**	**1.6**	547,498	1.7
Total	**4,103,232**	**2.6**	4,037,277	3.1

For the share-based awards granted during the year, the weighted average fair value of those options at 31 July 2022 was 928.8p (31 July 2021: 453.3p). The main assumptions for the valuation of these share-based awards comprised:

Exercise period	Share price at issue	Exercise price	Expected volatility	Expected option life in years	Dividend yield	Risk free interest rate
SAYE						
1 Dec 2024 to 31 May 2025	1,551.3p	1,241.0p	32.0%	3	4.1%	0.6%
1 Dec 2026 to 31 May 2027	1,551.3p	1,241.0p	28.0%	5	4.1%	0.7%
1 Jun 2025 to 30 Nov 2025	1,195.0p	956.0p	34.0%	3	5.1%	1.8%
1 Jun 2027 to 30 Nov 2027	1,195.0p	956.0p	30.0%	5	5.1%	1.8%
LTIP						
5 Oct 2024 to 1 Oct 2027	1,545.8p	–	32.0%	3	4.1%	0.6%
DSA						
5 Oct 2022 to 5 Oct 2024	1,545.8p	–	–	–	–	–
5 Oct 2024 to 5 Oct 2025	1,545.8p	–	–	–	–	–
22 Mar 2024 to 21 Mar 2025	1,192.0p	–	–	–	–	–
1 Mar 2025 to 28 Feb 2026	1,297.0p	–	–	–	–	–

Expected volatility was determined mainly by reviewing share price volatility for the expected life of each option up to the date of grant.

27. Consolidated Cash Flow Statement Reconciliation

	2022 £ million	2021[1] £ million
(a) Reconciliation of operating profit before tax to net cash inflow from operating activities		
Operating profit before tax	**232.8**	265.2
Tax paid	**(63.4)**	(69.7)
Depreciation, amortisation and impairment	**100.3**	123.4
Impairment losses on financial assets	**103.3**	89.8
Decrease/(increase) in:		
Interest receivable and prepaid expenses	**19.8**	4.6
Net settlement balances and trading positions	**17.2**	8.5
Net loans from money brokers against stock advanced	**2.7**	(23.2)
(Decrease)/increase in interest payable and accrued expenses	**(32.2)**	27.2
Net cash inflow from trading activities	**380.5**	425.8
Decrease/(increase) in:		
Loans and advances to banks not repayable on demand	**(5.3)**	9.6
Loans and advances to customers	**(515.0)**	(951.2)
Assets let under operating leases	**(54.5)**	(43.9)
Certificates of deposit	**79.7**	21.2
Sovereign and central bank debt	**(255.3)**	(126.6)
Other assets less other liabilities	**(6.4)**	29.6
Increase/(decrease) in:		
Deposits by banks	**11.8**	3.9
Deposits by customers	**142.7**	745.1
Loans and overdrafts from banks	**110.0**	14.8
Net issuance/(redemption) of debt securities	**270.5**	(9.2)
Net cash inflow from operating activities	**158.7**	119.1
(b) Analysis of net cash outflow in respect of the purchase of subsidiaries and non-controlling interests		
Cash consideration paid	**(0.1)**	(2.9)
(c) Analysis of net cash inflow in respect of the sale of subsidiaries		
Cash consideration received	**0.1**	2.3
(d) Analysis of cash and cash equivalents[2]		
Cash and balances at central banks	**1,236.0**	1,314.7
Loans and advances to banks	**147.0**	121.9
At 31 July	**1,383.0**	1,436.6

1 Comparatives have been updated to present impairment losses on financial assets in a separate line with no impact on the net cash inflow from operating activities figure.

2 Excludes £37.1 million (2021: £30.7 million) of Bank of England and other cash reserve accounts.

During the year ended 31 July 2022, the non-cash changes on debt financing amounted to £9.6 million (31 July 2021: £18.2 million) arising largely from interest accretions and fair value hedging movements.

The Notes continued

28. Financial Risk Management

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

The group's financial risk management objectives are summarised within the Risk Report on pages 74 to 92. Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised, in respect of each class of financial asset, financial liability and equity instrument are disclosed in note 1.

(a) Classification

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

	Derivatives designated as hedging instruments £ million	Fair value through profit and loss £ million	Fair value through other comprehensive income £ million	Amortised cost £ million	Total £ million
At 31 July 2022					
Assets					
Cash and balances at central banks	–	–	–	1,254.7	1,254.7
Settlement balances	–	–	–	799.3	799.3
Loans and advances to banks	–	–	–	165.4	165.4
Loans and advances to customers	–	–	–	8,858.9	8,858.9
Debt securities	–	12.4	415.4	185.0	612.8
Equity shares	–	28.4	–	–	28.4
Loans to money brokers against stock advanced	–	–	–	48.4	48.4
Derivative financial instruments	61.5	9.7	–	–	71.2
Other financial assets	–	1.7	–	82.6	84.3
	61.5	52.2	415.4	11,394.3	11,923.4
Liabilities					
Settlement balances and short positions	–	15.4	–	780.7	796.1
Deposits by banks	–	–	–	160.5	160.5
Deposits by customers	–	–	–	6,770.4	6,770.4
Loans and overdrafts from banks	–	–	–	622.7	622.7
Debt securities in issue	–	–	–	2,060.9	2,060.9
Loans from money brokers against stock advanced	–	–	–	–	–
Subordinated loan capital	–	–	–	186.5	186.5
Derivative financial instruments	83.9	5.3	–	–	89.2
Other financial liabilities	–	–	–	184.2	184.2
	83.9	20.7	–	10,765.9	10,870.5

	Derivatives designated as hedging instruments £ million	Fair value through profit and loss £ million	Fair value through other comprehensive income £ million	Amortised cost £ million	Total £ million
At 31 July 2021					
Assets					
Cash and balances at central banks	–	–	–	1,331.0	1,331.0
Settlement balances	–	–	–	699.6	699.6
Loans and advances to banks	–	–	–	136.3	136.3
Loans and advances to customers	–	–	–	8,444.5	8,444.5
Debt securities	–	20.1	192.5	264.7	477.3
Equity shares	–	31.9	–	–	31.9
Loans to money brokers against stock advanced	–	–	–	51.1	51.1
Derivative financial instruments	16.9	1.4	–	–	18.3
Other financial assets	–	0.1	–	62.4	62.5
	16.9	53.5	192.5	10,989.6	11,252.5
Liabilities					
Settlement balances and short positions	–	16.4	–	674.2	690.6
Deposits by banks	–	–	–	150.6	150.6
Deposits by customers	–	–	–	6,634.8	6,634.8
Loans and overdrafts from banks	–	–	–	512.7	512.7
Debt securities in issue	–	–	–	1,865.5	1,865.5
Loans from money brokers against stock advanced	–	–	–	–	–
Subordinated loan capital	–	–	–	222.7	222.7
Derivative financial instruments	19.0	2.3	–	–	21.3
Other financial liabilities	–	–	–	194.8	194.8
	19.0	18.7	–	10,255.3	10,293.0

(b) Valuation

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

	31 July 2022		31 July 2021	
	Fair value £ million	**Carrying value £ million**	Fair value £ million	Carrying value £ million
Subordinated loan capital	**180.0**	**186.5**	226.5	222.7
Debt securities in issue	**2,071.4**	**2,060.9**	1,908.9	1,865.5

Valuation hierarchy

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

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

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

Instruments classified as Level 2 predominantly comprise less liquid listed equity shares, investment grade corporate bonds and over-the-counter derivatives. The fair value of equity shares and bonds are derived from quoted prices in less active markets in comparison to level 1. Over-the-counter derivatives largely relate to interest rate and exchange rate contracts (see note 14 for further information). The valuation of such derivatives includes the use of discounted future cash flow models, with the most significant input into these models being interest rate yield curves developed from quoted rates.

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

The Notes continued

28. Financial Risk Management continued

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

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

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

	Level 1 £ million	**Level 2 £ million**	**Level 3 £ million**	**Total £ million**
At 31 July 2022				
Assets				
Debt securities:				
Long trading positions in debt securities	**11.0**	**1.4**	**–**	**12.4**
Sovereign and central bank debt	**415.4**	**–**	**–**	**415.4**
Equity shares	**4.1**	**24.0**	**0.3**	**28.4**
Derivative financial instruments	**–**	**71.2**	**–**	**71.2**
Contingent consideration	**–**	**–**	**1.7**	**1.7**
	430.5	**96.6**	**2.0**	**529.1**
Liabilities				
Short positions:				
Debt securities	**5.8**	**1.7**	**–**	**7.5**
Equity shares	**2.2**	**5.6**	**0.1**	**7.9**
Derivative financial instruments	**–**	**89.2**	**–**	**89.2**
Contingent consideration	**–**	**–**	**3.0**	**3.0**
	8.0	**96.5**	**3.1**	**107.6**

	Level 1 £ million	Level 2 £ million	Level 3 £ million	Total £ million
At 31 July 2021				
Assets				
Debt securities:				
Long trading positions in debt securities	19.0	1.1	–	20.1
Sovereign and central bank debt	192.5	–	–	192.5
Equity shares	6.2	25.4	0.3	31.9
Derivative financial instruments	–	18.3	–	18.3
Contingent consideration	–	–	0.1	0.1
	217.7	44.8	0.4	262.9
Liabilities				
Short positions:				
Debt securities	5.7	1.3	–	7.0
Equity shares	3.2	6.2	–	9.4
Derivative financial instruments	–	21.3	–	21.3
Contingent consideration	–	–	3.0	3.0
	8.9	28.8	3.0	40.7

Movements in financial instruments categorised as Level 3 were:

	Equity shares £ million	Contingent consideration £ million
At 1 August 2020	0.3	(0.8)
Total gains recognised in the consolidated income statement	–	2.6
Purchases and issues	–	(2.4)
Sales and settlements	–	(2.3)
At 31 July 2021	0.3	(2.9)
Total losses recognised in the consolidated income statement	–	(0.2)
Purchases and issues	–	1.8
Sales and settlements	(0.1)	–
At 31 July 2022	**0.2**	**(1.3)**

The losses recognised in the consolidated income statement relating to instruments held at the year end amounted to £0.2 million (2021: £0.1 million).

(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 across the group mainly arises through the lending and treasury activities of the Banking division.

The Banking division applies consistent and prudent lending criteria to mitigate credit risk. Its lending activities are predominantly secured across a diverse range of asset classes. Details of average tenor and loan size by business can be found on page 4 of the strategic report. This ensures concentration risk is controlled in both the loan book and associated collateral. Currently credit risk appetites are set around unsecured lending to ensure the secured lending position is under regular review. As at 31 July 2022, secured lending accounts for 89.6% of the loan book, in line with the prior year (31 July 2021: 89.2%).

The group has established limits for all counterparties with whom it places deposits, enters into derivative contracts or whose debt securities are held, and the credit quality of the counterparties is monitored. While these amounts may be material, the counterparties are all regulated institutions with investment grade credit ratings assigned by international credit rating agencies and fall within the large exposure limits set by regulatory requirements.

Maximum exposure to credit risk

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

	31 July 2022 £ million	31 July 2021 £ million
On balance sheet		
Cash and balances at central banks	**1,254.7**	1,331.0
Settlement balances	**799.3**	699.6
Loans and advances to banks	**165.4**	136.3
Loans and advances to customers	**8,858.9**	8,444.5
Debt securities	**612.8**	477.3
Loans to money brokers against stock advanced	**48.4**	51.1
Derivative financial instruments	**71.2**	18.3
Other financial assets	**84.3**	62.5
	11,895.0	11,220.6
Off balance sheet		
Irrevocable undrawn commitments	**277.8**	239.6
Total maximum exposure to credit risk	**12,172.8**	11,460.2

Assets pledged and received as collateral

The group pledges assets for repurchase agreements and securities borrowing agreements which are generally conducted under terms that are customary to standard borrowing contracts.

The group is a participant of the Bank of England's Term Funding Scheme with Additional Incentives for SMEs ("TFSME").

Under these schemes, asset finance loan receivables of £626.1 million (31 July 2021: £571.3 million), UK gilts with a market value of £72.6 million (31 July 2021: £90.2 million), UK T-Bills with a market value of £144.3 million (31 July 2021: £nil) and retained notes relating to Motor Finance loan receivables of £24.3 million (31 July 2021: £72.1 million) were positioned as collateral with the Bank of England, against which £600.0 million (31 July 2021: £490.0 million) of cash was drawn.

The Notes continued

28. Financial Risk Management continued

The term of these transactions is four years from the date of each drawdown but the group may choose to repay earlier at its discretion. The risks and rewards of the loan receivables remain with the group and continue to be recognised in loans and advances to customers on the consolidated balance sheet.

The group has securitised without recourse and restrictions £1,626.8 million (31 July 2021: £1,386.0 million) of its insurance premium and motor loan receivables in return for cash and asset-backed securities in issue of £1,022.4 million (31 July 2021: £915.7 million). This includes the £24.3 million (31 July 2021: £72.1 million) retained notes positioned as collateral with the Bank of England. As the group has retained exposure to substantially all the credit risk and rewards of the residual benefit of the underlying assets it continues to recognise these assets in loans and advances to customers in its consolidated balance sheet.

The majority of loans and advances to customers are secured against specific assets. For more information on collateral held see page 200. Consistent and prudent lending criteria are applied across the whole loan book with emphasis on the quality of the security provided.

Financial assets: Loans and advances to customers

Credit risk management and monitoring

Overall credit risk appetite is set by the group board. The monitoring of credit policy is the responsibility of the Banking division's Risk and Compliance committees. Large loans are subject to approval by a credit committee.

Credit underwriting and in-life monitoring is undertaken either centrally or through regional office networks, appropriate to the diverse and specialised nature of the businesses and the size and complexity of the transaction. Underwriting authority is ultimately delegated from the Board Risk Committee and cascaded accordingly, with lending businesses approving lower risk exposures locally subject to compliance with credit policy and risk appetite.

This model is supported by central oversight and control. An independent central credit risk function provides ongoing monitoring of material credit risks through regular review of appetites and policy. This team reports through the chief credit risk officer to the group chief risk officer and provides monthly reporting to the CRMC and GRCC. The Banking division has a dual approach to mitigating credit risk by:

- Lending on a predominantly secured basis with emphasis on both the customer's ability to repay and the quality of the underlying security to minimise any loss should the customer not be able to repay; and
- Applying greater scrutiny where the asset securing a loan is less tangible, or in cases of higher loan to value ("LTV").

Collections and recoveries processes are designed to provide a fair, consistent and effective operation for arrears management with a focus on good customer outcomes. We seek to engage in early communication with borrowers experiencing difficulty in meeting their repayments and provide forbearance where appropriate. Capacity in collections and recoveries teams is closely monitored with clear plans in place to deal with increases in arrears.

Government lending schemes

In addition to the Covid-19 specific forbearance measures covered below, following accreditation, customers facilities were offered under the UK government-introduced Coronavirus Business Interruption Loan Scheme ("CBILS"), the Coronavirus Large Business Interruption Loan Scheme ("CLBILS") and the Bounce Back Loan Scheme ("BBLS"), thereby enabling us to maximise our support to small businesses. As at 31 July 2022, 5,445 facilities were drawn, with a residual balance of £747.5 million (31 July 2021: £983.9 million) following commencement of repayments across our Property, Asset Finance & Leasing and Invoice Finance businesses.

We have also received accreditation to offer products under the Recovery Loan Scheme, and schemes in the Republic of Ireland. As at 31 July 2022, there are 633 live and approved loans, with limits of £181.6 million.

Forbearance

Forbearance occurs when a customer is experiencing difficulty in meeting their financial commitments and a concession is granted, by changing the terms of the financial arrangement, which would not otherwise be considered. This arrangement can be temporary or permanent depending on the customer's circumstances.

The Banking division reports on forborne exposures as either performing or non-performing in line with regulatory requirements. A forbearance policy is maintained to ensure the necessary processes are in place to enable consistently fair treatment of each customer and that they are managed based on their individual circumstances. The arrangements agreed with customers will aim to create a sustainable and affordable financial position, thereby reducing the likelihood of suffering a credit loss. The forbearance policy is periodically reviewed to ensure it remains effective.

Covid-19 approach

As the global pandemic has evolved, the impact on customers and their ongoing performance and requirements have been monitored, including the uptake of concessions, payment performance, the resumption of normal payment terms and the requirement for further concessions. Appropriate cure periods associated with these concessions have been determined based on in-depth knowledge of portfolios and sub-portfolios.

The Central Credit Risk function continues to report on Covid-19 related concessions to the CRMC. Additional reporting tracks the trajectory of Covid-19 related concessions across the businesses and examines sector and asset concentrations.

The number of customers supported via concessions offered has fallen to 770 from 17,674 at the end of the prior financial year.

A loan will be treated as forborne until a cure period has been met. The cure periods of Covid-19 related forborne exposures are subject to expert judgement and are underpinned by carefully considered assumptions. These are subject to regular review and varies per business and ranges from instant cure when concession ends (subject to confirmation of no adverse performance) to a cure period of between 3 and 12 months, commencing upon resumption of full repayments in instances where partial repayments had been agreed for a period of time.

BAU forbearance

The Banking division has historically offered a range of concessions to support customers which vary depending on the product and the customer's status. Such concessions include an extension outside terms (for example a higher loan to value or overpayments) and refinancing, which may incorporate an extension of the loan tenor and capitalisation of arrears. Furthermore, other forms of forbearance such as moratorium, covenant waivers, and rate concessions are also offered.

Loans are classified as forborne at the time a customer in financial difficulty is granted a concession and the loan will remain treated and recorded as forborne until the following exit conditions are met:

1. The loan is considered as performing and there is no past-due amount according to the amended contractual terms;
2. A minimum two-year probation period has passed from the date the forborne exposure was considered as performing, during which time regular and timely payments have been made;
3. None of the customer's exposures with Close Brothers are more than 30 days past due at the end of the probation period.

Forbearance analysis

At 31 July 2022 the gross carrying amount of exposures with forbearance measures was £208.9 million (31 July 2021: £615.0 million). The key driver of this decrease has been repayment and curing of Covid-19 related forbearance, the total of which amounts to £40.8 million at 31 July 2022 (31 July 2021: £454.8 million).

An analysis of forborne loans is shown in the table below:

	Gross loans and advances to customers £ million	Forborne loans £ million	Forborne loans as a percentage of gross loans and advances to customers %	Provision on forborne loans £ million	Number of customers supported
31 July 2022	**9,144.5**				
Covid-19 forbearance		**40.8**	**0.4%**	**1.4**	**770**
Non-Covid-19 forbearance		**168.1**	**1.8%**	**42.9**	**10,273**
	9,144.5	**208.9**	**2.3%**	**44.3**	**11,043**
31 July 2021	8,724.9				
Covid-19 forbearance		454.8	5.2%	47.3	17,674
Non-Covid-19 forbearance		160.2	1.8%	35.5	12,679
	8,724.9	615.0	7.0%	82.8	30,353

The following is a breakdown of forborne loans by segment split by those driven by Covid-19 compared to concessions that have arisen in the normal course of business:

	31 July 2022			31 July 2021		
	Covid-19 £ million	**Non-Covid-19 £ million**	**Total forborne loans £ million**	Covid-19 £ million	Non-Covid-19 £ million	Total forborne loans £ million
Commercial	**34.2**	**28.1**	**62.3**	287.4	19.8	307.2
Retail	**1.8**	**21.2**	**23.0**	49.2	9.2	58.4
Property	**4.8**	**118.8**	**123.6**	118.2	131.2	249.4
	40.8	**168.1**	**208.9**	454.8	160.2	615.0

The Notes continued

28. Financial Risk Management continued

The following is a breakdown of the number of customers supported by segment:

	31 July 2022			31 July 2021		
	Covid-19	Non-Covid-19	Total number of customers supported	Covid-19	Non-Covid-19	Total number of customers supported
Commercial	**404**	**114**	**518**	2,291	136	2,427
Retail	**365**	**10,102**	**10,467**	15,333	12,485	27,818
Property	**1**	**57**	**58**	50	58	108
	770	**10,273**	**11,043**	17,674	12,679	30,353

The following is a breakdown of forborne loans by concession type split by those driven by Covid-19 compared to concessions that have arisen in the normal course of business:

	31 July 2022			31 July 2021		
	Covid-19 £ million	Non-Covid-19 £ million	Forborne loans £ million	Covid-19 £ million	Non-Covid-19 £ million	Forborne loans £ million
Extension outside terms	**5.4**	**107.6**	**113.0**	123.5	121.9	245.4
Refinancing	**–**	**3.0**	**3.0**	1.2	5.3	6.5
Moratorium	**35.4**	**34.5**	**69.9**	329.7	16.1	345.8
Other modifications	**–**	**23.0**	**23.0**	0.4	16.9	17.3
	40.8	**168.1**	**208.9**	454.8	160.2	615.0

Segmental credit risk

Commercial is a combination of several specialist, predominantly secured, lending businesses. The nature of assets financed varies across the businesses. The majority of the loan book is comprised of loans less than £2.5 million. Credit quality is predominantly assessed on an individual loan-by-loan basis. During and post the pandemic, Commercial has provided additional support to customers using the CBILS, CLBILS and RLS products which benefit from British Business Bank guarantee support. Collection and recovery activity is executed promptly by experts with experience in the specialised assets. This approach allows remedial action to be implemented at the appropriate time to minimise potential loss.

Retail is predominantly high volume secured, refundable or structurally protected lending. The majority of the loan book is comprised of loans less than £20,000 and includes both regulated and unregulated agreements. Credit issues are identified via largely automated monitoring and tracking processes. Collections processes and actions (focused on good and fair customer outcomes) are designed and implemented to support and restore customers to a performing status, with recovery methods applied to minimise potential loss.

Property is a low volume, specialised lending portfolio with credit quality assessed on an individual loan by loan basis. The majority of the loan book is comprised of Residential Development loans of less than £10 million. All loans are regularly reviewed to ensure that they are performing satisfactorily, with Residential Development facilities monitored, broadly, on a monthly basis by independent Close Brothers appointed Project Monitoring Surveyors ("PMS") to certify build payments and the residual cost-to-complete. This ensures the thorough supervision of all live developments and facilitates the monthly checking of on-site progress against original build plan.

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

Credit risk reporting

The following table sets out loans and advances to customers, trade receivables and undrawn facilities by the group's internal credit risk grading and illustrates the allocation of these per IFRS 9 staging category for comparative purposes. The analysis of lending has been prepared based on the following risk categories:

Low risk: The credit risk profile of the borrower is considered acceptable with the borrower considered likely to meet obligations as they fall due. Standard monitoring in place.

Medium risk: Evidence of deterioration in the credit risk profile of the borrower exists which requires increased monitoring. Potential concerns on ability to meet obligations as they fall due may exist.

High risk: Evidence of significant deterioration in the credit risk profile of the borrower exists which requires enhanced management. Full repayment may not be achieved with potential for loss identified.

	Stage 1 £ million	Stage 2 £ million	Stage 3 £ million	Total £ million
At 31 July 2022				
Gross loans and advances to customers				
Low risk	**7,356.7**	**706.9**	**21.4**	**8,085.0**
Medium risk	**259.3**	**401.9**	**47.3**	**708.5**
High risk	**11.0**	**50.1**	**289.9**	**351.0**
Ungraded	**–**	**–**	**–**	**–**
	7,627.0	**1,158.9**	**358.6**	**9,144.5**
Undrawn commitments				
Low risk	**1,205.9**	**10.7**	**–**	**1,216.6**
Medium risk	**0.4**	**3.8**	**–**	**4.2**
High risk	**–**	**2.4**	**0.2**	**2.6**
	1,206.3	**16.9**	**0.2**	**1,223.4**
Trade receivables[1]				
Low risk	**8.6**	**–**	**–**	**8.6**
Medium risk	**–**	**0.4**	**–**	**0.4**
High risk	**–**	**–**	**0.8**	**0.8**
	8.6	**0.4**	**0.8**	**9.8**

	Stage 1 £ million	Stage 2 £ million	Stage 3 £ million	Total £ million
At 31 July 2021				
Gross loans and advances to customers				
Low risk	7,217.8	328.4	10.8	7,557.0
Medium risk	210.5	616.5	31.5	858.5
High risk	0.5	13.6	283.0	297.1
Ungraded	5.5	1.7	5.1	12.3
	7,434.3	960.2	330.4	8,724.9
Undrawn commitments				
Low risk	1,249.2	5.6	–	1,254.8
Medium risk	51.1	3.0	–	54.1
High risk	–	–	1.4	1.4
	1,300.3	8.6	1.4	1,310.3
Trade receivables[1]				
Low risk	8.1	–	–	8.1
Medium risk	–	1.0	–	1.0
High risk	–	–	0.5	0.5
	8.1	1.0	0.5	9.6

1 Lifetime expected credit losses are recognised for all trade receivables under the IFRS 9 simplified approach. The figures presented are on a net basis after deducting for expected credit losses of £3.2 million (31 July 2021: £3.4 million) relating to predominantly Stage 3 receivables.

Low risk loans and advances to customers represent 88% of the overall portfolio (31 July 2021: 87%), reflective of our prudent and consistent approach to credit risk management. 80% (31 July 2021: 83%) of total advances are classified as low risk Stage 1, driven by the strong quality of the portfolio. Low risk Stage 2 represents 8% (31 July 2021: 4%) of loans and advances to customers, largely comprising early arrears cases, or agreements which have triggered a significant increase in credit risk indicator, or the 30 days past due backstop. The increase is primarily driven by deteriorating macroeconomic forecasts. Low risk Stage 3 loans and advances to customers primarily relate to agreements which have triggered the 90 days past due backstop but where full repayment is expected.

Medium risk loans account for 8% (31 July 2021: 10%) of total loans and advances to customers, of which the majority is in Stage 2. Medium risk Stage 1 has increased to 3% (31 July 2021: 2%) as certain parts of the Novitas loan book have been moved to medium risk, reflecting the latest case failure rates. Medium risk Stage 2 represents 4% (31 July 2021: 7%), reflecting the reduction in Covid-19 forbearance. Loans and advances to customers reflected as medium risk Stage 3 primarily relate to agreements that have triggered the 90 days past due backstop in addition to other significant increase in credit risk triggers.

High risk loans account for 4% (31 July 2021: 3%) of total loans and advances to customers with the majority corresponding to Stage 3.

The Notes continued

28. Financial Risk Management continued

Collateral held

The group mitigates credit risk through holding collateral against loans and advances to customers. The group has internal policies on the acceptability of specific collateral types, the requirements for ensuring effective enforceability and monitoring of collateral in-life. Internal policies define, amongst other things, legal documentation requirements, the nature of assets accepted, loan to value and age at origination, and exposure maturity and in-life inspection requirements. An asset valuation is undertaken as part of the loan origination process.

The principal types of collateral held by the group against loans and advances to customers in the Property and Commercial businesses include residential and commercial property and charges over business assets such as equipment, inventory and accounts receivable. Within Retail the group holds collateral primarily in the form of vehicles in Motor Finance and refundable insurance premiums in Premium Finance, where an additional layer of protection may exist through broker recourse.

The Banking division's collateral policies have not materially changed during the reporting period and there has been no significant change in the overall quality of the collateral held by the group since the prior period.

Analysis of gross loans and advances to customers by LTV ratio is provided below. The value of collateral used in determining the LTV ratio is based upon data captured at loan origination, or where available, a more recent updated valuation.

	Commercial £ million	**Retail £ million**	**Property £ million**	**Total £ million**
LTV[1]				
60% or lower	**1,238.2**	**179.5**	**1,011.4**	**2,429.1**
>60% to 70%	**471.6**	**179.5**	**367.3**	**1,018.4**
>70% to 80%	**375.5**	**374.9**	**49.8**	**800.2**
>80% to 90%	**692.7**	**1,108.0**	**4.5**	**1,805.2**
>90% to 100%	**1,052.6**	**477.6**	**–**	**1,530.2**
Greater than 100%	**213.3**	**318.9**	**77.2**	**609.4**
Structurally protected[2]	**291.7**	**452.8**	**–**	**744.5**
Unsecured	**164.8**	**42.7**	**–**	**207.5**
At 31 July 2022	**4,500.4**	**3,133.9**	**1,510.2**	**9,144.5**

1 Government lending scheme facilities totalling £913.5 million (31 July 2021: £983.9 million), are allocated to a low LTV category reflecting the nature of the government guarantee and resultant level of lending risk.
2 Exposures are considered structurally protected when, in management's judgement, they have characteristics which mitigate the credit risk of the exposure to a significant extent, in spite of not representing tangible security.

	Commercial £ million	Retail £ million	Property[3] £ million	Total £ million
LTV[1]				
60% or lower	1,301.7	171.5	1,082.1	2,555.3
>60% to 70%	203.9	172.3	323.8	700.0
>70% to 80%	333.5	363.3	35.2	732.0
>80% to 90%	494.2	1,154.9	6.0	1,655.1
>90% to 100%	1,103.4	461.7	7.3	1,572.4
Greater than 100%	237.2	240.4	88.1	565.7
Structurally protected[2]	330.5	437.5	–	768.0
Unsecured	136.1	40.3	–	176.4
At 31 July 2021	4,140.5	3,041.9	1,542.5	8,724.9

1 Government lending scheme facilities totalling £983.9 million (31 July 2020: £193.8 million), are allocated to a low LTV category reflecting the nature of the government guarantee and resultant level of lending risk.
2 Exposures are considered structurally protected when, in management's judgement, they have characteristics which mitigate the credit risk of the exposure to a significant extent, in spite of not representing tangible security.
3 Gross loans and advances to customers by LTV ratio in Property has been updated, with no impact on the total balance, to ensure the basis of presentation is consistent with the current year.

Gross loans and advances to customers which are credit-impaired split by LTV ratio:

	Commercial £ million	**Retail £ million**	**Property £ million**	**Total £ million**
LTV				
60% or lower	**42.5**	**1.7**	**9.2**	**53.4**
>60% to 70%	**0.7**	**2.4**	**14.2**	**17.3**
>70% to 80%	**2.7**	**7.0**	**19.1**	**28.8**
>80% to 90%	**16.4**	**17.9**	**4.4**	**38.7**
>90% to 100%	**10.1**	**19.1**	**–**	**29.2**
Greater than 100%	**4.8**	**11.9**	**77.1**	**93.8**
Structurally protected	**56.5**	**4.1**	**–**	**60.6**
Unsecured	**35.4**	**1.4**	**–**	**36.8**
At 31 July 2022	**169.1**	**65.5**	**124.0**	**358.6**

	Commercial £ million	Retail £ million	Property[1] £ million	Total £ million
LTV				
60% or lower	19.8	2.8	10.1	32.7
>60% to 70%	2.0	2.8	57.6	62.4
>70% to 80%	6.4	6.3	18.2	30.9
>80% to 90%	12.8	12.9	6.0	31.7
>90% to 100%	15.2	9.0	7.3	31.5
Greater than 100%	14.0	5.1	88.1	107.2
Structurally protected	13.0	3.0	–	16.0
Unsecured	16.7	1.3	–	18.0
At 31 July 2021	99.9	43.2	187.3	330.4

1 Credit-impaired gross loans and advances to customers by LTV ratio in Property has been updated, with no impact on the total balance, to ensure the basis of presentation is consistent with the current year.

Financial assets: Treasury assets
The credit risk presented by the group's treasury assets is low. Immaterial impairment provisions are recognised for cash and balances at central banks, certificates of deposit and sovereign and central bank debt. These financial assets are investment grade and in Stage 1.

Financial assets: Settlement balances and loans to money brokers against stock advanced
The credit risk presented by settlement balances in the Securities division is limited, as such balances represent delivery versus payment transactions where delivery of securities occurs simultaneously with payment. The credit risk is therefore limited to the change in market price of a security between trade date and settlement date and not the absolute value of the trade. Winterflood is a market maker and trades on a principal-only basis with regulated counterparties including stockbrokers, wealth managers, institutions and hedge funds who are either authorised and regulated by the PRA and/or FCA or equivalent regulator in the respective country.

Counterparty exposure and settlement failure monitoring controls are in place as part of an overall risk management framework and settlement balances past due are actively managed.

Loans to money brokers against stock advanced of £48.4 million (31 July 2021: £51.1 million) is the cash collateral provided to these institutions.

The Notes continued

28. Financial Risk Management continued

for stock borrowing by Winterflood. The stock borrowing to which the cash deposits relate is short term in nature and is recorded at the amount payable. The credit risk of this financial asset is therefore limited.

The following table shows the ageing of settlement balances:

	Stage 1 £ million	Stage 2 £ million	Stage 3 £ million	Impairment provisions £ million	Total £ million
At 31 July 2022					
Not past due	**726.0**	**–**	**–**	**–**	**726.0**
Less than 30 days past due	**70.6**	**–**	**–**	**–**	**70.6**
More than 30 days but less than 90 days past due	**–**	**1.4**	**–**	**–**	**1.4**
More than 90 days past due	**–**	**–**	**1.5**	**(0.2)**	**1.3**
	796.6	**1.4**	**1.5**	**(0.2)**	**799.3**

	Stage 1 £ million	Stage 2 £ million	Stage 3 £ million	Impairment provisions £ million	Total £ million
At 31 July 2021					
Not past due	615.2	–	–	–	615.2
Less than 30 days past due	81.6	–	–	–	81.6
More than 30 days but less than 90 days past due	–	1.2	–	–	1.2
More than 90 days past due	–	–	1.8	(0.2)	1.6
	696.8	1.2	1.8	(0.2)	699.6

Company financial assets: Amounts owed by subsidiaries

Amounts owed by subsidiaries on the company balance sheet largely relate to Close Brothers Limited and Close Brothers Holdings Limited, and the credit risk presented by these financial assets is immaterial.

(d) Market risk

Interest rate risk

The group's exposure to interest rate risk arises in the Banking division and, accordingly, the remainder of this section relates to the Banking division. Interest rate risk in the group's other divisions is considered to be immaterial.

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 14.

The Asset and Liability Committee ("ALCO") monitors the interest rate risk exposure across the Bank's balance sheet. There are three main sources of interest rate risk recognised, which could adversely impact future income or the value of the balance sheet:
- repricing risk occurs when assets and liabilities reprice at different times;
- embedded optionality risk occurs as a result of special conditions attached to contract terms embedded in some assets and liabilities; and
- basis risk occurs where there is a mismatch in the interest rate reference rate for assets and liabilities.

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

Two measures are used for measuring IRRBB, namely Earnings at Risk ("EaR") and Economic Value ("EV"):
- EaR measures one year impacts to earnings, including basis risk, highlighting any earnings sensitivity should rates change unexpectedly; and
- EV measures longer term earnings capacity due to rate changes, it highlights potential future sensitivity of earnings, and ultimately risk to capital

The table below sets out the assessed impact on our EaR due to a parallel shift in interest rates at 31 July:

	2022 £ million	2021 £ million
0.5% increase	**2.1**	(11.6)
0.5% decrease	**(1.9)**	8.3

The table below sets out the assessed impact on our base case EV due to a shift in interest rates at 31 July:

	2022 £ million	2021 £ million
0.5% increase	**1.1**	(4.2)
0.5% decrease	**(0.8)**	4.3

The impact above is on a comparable 0.5% increase and decrease basis. The Bank of England Base Rate had increased base rate to 1.25% by 31 July 2022, from 0.1% at 31 July 2021. This has resulted in a reduction in embedded optionality risk as floors embedded in some variable rate

loans are no longer generating additional earnings. The reduction in embedded optionality risk is responsible for most of the movement in the EaR and EV metrics in the year. The major driver for EaR and EV is now Repricing Risk with increasing rates driving positive EaR and EV and modest rate reductions resulting in negative EV and EaR.

Interest rate benchmark reform
During the year, the group completed the transition away from the use of LIBOR to alternative benchmark rates in loan documentation, treasury transactions and other forms of contract. At 31 July 2021, loans and advances to customers amounting to £995.5 million and derivatives with a notional value of £84.7 million were yet to transition to an alternative benchmark rate. The transition was subsequently completed by 31 December 2021 in compliance with the requirements set by the Prudential Regulation Authority and Financial Conduct Authority. There are no significant changes to the nature of the risks arising from financial instruments to which the group is exposed as a result of the transition.

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

	2022 £ million	2021 £ million
20% strengthening of sterling against the euro	**(1.7)**	(0.9)

The group has additional material currency assets and liabilities primarily as a result of treasury operations in the Banking division. These assets and liabilities are matched by currency, using exchange rate derivative contracts where necessary. Details of these contracts are disclosed in note 14. Other potential group exposures arise from share trading settled in foreign currency in the Securities division, and foreign currency equity investments. The group has policies and processes in place to manage foreign currency risk, and as such the impact of any reasonably expected exchange rate fluctuations would not be material.

Market price risk
Trading financial instruments: Equity shares and debt securities
The group's trading activities relate to Winterflood. The following table shows the group's trading book exposure to market price risk:

	Highest exposure £ million	**Lowest exposure £ million**	**Average exposure £ million**	**Exposure at 31 July £ million**
For the year ended 31 July 2022				
Equity shares				
Long	**54.0**	**25.3**	**32.6**	**27.1**
Short	**28.9**	**5.3**	**10.0**	**7.9**
			22.6	**19.2**
Debt securities				
Long	**23.8**	**14.2**	**19.5**	**12.4**
Short	**16.1**	**7.2**	**11.5**	**7.5**
			8.0	**4.9**

	Highest exposure £ million	Lowest exposure £ million	Average exposure £ million	Exposure at 31 July £ million
For the year ended 31 July 2021				
Equity shares				
Long	49.0	24.8	30.9	30.8
Short	22.8	5.8	11.0	9.4
			19.9	21.4
Debt securities				
Long	28.6	19.1	22.7	20.1
Short	12.9	4.5	8.6	7.0
			14.1	13.1

With respect to the long and short positions on debt securities £8.0 million and £1.7 million (2021: £9.1 million and £0.1 million) were due to mature within one year respectively.

The average exposure has been calculated on a daily basis. The highest and lowest exposures occurred on different dates and therefore a net position of these exposures does not reflect a spread of the trading book.

Based upon the trading book exposure given above, a hypothetical fall of 10% in market prices would result in a £1.9 million decrease (2021: £2.1 million decrease) in the group's income and net assets on the equity trading book and a £0.5 million decrease (2021: £1.3 million decrease) on the debt securities trading book. However, the group's trading activity is mainly market-making where positions are managed throughout the day on a continuous basis. Accordingly, the sensitivity referred to above is purely hypothetical.

The Notes continued

28. Financial Risk Management continued

Non-trading financial instruments
Net gains and losses on non-trading financial instruments are disclosed in notes 12 and 13.

(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 and arises mainly in the Banking division.

The group has a prudent liquidity position with total available funding at 31 July 2022 of £11.6 billion (31 July 2021: £11.1 billion). This funding is significantly in excess of its loans and advances to customers at 31 July 2022 of £8.9 billion (31 July 2021: £8.4 billion). The group has a large portfolio of high quality liquid assets principally including cash placed on deposit with the Bank of England. The group measures liquidity risk with a variety of measures including regular stress testing and cash flow monitoring, and reporting to both the group and divisional boards.

The following table analyses the contractual maturities of the group's on balance sheet financial liabilities on an undiscounted cash flow basis.

	On demand £ million	**In less than three months £ million**	**In more than three months but not more than six months £ million**	**In more than six months but not more than one year £ million**	**In more than one year but not more than five years £ million**	**In more than five years £ million**	**Total £ million**
At 31 July 2022							
Settlement balances	**–**	**780.7**	**–**	**–**	**–**	**–**	**780.7**
Deposits by banks	**6.0**	**51.9**	**98.9**	**4.1**	**–**	**–**	**160.9**
Deposits by customers	**120.9**	**1,645.1**	**2,046.5**	**1,600.1**	**1,427.2**	**–**	**6,839.8**
Loans and overdrafts from banks	**12.0**	**12.0**	**1.9**	**3.7**	**610.5**	**–**	**640.1**
Debt securities in issue	**–**	**30.3**	**256.2**	**619.5**	**890.7**	**444.2**	**2,240.9**
Loans from money brokers against stock advanced	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Subordinated loan capital	**–**	**2.0**	**–**	**2.0**	**15.0**	**218.0**	**237.0**
Derivative financial instruments	**–**	**6.4**	**9.0**	**16.0**	**89.0**	**55.6**	**176.0**
Lease liabilities	**0.2**	**4.2**	**3.6**	**7.3**	**33.9**	**11.8**	**61.0**
Other financial liabilities	**16.1**	**124.6**	**5.3**	**6.8**	**34.4**	**7.0**	**194.2**
Total	**155.2**	**2,657.2**	**2,421.4**	**2,259.5**	**3,100.7**	**736.6**	**11,330.6**

	On demand £ million	In less than three months £ million	In more than three months but not more than six months £ million	In more than six months but not more than one year £ million	In more than one year but not more than five years £ million	In more than five years £ million	Total £ million
At 31 July 2021							
Settlement balances	–	674.2	–	–	–	–	674.2
Deposits by banks	2.1	37.7	105.8	5.0	–	–	150.6
Deposits by customers	576.1	1,549.4	1,985.0	1,372.0	1,202.0	–	6,684.5
Loans and overdrafts from banks	22.7	0.1	0.1	0.2	491.1	–	514.2
Debt securities in issue	–	58.3	75.5	106.6	1,048.7	705.0	1,994.1
Loans from money brokers against stock advanced	–	–	–	–	–	–	–
Subordinated loan capital	–	1.0	1.0	2.0	21.0	243.9	268.9
Derivative financial instruments	–	5.3	3.7	8.7	67.8	43.5	129.0
Lease liabilities	0.2	3.8	3.2	6.8	35.0	13.5	62.5
Other financial liabilities	18.2	158.4	6.7	8.1	47.5	1.3	240.2
Total	619.3	2,488.2	2,181.0	1,509.4	2,913.1	1,007.2	10,718.2

Derivative financial instruments in the table above includes net currency swaps. The following table shows the currency swaps on a gross basis:

	On demand £ million	In less than three months £ million	In more than three months but not more than six months £ million	In more than six months but not more than one year £ million	In more than one year but not more than five years £ million	In more than five years £ million	Total £ million
At 31 July 2022	**1.7**	**69.8**	**9.0**	**16.0**	**88.9**	**55.6**	**241.0**
At 31 July 2021	–	68.0	4.0	9.0	67.8	43.5	192.3

(f) Offsetting

The following table shows the impact on derivative financial assets and liabilities which have not been offset but for which the group has enforceable master netting arrangements in place with counterparties. The net amounts show the exposure to counterparty credit risk after offsetting benefits and collateral, and are not intended to represent the group's actual exposure to credit risk.

Master netting arrangements allow outstanding transactions with the same counterparty to be offset and settled net, either unconditionally or following a default or other predetermined event. Financial collateral on derivative financial instruments consists of cash settled, typically daily, to mitigate the mark to market exposures.

	Gross amounts recognised £ million	Master netting arrangements £ million	Financial collateral £ million	Net amounts after offsetting £ million
At 31 July 2022				
Derivative financial assets	**71.2**	**(69.1)**	**(0.5)**	**1.5**
Derivative financial liabilities	**89.2**	**(69.1)**	**(26.9)**	**(6.8)**
At 31 July 2021				
Derivative financial assets	18.3	(16.0)	(2.0)	0.3
Derivative financial liabilities	21.2	(16.0)	(16.9)	(11.7)

29. Interest in Unconsolidated Structured Entities

Structured entities are those entities that have been designed so that voting or similar rights are not the dominant factor in deciding who has control, such as when any voting rights relate to administrative tasks only, or when the relevant activities are directed by means of contractual arrangements.

The group has interests in structured entities as a result of contractual arrangements arising from the management of assets on behalf of its clients as part of its Asset Management division. These structured entities consist of unitised vehicles such as Authorised Unit Trusts ("AUTs") and Open Ended Investment Companies ("OEICs") which entitle investors to a percentage of the vehicle's net asset value. The structured entities are financed by the purchase of units or shares by investors. The group does not hold direct investments in its structured entities.

As fund manager, the group does not guarantee returns on its funds or commit to financially support its funds. The business activity of all structured entities is the management of assets in order to maximise investment returns for investors from capital appreciation and/or investment income. The group earns a management fee from its structured entities, based on a percentage of the entity's net asset value.

The main risk the group faces from its interest in assets under management on behalf of external investors is the loss of fee income as a result of the withdrawal of funds by clients. Outflows from funds are dependent on market sentiment, asset performance and investor considerations. The assets under management of unconsolidated structured entities managed by the group were £5,091 million at 31 July 2022 (31 July 2021: £5,467 million). Included in revenue on the consolidated income statement is management fee income of £36.7 million (2021: £35.4 million) from unconsolidated structured entities managed by the group.

The Notes continued

30. Investments in Subsidiaries

In accordance with section 409 of the Companies Act 2006, the following is a list of the group's subsidiaries at 31 July 2022, which are all wholly owned and incorporated in the UK unless otherwise stated.

The investment in subsidiary of £287.0 million (31 July 2021: £287.0 million) in the company balance sheet relates to an investment in the capital reduction reserve of Close Brothers Holdings Limited. There were no indicators of impairment during the year relating to this investment (2021: none).

Group
Close Brothers Holdings Limited[1]

Banking
Air and General Finance Limited[2]
Armed Services Finance Limited[4]
Arrow Audit Services Limited[1]
Brook Funding (No.1) Limited[10, 18]
Capital Lease Solutions Limited[1]
CBM Holdings Limited[1]
Close Asset Finance Limited[2]
Close Brewery Rentals Limited[5]
Close Brothers Asset Finance GmbH[13] (Germany)
Close Brothers DAC[16] (Ireland)
Close Brothers Factoring GmbH[13] (Germany)
Close Brothers Finance plc[1]
Close Brothers Limited[1]
Close Brothers Military Services Limited[4]
Close Brothers Premium DAC[16] (Ireland)
Close Brothers Technology Services Limited[1]
Close Brothers Vehicle Hire Limited[12]
Close Business Finance Limited[2]
Close Credit Management (Holdings) Limited[1]
Close Finance (CI) Limited[14] (Jersey)
Close Invoice Finance Limited[1]
Close Leasing Limited[11]
Close Motor Finance Limited[4]
Close PF Funding I Limited[9, 18]
Commercial Acceptances Limited[6]
Commercial Finance Credit Limited[2]
Corporate Asset Solutions Limited[1]
Finance for Industry Limited[1]
Finance for Industry Services Limited[1]
Kingston Asset Finance Limited[2]
Kingston Asset Leasing Limited[2]
Metropolitan Factors Limited[1]
Micgate Holdings (UK) Limited[1]
Novitas Loans Limited[2]
Novitas (Salisbury) Limited[2]
Orbita Funding 2017-1 plc[10, 18]
Orbita Funding 2020-1 plc[10, 18]
Orbita Funding 2022-1 plc[9, 18]
Orbita Holdings Limited[10, 18]
Orbita Holdings no.2 Limited[9, 18]
Surrey Asset Finance Limited[2]

Securities
W.S. (Nominees) Limited[3]
Winterflood Client Nominees Limited[3]
Winterflood Gilts Limited[3]
Winterflood Securities Holdings Limited[3]
Winterflood Securities Limited[3]
Winterflood Securities US Corporation[15] (Delaware, USA)

Asset Management
Cavanagh Financial Management Limited[7]
CBF Wealth Management Limited[1] (80% shareholding)
CFSL Management Limited[1]
Close Asset Management Holdings Limited[1]
Close Asset Management Limited[1]
Close Asset Management (UK) Limited[1]
Close Brothers Asset Management (Guernsey) Limited[17] (Guernsey)
Close Investments Limited[1]
Close Portfolio Management Limited[1]
EOS Wealth Management Limited[1]
Lion Nominees Limited[1]
Place Campbell Close Brothers Limited[8] (50% shareholding)
PMN Financial Management LLP[1]

Registered office addresses:
1 10 Crown Place, London EC2A 4FT, United Kingdom.
2 Wimbledon Bridge House, Hartfield Road, Wimbledon, London SW19 3RU, United Kingdom.
3 The Atrium Building Cannon Bridge, 25 Dowgate Hill, London EC4R 2GA, United Kingdom.
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.
6 101 Wigmore Street, London W1U 1QU, United Kingdom.
7 4th Floor, The Athenaeum Building, 8 Nelson Mandela Place, Glasgow G2 1BT, United Kingdom.
8 Wilmington House, High Street, East Grinstead, West Sussex RH19 3AU, United Kingdom.
9 10th Floor, 5 Churchill Place, London E14 5HU, United Kingdom.
10 1 Bartholomew Lane, London EC2N 2AX, United Kingdom.
11 Olympic Court Third Avenue, Trafford Park Village, Manchester M17 1AP, United Kingdom.
12 Lows Lane, Stanton-By-Dale, Ilkeston, Derbyshire DE7 4QU, United Kingdom.
13 Grosse Bleiche 35-39, 55116, Mainz, Germany.
14 Conway House, Conway Street, St Helier JE4 5SR, Jersey.
15 1209 Orange Street, Wilmington 19801, New Castle, Delaware, USA.
16 Swift Square, Building 1, Santry Demesne, Northwood, Dublin, DO9 AOE4, Ireland.
17 PO Box 186, Royal Chambers, St Julian's Avenue, St Peter Port GY1 4HP, Guernsey.

Subsidiaries by virtue of control:
18 The related undertakings are included in the consolidated financial statements as they are controlled by the group.

Glossary and Definition of Key Terms

Adjusted	Adjusted measures are presented on a basis consistent with prior periods and exclude amortisation of intangible assets on acquisition, to present the performance of the group's acquired businesses consistent with its other businesses; and any exceptional and other adjusting items which do not reflect underlying trading performance
Assets under administration	Total assets for which Winterflood Business Services provide custody and administrative services
Bad debt ratio	Impairment losses in the year as a percentage of average net loans and advances to customers and operating lease assets
Bargains per day	Average daily number of Winterflood's trades with third parties
Bounce Back Loan Scheme ("BBLS")	UK government business lending scheme that helps small and medium-sized businesses to borrow between £2,000 and £50,000 (up to a maximum of 25% of their turnover)
Business as usual ("BAU") costs	Operating expenses excluding depreciation and other costs related to investments
Buy As You Earn ("BAYE")	The HM Revenue & Customs-approved Share Incentive Plan that gives all employees the opportunity to become shareholders in the group
Capital Requirements Directive V ("CRD V")	European Union regulation implementing the Basel III requirements in Europe, alongside CRR II
Capital Requirements Regulation ("CRR")	Capital Requirements Regulation as implemented in the PRA Rulebook CRR Instrument and the PRA Rulebook CRR Firms: Leverage Instrument (collectively known as "CRR")
CDP	Formerly the "Carbon Disclosure Project", a leading, internationally recognised independent rating agency and assessor of corporate carbon emissions disclosures and actions
CET1 capital ratio	Measure of the group's CET1 capital as a percentage of risk weighted assets, as required by CRR
Common equity tier 1 ("CET1") capital	Measure of capital as defined by the CRR. CET1 capital consists of the highest quality capital including ordinary shares, share premium account, retained earnings and other reserves, less goodwill and certain intangible assets and other regulatory adjustments
Compensation ratio	Total staff costs as a percentage of adjusted operating income
Coronavirus Business Interruption Loan Scheme ("CBILS")	UK government business lending scheme that helps small and medium-sized businesses access loans and other kinds of finance up to £5 million
Coronavirus Large Business Interruption Loan Scheme ("CLBILS")	UK government business lending scheme that helps medium and large-sized businesses access loans and other kinds of finance up to £200 million
Cost of funds	Interest expense incurred to support the lending activities divided by the average net loans and advances to customers and operating lease assets
Credit impaired	Where one or more events that have a detrimental impact on the estimated future cash flows of a loan have occurred. Credit impaired events are more severe than SICR triggers. Accounts which are credit impaired will be allocated to Stage 3
Customer satisfaction score ("CSAT")	A measure of customer satisfaction expressed as a percentage of positive responses from the total of those surveyed
Discounting	The process of determining the present value of future payments
Dividend per share ("DPS")	Comprises the final dividend proposed for the respective year, together with the interim dividend declared and paid in the year
Earnings per share ("EPS")	Profit attributable to shareholders divided by number of basic shares
Effective interest rate ("EIR")	The interest rate at which revenue is recognised on loans and discounted to their carrying value over the life of the financial asset
Effective tax rate ("ETR")	Tax on operating profit/(loss) as a percentage of operating profit/(loss) on ordinary activities before tax
Expected credit loss ("ECL")	The unbiased probability-weighted average credit loss determined by evaluating a range of possible outcomes and future economic conditions
Expense/income ratio	Total adjusted operating expenses divided by operating income
Exposure at default ("EAD")	The capital outstanding at the point of default
Financial Conduct Authority ("FCA")	A financial regulatory body in the UK, regulating financial firms and maintaining integrity of the UK's financial market

Glossary and Definition of Key Terms continued

Financial Reporting Council ("FRC")	An independent regulatory body responsible for promoting high quality corporate governance and reporting amongst UK companies
Forbearance	Forbearance occurs when a customer is experiencing financial 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
Funding allocated to loan book	Total funding excluding equity and funding held for liquidity purposes
Funding as % loan book	Total funding divided by net loans and advances to customers and operating lease assets
General Data Protection Regulation ("GDPR")	Regulation intended to strengthen and unify data protection for all individuals within the European Union
Gross carrying amount	Loan book before expected credit loss provision
High quality liquid assets ("HQLAs")	Assets which qualify for regulatory liquidity purposes, including Bank of England deposits and sovereign and central bank debt
HM Revenue & Customs ("HMRC")	The UK's tax, payments and customs authority
Independent financial adviser ("IFA")	Professional offering independent, whole of market advice to clients including investments, pensions, protection and mortgages
Internal Capital Adequacy Assessment Process ("ICAAP")	An annual self-assessment of a bank's material risks and the associated level of capital needed to be held, and undertaking appropriate stress testing of capital adequacy
Internal Liquidity Adequacy Assessment Process ("ILAAP")	The processes for the identification, measurement, management and monitoring of liquidity
Internal ratings based ("IRB") approach	A supervisor-approved method using internal models, rather than standardised risk weightings, to calculate regulatory capital requirements for credit risk
International Accounting Standards ("IAS")	Older set of standards issued by the International Accounting Standards Council, setting up accounting principles and rules for preparation of financial statements. IAS are being superseded by IFRS
International Financial Reporting Standards ("IFRS")	Globally accepted accounting standards issued by the IFRS Foundation and the International Accounting Standards Board
Investment costs	Includes depreciation and other costs related to investment in multi-year projects, new business initiatives and pilots and cyber resilience. Excludes IFRS 16 depreciation
Leverage ratio	Tier 1 capital as a percentage of total balance sheet assets, adjusted for certain capital deductions, including intangible assets, and off-balance sheet exposures
Lifetime expected credit loss provision ("Lifetime ECL")	Losses that result from default events occurring within the lifetime of the loan
Liquidity coverage ratio ("LCR")	Measure of the group's HQLAs as a percentage of expected net cash outflows over the next 30 days in a stressed scenario
Loan to value ("LTV") ratio	For a secured or structurally protected loan, the loan balance as a percentage of the total value of the asset
Loss day	Where aggregate gross trading book revenues are negative at the end of a trading day
Loss given default ("LGD")	The amount lost on a loan if a customer defaults
Managed assets or assets under management ("AUM")	Total market value of assets which are managed by Close Brothers Asset Management in one of our investment solutions
Market abuse regulation ("MAR")	European regulation aimed at increasing market integrity and investor protection
MiFID II	The Markets in Financial Instruments Directive is the EU legislation that regulates firms who provide services to clients linked to financial instruments, and the venues where those instruments are traded
Modelled expected credit loss provision	ECL = PD x LGD x EAD
Modification losses	Modification losses arise when the contractual terms of a financial asset are modified. An adjustment is required to the carrying value of the financial asset to reflect the present value of modified future cash flows discounted at the original effective interest rate
Net carrying amount	Loan book value after expected credit loss provision
Net flows	Net flows as a percentage of opening managed assets calculated on an annualised basis

Net interest margin ("NIM")	Operating income generated by lending activities, including interest income net of interest expense, fees and commissions income net of fees and commissions expense, and operating lease income net of operating lease expense, less depreciation on operating lease assets, divided by average net loans and advances to customers and operating lease assets
Net promoter score ("NPS")	A measure of customer satisfaction by which unfavourable ratings are deducted from favourable ratings; hence a score above 0 is good, and above 50 is excellent
Net stable funding ratio ("NSFR")	Regulatory measure of the group's weighted funding as a percentage of weighted assets
Net zero	Target of completely negating the amount of greenhouse gases produced by reducing emissions or implementing methods for their removal
Operating margin	Adjusted operating profit divided by operating income
Paris Agreement	International treaty on climate change, adopted in 2015, with a goal to limit global warming to well below 2ºC, and preferably to 1.5ºC, compared to pre-industrial levels
Personal Contract Plan ("PCP")	PCP is a form of vehicle finance where the customer defers a significant portion of credit to the final repayment at the end of the agreement, thereby lowering the monthly repayments compared to a standard hire-purchase arrangement. At the final repayment date, the customer has the option to: (a) pay the final payment and take the ownership of the vehicle; (b) return the vehicle and not pay the final repayment; or (c) part-exchange the vehicle with any equity being put towards the cost of a new vehicle
Probability of default ("PD")	Probability that a customer will default on their loan
Prudential Regulation Authority ("PRA")	A financial regulatory body, responsible for regulating and supervising banks and other financial institutions in the UK
Recovery Loan Scheme	Launched in April 2021 as a replacement to CBILS. Under the terms of the scheme, businesses of any size that have been adversely impacted by the Covid-19 pandemic can apply to borrow up to £10 million, with accredited lenders receiving a government-backed guarantee of 80% on losses that may arise
Return on assets	Adjusted operating profit attributable to shareholders divided by total closing assets at the balance sheet date
Return on average tangible equity	Adjusted operating profit attributable to shareholders divided by average total shareholders' equity, excluding intangible assets
Return on net loan book ("RoNLB")	Adjusted operating profit from lending activities divided by average net loans and advances to customers and operating lease assets
Return on opening equity ("RoE")	Adjusted operating profit attributable to shareholders divided by opening equity, excluding non-controlling interests
Revenue margin	Income from advice, investment management and related services divided by average total client assets. Average total client assets calculated as a two-point average
Risk weighted assets ("RWAs")	A measure of the amount of a bank's assets, adjusted for risk in line with the CRR. It is used in determining the capital requirement for a financial institution
Scope 1, 2 and 3 emissions	Categorisation of greenhouse gas emissions, as defined by the Greenhouse Gas (GHG) Protocol, into direct emissions from owned or controlled sources (Scope 1), indirect emissions from the generation of purchased electricity, heating and cooling consumed by the reporting company (Scope 2), and all other indirect emissions that occur in a company's value chain (Scope 3)
Secured debt	Debt backed or secured by collateral
Senior debt	Represents the type of debt that takes priority over other unsecured or more junior debt owed by the issuer. Senior debt is first to be repaid ahead of other lenders or creditors
Significant increase in credit risk ("SICR")	An assessment of whether credit risk has increased significantly since initial recognition of a loan using a range of triggers. Accounts which have experienced a significant increase in credit risk will be allocated to Stage 2
Standardised approach	Generic term for regulator-defined approaches for calculating credit, operational and market risk capital requirements as set out in the CRR
Subordinated debt	Represents debt that ranks below, and is repaid after claims of, other secured or senior debt owed by the issuer
Task Force on Climate-related Financial Disclosures ("TCFD")	Regulatory framework to improve and increase reporting of climate-related financial information, including more effective and consistent disclosure of climate-related risks and opportunities
Term funding	Funding with a remaining maturity greater than 12 months

Glossary and Definition of Key Terms continued

Term Funding Scheme ("TFS")	The Bank of England's Term Funding Scheme
Term Funding Scheme for Small and Medium-sized Enterprises ("TFSME")	The Bank of England's Term Funding Scheme with additional incentives for SMEs
Tier 2 capital	Additional regulatory capital that along with Tier 1 capital makes up a bank's total regulatory capital. Includes qualifying subordinated debt
Total client assets ("TCA")	Total market value of all client assets including both managed assets and assets under advice and/or administration in the Asset Management division
Total shareholder return ("TSR")	Measure of shareholder return including share price appreciation and dividends, which are assumed to be re-invested in the company's shares
Watch list	Internal risk management process for heightened monitoring of exposures that are showing increased credit risk

Investor Relations

Financial Calendar (provisional)

Event	Date
First quarter trading update	November 2022
Annual General Meeting	17 November 2022
Final dividend payment	22 November 2022
Pre-close trading update	January 2023
Half year end	31 January 2023
Interim results	March 2023
Third quarter trading update	May 2023
Pre-close trading update	July 2023
Financial year end	31 July 2023
Preliminary results	September 2023

The financial calendar is updated on a regular basis throughout the year. Please refer to our website www.closebrothers.com for up-to-date details.

Cautionary Statement

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Fraudsters use persuasive and high-pressure tactics to lure investors into scams. They may offer to sell shares that prove to be worthless or non-existent, or they can offer to buy shares at an inflated price in return for you paying upfront. They promise high profits. However, if you buy or sell shares in this way, you will probably lose your money.

How to Avoid Share Fraud
- Remember that FCA-authorised firms are unlikely to contact you unexpectedly offering to buy or sell shares.
- Do not converse with them. Note the name of the person and firm contacting you, then end the call.
- To see if the person and firm contacting you are authorised by the FCA, check the Financial Services Register at https://register.fca.org.uk/s/
- Beware of fraudsters claiming to be from an authorised firm; copying its website; or giving you false contact details.
- If you want to phone the caller back, use the firm's contact details listed on the Financial Services Register at https://register.fca.org.uk/s/
- If the firm does not have contact details on the Register or they tell you the details are out of date, call the FCA on 0800 111 6768.
- Search the list of unauthorised firms to avoid at: https://www.fca.org.uk/consumers/unauthorised-firms-individuals
- Remember that if you buy or sell shares from an unauthorised firm, you cannot access the Financial Ombudsman Service or Financial Services Compensation Scheme.
- Get independent financial and professional advice before handing over any money.
- If it sounds too good to be true, it probably is.

Report a Scam
If fraudsters approach you, tell the FCA using the share fraud reporting form at https://www.fca.org.uk/consumers/report-scam-us. You can also find out more about investment scams at https://www.fca.org.uk/scamsmart/how-avoid-investment-scams. You can call the FCA Consumer Helpline on 0800 111 6768. If you have already paid money to share fraudsters, call Action Fraud on 0300 123 2040.

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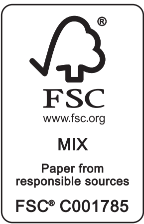

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