Close Brothers

Close Brothers Limited
Annual Report 2020

COMPANY NUMBER: 195626

PROFILE

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

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

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

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

HIGHLIGHTS

	31 July 2020 £ million	31 July 2019 £ million
Operating profit before amortisation of intangible assets on acquisition	**101.5**	256.0
Statutory profit on ordinary activities before taxation	**99.5**	254.1
Loans and advances to customers	**7,616.7**	7,649.6
Deposits by customers	**5,917.7**	5,638.4
Shareholders' funds	**1,199.0**	1,177.4
Total assets	**10,128.7**	9,710.7

COMPANY INFORMATION

Directors

Mike Biggs*	Chairman
Preben Prebensen* **	Director
Mike Morgan*	Director
Adrian Sainsbury*	Director
Oliver Corbett*	Director
Peter Duffy*	Director
Geoffrey Howe*	Director
Lesley Jones*	Director
Bridget Macaskill*	Director
Sally Williams*	Director (Appointed 1 January 2020)

* Director of Close Brothers Group plc ("**CBG**")
** Preben Prebensen will step down as a director of the Company and of CBG on 21 September 2020

Company Secretary
J.E. Hudspith

Independent Auditors
PricewaterhouseCoopers LLP

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Registered Number
195626

STRATEGIC REPORT

Business Review[1,2]

Adjusted operating profit decreased to £101.5 million (2019: £256.0 million) reflecting the forward-looking recognition of impairment charges under IFRS 9 and lower income driven by the impact of Covid-19. Statutory operating profit from continuing operations decreased to £99.5 million (2019: £254.1 million).

Despite subdued new business volumes during the lockdown period, the loan book remained broadly flat in the year at £7.62 billion (31 July 2019: £7.65 billion) as we experienced record new business volumes in July reflecting an encouraging increase in client activity as lockdown restrictions eased. The return on net loan book, although lower, remained resilient at 1.3% (2019: 3.3%).

Adjusted operating income decreased 3% to £588.3 million (2019: £604.9 million), reflecting the impact of lower customer activity and forbearance measures, with a reduced net interest margin of 7.5% (2019: 7.9%).

While we remain focused on our pricing and underwriting discipline, the reduced net interest margin reflected a period of lower fee income, as some fees were waived due to forbearance and transaction and utilisation levels dropped significantly. Adjusting for certain items including modification losses arising from the onset of Covid-19, the monthly net interest margin remained broadly stable in the period prior to the Covid-19 outbreak, with a sharp drop in April and May before partially recovering in recent months as activity levels and fee income benefited from the easing of lockdown restrictions.

Adjusted operating expenses increased marginally by 1%, to £303.4 million (2019: £300.5 million), primarily driven by investment in strategic projects, including our multi-year investment programmes in Motor Finance and Asset Finance, investment to support our IRB application and enhancements to our cyber and data security. Investment spend increased £11 million on the prior year, to £57 million and is expected to increase further in the year ahead as we continue to progress these important initiatives.

Recent investment to improve our operational capabilities and our proposition to customers has been critical to our effective response to Covid-19. This included our remote lending capability which supported our Motor Finance dealers during lockdown, our deployment of Sales force aiding the rapid set-up of a portal to streamline the Coronavirus Business Interruption Loan Scheme ("CBILS") applications in Asset Finance, and our online deposit portal which allowed us to continue raising deposits remotely throughout lockdown.

Excluding depreciation and other costs related to investments, operating expenses decreased 3% on the prior year, mainly reflecting our focus on cost control and lower variable compensation, with a stable compensation ratio of 28% (2019: 28%). A reduction in operating income and continued investment spend resulted in an increase in the expense/income ratio to 52% (2019: 50%). Given the current environment, we will continue to review and prioritise investment spend while maintaining our focus on cost discipline.

Impairment charges increased significantly to £183.4 million (2019: £48.4 million) corresponding to a bad debt ratio of 2.3% (2019: 0.6%). Provisions increased across Commercial, Retail and Property, primarily to reflect the impact of Covid-19 on impairments, taking into account loan book performance, forbearance measures, and the macroeconomic outlook across our diverse portfolio of lending segments.

This resulted in an overall increase in provision coverage to 3.0% (31 July 2019: 1.3%), while underlying loan losses and write offs remained broadly stable on the previous financial year.

Return on opening equity was resilient at 7% (2019: 18%) and reflected the impact of the pandemic on the profitability of the company.

Key Financials[1,2]

	31 July 2020 £ million	31 July 2019 £ million	Change %
Continuing operations[2]			
Adjusted operating income	**588.3**	604.9	(3)
Adjusted operating expenses	**(303.4)**	(300.5)	1
Impairment losses on financial assets	**(183.4)**	(48.4)	279
Adjusted operating profit	**101.5**	256.0	(60)

Key Performance Indicators[1,3]

	31 July 2020 %	31 July 2019 %
Net interest margin[4]	**7.5%**	7.9%
Expense/income ratio[5]	**52%**	50%
Compensation ratio[6]	**28%**	28%
Bad debt ratio[7]	**2.3%**	0.6%
Return on net loan book[8]	**1.3%**	3.3%
Return on opening equity[9]	**7%**	18%

	31 July 2020 £ million	31 July 2019 £ million	Change %
Average loan book and operating lease assets	**7,854.3**	7,654.0	3

1 Adjusted measures are used to increase comparability between periods and exclude amortisation of intangible assets on acquisitions, any exceptional items and discontinued operations.

2 Results from continuing operations exclude the unsecured retail point of sale finance business, which was classified as a discontinued operation in the group's income statement for the 2019 financial year and sold on 1 January 2019.

3 The calculations of the bad debt ratio, net interest margin and return on net loan book excludes the unsecured point of sale finance loan book from both the opening and closing loan book.

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4 Adjusted income generated by lending activities, including interest income net of interest expense, fees and commissions income net of fees and commissions expense, and operating lease income net of operating lease expense, less depreciation on operating lease assets, divided by average loans and advances to customers (net of impaired loans) and operating lease assets.
5 Total adjusted operating expenses on adjusted operating income.
6 Total adjusted staff costs on adjusted operating income.
7 Impairment losses as a percentage of average net loans book and operating lease assets.
8 Adjusted operating profit from lending activities divided by average net loans book and operating lease assets.
9 Adjusted operating profit after tax and non-controlling interests on opening equity, excluding non-controlling interests.

Loan Book

Loan book growth has always been an output of our business model, and we continue to prioritise our margins and credit quality. We have a diverse portfolio of segments, which ensures that our model remains resilient through the cycle.

The loan book remained broadly flat in the year at £7.62 billion (31 July 2019: £7.65 billion) as growth in our Commercial and Retail segments was offset by a contraction in our Property loan book, reflecting a resilient overall performance in a challenging year with the general election, continuing uncertainty over the final Brexit settlement and the Covid-19 pandemic impacting customer demand.

The marginal reduction in net loan book over the year was a result of the increased provisions to reflect the estimated impact of Covid-19, but we remain confident in the overall credit quality of the loan book. The group's largest single sector exposure is to residential property development and construction (c.21%) predominantly through the Property loan book. Consumer lending represented c.30% of the group's exposure with Motor Finance and Premium Finance personal lines comprising c.23% and c.7% respectively. Sector exposures to retail, hospitality, leisure, air transport and oil and gas are minimal.

The Commercial loan book increased to over £3.0 billion (31 July 2019: £3.0 billion) reflecting good growth in our Asset Finance segment, although this was partially offset by a marked reduction in utilisation levels in our Invoice Finance segment. We experienced record new business volumes in Asset Finance in June and July, as lockdown restrictions eased, supported by strong demand for loans under CBILS.

In Retail, the loan book remained broadly flat at £2.8 billion (31 July 2019: £2.8 billion). Although the UK lockdown resulted in the temporary closure of motor dealerships which led to a reduction in new business for Motor Finance as dealers adapted to trading remotely, volumes showed strong recovery following the re-opening of dealerships, resulting in overall growth in the UK loan book. A modest reduction in the Irish Motor Finance segment resulted in a slight decline in the Motor Finance loan book as a whole. Premium Finance continued to see solid demand for insurance finance, resulting in an increase in loan book to £1.1 billion (31 July 2019: £1.0 billion).

While the pipeline for new developments remains good, Property experienced fewer drawdowns on lending facilities as construction activity remained subdued throughout the second half of the year. Higher repayments also contributed to a reduction in the property loan book of 6% to £1.7 billion (31 July 2019: £1.8 billion).

Loan Book Analysis[1]

	31 July 2020 £ million	31 July 2019 £ million	Change %
Commercial	**3,048.0**	2,991.3	**2**
Asset Finance	**2,167.4**	1,946.4	11
Invoice and Speciality Finance	**880.6**	1,044.9	(16)
Retail	**2,834.5**	2,810.7	**1**
Motor Finance	**1,749.4**	1,775.6	(1)
Premium Finance	**1,085.1**	1,035.1	5
Property	**1,734.2**	1,847.6	**(6)**
Closing Loan Book	**7,616.7**	7,649.6	**-**
Operating lease assets[1]	**221.9**	220.4	**1**
Closing loan book and operating lease assets	**7,838.6**	7,870.0	-

1 Operating lease assets of £2.9 million (2019: £4.2 million) relate to Asset Finance and £219.0 million (2019: £216.2 million) to Invoice and Speciality Finance.

Commercial

The Commercial segments provide specialist, predominantly secured lending principally to the SME market and includes Asset Finance and Invoice and Speciality Finance. The latter includes smaller specialist businesses such as Novitas, a specialist provider of finance to the legal sector, Brewery Rentals, which provides service and finance solutions for brewery equipment and containers, and Vehicle Hire, which provides heavy goods and light commercial vehicles on a predominantly long-term hire basis.

The Commercial loan book increased to over £3.0 billion (31 July 2019: £3.0 billion), reflecting growth in our Asset Finance segment, although this was partially offset by a reduction in utilisation levels in our Invoice Finance segment.

The Asset Finance loan book increased 11% in the year as new business volumes recovered, in June and July supported by strong demand for loans under CBILS for which a solid pipeline remains. Invoice and Speciality Finance saw lower utilisation of Invoice Finance facilities due to softer demand reflecting economic uncertainty for most of the year, compounded by Covid-19 in the second half.

Adjusted operating profit of £5.8 million (2019: £87.4 million) included £99.2 million of impairment charges predominantly driven by Covid-19. Statutory operating profit was £4.1 million (2019: £85.8 million).

Operating income of £247.6 million (2019: £250.8 million) was marginally lower than the prior year, despite a higher average loan book, due to a reduction in the net interest margin to 7.6% (2019: 8.1%), driven by subdued customer activity including low rentals utilisations and actions taken to support our customers following the UK lockdown.

Adjusted operating expenses increased 2% to £142.6 million (2019: £140.1 million) mainly reflecting investment related to the Asset Finance transformation programme. This programme is aimed at increased sales effectiveness through enhanced data capabilities and technology, with the first phase expected to deliver additional new business volumes over time. The next phase will focus on optimising our operational efficiency, with upgraded systems and processes to support the long-term resilience of the segment. This investment spend resulted in cost growth higher than the subdued growth in operating income for the year and the expense/income ratio increased to 58% (2019: 56%).

Impairment charges increased significantly to £99.2 million (2019: £23.3 million), with a bad debt ratio of 3.1% (2019: 0.8%), primarily reflecting a review of staging and provision coverage to reflect the increase in Covid-19 forbearance across the portfolio, as well as the incorporation of more severe macroeconomic assumptions. This resulted in a coverage ratio of 3.9% (31 July 2019: 1.7%) at 31 July 2020.

Our Commercial loan book is predominantly secured, with minimal exposure to higher risk sectors and those impacted most severely through the recent crisis, such as travel and leisure, hospitality or oil and gas. Our loans are conservatively underwritten with prudent LTVs, supported by our specialist expertise on the underlying assets and long-standing industry relationships.

As at 31 July 2020, around 7,300 customers, representing 26% of the Commercial loan book by value, were subject to forbearance measures as a result of Covid-19, principally in the form of payment deferrals with fees and charges waived in the Asset Finance segment, and flexing of repayments percentages and overpayments on invoice discounting and factoring facilities. We remain in close contact with customers who have been granted Covid-19 forbearance, and the majority of these, accounting for over 70% of the forborne loan book, have now resumed payments.

Retail

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

The Retail loan book was broadly flat at £2.8 billion (31 July 2019: £2.8 billion) as 5% loan book growth in Premium Finance offset a slight decline of 1% in the Motor Finance loan book.

The Premium Finance loan book increased 5% to £1.1 billion (31 July 2019: £1.0 billion) against a challenging backdrop with growth across the segment, with strong demand for insurance finance. The segment continues to be well positioned competitively, following the multi-year investment programme in its infrastructure over recent years to improve both broker and end customer experience.

Despite the impact of the temporary closure of motor dealerships during lockdown, the UK Motor Finance loan book remained resilient, benefiting from recent investment in sales capability and grew overall following a sharp recovery in volumes as lockdown restrictions eased in June and July. This was offset by a modest reduction in Ireland, which accounts for 26% (2019: 28%) of the Motor Finance loan book, where we operate through a local partner, First Auto Finance, who provide the distribution and dealer relationships. The Motor Finance loan book reduced 1% overall at £1.7 billion (31 July 2019: £1.8 billion).

Overall, adjusted operating profit for Retail was £35.7 million (2019: £73.4 million) and included higher impairment charges of £56.6 million driven by Covid-19. Statutory operating profit was £35.4 million (2019: £73.1 million).

Adjusted operating income was down 2% year-on-year at £219.2 million (2019: £224.1 million) with a decline in net interest margin to 7.8% (2019: 8.2%), reflecting a reduction in fee income driven by lower activity levels and forbearance in both segments, particularly in the latter half of the year.

Adjusted operating expenses increased 1% to £126.9 million (2019: £125.5 million), and the expense/income ratio increased to 58% (2019: 56%), reflecting a reduction in operating income along with volume-driven costs and ongoing investment in both Premium Finance and Motor Finance. We are making good progress with our Motor Finance transformation programme which is aimed at improving the service proposition, enhancing operational efficiency, improving our credit acceptance process and increasing sales effectiveness.

Impairment charges increased to £56.6 million (2019: £25.2 million) with a bad debt ratio of 2.0% (2019: 0.9%), primarily reflecting movement between stages in the Motor Finance loan book, including the impact of Covid-19 forbearance in the second half, with a more modest increase in Premium Finance. This resulted in an increased provision coverage ratio to 2.5% at 31 July 2020 (31 July 2019: 1.3%).

We remain confident in the credit quality of the Retail loan book. The Motor Finance loan book is secured on principally second-hand family vehicles which are less exposed to depreciation or significant declines in value. Our core Motor Finance product remains hire-purchase contracts, with limited exposure to residual value risk associated with Personal Contract Plans ("PCP"), which accounted for only 11 % of the Motor Finance loan book at 31 July 2020. The Premium Finance loan book benefits from various forms of structural protection including premium refundability and broker recourse for the personal lines product.

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As at 31 July 2020, around 61,000 customers across Motor Finance and Premium Finance, accounting for 9% of the Retail loan book by value, were subject to forbearance measures as a result of Covid-19, principally in the form of payment holidays. We continue to closely monitor the performance of the loan book as customers emerge from Covid-19 concessions, with over 3 quarters of forborne loan balances currently up to date, settled or having recommenced payments.

Property

Property comprises Property Finance and Commercial Acceptances. The Property Finance segment is focused on specialist residential development finance to established professional developers in the UK. Commercial Acceptances provides bridging loans and loans for refurbishment projects. We do not lend to the buy-to-let sector or provide residential or commercial mortgages.

Our long track record, expertise and quality of service ensure the segment remains resilient to competition and continues to generate high levels of repeat business. The regional market remains important to us and we launched an office in Manchester in 2019 to progress this initiative.

We experienced fewer drawdowns on lending facilities as construction activity remained subdued for most of the second half of the year. Higher repayments also contributed to a reduction in the property loan book of 6% to £1.7 billion (31 July 2019: £1.8 billion). Following the easing of the lockdown in June and July, customer demand for new housing appears to have rebounded, supported by the temporary reduction in stamp duty. Our new business pipeline and committed facilities remain strong.

The segment delivered an operating profit of £60.0 million (2019: £95.2 million) which included higher impairment charges of £27.6 million (2019: (£0.1) million) predominantly driven by Covid-19.

Operating income was down 7% year-on-year at £121.5 million (2019: £130.0 million) reflecting the reduction in loan book and net interest margin which decreased to 6.8% (2019: 7.1%) driven by actions taken to support our customers such as waiving of fees on term extensions.

Operating expenses of £33.9 million (2019: £34.9 million) reduced 3% despite the opening of the new Manchester office and continued technology investment across the group. Although the expense/income ratio increased to 28% (2019: 27%), it remained low reflecting the lower operational requirements of the segment with larger transaction sizes and a relatively small number of loans.

Impairment charges increased to £27.6 million (2019: (£0.1) million) primarily reflecting more conservative macroeconomic assumptions, and review of provisions for individual impaired loans. This resulted in a bad debt ratio of 1.5% (2019: (0.0%)) and a provision coverage ratio of 2.5% at 31 July 2020 (31 July 2019 0.8%).

The Property loan book is conservatively underwritten with a maximum LTV of 60% at origination on residential development finance, which accounts for the vast majority of the loan book. We work with experienced, professional developers, with a focus on mid-priced family housing, and have minimal exposure to the prime central London markets.

As at 31 July 2020, 187 customers accounting for 18% of the Property loan book by value, were subject to forbearance measures as a result of Covid-19, principally in the form of fee-free extensions for residential development loans, where we remain confident in the quality of the underlying borrower and security. Forborne loans continue to be assessed on a case-by-case basis and we remain in close contact with each of our customers.

Capital

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

The prudent management of our capital is a core part of our business model and has been a key focus since the Covid-19 outbreak to ensure the group can continue to support customers, clients and colleagues during these unprecedented times.

Our common equity tier 1 ("CET1") capital ratio increased to 13.4% (31 July 2019: 12.3%), primarily due to retained profit with the impact of higher impairment charges largely offset by the capital add-back under transitional IFRS 9 arrangements. The total capital ratio increased to 15.7% (31 July 2019: 14.6%).

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 and the Capital Requirements Regulations qualifying own funds arrangements. Without their application, the CET1 and total capital ratios would be 12.3% and 14.4%, respectively.

CET1 capital increased 6% to £1,103.9 million (31 July 2019: £1,039.8 million) reflecting capital generation through £81.4 million of profit in the year and the transitional IFRS 9 capital add-back of £55.6 million, partially offset by the regulatory deduction of dividends paid and foreseen of £50.0 million and an increase in intangibles of £20.5 million.

Risk weighted assets ("RWAs") decreased 2% to £8.3 billion (31 July 2019: £8.5 billion) driven by lower credit risk RWAs partly offset by an increase in operational risk RWAs. The decrease in loan book RWAs includes the implementation of the revised small and medium-sized enterprises ("SME") supporting factor which was accelerated as part of regulatory measures announced in light of Covid-19.

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We have continued making good progress on our preparations for a transition to the Internal Ratings Based ("IRB") approach, despite the operational challenges posed by Covid-19. Our initial IRB model suite is now complete, and we are currently on track to submit our formal application to the Prudential Regulation Authority by the end of the current calendar year.

	31 July 2020 £ million	31 July 2019 £ million
Common equity tier 1 capital	**1,103.9**	1,039.8
Total capital	**1,293.9**	1,237.3
Risk weighted assets	**8,250.4**	8,453.6
Common equity tier 1 capital ratio	**13.4%**	12.3%
Total capital ratio	**15.7%**	14.6%

Funding

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

We entered this challenging period in a strong position and further increased our total funding in the second half of the year to £9.9 billion (31 July 2019: £9.6 billion) which accounted for 130% (31 July 2019: 125%) of the loan book at the balance sheet date. Our average cost of funding of 1.7% was broadly stable on the prior year (2019: 1.7%).

Our customer deposit platform launched in 2019, has allowed us to offer a wider range of deposit products to further diversify our funding and improve customer experience. In the first half we introduced a new online portal, with a number of new savings products to come during the 2021 financial year, including cash Individual Savings Accounts ("ISA") products, which will continue to grow and diversify our retail deposit base and further optimise our cost of funding and maturity profile. Deposits increased 5% overall to £5.9 billion (31 July 2019: £5.6 billion) with non-retail deposits decreasing slightly to £3.3 billion (31 July 2019: £3.5 billion) and retail deposits increasing by 22% to £2.6 billion (31 July 2019: £2.1 billion).

Our range of secured funding facilities include securitisations of our Premium and Motor Finance loan books, and during the year we raised £200.0 million via a third public Motor Finance securitisation. Following admission to the Bank of England's Term Funding Scheme with additional incentives for SMEs ("TFSME"), we transitioned £228.0 million of drawings previously under the Term Funding Scheme to TFSME at the end of July 2020.

Unsecured funding, which includes senior unsecured bonds and undrawn facilities, remained broadly unchanged at £1.1 billion (31 July 2019: £1.1 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 18 months (31 July 2019: 20 months), while the average loan book maturity stood at 15 months (31 July 2019: 14 months).

LIBOR, which had been the principal sterling reference rate used by the group, is due to be withdrawn by the end of 2021. The group is actively participating in initiatives to determine the appropriate treatment of all instruments on the withdrawal of LIBOR, including the use of SONIA, the Sterling Overnight Index Average.

Our strong credit ratings have been considered by both Moody's Investors Services ("Moody's") and Fitch Ratings ("Fitch") during the year. Moody's rates Close Brothers Limited "Aa3/P1" with a "negative" outlook.

Fitch applied a one notch downgrade to our rating alongside several mid-sized UK banks following their downgrade of UK sovereign debt to AA-, reflecting their view of the negative impact of Covid-19 on the UK economy. The result was a rating of "A-/F2" (from "A/F1"), with a "negative" outlook (previously "stable") for Close Brothers Limited.

Funding Analysis[1]

	31 July 2020 £ million	31 July 2019 £ million
Customer deposits	**5.917.7**	5,638.4
Secured funding	**1,418.2**	1,404.8
Unsecured funding[2]	**1,114.4**	1,118.0
Intercompany	**255.7**	254.1
Equity	**1,198.0**	1,176.4
Total available funding	**9,904.0**	9,591.7
Of which term funding (>1 year)	**4,310.0**	5,103.3
Total funding % loan book	**130%**	125%
Term funding % loan book	**57%**	67%
Average maturity of funding allocated to loan book[3]	**18 Months**	20 Months

1 Numbers relate to core funding and exclude working capital facilities at the segment level.

2 Unsecured funding excludes £4.0 million (2019: £16.4 million) of non-facility overdrafts included in borrowings and includes £205.0 million (2019: £205.0 million) of undrawn facilities.

3 Average maturity of total funding excluding equity and funding held for liquidity purposes.

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Liquidity

The group continues to adopt a conservative stance on liquidity, ensuring it is comfortably ahead of both internal risk appetite and regulatory requirements. Against a backdrop of a generally weak economic UK outlook driven by the continued uncertainty over the final Brexit settlement and the Covid-19 crisis, treasury assets increased 24% to £1.7 billion (31 July 2019: £1.4 billion) and were predominantly held on deposit with the Bank of England, giving us continued good headroom to both internal and external liquidity requirements.

We regularly assess and stress test our liquidity requirements and continue to comfortably meet the liquidity coverage ratio ("LCR") requirements under the Capital Requirements Directive IV ("CRD IV"), with a 12-month average LCR ratio of 792% (2019: 747%).

Liquidity Analysis

	31 July 2020 £ million	31 July 2019 £ million
Cash and balances at central banks	**1,375.8**	1,106.4
Sovereign and central bank debt	**72.2**	48.3
Certificates of deposit	**285.9**	240.7
Treasury assets	**1,733.9**	1,395.4

Future developments

As part of the Close Brothers group, the company shares its strategic approach to protect, improve and extend its business model. The following are key future priorities which aim to maintain how the company runs its business over the long term, invests to strengthen its proposition and creates future value through maximising potential and identifying new opportunities:

- Continue to strengthen and diversify our funding position with growth in deposits and additional wholesale debt issuances.
- Ensure our compliance with ongoing regulatory change.
- Continue to invest in the Motor Finance transformation programme which has already increased new business volumes and enabled us to deliver an enhanced service to dealers and customers.
- Continue to progress the Asset Finance transformation programme to improve data capability and technology, enhancing sales effectiveness.
- Monitor customer needs, preferences and trends in technology through research and responding to customer feedback.
- Continue to adapt and respond to developments brought about by Covid-19, including changes in customer preferences and in the company's ways of working.
- Add new product ranges to the customer deposit platform, including 95 day notice accounts and cash ISAs.
- Continue as an accredited lender under the support schemes introduced by the UK government in response to Covid-19.
- Identify and capitalise on new opportunities to lend as we emerge from Covid-19.

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

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Our Response to Covid-19

Our purpose is to help the people and businesses of Britain thrive over the long term, and in the face of Covid-19 we have focused on maximising our support for our colleagues, customers and partners.

In these unprecedented times our colleagues have continued to perform admirably, and have worked together to support one another and maintain their focus on helping our customers and clients navigate this challenging period. We recognise the importance of maintaining our high levels of service for our customers and clients and have continued to be there for them, as we have done for many years and during the even most difficult times.

Supporting our colleagues

The safety and wellbeing of our colleagues is of the utmost importance to us, and we have supported them through flexible working arrangements, seeking regular feedback and making adjustments so that they can conduct their roles safely. Throughout this period, we have focused on maintaining close contact with our employees, with a series of regular surveys, internal communications and opportunities for staff to engage with management and each other. We take great care to support the mental welfare of our colleagues, particularly during the unique circumstances of recent months, and have provided virtual health and wellbeing classes as well as webinars on topics such as emotional agility, mental health, nutrition and remote working.

A number of our colleagues have now returned to work on-site or begun to meet customers in person where it is safe to do so, but the majority remain successfully working from home, where our agile deployment of technology solutions has enabled them to perform their roles with minimal disruption and to serve our customers and clients effectively. At the peak of the UK lockdown over 95% of our staff were set up to work from home. We have not made use of the Coronavirus Job Retention Scheme as none of our employees were furloughed during this period.

Supporting our customers

Throughout this period, we have maintained regular contact with our customers and increased their choice of channels for engagement with us, while our technology has ensured speed and simplicity in responding to their needs. Investments in recent years and rapid improvements to our sales tooling have enabled our businesses to adopt a remote sales and servicing model, allowing them to continue to reach consumers and small businesses when face-to-face contact has not been possible.

We have a long history of supporting individuals and SMEs across the UK, and have introduced a range of forbearance and other measures to support customers and clients who find themselves in difficulty. The broad range of concessions we offer reflects our diverse range of products, sectors and customers, and we continue to tailor our support to ensure it is most appropriate for them.

Our Commercial and Property businesses account for the vast majority of the value of our forborne loans, and we remain in close contact with customers who have been granted forbearance to discuss their position and identify the most appropriate financing solution for them. While it is still too early to know the full impact of Covid-19, an increasing number of these customers are now beginning to resume payments, or return to normal contractual terms.

Segment	Typical forbearance offered
Commercial	Capital repayment holidays with fees and charges waived, or flexing of repayments percentages and overpayments on invoice discounting and factoring facilities
Retail	Payment deferrals of varying duration, with fees and charges waived and no interest compounded on the deferred balance, and no impact on customer credit records
Property	Fee-free, payment term extensions for development loans, with concessions of capital repayment holidays for non-development loans

Government support schemes

In order to maximise our assistance for small businesses we have become accredited to lend under the support schemes introduced by the UK government, including the Coronavirus Business Interruption Loan Scheme ("CBILS"), the Coronavirus Large Business Interruption Loan Scheme ("CLBILS") and the Bounce Back Loan Scheme ("BBLS"). As at 31 July 2020, we have approved over £350 million of lending across 1,430 loans in our Commercial and Property businesses, with a strong pipeline of applications. The vast majority of lending is via CBILS under which we are accredited to lend up to £750 million, with less than £2 million lent under the BBLS scheme.

Our resilient response

Our prudent and resilient business model has served us well in challenging times over many years. Whilst Covid-19 has had a significant impact upon consumers, businesses and the economy, as well as our own financial performance, we have successfully adapted to the unique circumstances we face in this environment and our strong operational resilience has allowed the group to continue to operate effectively during this time. Our loan book is predominantly secured and conservatively underwritten, with a deep expertise and relationship driven approach present throughout our lending business. We have a strong capital, funding and liquidity position and are well placed, both operationally and financially, to navigate this rapidly evolving environment.

Throughout this period, we have continued to monitor and adhere to regulatory guidance in response to Covid-19 and the support for our employees and customers during this time. Our risk management processes remain robust, and our internal controls ensure that we remain confident in our management of the impact upon our business activities.

STRATEGIC REPORT

While it remains too early to know the full impact that Covid-19 will have on the UK economy, we are confident that our tried and tested business model and the deep experience of our people leave us well prepared to respond to the challenges and opportunities ahead, protect our colleagues, and continue supporting our customers and clients.

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

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

In accordance with the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 (as amended by the Companies (Miscellaneous Reporting) Regulations 2018), this statement also provides details of how the directors have engaged with employees, and how they have had regard to employee interests and the need to foster the company's business relationships with suppliers, customers and others, and in each case, the effect of that regard, including on the principal decisions taken by the company during the financial year.

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

The board is collectively responsible for managing the affairs of the company to achieve its long-term prosperity by making important decisions, monitoring performance and establishing ethical standards. When making decisions the board seeks to understand the impact on each of its stakeholders, including the likely consequences of a decision in the long term, while acknowledging that a decision will not necessarily be favourable for all stakeholders.

Throughout the year, both generally and in relation to specific matters, the board has had regard to the interests of its stakeholders and has engaged with them in a range of direct and indirect ways. Throughout the year, the board receives and discusses stakeholder insight and feedback and it ensures that stakeholder considerations are taken into account in the board's deliberations and decision-making. Where engagement has taken place at operational level, the outcome of that engagement has been brought to the board for its consideration.

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. During the financial year, the terms of reference for the board were updated to remind the directors of their legal duties including under section 172 of the Act, and the directors also received updates on their section 172 duties and on new corporate governance reporting requirements.

The company is part of the Close Brothers Group, and as such it follows a range of Group-wide policies in place to protect employees and provide a safe working environment, to ensure compliance with regulatory requirements and adherence to the highest professional and ethical standards in dealing with customers, suppliers and colleagues, and to ensure that it continues to operate in a socially responsible and compliant manner, and manages environmental sustainability. In doing so, and by balancing the interests of the company's stakeholders when making decisions, the board seeks to maintain a reputation for high standards of business conduct. Further information on these Group-wide policies can be found in the annual report and accounts of the company's ultimate holding company, Close Brothers Group plc.

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

STATEGIC REPORT

OUR STAKEHOLDERS	WHY WE FOCUS ON THEM AND THE IMPACT OF ENGAGEMENT	STAKEHOLDERS' KEY PRIORITIES AND AREAS OF FOCUS	HOW THE BOARD AND MANAGEMENT HAVE ENGAGED AND CONSIDERED STAKEHOLDER INTERESTS DURING THE YEAR
Colleagues	The board recognises the importance of the contribution made by our employees, who deliver the highest levels of service for our customers and clients Engagement with employees helps to build a deep and diverse talent pool, attract and retain talent and ensure that employees remain enthusiastic about their work and their organisation Regularly listening to employees' feedback ensures they feel valued with their views recognised and acted upon	• A customer-led culture • A fair and open working culture • A supportive culture where employee feedback is valued and their views are recognised and acted upon • Appropriately rewarded for their contributions • A commitment to invest in training and development	• Regular updates on employee-issues arising from the Covid-19 pandemic, including the response to lockdown and introduction of homeworking, review of wellbeing issues, discussion of Covid-19 related employee opinion surveys and return to workplace planning • Regular communications with employees via emails and videos, participation in Town Halls and Q&A sessions from individual directors (on behalf of the board) • Site visits by individual directors to meet employees and enhance their understanding of the company's operations • Director attendance at committees and forums below board level to understand and discuss employee-related issues • Engagement with employees in board meetings on relevant topics • Presentation and discussion of regular employee opinion surveys and follow-up actions at board meetings • Review and discussion of a quarterly culture dashboard, providing an overview of matters relating to culture and values • Support for and attendance at development and training programmes attended by employees at different levels • Consideration of compensation and employee-related matters by non-executive directors in their capacity as members of the Remuneration Committee of CBG • Review of diversity and inclusion activities and initiatives by non-executive directors in their capacity as members of the Nomination and Governance Committee of CBG

STRATEGIC REPORT

OUR STAKEHOLDERS	WHY WE FOCUS ON THEM AND THE IMPACT OF ENGAGEMENT	STAKEHOLDERS' KEY PRIORITIES AND AREAS OF FOCUS	HOW THE BOARD AND MANAGEMENT HAVE ENGAGED AND CONSIDERED STAKEHOLDER INTERESTS DURING THE YEAR
			• Ongoing activity to encourage group employee's participation in the Group's SAYE and BAYE share schemes • Consideration of employee views in individual decisions made by the board, including issues relating to ongoing transformation programmes, including the Motor Finance transformation programme • Director oversight of, and at least half-yearly updates on, whistleblowing activity, supplemented by the appointment of a non-executive director as the Group's whistleblowing champion • Annual review and approval of the Group's gender pay gap reporting by non-executive directors in their capacity as members of the Remuneration Committee of CBG
Customers, clients and partners	The board believes in putting our customers, clients and partners first, and remains focused on upholding our reliable, high quality services and personal approach Putting the interests of our customers, clients and partners at the heart of our business is critical to our success, and the group's purpose to help the people and businesses of Britain thrive over the long-term underlines the board's commitment in this area Engagement with customers, clients and partners allows us to understand their needs and receive feedback and insight that is essential to maintaining strong relationships across our business	• A customer-led proposition • Strong personal relationships and specialist expert knowledge • Consistent customer service in all market conditions • High service levels and flexible solutions	• Updates to the board on, and consideration of, the impact of Covid-19 on customers, clients and partners, including regular updates on operational matters and reviews of information relating to the provision of forbearance to customers of the group • Quarterly in-depth customer updates to the board including customer metrics and engagement scores, and updates on a wide range of matters relating to customer issues • Customer / client updates in monthly business reports presented to the board by senior management • Monthly customer and operations updates to the board by the Group's chief operating officer and the Close Brothers customer insight teams • Discussion of customer, client and partner considerations in individual decisions to be made by the

STRATEGIC REPORT

OUR STAKEHOLDERS	WHY WE FOCUS ON THEM AND THE IMPACT OF ENGAGEMENT	STAKEHOLDERS' KEY PRIORITIES AND AREAS OF FOCUS	HOW THE BOARD AND MANAGEMENT HAVE ENGAGED AND CONSIDERED STAKEHOLDER INTERESTS DURING THE YEAR
			board, including major investment programmes • Consideration of customer and conduct related issues during the year in relation to particular projects (for example, oversight of the programme for the transition away from LIBOR by non-executive directors of the company, in their capacity as members of the Risk Committee of CBG • Oversight by non-executive directors of the company, in their capacity as members of the Audit Committee of CBG, of relevant customer, client and partner related items arising from reviews undertaken by the Group's internal audit function • Attendance by directors at meetings of the group's Customer Forum • Consideration of conduct matters as part of the quarterly culture dashboard reviewed by the directors, together with review of a conduct risk dashboard by non-executive directors, in their capacity as members of the Risk Committee of CBG, at each scheduled meeting
Suppliers	Our business is supported by a large number of suppliers who enables us to provide high standards of service to our customers, clients and partners Engagement with suppliers enables the company to develop and maintain long-term and sustainable relationships and helps ensure that the company purchases products and services from suppliers who operate responsibly and in line with our policies and standards	• Appropriate and clear payment procedures • Strong and sustainable relationships with Close Brothers • Workable operating requirements	• Updates on and consideration of impact of Covid-19 on suppliers • Annual deep-dive supplier update to the board, including, this year, discussion of the evolution of the Group's third party management environment and associated stakeholder and s.172(1) considerations • Consideration and approval of material contracts with suppliers in line with the schedule of matters reserved to the board • Annual review of the company's Modern Slavery Statement • Updates on supplier considerations as part of monthly updates provided by senior management to the board

STRATEGIC REPORT

OUR STAKEHOLDERS	WHY WE FOCUS ON THEM AND THE IMPACT OF ENGAGEMENT	STAKEHOLDERS' KEY PRIORITIES AND AREAS OF FOCUS	HOW THE BOARD AND MANAGEMENT HAVE ENGAGED AND CONSIDERED STAKEHOLDER INTERESTS DURING THE YEAR
			• Oversight of relevant policies and internal processes including updates on the Group's anti-bribery procedures • Consideration of supplier issues as part of updates on transformation and investment programmes
Regulators	Engagement with regulators and applicable regulatory requirements helps the company develop and maintain open and transparent relationships with our regulators, maintain a reputation for high standards of business conduct and also helps the board ensure that the business is aligned to the evolving regulatory framework	• Fair treatment of customers and clients • Awareness of evolving regulatory landscape • Recognition of the importance of resilience and risk management • Recovery Resolution Plan • Climate change • Sustainability strategy • Group tax strategy	• Regular updates on regulatory developments and interactions during the Covid-19 pandemic, including guidance in relation to customer forbearance • Regular, direct engagement between individual directors and regulators • Attendance by directors at wider industry / sector events with regulators • Updates on broader regulatory developments and compliance considerations during the year, including summaries of management's engagement with regulators, as part of the head of compliance's regular updates to the Risk Committee of CBG and the board • Engagement with regulators on the appointment of the company's new Chief Executive and on non-executive director appointments • Provision of regulatory correspondence to the board and relevant committees • Training updates on regulatory developments and horizon-scanning • At least annual update to the Audit Committee of CBG on taxation issues, including on the group's engagement with HMRC
Communities and Environment	As part of the broader Group, the board is committed to contributing long-term value and making a lasting, positive impact on the society in which we operate and the environment more broadly	• Strategy of approaching sustainability issues • Support for community initiatives	• Director participation in sustainability working groups and other internal forums • Discussion of climate change related developments during the year

STRATEGIC REPORT

OUR STAKEHOLDERS	WHY WE FOCUS ON THEM AND THE IMPACT OF ENGAGEMENT	STAKEHOLDERS' KEY PRIORITIES AND AREAS OF FOCUS	HOW THE BOARD AND MANAGEMENT HAVE ENGAGED AND CONSIDERED STAKEHOLDER INTERESTS DURING THE YEAR
	Participating in local communities helps the board and our employees develop our understanding of the clients, customers and partners so that we can support them and help them to achieve their ambition		• Updates to the board on community engagement programmes, including the Group's partnership with social mobility charity, UpReach • Director participation in local charitable and volunteering activities • Actively encouraging employees to contribute to community and charity events and to fundraise and volunteer for charities, including the broader Group's charity partners • Consideration of the Group's wider environmental strategy, activities and goals, and the contribution that the company can make to make a positive contribution to the world around us • Quarterly updates on environmental, social and governance ("**ESG**") matters and sustainability provided to non-executive directors as members of the Nomination and Governance Committee of CBG • Regular discussion by the Nomination and Governance Committee of CBG on sustainability targets and the group's progress in achieving them
Shareholder	The company is a wholly owned member of the Close Brothers Group, forming part of the Banking division; as such it operates as part of the broader Group in delivering its purpose and strategic objectives, in line with Group-wide processes, governance and culture Engagement supports the company's understanding of, and contribution to, broader Group activities and strategic aims, and ensures delivery of long-term sustainable value for our shareholder in line with Group policies and standards	• Focus on broader Group purpose and strategic aims • Alignment with Group-wide risk, governance, compliance and financial priorities • Consistent approach to stakeholder considerations and outcomes	• Although the company has a sole shareholder, the company's directors, including in their capacity as directors of CBG, have appropriate oversight of, and regard to, wider Group investor interests and considerations when making decisions

Case studies

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

Principal Board Decision: Cancellation of previously declared interim dividend

In April 2020, the board took the decision to cancel the payment of its previously declared second interim dividend, in light of the evolving Covid-19 pandemic, recognising the company would be in a stronger position to continue supporting both its employees and customers.

The company had paid a first interim dividend in November 2019 and had approved the declaration of a second interim dividend in March 2020. However, consistent with the decision by its ultimate parent, Close Brothers Group plc to cancel payment of its interim dividend, due to be paid in April 2020, the board considered whether it would be appropriate to cancel the payment of its previously declared second interim dividend.

Consideration of the company's responsibilities to its stakeholders, and therefore to the factors outlined in section 172(1), were central to the decision. The board took into account balancing the interests of different stakeholder groups, whilst having a primary focus on acting in the way that would be most likely to promote the success of the company for the benefit of its members as a whole, as required by section 172(1).

How the board considered, and had regard to, the interests of key stakeholders and the requirements of section 172(1) CA 2006

- The board took into account the decision by its ultimate parent, Close Brothers Group plc, to cancel its interim dividend, noting that although the company had entered the period of economic uncertainty brought about by the Covid-19 pandemic with a strong capital and liquidity position and with prudent funding, cancelling the interim dividend would increase its ability to execute its business model and support its customers, clients and employees.
- The board considered updates on discussions with customers and clients to understand the difficulties that they were facing during the pandemic and the introduction of a range of forbearance measures to support them, as well as the group's participation as a lender in the UK Government's support loan schemes.
- The board also considered the needs of its employees and how any decision may impact the ability to support them.
- Consideration was also given to wider market developments and the regulatory environment.

Following the group's resilient performance in the second half, the board has subsequently recommended a final dividend of £50 million. Further detail can be found on page 65.

Principal Board Decision: Our response to Covid-19

Stakeholder considerations have been a key focus for the board during its oversight of the company's response to the Coronavirus pandemic. In the face of Covid-19, the company has focused on maximising its support for colleagues, customers and partners during this time.

Covid-19 has had a significant impact upon consumers, businesses and the economy. The impact of Covid-19 on the company's stakeholder groups and the support offered to stakeholders have been important considerations for the board when making decisions and overseeing the company's response to the pandemic. The longer-term consequences of the pandemic and decisions made by the company have been at the forefront of the board's deliberations.

How the board considered, and had regard to, the interests of key stakeholders and the requirements of s.172(1) CA 2006

- The impact of the Covid-19 pandemic on stakeholders and the company's response has been a key consideration for the board in the second half of the 2020 financial year. Since the beginning of the UK lockdown in March 2020, in addition to scheduled board meetings, the directors held a number of ad hoc meetings specifically to discuss the pandemic, including the impact on stakeholders and factors set out in s.172(1). The board's focus and agenda developed during the crisis, as the pandemic evolved and its impact on the company (and different stakeholders) moved into different phases.
- The directors oversaw, and engaged with management on, the support provided by the company to its customers, including, among other things, by introducing a range of forbearance and other measures to support those customers and clients who found themselves in financial difficulty during the pandemic. The board reviewed a range of management information and dashboards setting out the impact of the crisis on customers and the company's response.
- The board's approach to the pandemic was underpinned by the company's long-term strategy and purpose to "help the people and businesses of Britain thrive over the long term".
- In relation to the company's approach to customer forbearance and other support to stakeholders, the directors also had regard to the desirability of the company maintaining a reputation for high standards of business conduct, and to ensuring that the company continues to act as a responsible lender.

STRATEGIC REPORT

- During the crisis, the board was regularly updated on the company's participation as a lender in HM Government's Coronavirus loan schemes, including consideration of the customer journey for customers wishing to apply for different loan products.
- The board regularly discussed the guidance published by regulators during the pandemic, and received frequent updates on management's engagement with regulators. This ensured that the board was kept up to date on regulatory expectations and priorities in this area, including regulators' expectations for the support to be provided to other stakeholder groups during the pandemic.
- The board also had regard to the interests of its employees throughout the pandemic, ensuring close contact was maintained with employees, including via a series of employee opinion surveys, regular internal communications and opportunities for staff to engage with management and each other.
- The board's deliberations prioritised the safety and wellbeing of employees. It considered regular updates on the company's planning for the move to home-working during the lockdown and, subsequently, the gradual return to the workplace in line with Government guidance. A priority for the board has been ensuring that employees have been able to conduct their roles safely, while continuing to maintain high quality customer service for our clients and partners. The board was also updated on, and supportive of, wider Group initiatives offering employees access to virtual classes and webinars on topics such as emotional agility, mental health, nutrition and remote working.

Further information on the company's response to Covid-19 and relevant stakeholder considerations, can be found in the section above headed "Our Response to Covid-19".

Principal Risks and Uncertainties

Risk Management

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

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

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

Further details on our approach to risk management and corresponding framework can be found on pages 48 to 52 of the Annual Report of the company's ultimate parent company.

Risks and uncertainties

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

While we constantly monitor our portfolio for emerging risks, the group's activities, business model and strategy remain unchanged. As a result, the principal risks that the group 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.

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

No change

Risk decreased

Risk increased

Business Risk

Risk
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 businesses.

Changes in these factors may affect the bank's ability to write loans at its desired risk and return criteria.

Mitigation
The group's long track record of successful trading 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 us to continue to support our customers at all stages in the financial cycle.

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

- the speed and flexibility of services;
- our local presence and personal approach;

- the experience of our people and subject matter experts; and
- our offering of tailored and client-driven product solutions.

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

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

The group is planning for a range of different economic and business scenarios to ensure it has the resources and operational capability to continue operating effectively.

Change

Covid-19 has significantly impacted UK economic activity and has increased uncertainty regarding future economic conditions and the resulting impact on our customers and clients. While a range of measures to support individuals and businesses have been introduced, their long-term effectiveness and impact on the broader competitive environment remain uncertain.

We continue to focus on supporting our customers, maintaining underwriting standards and investing in our business.

Capital Risk

Risk
The group is required to hold sufficient regulatory capital (including equity and other loss absorbing debt instruments) to enable it to operate effectively. This includes meeting minimum regulatory requirements, operating within risk appetites set by the board and supporting its strategic goals.

Mitigation
Capital risk is measured using CET1 and total capital ratios, determined in line with CRR / CRD capital adequacy requirements. These ratios, and associated metrics, are actively monitored, and reported quarterly to the regulator. They are also disclosed in the Annual Report – see page 87.

Both actual and forecast capital adequacy is reported through the Group's governance framework with oversight from the Capital Adequacy Committee. 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 retains sufficient levels of capital adequacy.

The group retains a range of capital risk mitigants, the most notable being its strong capital generating capacity, arising from its track record of sustained profitability. The group also maintains access to capital markets and has in recent years successfully issued Tier 2 capital instruments.

Change

While Covid-19 has affected capital generation due to lower than expected profits, the impact has been offset by a moderation in the loan book, reducing RWAs. Regulatory actions to bolster capital, most notably guidance on distributions and the removal of countercyclical capital buffers, have also increased the group's capital surplus, allowing lending to continue where demand exists.

Conduct Risk

Risk
The group's relationship-focused model amplifies the importance of exhibiting strong behaviours in order to ensure positive outcomes for our customers.

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

Mitigation
The group is committed to treating all customers fairly and delivering an appropriate product suite.

We seek to mitigate conduct risk by:

- Providing straightforward and transparent products and services to our clients and customers;
- Maintaining a clear governance and approval process for both existing and new products to ensure they meet the needs for which they are designed;
- Employing appropriate arrangements to confirm regulatory requirements and guidance aimed at ensuring positive client and customer outcomes are sufficiently embedded within business practices. A programme of risk-based monitoring is also employed to verify adherence; and
- Utilising a range of regularly reviewed conduct risk measures to identify and respond to adverse thematic trends.

Change

Regulatory focus and prioritisation of conduct risk continues to increase. Over the course of the year, the FCA has issued specific guidance around vulnerable customers and motor commissions as well as general guidance aimed at supporting customers during the Covid-19 pandemic, all of which directly impact the group. Separate workstreams have been established to ensure the group can meet all minimum requirements and regulatory expectations.

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Credit Risk

Risk
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 2020 the group had loans and advances to customers amounting to £7.6 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.

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

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

Our exposures to counterparties are mitigated by:

- excess liquidity of £1.4 billion placed with the Bank of England;
- continuous monitoring of the credit quality of our counterparties within approved set limits;

Change

Credit losses have increased in the year to 31 July 2020, primarily as a result of Covid-19. The macroeconomic shock resulting from the pandemic has caused increased forbearance levels and migration of accounts from Stage 1 to Stages 2 and 3. Expected Credit Loss ("ECL") has also increased as a result of the IFRS 9 macroeconomic adjustments, and management has made further adjustments to modelled outputs where considered appropriate. Other counterparty exposures are broadly unchanged, with the majority of our liquidity requirements and surplus funding placed with the Bank of England.

We continue to closely monitor Covid-19 impacts as well as uncertainty over Brexit and the UK economic outlook. These factors could increase the risk of higher credit losses in the future.

Further commentary on the credit quality of our loan book is outlined on pages 3 to 7. Further details on loans and advances to customers and debt securities held are in notes 10 and 11 on pages 65 to 72 of the financial statements.

Our approach to credit risk management and monitoring is outlined in more detail in note 22 on page 96.

Operational Risk

Risk
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 end-to-end delivery of critical 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 react to changes to these requirements, 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.

Mitigation
The group seeks to maintain its operational resilience through effective management of operational risks, including by:

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

Legal and regulatory risks are mitigated by:

- Responding in an appropriate, risk-based and proportionate manner to any changes to the legal and regulatory environment as well as those driven by strategic initiatives;

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

Change

Existing incident and crisis management capabilities were mobilised upon the emergence of Covid-19, enabling the business to sustain operations whilst adjusting to new ways of working. Notwithstanding, the current pandemic may lead to increased risks associated with people, operational process execution, third party management, information security and fraud. The group continues to utilise its operational risk management framework to manage these risks with oversight by relevant risk committees.

Despite the challenges arising from Covid-19, improvements are continuing across the operational risk framework including further enhancement of information security management and strengthening of the firm's operational resilience.
The volume and complexity of regulatory and legal requirements applicable to the group also continues to increase.

We continue to invest in experienced people and relevant systems and processes to help us navigate the increasingly complex regulatory and legal landscape. Arrangements in place to mitigate these risks continue to evolve in their sophistication, application and effectiveness.

Funding and Liquidity

Risk
The group's access to funding remains key to support our lending activities and the liquidity requirements of the group.

Mitigation
Our funding approach is based on the principles of "borrow long, lend short" and diversity by source and channel. This approach provides resilience and flexibility.

Total available funding is kept well in excess of the loan book to ensure funding is available when needed.

A strong liquidity position is maintained to ensure that we remain comfortably ahead of 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 Bank Asset and Liability Committee.

Change

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

During the last year, a third public motor finance securitisation was executed, evidencing our ability to access debt markets, while online savings were introduced.

In response to Covid-19, Treasury successfully migrated its funding and liquidity operations to remote working while funding was increased through an uplift in customer deposits. This action facilitated an increase in treasury assets, predominantly deposits placed with the Bank of England, ensuring the maintenance of sufficient headroom to both internal and external liquidity requirements.

Further commentary on funding and liquidity is provided on pages 7 to 8. Further financial analysis of our funding is shown in note 16 on page 82 of the financial statements.

Market Risk

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

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

When measuring interest rate risk in the banking book the following components are considered:

- 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 in certain assets and liabilities; and
- Basis risk: the risk presented when yields on assets, and costs on liabilities, are based on two different bases.

Two core measures are subsequently monitored on a monthly basis: Earnings at Risk ("EaR") and Economic Value ("EV").

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

Change

Interest rate risk has increased during the year with base rates currently at historic lows, increasing the potential for a negative rate environment. Where relevant, systems have been tested and confirmed as able to support negative rates.

The traded market risk environment has also been affected by Coivd-19 and its impact on the economy, driving elevated volatility and an increase in corporate insolvencies.

Reputational Risk

Risk

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. This could arise from any action or inaction of the company, its employees or associated third parties.

Mitigation

Reputational risk monitoring and management are embedded throughout the organisation, including via:

- a 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.

A key responsibility of the Group's board is to define, promote and monitor the company's culture, and adherence to our cultural framework is reported regularly to the board.

Change

The group's strong culture, responsible approach to stakeholders and commitment to open and transparent communication continue to mitigate potential reputational risk, despite heightened business, conduct and operational risks arising from Covid-19.

The group's prudent business model also continues to act as a natural mitigant of reputational risk.

The group's proactive approach to engaging with emerging topics such as environmental, social and governance matters continues to mitigate the risk of rapidly changing external factors.

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 and consider broader market uncertainties, supporting organisational readiness for external volatility.

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

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

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

Emerging risks and uncertainties currently tracked by the group are detailed below.

Economic Uncertainty

Mitigating Actions

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

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

Outlook

Covid-19 has notably increased economic uncertainty in 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.

Economic and political uncertainty as a result of the UK's exit from the EU

Mitigating Actions

A transition programme was implemented in 2016 with Group-wide participation and regular senior management oversight. This included the launch of a Brexit Forum, responsible for tracking ongoing developments and progressing appropriate contingency plans.

Preparations have been made for a potential "no deal" exit, including the establishment of a new Irish subsidiary and subsequent approval of a Money Lender licence in the

STRATEGIC REPORT

Republic of Ireland to support continuation of our continental Retail and SME Premium Finance business.

Outlook
While direct impact remains low given the group's limited presence within the European Union, developments continue to be closely monitored ahead of the end of the current transition period.

Plans are now in place for all plausible outcomes and will be initiated as required.

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

Mitigating Actions
Development of an appropriate and regulatory-compliant climate risk framework is ongoing and is managed by a Climate Risk Working Group. Regular updates are provided to the Group Risk Committee which retains oversight responsibility, while senior management responsibility is assigned to the Group Chief Risk Officer.

Climate Risk is now embedded within the risk governance framework at all levels of the organisation with a review of processes, procedures and policies underway to ensure appropriate consideration of climate-related risks. A Group-wide impact analysis exercise has identified a set of core risk themes with work underway to enhance corresponding risk management frameworks.

Outlook
Climate risk represents an area of increasing focus, both within the group and across the industry more broadly. We are closely monitoring regulatory developments as well as emerging best practice and are exploring various avenues to leverage this as appropriate to support framework development.

The short-dated tenor of our lending book and strong resilience capabilities mitigate current risk exposure however a strategic review is underway to further assess both the opportunities and risks posed by climate change. Outputs from this will further shape the group's response and support our planned alignment with the recommendations of the Taskforce for Climate Related Financial Disclosures ("TCFD").

Transition from LIBOR

Mitigating Actions
A programme is underway to transition the firm away from the use of LIBOR in loan documentation, Treasury transactions and other forms of contract in favour of alternative Risk-Free Rates ("RFRs").

The scope of this work encompasses both new contracts and existing contracts that mature after 31st December 2021, the deadline set by the Prudential Regulatory Authority and the Financial Conduct Authority.

Outlook
We have made good progress in making the relevant changes to loan documentation to move away from the use of LIBOR and upgrading, where necessary, our processing systems. We will continue to support industry initiatives relating to the transition from LIBOR and remain on track to effect the necessary changes by 31 December 2021.

Disruption from Scottish Independence

Mitigating Actions
Monitoring is in place to track changes in the political landscape with regard to Scottish independence.

In the event Scotland does vote for independence in a future referendum, we are confident that any resulting disruption can be managed effectively with minimal impact on business operations.

Outlook
An increase in support for Scottish independence has been observed in recent opinion polls. We continue to monitor developments closely.

Legal and Regulatory Change

Mitigating Actions
The group maintains an established horizon scanning framework to identify future regulatory and legal changes that could materially impact its operations.

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

Outlook
A sustained increase in legal and regulatory change has been experienced in recent years and this is expected to continue in the short to medium term with the continued implementation of existing EU legislation into UK law, and possible future regulatory and legal divergence. The evolving Government and regulatory response to Covid-19 is also expected to drive further change.

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

J.E. Hudspith
Company Secretary

21 September 2020

DIRECTORS' REPORT

The directors of the company present their report for the year ended 31 July 2020.

Directors of the company

The names of the directors of the company at the date of this report, are given on page 2 of this Annual Report. All the directors listed on that page were directors of the company throughout the year, apart from Sally Williams, who was appointed as a director on 1 January 2020. Preben Prebensen will step down from the board on 21 September 2020.

Details of the directors' remuneration can be found in the Directors' Remuneration note on page 61 of this Annual Report.

Directors' indemnities and insurance

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

Company Secretary

The company secretary of Close Brothers Limited is John Hudspith. He can be contacted at the company's registered office.

Results and dividends

The consolidated results for the year are shown on page 38 of the financial statements.

In September 2019, the directors recommended a final dividend for the 2019 financial year of £52.3 million. The dividend was paid in November 2019. In March 2020, the Board declared an interim dividend of £62.6 million, to be paid in April 2020. Subsequent to this and prior to payment, the Board approved the cancellation of the interim dividend; no interim dividend was paid in April 2020. In September 2020, the directors recommended a final dividend for the 2020 financial year of £50.0 million.

Financial Instruments

Details of the group's financial instruments can be found in note 12 to the financial statements begins on page 72.

Financial Risk Management

The group has procedures in place to identify, monitor and evaluate the significant risks it faces. The group reviews and adjusts its risk appetite annually as part of the strategy-setting process. This aligns risk-taking with the achievement of strategic objectives. Adherence to appetite is monitored by the Risk committees. The group's principal risks & uncertainties and emerging risks are described on pages 17 to 22, and the risks associated with the group's financial instruments are analysed in note 22 on pages 90 to 108 of the financial statements. The group's hedging policy can also be found in note 12 on pages 72 to 76 to the financial statements.

Post-Balance Sheet Events

There were no material post-balance sheet events.

Branches

The group has a Branch in The Republic of Ireland.

Capital Structure

The company's share capital comprises one class of ordinary share with a nominal value of £1 each. At the 31 July 2020, 122,480,000 (2019: 122,480,000) ordinary shares were in issue.

Political Donations

No political donations were made during the year (2019: £nil).

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 strengthen its customer proposition and improve operating efficiency.

Strategic Report

The company's Strategic Report can be found on pages 3 to 22 of this Annual Report.

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

Business activities

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

DIRECTORS' REPORT

Business relationships

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

Employee engagement

The company acknowledges the importance of engaging with its employees and listening to their views. The board believes that engaged employees are more likely to remain enthusiastic about their work and the organisation, and is committed to ensuring that employees feel valued and supported.

The company provides employees systematically with information on matters of concern to them and consults with them or their representatives on a regular basis in order to take their views into account when making decisions which are likely to affect their interests through a number of means. During the year, these included the use of employee opinion surveys, team meetings, staff updates, internal communications, training and information sessions, performance updates and town halls. Such activities are also important to achieve a common awareness on the part of all employees of the financial and economic factors affecting the performance of the company, and to contribute to a better understanding of the broader Group activities and strategic aims, and ultimately, the long term success of the company.

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

The company has chosen, in accordance with section 414C(11) of the Companies Act 2006, to include in its Strategic Report, further information about how the directors have engaged with employees, and had regard to employee interests, and the effect of that regard, including on the principal decisions taken by the company during the financial year, that would otherwise be disclosed in this Directors' Report. Further detail can be found on page 10 of the Strategic Report. Such information is incorporated by reference and forms part of the Directors' Report.

Employee Development

The company offers a comprehensive range of programmes and initiatives that promote the training and development of its employees. All staff have access to our learning portal, offering them a wide variety of practical tools, workshops and e-learning across a range of topics.

The average number of training hours across the group has remained good, at 11.2 hours per employee during the year. We require all staff to complete relevant regulatory training on an annual basis with further training offered when required, and this year again maintained a 100% completion rate of mandatory training by eligible employees.

Diversity and Equality

The group is an equal opportunities employer and is committed to ensuring that all our employees can feel proud to work for us, regardless of their gender, age, race, ethnicity, disability, sexual orientation or background. Continued progress on the Group's diversity and inclusion agenda, include exceeding the initial gender diversity targets, and this year becoming signatories to the Race at Work Charter.

Reducing environmental impact

100% of waste providers that we contract now send zero waste to landfill in line with target to achieve zero waste to landfill by 2021

Employees with Disabilities

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

As part of our Dignity at Work policy, our colleagues with disabilities are encouraged to share their condition with us, whether this be with their line manager or HR, to ensure any reasonable adjustments can be made. We are also members of the business disability forum to support the hiring, retention and career development of employees with disabilities. As an employer we are committed to making our working environment comfortable and suitable for all.

Business Energy Efficiency Reporting

The requirement to include a report on greenhouse gas ("GHG") emissions, energy consumption and energy efficiency action under SECR has been met by the ultimate parent company, Close Brothers Group plc and is therefore not included here.

DIRECTORS' REPORT

Going Concern

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.

The group continues to have a strong, proven and conservative business model supported by a diverse portfolio of businesses. While the impact of Covid-19 has lowered group profitability during the year, the group remains well positioned in each of its core businesses, and is strongly capitalised, soundly funded and has access to the required levels of liquidity.

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

The scenarios modelled are based on a range of economic assumptions, driven by the estimated impact of Covid-19, encompassing both severity and the period of assumed recovery. In all modelled scenarios it has been concluded that no significant structural changes to the company or group will be required.

In the central and downside scenarios the group continue to operate with sufficient levels of liquidity and capital for the next 12 months, with the group's capital ratios and total capital resources comfortably in excess of PRA requirements.

For each of the lending divisions, the directors have considered the impact of the central and downside scenarios on financial performance. Across the group these scenarios include expected customer demand that underpins loan book growth, forbearance measures offered to our customers as well as government support measures and the impact this will have on the bad debt ratio and net interest margin.

As part of the scenario analysis a number of specific business features were also considered. For example, the Commercial division comprises of multiple businesses which lend in a wide range of markets and asset classes and so these unique factors were modelled separately. The Retail division predominantly lends to individuals therefore the scenario impact was considered distinctly from small and medium-sized enterprise portfolios. In the Property division the impact of movements in residential property prices was a key consideration including the impact this has on customers, LTV's and ultimate losses.

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 there is no material uncertainty that casts doubt over the company's or the group's ability to continue as a going concern for the next twelve months from the date of the approval of these financial statements.

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

Auditor

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

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.

Statement of Corporate Governance Arrangements

Approach to Corporate Governance

In accordance with the Large and Medium-sized Companies and Group (Accounts and Reports) Regulations 2008 (as amended by the Companies (Miscellaneous Reporting) Regulations 2018) (the "**Regulations**"), for the year ended 31 July 2020, the company has applied the Wates Corporate Governance Principles for Large Private Companies (the "**Principles**") in its corporate governance arrangements.

The following section explains the company's approach to corporate governance, and its application of the Principles.

High standards of governance and effective board oversight are important to the company's performance, the successful delivery of its strategy and the creation of long-term value for the company's stakeholders. As such, the company's corporate governance arrangements form part of the wider Group's corporate governance framework. This framework includes a range of different policies, processes and standards which together set out the Group's approach to corporate governance.

At the highest level of the Group, the board of Close Brothers Group plc ("**CBG**") provides effective leadership for the Group as a whole, including in relation to strategy, purpose, culture, values and risk management. CBG applies the principles and provisions of the UK Corporate Governance Code (the "**Code**") and further detail on its compliance with the Code in the financial year ended 31 July 2020 can be found in the Corporate Governance Report within CBG's 2020 Annual Report and Accounts (the "**CBG Annual Report**"). Among other things, that report also provides information on the role and activities of the CBG board (including its oversight of matters relating to the company) and the Group's overarching corporate governance arrangements.

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

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

Whilst it forms part of the wider Group, the company is a separate legal entity and, as such, it has its own board of directors and maintains its own corporate governance arrangements which form part of the broader Group's corporate governance framework. The company's own corporate governance arrangements play an important role in ensuring that the company operates effectively.

Principle One - Purpose and Leadership

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

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

Another key function of the board is to establish, within the wider strategy of the Group, the company's strategic objectives, values, strategy and purpose in alignment with its culture and to monitor management's performance against those objectives and provide direction for the company.

Consistent with that of the Group, the company's purpose is to help the people and businesses of Britain thrive over the long term. The company has a long-established, proven business model that is focused on driving sustainable outcomes and business performance, creating value for its stakeholders.

A key responsibility of the board is to define, promote and monitor the company's culture, setting the "tone from the top". The ongoing assessment of the contribution of culture and values to the company's long-term success remains a key focus for the board and during the year, the board spends time monitoring and overseeing the alignment of the company's business to its values, strategy and culture. It also ensures effective engagement with, and participation from stakeholders. The company's culture and values are aligned with those of CBG, which are discussed in more detail in the CBG Annual Report.

Principle Two - Board Composition

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

At the date of this report, the board has ten members: the chairman, three executive directors and six independent non-executive directors. The board's members come from a range of backgrounds and the board is structured to ensure that no individual or group of individuals is able to dominate the decision-making process and that no undue reliance is placed on any individual. Within the board's overall risk and governance structure, the independent non-executive directors are responsible for contributing sound judgement and objectivity to the board's deliberations and the decision-making process. They also provide constructive challenge and scrutiny of the performance of management and delivery of the company's strategy. Further details of the directors and the changes to the board during the financial year can be found on pages 2 and 23.

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

The CBG Nomination and Governance Committee, which is concerned with the business of the Group including the company, reviews the structure, size and composition of the board and is responsible for identifying and recommending to the board new directors for appointment. The board considers that its current size and composition are appropriate for the scale and complexity of the company's activities.

Board appointments are made on merit against objective and defined criteria, following a recommendation by the CBG Nomination and Governance Committee. The Committee's consideration of individual appointments includes an assessment of the balance of skills, experience, knowledge and diversity required for the board to operate effectively as a whole. When considering board composition and appointments, the board and the Nomination and Governance Committee continue to have regard to relevant best practice and the findings of relevant industry reviews. Further detail is set out in the Corporate Governance Report within the CBG Annual Report.

The board acknowledges the importance of diversity in its broadest sense and its membership is made up of individuals from a range of different backgrounds and experiences. At the date of this report, three of the ten members of the board are women. The board remains committed to seeking to improve further its position on gender diversity when appropriate opportunities arise whilst continuing to make appointments based on merit, objective and defined criteria, and the particular skills and experience required for individual appointments. Together with the CBG board, the board acknowledges the importance of cultural and ethnic diversity and the benefits this can bring. The board aims to have at least one director of colour by 2024. External search firms used by the CBG Nomination and Governance Committee will continue to be instructed to consider candidates from a broad range of backgrounds and experiences when preparing long-lists for review by the committee.

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

The board undertakes an annual evaluation of its effectiveness. The chairman also ensures that the individual performance of individual directors is reviewed regularly. The board recognises these annual reviews as an important opportunity to consider the performance of the board and to identify strengths and opportunities to further enhance effectiveness. The annual evaluation undertaken in the year ended 31 July 2020 confirmed that the board continued to operate effectively.

Principle Three - Director Responsibilities

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

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

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

The board has established formal and robust internal processes to ensure systems and controls are operating effectively, and that the quality and integrity of information provided to it is reliable. Board meetings are structured to ensure that there is sufficient time for consideration and debate of all matters. In addition to scheduled or routine items, the board also considers key issues that impact the company, as they arise. The directors receive detailed papers in advance of each board meeting and the board agenda is carefully structured by the chairman in consultation with the chief executive and the company secretary. There is also an annual schedule of rolling agenda items to ensure that all matters are given due consideration and are reviewed at the appropriate point in the financial and regulatory cycle.

The board has delegated responsibility for certain matters to its committees and is also supported by the board committees of its ultimate parent company, CBG, which consider relevant items relating to the company as part of the wider Group. Further information on the operation of the CBG board committees, including consideration of items relevant to the company, can be found in the Corporate Governance Report within the CBG Annual Report.

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

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

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

DIRECTORS' REPORT

Individual directors receive training on appointment and on an ongoing basis thereafter with the aim of ensuring that they keep updated their skills, knowledge and familiarity with the company to enable them to fulfil their role on the board and relevant committees. At least annually, the CBG Nomination and Governance Committee considers the training and development needs of the non-executive directors and suggests any particular topics to be covered during the year. The training provided to all directors on joining the board includes an overview of the role, duties and responsibilities of a director and of the company's corporate governance framework.

Principle Four- Opportunity and Risk

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

Together with the CBG board, the board retains overall responsibility for overseeing the maintenance of a system of internal control which ensures that an effective risk management framework and oversight process is in operation. The risk management framework and associated governance arrangements for the Group are designed to ensure a clear organisational structure with distinct, transparent and consistent lines of responsibility and effective processes to identify, manage, monitor and report the risks to which the Group (including the company) is, or may become, exposed.

Risk management across the Group (including the company) is monitored and overseen by the CBG Risk Committee. The Risk Committee is responsible for reviewing risk appetite, monitoring the group's risk profile against this, and reviewing the day-to-day effectiveness of the risk management framework. In addition, the Risk Committee oversees the maintenance and development of an appropriate and supportive risk culture and provides risk input into the alignment of remuneration with performance against risk appetite. The company closely monitors its risk profile to ensure that it continues to align with its strategic objectives and those of the Group.

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

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

Principle Five – Remuneration

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

The Remuneration Committee of the company's ultimate parent company, CBG, assumes responsibility for determining reward practices and the approach to remuneration on a Group-wide basis. This includes reviewing and making recommendations on remuneration policy for the Group, including the remuneration of directors, senior management and other employees across the company.

The Group's wider employee remuneration structure aims to attract, motivate and retain high calibre employees, reward good performance and promote the achievement of the company's annual plans and its longer-term strategic objectives. It also aligns the interests of employees with those of other key stakeholders, including customers, clients and shareholders; and supports good risk management procedures and a positive client conduct culture.

The linkage between culture, risk and compensation remains important for the board, and each year the Group's Risk function provides input to the CBG Remuneration Committee to ensure that risk behaviours and the management of operational risk incidents over the course of the financial year are appropriately reflected in decisions taken about performance and reward.

Principle Six – Stakeholders

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

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

DIRECTORS' REPORT

feedback and it ensures that stakeholder considerations are taken into account in the board's deliberations and decision-making.

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

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

Directors' Responsibility Statement

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the group financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law). Under company law the 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 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 IFRSs as adopted by the European Union have been followed for the group financial statements and United Kingdom Accounting Standards, comprising FRS 101, have been followed for the company financial statements, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group and company will continue in business.

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

By order of the board

J.E. Hudspith
Company Secretary

21 September 2020

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF CLOSE BROTHERS LIMITED

For the year ended 31 July 2020

Report on the audit of the financial statements

Opinion

In our opinion:

- Close Brothers Limited's group financial statements and company financial statements (the "financial statements") give a true and fair view of the state of the group's and of the company's affairs as at 31 July 2020 and of the group's profit and cash flows for the year then ended;
- the group financial statements have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union;
- the company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law); and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report, which comprise: the consolidated and company balance sheets as at 31 July 2020; 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.

Basis for opinion

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

Independence

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

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

Other than those disclosed in note 5 to the financial statements, we have provided no non-audit services to the group or the company in the period from 1 August 2019 to 31 July 2020.

Our audit approach

Overview

- Overall group materiality: £10.0 million (2019: £12.2 million), based on 5% of the average profit before tax for the last three years (2019: 5% of profit before tax).
- Overall company materiality: £9.3 million (2019: £11.9 million), based on 5% of the average profit before tax for the last three years (2019: 5% of profit before tax).
- The scope of our audit and the nature, timing and extent of audit procedures performed were determined by our risk assessment, the financial significance of components and other qualitative factors (including history of misstatement through fraud or error).
- We performed audit procedures over components considered financially significant in the context of the group (full scope audit) or in the context of individual primary statement account balances (audit of specific account balances).
- We performed other procedures including testing entity level controls, information technology general controls and analytical review procedures to mitigate the risk of material misstatement in the residual components.

The key audit matters were:

- Determination of expected credit losses on loans and advances to customers (company and group).
- Application of effective interest rate ("EIR") accounting (company and group)
- Impact of Covid-19 (company and group).

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF CLOSE BROTHERS LIMITED

For the year ended 31 July 2020

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.

Capability of the audit in detecting irregularities, including fraud
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 banking laws and regulations such as, but not limited to, regulations relating to consumer credit and unethical and prohibited business practices, 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 preparation of the financial statements such as the Companies Act 2006 and UK tax legislation. 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 inappropriate journal entries to increase revenue or reduce expenditure, and management bias in accounting estimates. 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:

- Review of correspondence with, and reports to, the regulators Prudential Regulation Authority ("PRA") and FCA, review of correspondence with legal advisors, enquiries of management, and review of internal audit reports in so far as they related to the financial statements;
- Assessment of matters reported on the group's whistleblowing helpline and the results of management's investigation of such matters;
- Review of customer complaints reported and the results of management's resolution of such matters, in so far as they related to the financial statements;
- Challenging assumptions and judgements made by management in their significant accounting estimates, in particular in relation to the determination of expected credit losses on loans and advances (see related key audit matter below); and
- Identifying and testing journal entries, including journal entries posted with unusual account combinations, unusual times or posted by senior management.

There are inherent limitations in the audit procedures described above and the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely we would become aware of it. 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.

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.

Key audit matter	How our audit addressed the key audit matter
Determination of expected credit losses on loans and advances to customers (company and group)	
The determination of expected credit loss allowances is subjective and judgmental. There is an increased risk of material misstatement of expected credit losses ("ECL") due to the degree of judgement and inherent uncertainty in the assumptions arising from the impact of Covid-19. Models are used to collectively assess and determine expected credit loss allowances on loans and advances which are not classified as being credit impaired at the reporting date or are individually small. Key inputs and assumptions include significant increase in credit risk criteria, probability of default, loss given default and the use of multiple, probability weighted, economic scenarios.	We understood and critically assessed the appropriateness of the impairment policy (including management's definitions of default and a significant increase in credit risk) including how management considered the impact of Covid-19 in its determination of ECL provisions. *Collectively assessed provisions* We understood management's process and tested key controls around the determination of expected credit loss allowances, including controls relating to:

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF CLOSE BROTHERS LIMITED

For the year ended 31 July 2020

Key audit matter	How our audit addressed the key audit matter
Individually large exposures to counterparties who are in default at the reporting date are estimated on an individual basis. Judgement is required to determine when a loan is considered to be in default, and then to estimate the amount and timing of the expected future cash flows related to that loan under multiple, probability weighted, scenarios. The expected credit loss provision includes additional judgements to capture the economic impact of Covid-19. These have included reassessment of the economic scenarios and their respective weightings, refinements to the determination of significant increase in credit risk, consideration of Covid-19 related concessions; and consideration of the impact of Covid-19 on individually assessed expected loss provisions. Relevant references: • note 1, critical accounting estimates and judgements on page 51; and • note 22, financial risk management on page 90.	• Appropriateness of modelling methodologies and monitoring of model performance; • The integrity of data feeds from source systems into the models; and • The approval of key inputs and assumptions used in applying multiple economic scenarios. We found these key controls were designed, implemented and operated effectively, and therefore determined that we could place reliance on these key controls for the purposes of our audit. We assessed the reasonableness of key inputs used in the determination of the ECL allowances by independently reperforming management's model monitoring analyses (comparing actual experience to that predicted by the models) and performing sensitivity analyses on the results. 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 used our economist experts to assess the reasonableness of management's selected economic scenarios and associated probability weightings, giving specific consideration to the economic volatility and uncertainty caused by Covid-19. We tested the completeness and accuracy of key data inputs, sourced from underlying systems, that are applied in the calculation of the ECL allowances and tested the integrity of the calculations. We used credit risk modelling specialists to support the audit team in the performance of these audit procedures. *Individually assessed provisions* We performed the following procedures to test the completeness of the identification of defaulted assets requiring individual assessment: • We critically assessed the criteria for determining whether a default event had occurred; and • We haphazardly tested a sample of loans which management had determined were not in default at the reporting date. For each sampled loan, we independently assessed whether they had indicators of a default event and therefore whether they were appropriately categorised between performing and in default. 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

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF CLOSE BROTHERS LIMITED

For the year ended 31 July 2020

Key audit matter	*How our audit addressed the key audit matter*
	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 caused by Covid-19 and whether these factors had been appropriately reflected in the ECL provision. We performed testing over the measurement of the post model adjustments recorded by management to account for the impact of Covid-19, focusing on the larger adjustments and those which we considered to represent the greatest level of audit risk (e.g. where a payment holiday or other Covid-19 related forbearance has been granted, management have captured the credit risk associated with these loans through the use of post model adjustments). We assessed the appropriateness of methodologies used to determine and quantify the post model adjustments required and the reasonableness of key assumptions. Based on our knowledge and understanding of the limitations in management's models and industry emerging risks, we critically assessed the completeness of the overlays proposed by management. Based on the evidence obtained, we concluded that the methodologies, modelled assumptions, management judgements, the data used and collective and individual assessed expected credit losses to be appropriate and compliant with the requirements of IFRS 9.
Application of effective interest rate ("EIR") accounting (company and group) Interest income on loans and advances is recognised using the effective interest rate method and any fees, commissions or direct transaction costs that are an integral part of the financial instrument, are included within the effective interest rate. Judgement is required to determine whether applicable fees and direct costs should be included within the effective interest rate, or whether immediate recognition should be applied. Management has to estimate the period over which amounts are to be recognised, based on the life of the instrument. The judgement and manual nature applied across different businesses throughout the group results in a higher risk of material misstatement due to fraud or error. Relevant references: • note 1, critical accounting estimates and judgements on page 51; and • note 1, significant accounting policies that includes the group's revenue recognition policy on page 45.	We have understood management's process and tested key controls around revenue recognition, including: • Walkthroughs for the relevant lending products to understand the processes and key controls for the identification, recognition and calculation of fees, commissions and direct costs under the effective interest rate method; and • The reconciliations between the models used to calculate the effective interest rate adjustments for the respective fees and the general ledger. We found these key controls were designed, implemented and operated effectively, and therefore determined that we could place reliance on these key controls for the purposes of our audit. In addition we have performed the following substantive procedures: • We tested the effective interest rate models by assessing their design, critically challenging relevant

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF CLOSE BROTHERS LIMITED

For the year ended 31 July 2020

Key audit matter	How our audit addressed the key audit matter
	assumptions including the period over which amounts are to be recognised, and testing the accuracy of model computations by re-performing a sample of effective interest rate calculations; • We agreed a sample of inputs used to loan agreements and cash receipts and assessed whether the appropriate fees and costs had been reflected in the effective interest rate; and • We considered the consistent application of the EIR accounting policy across the group's different businesses. Based on the evidence obtained, we found that the assumptions, models and data used were appropriate.
Impact of Covid-19 (company and group) The Covid-19 pandemic, and measures taken by governments in order to contain Covid-19 as well as to provide support to business have a significant impact on operations and performance of the company and group. As a result of the pandemic there are significant judgements and assumptions that impact financial reporting that management have considered and the areas of our audit most impacted by Covid-19 include: *Going concern* The company and group financial statements are prepared on the going concern basis of accounting. We focused on the appropriateness of using a going concern basis of accounting given the uncertainty about the long-term economic outlook and potential impact on the business model as a result of the economic and social impacts of Covid-19. The ability of the company and group to continue as going concerns is dependent on the business model resilience and maintenance of adequate liquidity and capital resources. *Determination of expected credit losses on loans and advances to customers* Refer to the separate Determination of expected credit losses on loans and advances to customers Key Audit Matter.	In assessing the Directors' consideration of the impact of Covid-19 on the financial statements, we have undertaken the following audit procedures: *Going concern* In assessing the Directors' going concern assessment: • Evaluated and challenged management's assessment of the impact of Covid-19 on their financial plans, liquidity and capital position, and operating arrangements; • Evaluated the stress testing performed by management and considered whether these were adequate and met relevant accounting requirements; • Substantiated the nature and existence of the group's financial resources and liquidity financing facilities; and • We evaluated the adequacy of the disclosures made in the financial statements with respect to the impact of Covid-19. As a result of these procedures, we concluded that the impact of Covid-19 has been appropriately evaluated and reflected in the preparation of the financial statements. *Determination of expected credit losses on loans and advances to customers* Refer to the separate Determination of expected credit losses on loans and advances to customers Key Audit Matter.

How we tailored the audit scope

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the structure of the group and the company, the accounting processes and controls, and the industry in which they operate. For the purpose of describing our scoping we refer to the group's organisational units as components.

The group is divided into Retail, Commercial and Property segments. The consolidated financial statements are a consolidation of these components.

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

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF CLOSE BROTHERS LIMITED

For the year ended 31 July 2020

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 4% of the applicable benchmark) were considered full scope audit components. Components which were subject to a stand alone statutory audit, were also included within our audit scope.

We considered the presence of any significant audit risks and other qualitative factors (including history of misstatements through fraud or error). Any component which was not already included as a full scope audit component but was identified as being individually financially significant in respect of one or more account balances was subject to specific audit procedures over those account balances. Inconsequential components (defined as components which did not represent a reasonable possibility of a risk of material misstatement either individually or in aggregate) were eliminated from further consideration for specific audit procedures although they were subject to other audit procedures including testing of entity level controls, information technology general controls and group and component level analytical review procedures. Certain account balances were audited centrally by the group engagement team.

Components within the scope of our audit contributed 94% of group total assets and 97% operating profit before tax.

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

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

	Group financial statements	Company financial statements
Overall materiality	£10 million (2019: £12.2 million).	£9.3 million (2019: £11.9 million).
How we determined it	5% of the average profit before tax for the last three years. (2019: 5% of profit before tax)	5% of the average profit before tax for the last three years. (2019: 5% of profit before tax)
Rationale for benchmark applied	We believe that profit before tax is the primary measure used by the shareholders in assessing the performance of the entity, and is a generally accepted benchmark for determining audit materiality. We have considered the economic impact of the Covid-19 pandemic on the results of the group. Whilst profit before tax is still considered to be the most suitable benchmark, we have used a three year average to eliminate the volatility introduced by Covid-19.	We believe that profit before tax is the primary measure used by the shareholders in assessing the performance of the entity, and is a generally accepted benchmark for determining audit materiality. We have considered the economic impact of the Covid-19 pandemic on the results of the company. Whilst profit before tax is still considered to be the most suitable benchmark, we have used a three year average to eliminate the volatility introduced by Covid-19.

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 £580 k and £9.3 million. Certain components were audited to a local statutory audit materiality that was also less than our overall group materiality.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £500,000 (group audit) (2019: £500,000) and £500,000 (company audit) (2019: £500,000) as well as misstatements below those amounts that, in our view, warranted reporting for qualitative reasons.

Conclusions relating to going concern

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

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF CLOSE BROTHERS LIMITED

For the year ended 31 July 2020

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

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

Reporting on other information

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

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

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

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

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 2020 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

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

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Directors' Responsibility Statement set out on page 29, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditors' responsibilities for the audit of the financial statements

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

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

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF CLOSE BROTHERS LIMITED

For the year ended 31 July 2020

Use of this report

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

Other required reporting

Companies Act 2006 exception reporting

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

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

We have no exceptions to report arising from this responsibility.

Appointment

Following the recommendation of the audit committee, we were appointed by the 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 3 years, covering the years ended 31 July 2018 to 31 July 2020.

Mark Hannam (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
21 September 2020

CONSOLIDATED INCOME STATEMENT

For the year ended 31 July 2020

	Note	2020 £ million	2019 £ million
Interest income	3	**628.7**	635.0
Interest expense	3	**(131.5)**	(126.4)
Net interest income		**497.2**	508.6
Fee and commission income	3	**92.3**	93.6
Fee and commission expense	3	**(15.4)**	(17.1)
Other income	3	**80.7**	73.5
Depreciation of operating lease assets and other direct costs	14	**(66.5)**	(53.7)
Non-interest income		**91.1**	96.3
Operating income		**588.3**	604.9
Administrative expenses	3	**(303.4)**	(300.5)
Impairment losses on financial assets	10	**(183.4)**	(48.4)
Total operating expenses before amortisation of intangible assets on acquisition		**(486.8)**	(348.9)
Operating profit before amortisation of intangible assets on acquisition		**101.5**	256.0
Amortisation of intangible assets on acquisition	13	**(2.0)**	(1.9)
Operating profit before tax		**99.5**	254.1
Tax	6	**(21.5)**	(63.3)
Profit after tax on continuing operations		**78.0**	190.8
Profit from discontinued operations, net of tax	7	**-**	1.1
Profit after tax		**78.0**	191.9
Loss attributable to non-controlling interests from continuing operations		**-**	(0.3)
Profit attributable to shareholders		**78.0**	192.2

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 July 2020

	2020 £ million	2019 £ million
Profit after tax	**78.0**	191.9
Other comprehensive (expense)/income that may be reclassified to income statement from continuing operations		
Currency translation (losses)/gains	**(0.3)**	0.4
Losses on cash flow hedging	**(1.9)**	(6.0)
Losses on financial instruments classified at fair value through other comprehensive income:		
Sovereign and central bank debt	**(0.5)**	(0.1)
Tax relating to items which may be reclassified	**0.9**	1.1
Other comprehensive expense net of tax from continuing operations	**(1.8)**	(4.6)
Total comprehensive income	**76.2**	187.3
Attributable to		
Non-controlling interests	**-**	(0.3)
Shareholders	**76.2**	187.6
	76.2	187.3

CONSOLIDATED BALANCE SHEET

At 31 July 2020

	Note	31 July 2020 £ million	31 July 2019 £ million
Assets			
Cash and balances at central banks		**1,375.8**	1,106.4
Loans and advances to banks	9	**78.0**	59.5
Loans and advances to customers	10	**7,616.7**	7,649.6
Debt securities	11	**358.1**	289.0
Derivative financial instruments	12	**39.9**	30.1
Intangible assets	13	**154.1**	132.8
Property, plant and equipment	14	**261.9**	242.6
Current tax assets		**40.9**	-
Deferred tax assets	6	**42.3**	48.5
Prepayments, accrued income and other assets	15	**161.0**	152.2
Total assets		**10,128.7**	9,710.7
Liabilities			
Deposits by banks	16	**152.8**	58.0
Deposits by customers	16	**5,917.7**	5,638.4
Loans and overdrafts from banks	16	**494.0**	506.7
Debt securities in issue	16	**1,614.6**	1,605.9
Derivative financial instruments	12	**20.7**	20.5
Amounts due to group undertakings	17	**329.6**	324.0
Current tax liabilities		**1.3**	20.1
Accruals, deferred income and other liabilities	15	**177.0**	139.1
Subordinated loan capital	18	**223.0**	221.6
Total liabilities		**8,930.7**	8,534.3
Equity			
Called up share capital		**122.5**	122.5
Retained earnings		**1,083.2**	1,059.8
Other reserves		**(6.7)**	(4.9)
Total shareholders' equity		**1,199.0**	1,177.4
Non-controlling interests		**(1.0)**	(1.0)
Total equity		**1,198.0**	1,176.4
Total liabilities and equity		**10,128.7**	9,710.7

The financial statements of Close Brothers Limited, registration number 195626, were approved and authorised for issue by the board of Directors on 21 September 2020 and signed on its behalf by:

A. Sainsbury
Director

M. B. Morgan
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 July 2020

			Other Reserves					
	Called up share capital*	Retained earnings	Exchange movements reserve	FVOCI reserve	Cash flow hedging reserve	Total attributable to equity holders	Non-controlling interests	Total equity
	£ million	£ million	£ million	£ million	£ million	£ million	£ million	£ million
At 1 August 2018	122.5	950.3	(1.2)	0.8	0.1	1,072.5	(0.7)	1,071.8
Profit/(loss) for the year	-	192.2	-	-	-	192.2	(0.3)	191.9
Other comprehensive expense	-	-	-	(0.1)	(4.5)	(4.6)	-	(4.6)
Total comprehensive income/(expense) for the year	-	192.2	-	(0.1)	(4.5)	187.6	(0.3)	187.3
Other movements	-	(0.2)	-	-	-	(0.2)	-	(0.2)
Shares issued	-	-	-	-	-	-	-	-
Income tax	-	(0.3)	-	-	-	(0.3)	-	(0.3)
Dividends paid (note 8)	-	(82.2)	-	-	-	(82.2)	-	(82.2)
At 31 July 2019	122.5	1,059.8	(1.2)	0.7	(4.4)	1,177.4	(1.0)	1,176.4
Profit for the year	-	78.0	-	-	-	78.0	-	78.0
Other comprehensive expense	-	-	-	(0.5)	(1.3)	(1.8)	-	(1.8)
Total comprehensive income/(expense) for the year	-	78.0	-	(0.5)	(1.3)	76.2	-	76.2
Dividends paid (note 8)	-	(54.6)	-	-	-	(54.6)	-	(54.6)
At 31 July 2020	**122.5**	**1,083.2**	**(1.2)**	**0.2**	**(5.7)**	**1,199.0**	**(1.0)**	**1,198.0**

*Allotted, called-up and fully-paid share capital comprised 122,480,000 (2019: 122,480,000) ordinary shares of £1 each.

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 July 2020

	Note	2020 £ million	2019 £ million
Net cash inflow/(outflow) from operating activities	26(a)	**380.5**	(5.9)
Net cash inflow/(outflow) from investing activities			
Purchase of:			
Property, plant and equipment		**(2.9)**	(2.8)
Intangible assets - software		**(42.3)**	(41.2)
Subsidiaries and non-controlling interests	26(b)	**(1.1)**	(2.7)
Sale of:			
Discontinued operations and subsidiaries	26(c)	**-**	86.7
		(46.3)	40.0
Net cash inflow before financing activities		**334.2**	34.1
Financing activities			
Equity dividends paid		**(52.3)**	(79.9)
Amounts received from group undertakings		**4.0**	2.7
Interest paid on debt financing		**(4.6)**	(4.5)
Payment of lease liabilities		**(6.9)**	-
Net increase/(decrease) in cash		**274.4**	(47.6)
Cash and cash equivalents at beginning of year		**1,138.9**	1,186.5
Cash and cash equivalents at end of year	26(d)	**1,413.3**	1,138.9

NOTES TO THE CONSOLIDATED ACCOUNTS

For the year ended 31 July 2020

1. Accounting policies

(a) Reporting entity

Close Brothers Limited ("the company"), a limited company incorporated and domiciled in the UK, together with its subsidiaries (collectively, "the group"), operates through three (2019: three) operating segments; Commercial, Retail and Property and is primarily located within the UK.

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

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

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

(b) Compliance with International Financial Reporting Standards

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

Standards adopted during the year

The accounting policies applied this financial year are set out in this note and consistent with those of the previous financial year except in relation to the adoption of IFRS 16 Leases, which was effective from 1 August 2019.

IFRS 16 replaces IAS 17 Leases and introduces a new recognition model that recognises all leases on a lessee's balance sheet, subject to certain exemptions. As a result, there is no longer a distinction between finance and operating leases for lessees. However, lessor accounting is substantially unchanged.

IFRS 16 has been applied on a modified retrospective basis and comparative information has not been restated. The impact of the initial application of IFRS 16 is set out in note 27.

Future Accounting Developments

Minor amendments to IFRSs effective for the group from 1 August 2020 have been issued by the IASB. These amendments are expected to have no or an immaterial impact on the group.

NOTES TO THE CONSOLIDATED ACCOUNTS

For the year ended 31 July 2020

1. Accounting policies *continued*

(c) Basis of preparation

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

The consolidated financial statements have been prepared in accordance with the Companies Act 2006 as applicable to companies using IFRS.

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

(d) Consolidation

Subsidiaries

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

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

(e) Discontinued operations

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

(f) Foreign currency translation

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

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

NOTES TO THE CONSOLIDATED ACCOUNTS

For the year ended 31 July 2020

1. Accounting policies *continued*

(g) Revenue recognition

Interest income

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

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

Fees and commissions

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

(h) Adjusted items

The consolidated income statement is presented on both a statutory and adjusted basis. The adjusted basis excludes exceptional items and amortisation of intangible assets on acquisition. Exceptional items are income and expense items that are material by size and/or nature and are non-recurring. The separate reporting of these items helps give an indication of the group's underlying performance. Amortisation of intangible assets on acquisition is excluded to present the performance of the group's acquired businesses consistent with its other businesses.

(i) Financial assets and liabilities (excluding derivatives)

Classification 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 fair value through other comprehensive income. 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 fair value through profit or loss where they do not meet the criteria to be measured at amortised cost or fair value through other comprehensive income or where they are designated at fair value through profit or loss to reduce an accounting mismatch. Financial assets at fair value through profit or loss 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 fair value through profit or loss: derivatives; financial liabilities held for trading; and financial liabilities designated at fair value through profit or loss to eliminate an accounting mismatch.

NOTES TO THE CONSOLIDATED ACCOUNTS

For the year ended 31 July 2020

1. **Accounting policies** *continued*

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

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 carrying value is adjusted to reflect the present value of modified cash flows discounted at the original EIR. The adjustment is recognised within interest income on the income statement:

(j) Impairment of financial assets

Expected credit losses
In accordance with IFRS 9, expected credit losses are recognised for loans and advances to customers and banks, other financial assets held at amortised cost, financial assets measured at fair value through other comprehensive income, loan commitments and financial guarantee contracts. The impairment charge in the income statement includes the change in expected credit losses 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 ("SICR") 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 such that it no longer represents a significant increase since origination and is returned to Stage 1. At a minimum this means that all payments must be up-to-date, the quantitative probability of default assessment trigger is no longer met, and the account is not evidencing qualitative assessment triggers.

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

For certain portfolios, a cure definition is 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. For other portfolios, financial assets will only be considered as cured once repaid or written off.

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

NOTES TO THE CONSOLIDATED ACCOUNTS

For the year ended 31 July 2020

1. 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 estimated exposure at default ("EAD") and the estimated loss given default ("LGD"), and includes forward-looking macroeconomic information where appropriate. The EAD and LGD are adjusted to account for the impact of discounting using the effective interest rate.

The PD represents the likelihood of a borrower defaulting on its financial obligation either over the next 12 months or over the remaining lifetime of the obligation. EAD is based on the amounts expected to be owed at the time of 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. Collateral value represents the value of charged assets and generally excludes any value attributed to financial guarantees.

Notwithstanding staging, the calculation of expected credit losses for receivables relating to operating lease assets and settlement balances is based on a simplified lifetime only expected credit loss approach.

Expected credit losses are assessed against actual losses experience via a series of provision adequacy reviews. These reviews also incorporate management judgment to ensure that our expected credit losses coverage ratios are appropriate and actively monitored as such.

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

During the second half of the financial year, a monthly review has been conducted of the updated macroeconomic scenario assumptions, with the resultant incorporation of these into our models as the macroeconomic situation has evolved. In addition, the use and quantum of adjustments have increased to recognise the impact of Covid-19, which predominantly reflect the application of expert management judgement to determine the appropriate allocation of loan balances between Stages 1 and 2 and the review of provision coverage at the individual portfolio level. This approach has incorporated our experience and knowledge of our customers, the sectors in which they operate, and the assets which we finance.

As a result, the charge incurred during the year represents a forward-looking estimate of credit losses under IFRS 9, based on information available at 31 July 2020 and considering the expert management judgement of our businesses. We will continue to refine our assumptions as updated macroeconomic forecasts become available and visibility on the performance of the loan book evolves.

Separate from the impact of Covid-19, during the year, a number of changes were made to the IFRS 9 models used for the calculation of expected credit losses in the Property and Motor Finance businesses. The changes were made to ensure modelled provisions better reflect future loss emergence, reducing the need for model adjustments. The impact of model changes to the expected credit loss provision are disclosed in note 10b.

(k) Finance leases, operating leases and hire purchase

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 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.

NOTES TO THE CONSOLIDATED ACCOUNTS

For the year ended 31 July 2020

1. Accounting policies *continued*

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.

The following was applied in the previous financial year under IAS 17 Leases.

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

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

(l) Sale and repurchase agreements and other secured lending and borrowings
Securities may be sold subject to a commitment to repurchase them. Such securities are retained on the consolidated balance sheet when substantially all the risks and rewards of ownership remain with the group. The transactions are treated as collateralised borrowing and the counterparty liability is included within loans and overdrafts from banks. Similar secured borrowing transactions, including securities 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.

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

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

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

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

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

NOTES TO THE CONSOLIDATED ACCOUNTS

For the year ended 31 July 2020

1. Accounting policies *continued*

(p) Intangible assets

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

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

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

(q) Property, plant and equipment

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

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

(r) Share capital

Share issue costs

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

Dividends on ordinary shares

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

Treasury shares

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

(s) Employee benefits

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

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

NOTES TO THE CONSOLIDATED ACCOUNTS

For the year ended 31 July 2020

1. Accounting policies *continued*

(t) Share-based payments to employees

At 31 July 2020, Close Brothers Group plc ("CBG"), the ultimate parent company, operates four share-based award schemes: the Deferred Share Awards ("DSA") scheme, the Long Term Incentive Plan ("LTIP"), the Share Matching Plan ("SMP"), and the HMRC approved Save As You Earn ("SAYE") scheme.

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

The costs of LTIP, SMP 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. CBG expenses the fair value of the awards, including recharges to subsidiary companies where applicable, in their income statement on a straight-line basis over the vesting period, with a corresponding credit to the share-based payments reserve. At the end of the vesting period, or upon exercise, lapse or forfeit if earlier, this credit is transferred to retained earnings. Further information on the group's schemes is provided in note 19.

(u) Provisions and contingent liabilities

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

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

(v) Taxes, including deferred taxes

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

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

(w) Cash and cash equivalents

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

(x) Segmental reporting

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

(y) Investment in subsidiaries (Company only)

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

NOTES TO THE CONSOLIDATED ACCOUNTS

For the year ended 31 July 2020

1. **Accounting policies** *continued*

(z) Critical accounting estimates and judgements

The reported results of the group are sensitive to the accounting policies, assumptions and estimates that underlie the preparation of its financial statements. UK company law and IFRS require the directors, in preparing the group's financial statements, to select suitable accounting policies, apply them consistently and make judgements and estimates that are reasonable. The group estimates and assumptions are based on historical experience and expectation of future events and are reviewed on an ongoing basis. The company adopted the group's critical accounting estimates and judgements as set out in this note and is reflected in the company's financial statements.

Critical accounting judgements

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

Revenue recognition

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

Judgement is required in determining the fees and costs which are integral to the yield and recognised as interest income, and in determining the period over which to recognise non-interest income.

Expected credit losses

At 31 July 2020, the group's expected credit loss provision was £238.7 million (31 July 2019: £104.3 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 unbiased, probability weighted and uses both actual and forward-looking information.

In general, the group assesses whether a significant increase in credit risk has occurred based on a quantitative and qualitative assessment, with a 30 day 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 include some or all of the following factors. The credit risk of a financial asset is considered to have significantly increased when any of the following triggers are met:

- 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 business units to ensure that the increased risk since origination is appropriately captured;
- Qualitative assessment: events or observed behaviour indicate credit distress. 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.

NOTES TO THE CONSOLIDATED ACCOUNTS

For the year ended 31 July 2020

1. **Accounting policies** *continued*

Due to the impact and complexity of Covid-19 and to reflect the ongoing uncertainty in the external environment it has been necessary to enhance the approach to determining whether a significant increase in credit risk has occurred for certain loans. A number of enhancements have been made to the above mentioned staging approach to fully incorporate the effects of Covid-19 into the significant increase in credit risk assessment:

- A Covid-19 payment concession or loan extension has not in itself constituted a significant increase in credit risk (transfer to Stage 2). Instead Covid-19 related forbearance has been considered alongside usual indicators of a significant increase in credit risk, knowledge of recent customer payment history and whether the customer was up to date at the time of requesting such a concession.
- In line with regulatory guidance a distinction has been drawn between the impact of Covid-19 to consumers and businesses, with businesses expected to be more materially impacted in the short and medium term therefore influencing the staging of these loans. As a result, the approach to determining a significant increase in credit risk has been applied at a divisional level:
  – Commercial: forbearance granted has been considered an indicator of a significant increase in credit risk, resulting in these exposures migrating to Stage 2;
  – Property: the vast majority of forbearance took the form of a fee concession or term extensions, which are considered a "business as usual" feature of the Residential Development book and have therefore not been considered an indicator of a significant increase in credit risk. These exposures have remained in Stage 1;
  – Retail: exposures have been assessed based on their status immediately prior to requesting forbearance; broadly, if up to date, the forbearance has not been considered an indicator of a significant increase in credit risk and the exposure has remained in Stage 1; if in arrears, the forbearance has been considered an indicator of a significant increase in credit risk and the exposure has migrated to Stage 2.

Note 22 sets out the group's approach to Covid-19 related concessions.

Definition of default
The definition of default is an important building block for impairment models and is considered a key judgement. A default is considered to have occurred if any unlikeliness to pay criteria are met or when a financial asset meets the 90 days past due backstop. These include an assessment of whether the borrower has significant financial difficulties which are expected to have a detrimental impact on their ability to pay interest or principal on the loan, and include events such as administration, insolvency, bankruptcy, distressed restructuring and fraud.

An asset is considered credit impaired when one or more events occur that have a detrimental impact on the estimated future cash flows of the financial asset. This comprises assets defined as defaulted and other individually assessed exposures where imminent default or actual loss is identified.

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 range of factors, could result in a material adjustment to the carrying amounts of assets and liabilities in the next financial year.

Expected credit losses
The accuracy of the expected credit loss calculation can be impacted by unpredictable effects or unanticipated changes to model assumptions, resulting in modelled risk parameters varying from actual outcomes observed. In addition, forecast errors could 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. A representation of the core drivers of the macroeconomic scenarios that are deployed in our models is outlined on page 54. 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.

NOTES TO THE CONSOLIDATED ACCOUNTS

For the year ended 31 July 2020

1. Accounting policies *continued*

Forward-looking information
Determining expected credit losses under IFRS 9 requires the incorporation of forward-looking macroeconomic information that is reasonable and supportable. To capture the effect of changes to the economic environment, the calculation of expected credit losses incorporates forward-looking information and 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, Moody's Baseline and Alternative Scenarios are externally sourced and include forecast economic data and scenarios which are used to project potential credit conditions for each portfolio. Management exercises judgement in estimating future economic conditions which are incorporated into provisions through the modelling of these multiple scenarios.

Economic scenarios are assigned a probability weighting using a combination of quantitative analysis and expert judgement. Five different projected economic scenarios are currently considered to cover a range of possible outcomes, reflecting upside and downside relative to the baseline forecast economic conditions. The economic scenarios are generated to capture a range of possible economic outcomes to facilitate the calculation of unbiased and expected credit losses. Non-linearity of losses is considered by management when assessing provision adequacy at an individual portfolio level.

The impact of probability weighted forward-looking information varies across the group's lending businesses because of the differing sensitivity of each portfolio to specific macroeconomic variables.

The Group Risk and Compliance Committee ("GRCC") including the group chief executive officer, group finance director, group chief risk officer, chief credit risk officer, and head of treasury meets quarterly, to review and, if appropriate, agree changes to the economic scenarios and probability weightings assigned thereto. In light of the Covid-19 pandemic, the committee has discussed and assessed the suitability of the updated economic scenario forecasts and associated probability weighting on a monthly basis.

At 31 January 2020, the scenario weightings were maintained and consistent with the position at 31 July 2019, with 5% upside, 40% baseline, and 55% across the three downside scenarios. The scenarios at 31 January 2020 represented the benign economic environment prior to Covid-19, with GDP growth of 0.9% forecast for 2020, and unemployment of 4.3% under the baseline scenario.

Subsequently, as the effects of the Covid-19 pandemic began to be felt more acutely the Moody's forecasts were updated to reflect the deterioration in the economic outlook as a result of the Covid-19 pandemic and the weightings were also updated, to reflect the increased downside risk and ongoing uncertainty.

From 30 April 2020, the upside weighting was reduced to zero, baseline maintained at 40%, and additional weighting allocated to the more severe downside scenarios. Management believe that these weightings continue to appropriately reflect the prevailing macroeconomic challenges and uncertainties as at 31 July 2020, noting the narrow range in which the scenarios are operating.

NOTES TO THE CONSOLIDATED ACCOUNTS

For the year ended 31 July 2020

1. **Accounting policies** *continued*

Refreshed scenario forecasts have been deployed in the IFRS 9 macroeconomic models on a monthly basis since the start of the pandemic. As at year end, the latest baseline scenario forecasts GDP contraction of 8.5% in 2020, with unemployment of 7.1%. The baseline scenario forecasts economic recovery in Q2 2021, with positive GDP growth and falling unemployment.

The baseline Moody's scenario is based around a gradual reopening of the UK economy in the absence of a further national lockdown, with a combination of inflation remaining flat for several quarters, government-provided fiscal stimulus occurring in the second half of this year plus an expansion of quantitative easing to prevent rising borrowing costs.

The table below shows the key UK economic assumptions within each scenario, and the weighting applied to each at 31 July 2020. The numbers shown are the forecasts for 2020, 2021, and an average over the five-year period from 2020 to 2024. A further table is set out below to show the peak to trough range across the key metrics for the scenarios utilised over the five-year period.

These periods have been included as they demonstrate the short, medium and long-term outlook for the key macroeconomic indicators which form the fundamental basis of the scenario forecasts. Furthermore, this demonstrates the anticipated short-term severity of the recession, in addition to the gradual recovery that commences in 2021. On average, the portfolio has a residual maturity of 15 months, with c.98% of loan value having a maturity of five years or less.

The following tables show the forecasts for key metrics across the various scenarios for the next two years to demonstrate the short-term outlook deployed in the models. The weightings ascribed are the point in time weightings applied to each scenario at 31 July 2020.

	Baseline		**Upside (strong)**		**Downside (mild)**		**Downside (moderate)**		**Downside (protracted)**	
	2020	**2021**	**2020**	**2021**	**2020**	**2021**	**2020**	**2021**	**2020**	**2021**
At 31 July 2020										
UK GDP Growth	(8.5%)	2.8%	(7.2%)	4.7%	(9.4%)	1.6%	(9.5%)	0.3%	(10.0%)	(0.6%)
UK Unemployment	7.1%	8.4%	6.8%	6.9%	7.4%	9.3%	7.8%	10.6%	7.9%	11.4%
HPI Growth	(6.9%)	(12.1%)	(5.9%)	(6.9%)	(7.7%)	(16.4%)	(8.8%)	(21.3%)	(9.3%)	(24.5%)
BoE Base Rate	0.2%	0.1%	0.3%	0.4%	0.2%	0.1%	0.2%	0.1%	0.2%	0.1%
Weighting	**40%**		**0%**		**20%**		**25%**		**15%**	

	Baseline		Upside (strong)		Downside (mild)		Downside (moderate)		Downside (protracted)	
	2019	2020	2019	2020	2019	2020	2019	2020	2019	2020
At 31 July 2019										
UK GDP Growth	1.3%	1.4%	1.6%	3.4%	0.9%	0.0%	0.7%	(1.7%)	0.5%	(3.1%)
UK Unemployment	3.9%	4.3%	3.8%	3.3%	4.0%	5.1%	4.1%	5.9%	4.2%	6.3%
HPI Growth	1.5%	0.9%	2.1%	5.4%	1.2%	(2.0%)	1.0%	(5.5%)	0.7%	(8.3%)
BoE Base Rate	0.8%	0.9%	0.8%	1.1%	0.6%	0.3%	0.5%	0.0%	0.4%	0.0%
Weighting	**40%**		**5%**		**40%**		**10%**		**5%**	

NOTES TO THE CONSOLIDATED ACCOUNTS

For the year ended 31 July 2020

1. Accounting policies *continued*

	5 year average (2020 - 2024)				
	Baseline	**Upside (Strong)**	**Downside (mild)**	**Downside (moderate)**	**Downside (protracted)**
At 31 July 2020					
UK GDP Growth	1.2%	1.8%	1.0%	0.7%	0.5%
UK Unemployment	7.5%	6.3%	8.1%	9.4%	10.3%
HPI Growth	(0.2%)	1.3%	(1.1%)	(3.2%)	(5.1%)
BoE Base Rate	0.3%	0.8%	0.1%	0.1%	0.1%
Weighting	**40%**	**0%**	**20%**	**25%**	**15%**

	5 year average (2019 - 2023)				
	Baseline	Upside (Strong)	Downside (mild)	Downside (moderate)	Downside (protracted)
At 31 July 2019					
UK GDP Growth	1.5%	2.1%	1.2%	0.8%	0.3%
UK Unemployment	4.7%	3.7%	5.3%	6.4%	7.2%
HPI Growth	1.8%	3.7%	0.8%	(1.1%)	(3.0%)
BoE Base Rate	1.1%	1.5%	0.6%	0.2%	0.1%
Weighting	**40%**	**5%**	**40%**	**10%**	**5%**

The tables below provide a summary for the subsequent five-year period (31 July 2020 - 31 July 2024) of the peak to trough range of values of the key UK economic variables used within the economic scenarios at 31 July 2020 and 31 July 2019:

	Baseline		**Upside (strong)**		**Downside (mild)**		**Downside (moderate)**		**Downside (protracted)**	
	Peak	Trough	Peak	Trough	Peak	Trough	Peak	Trough	Peak	Trough
At 31 July 2020										
UK GDP Growth	13.2%	(12.3%)	17.4%	(10.5%)	10.5%	(12.4%)	8.9%	(13.1%)	7.3%	(14.0%)
UK Unemployment	8.5%	6.4%	8.3%	5.4%	9.4%	6.9%	10.7%	8.4%	11.7%	9.4%
HPI Growth	9.9%	(19.3%)	8.3%	(14.6%)	11.8%	(21.4%)	12.4%	(24.6%)	12.4%	(28.2%)
BoE Base Rate	0.8%	0.1%	1.4%	0.2%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%
Weighting	**40%**		**0%**		**20%**		**25%**		**15%**	

NOTES TO THE CONSOLIDATED ACCOUNTS

For the year ended 31 July 2020

1. Accounting policies *continued*

	Baseline		Upside (strong)		Downside (mild)		Downside (moderate)		Downside (protracted)	
	Peak	Trough	Peak	Trough	Peak	Trough	Peak	Trough	Peak	Trough
At 31 July 2019										
UK GDP Growth	1.7%	0.8%	3.9%	1.1%	2.1%	(0.6%)	2.5%	(2.0%)	2.5%	(3.6%)
UK Unemployment	5.0%	3.9%	3.8%	3.1%	5.6%	4.0%	7.2%	4.0%	8.4%	4.0%
HPI Growth	2.1%	0.3%	6.3%	0.8%	3.3%	(3.7%)	3.5%	(8.8%)	4.2%	(13.2%)
BoE Base Rate	1.5%	0.7%	2.0%	0.7%	1.1%	0.2%	0.6%	0.0%	0.4%	0.0%
Weighting	**40%**		**5%**		**40%**		**10%**		**5%**	

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

- For the majority of our portfolios the expected credit loss provision has been recalculated under the upside strong and downside protracted scenarios described on the prior page, applying a 100% weighting to each scenario in turn. The change in provision is driven by the movement in risk metrics under each scenario and resulting impact on stage allocation as well as the measurement of the resulting provision.
- For some loans within the Retail Division a specific sensitivity approach has been adopted to gauge short tenor loans' response to modelled macroeconomic 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 much slower recovery in a downside scenario.
- All sensitivity analysis excludes expected credit loss provisions and loans and advances to customers in Stage 3 because the measurement of expected credit losses in this population is considered more sensitive to credit factors specific to the borrower than macroeconomic scenarios.

Based on the above analysis, at 31 July 2020, application of weighting to the upside strong scenario would decrease the expected credit loss by £18.3 million whilst application to the downside protracted scenario would increase the expected credit loss by £23.7 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 22. The modelled impact presented is based on gross loans and advances to customers at 31 July 2020, it does not incorporate future changes relating to performance, growth or credit risk. In addition, given the change in the macroeconomic conditions, as well as the underlying modelled provisions, comparison between the sensitivity results at 31 July 2020 and 31 July 2019 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) depending on the length and severity of the Covid-19 pandemic, as well as the effectiveness of government support measures.

NOTES TO THE CONSOLIDATED ACCOUNTS

For the year ended 31 July 2020

2. Segmental Analysis

The directors manage the group by class of business and we present the segmental analysis on that basis. The group's activities are presented in three (2019: three) operating segments:

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

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

	Retail £ million	Commercial £ million	Property £ million	Total £ million
Summary Income Statement for the year ended 31 July 2020				
Net interest income	194.8	181.0	121.4	497.2
Non-interest income	24.4	66.6	0.1	91.1
Operating income	219.2	247.6	121.5	588.3
Administrative expenses	(110.8)	(126.2)	(28.2)	(265.2)
Depreciation and amortisation	(16.1)	(16.4)	(5.7)	(38.2)
Impairment losses on financial assets	(56.6)	(99.2)	(27.6)	(183.4)
Total operating expenses	(183.5)	(241.8)	(61.5)	(486.8)
Adjusted operating profit[1]	35.7	5.8	60.0	101.5
Amortisation of intangible assets on acquisition	(0.3)	(1.7)	-	(2.0)
Operating profit before tax from continuing operations	35.4	4.1	60.0	99.5
Operating loss before tax from discontinued operations	-	-	-	-
Operating profit before tax	35.4	4.1	60.0	99.5
External operating income	261.8	302.2	147.0	711.0
Inter segment operating expense	(42.6)	(54.6)	(25.5)	(122.7)
Segment operating income	219.2	247.6	121.5	588.3

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

NOTES TO THE CONSOLIDATED ACCOUNTS

For the year ended 31 July 2020

2. Segmental Analysis *continued*

	Retail £ million	Commercial £ million	Property £ million	Total £ million
Balance Sheet information at 31 July 2020				
Loan book and operating lease assets	2,834.5	3,269.9	1,734.2	7,838.6

	Retail	Commercial	Property	Total
Other segment information for the year ended 31 July 2020				
Employees (average number) [1]	1,080	1,215	176	2,471

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

	Retail £ million	Commercial £ million	Property £ million	Total £ million
Summary Income Statement for the year ended 31 July 2019				
Net interest income	200.7	177.6	130.3	508.6
Non-interest income/(expense)	23.4	73.2	(0.3)	96.3
Operating income	224.1	250.8	130.0	604.9
Administrative expenses	(113.9)	(128.6)	(30.2)	(272.7)
Depreciation and amortisation	(11.6)	(11.5)	(4.7)	(27.8)
Impairment (losses)/gains on financial assets	(25.2)	(23.3)	0.1	(48.4)
Total operating expenses	(150.7)	(163.4)	(34.8)	(348.9)
Adjusted operating profit [1]	73.4	87.4	95.2	256.0
Amortisation of intangible assets on acquisition	(0.3)	(1.6)	-	(1.9)
Operating profit before tax from continuing operations	73.1	85.8	95.2	254.1
Operating loss before tax from discontinued operations	-	-	-	-
Operating profit before tax	73.1	85.8	95.2	254.1
External operating income	264.6	300.8	158.1	723.5
Inter segment operating expense	(40.5)	(50.0)	(28.1)	(118.6)
Segment operating income	224.1	250.8	130.0	604.9

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

NOTES TO THE CONSOLIDATED ACCOUNTS

For the year ended 31 July 2020

2. Segmental Analysis *continued*

	Retail £ million	Commercial £ million	Property £ million	Total £ million
Balance Sheet information at 31 July 2019				
Loan book and operating lease assets	2,810.7	3,211.7	1,847.6	7,870.0

	Retail	Commercial	Property	Total
Other segment information for the year ended 31 July 2019				
Employees (average number) [1]	1,048	1,117	180	2,345

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

3. Operating profit before tax

	2020 £ million	2019 £ million
Interest income		
Cash and balances at central banks	**5.2**	6.2
Loans and advances to banks	**0.2**	0.3
Loans and advances to customers	**619.9**	623.1
Other interest income	**3.4**	5.4
	628.7	635.0
Interest expense		
Deposits by banks	**(0.1)**	(0.1)
Deposits by customers	**(82.6)**	(76.0)
Borrowings	**(41.5)**	(44.4)
Interest expense from group undertakings	**(12.6)**	(12.8)
Other interest expense	**5.3**	6.9
	(131.5)	(126.4)
Net interest income	**497.2**	508.6

NOTES TO THE CONSOLIDATED ACCOUNTS

For the year ended 31 July 2020

3. Operating profit before tax *continued*

	2020 £ million	2019 £ million
Fee and commission income	**92.3**	93.6
Fee and commission expense	**(15.4)**	(17.1)
	76.9	76.5

Fee and commission income and expense (other than amounts calculated using the effective interest rate method) on financial instruments that are not at fair value through profit and loss were £92.3 million (2019: £93.6 million) and £15.4 million (2019: £17.1 million) respectively.

	2020 £ million	2019 £ million
Other income		
Operating lease assets rental income	**69.1**	64.4
Other	**11.6**	9.1
	80.7	73.5

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

	2020 £ million	2019 £ million
Administrative expenses		
Staff costs:		
Wages and salaries	**137.2**	137.3
Social security costs	**19.7**	20.7
Share-based payments	**1.0**	1.8
Pension costs	**8.6**	7.0
	166.5	166.8
Depreciation of property, plant and equipment	**14.2**	8.6
Amortisation of intangible assets	**24.0**	19.2
Other administrative expenses	**98.7**	105.9
Total administrative expenses	**303.4**	300.5

NOTES TO THE CONSOLIDATED ACCOUNTS

For the year ended 31 July 2020

4. Information regarding directors

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

Directors' fees were £nil (2019: nil) and directors' emoluments, excluding pension contributions, were £1,718,427 (2019: £2,295,424).

The highest paid director received emoluments of £949,634 (2019: £1,425,000), pension contributions of £nil (2019: £nil).

Contributions paid to money purchase pension schemes, of which no directors (2019: nil) were members, amounted to £nil (2019: £nil). No director (2019: nil) was a member of a defined benefits pension scheme, and the company paid £nil (2019: £nil) to the scheme on their behalf.

One (2019: two) director received £750,000 (2019: £1,358,000) under long-term incentive schemes operated by another group company. One (2019: two) director exercised options under a long-term incentive scheme; the gains from these exercises amounted to £237,803 (2019: £99,325).

5. Information regarding the auditors

	2020 £ million	2019 £ million
Fees payable		
Audit of the company's annual accounts	**0.7**	0.4
Audit of the company's subsidiaries pursuant to legislation	**0.7**	0.5
Audit related services	**-**	0.1
Other services	**-**	0.1
	1.4	1.1

The auditor of the group was PricewaterhouseCoopers LLP (2019: PricewaterhouseCoopers LLP).

NOTES TO THE CONSOLIDATED ACCOUNTS

For the year ended 31 July 2020

6. Taxation

	2020 £ million	2019 £ million
Tax charged/(credited) to the income statement		
Current tax:		
UK corporation tax	**23.6**	57.7
Foreign tax	**0.2**	1.3
Adjustments in respect of previous years	**(9.7)**	(0.7)
	14.1	58.3
Deferred tax:	**(1.4)**	4.0
Deferred tax (credit)/charge for the current year	**8.8**	1.0
Adjustments in respect of previous years	**7.4**	5.0
Tax charge	**21.5**	63.3
Tax on items not (credited)/charged to the income statement		
Current tax relating to:		
Share-based payments	**-**	(0.1)
Deferred tax relating to:		
Cash flow hedging	**(0.6)**	(1.5)
Financial instruments classified as fair value through other comprehensive income	**(0.1)**	(0.1)
Share-based payments	**-**	0.4
Currency translation (losses)/gains	**(0.3)**	0.4
Acquisition	**(0.2)**	0.2
	(1.2)	(0.7)
Reconciliation to tax expense		
UK corporation tax for the year at 19% (2019: 19%) on operating profit	**18.9**	48.2
Disallowable items and other permanent differences	**1.4**	1.4
Effect of different tax rates in other jurisdictions	**(0.2)**	(0.2)
Deferred tax impact of increased tax rates	**(2.7)**	-
Bank corporation tax surcharge	**5.0**	13.6
Prior year tax provision	**(0.9)**	0.3
	21.5	63.3

The standard UK corporation tax rate for the financial year is 19.0% (2019: 19.0%). However, an additional 8% surcharge applies to banking company profits as defined in legislation. The effective tax rate of 21.6% (2019: 24.9%) is above the UK corporation tax rate primarily due to the surcharge applying to most of the group's profits.

NOTES TO THE CONSOLIDATED ACCOUNTS

For the year ended 31 July 2020

6. Taxation *continued*

Movements in deferred tax assets and liabilities were as follows:

	Capital allowance £ million	Share-based payments and deferred compensation £ million	Other £ million	Cash flow hedging £ million	Intangible assets £ million	Impairment losses £ million	Total £ million
At 1 August 2018	37.3	3.7	(0.3)	-	(2.5)	14.7	52.9
(Charge)/credit to the income statement	(3.4)	(0.2)	-	-	0.3	(1.7)	(5.0)
(Charge)/credit to other comprehensive income	(0.4)	-	0.1	1.5	-	-	1.2
Charge to equity	-	(0.4)	-	-	-	-	(0.4)
Acquisition	-	-	-	-	(0.2)	-	(0.2)
At 31 July 2019	33.5	3.1	(0.2)	1.5	(2.4)	13.0	48.5
(Charge)/credit to the income statement	(3.5)	(0.6)	-	-	0.1	(3.4)	(7.4)
Credit to other comprehensive income	0.3	-	0.1	0.6	-	-	1.0
Acquisition	-	-	-	-	-	0.2	0.2
At 31 July 2020	**30.3**	**2.5**	**(0.1)**	**2.1**	**(2.3)**	**9.8**	**42.3**

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

NOTES TO THE CONSOLIDATED ACCOUNTS

For the year ended 31 July 2020

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

On 1 January 2019, the group completed the sale of Close Brothers Retail Finance, which provides unsecured retail point of sale finance to consumers, to Klarna Bank AB. The transaction fulfilled the requirements of IFRS 5 to be classified as "discontinued operations" in the consolidated income statement.

The net assets of Close Brothers Retail Finance on 1 January 2019, the date of disposal, was £80.9 million, comprising largely of loans and advances to customers. In the 31 July 2018 consolidated balance sheet, net assets of £66.9 million relating to Close Brothers Retail Finance were presented as "held for sale". No impairment has been recognised in relation to these net assets.

Results of discontinued operations

	2020 **£ million**	2019 £ million
Operating income	-	3.7
Operating expenses	-	(4.2)
Impairment losses on loans and advances	-	(1.6)
Operating loss before tax	-	(2.1)
Tax	-	0.5
Impairment of plant, property and equipment and intangible assets	-	-
Loss after tax	-	(1.6)
Profit on disposal of discontinued operations, net of tax	-	2.7
Profit/(loss) from discontinued operations	-	1.1

Cash flow from discontinued operations

	2020 **£ million**	2019 £ million
Net cash flow from operating activities	-	(16.1)
Net cash flow from investing activities	-	(0.3)

NOTES TO THE CONSOLIDATED ACCOUNTS

For the year ended 31 July 2020

8. Dividends

	2020 £ million	2019 £ million
For each ordinary share the company paid		
Final dividend for prior financial year paid in November 2019: 43p (2019: 28p)	**52.3**	34.1
Interim dividend for current financial year paid in April 2020: £nil (2019: 37p)	**-**	45.8
Deemed distribution	**2.3**	2.3
	54.6	82.2

A final dividend relating to the year ended 31 July 2020 of 41p, amounting to an estimated £50.0 million, is proposed. This final dividend, which is due to be paid on 11 November 2020 to shareholders, is not reflected in these financial statements.

9. Loans and advances to banks

	On demand £ million	Within three months £ million	Between three months and one year £ million	Between one and two years £ million	Between two and five years £ million	Total £ million
At 31 July 2020	**50.7**	**12.0**	**10.3**	**2.9**	**2.1**	**78.0**
At 31 July 2019	44.0	0.4	1.9	10.3	2.9	59.5

10. Loans and advances to customers

The following table sets out a maturity analysis of loans and advances to customers. At 31 July 2020, loans and advances to customers with a maturity of two years or less was £6,031.6 million representing 76.8% (31 July 2019: 78.4%) of total 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 2020	**78.1**	**2,174.0**	**2,348.2**	**1,431.3**	**1,680.5**	**143.3**	**7,855.4**	**(238.7)**	**7,616.7**
At 31 July 2019	80.7	2,288.8	2,381.0	1,332.0	1,556.3	115.1	7,753.9	(104.3)	7,649.6

NOTES TO THE CONSOLIDATED ACCOUNTS

For the year ended 31 July 2020

10. Loans and advances to customers *continued*

a) 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	Less than 30 days past due	Greater than or equal to 30 days past due	Total	Stage 3	Total
	£ million	£ million	£ million	£ million	£ million	£ million
At 31 July 2020						
Gross loans and advances to customers						
Commercial	1,913.4	1,110.9	21.1	1,132.0	126.4	3,171.8
Retail	2,604.9	208.1	49.4	257.5	43.4	2,905.8
Property	1,388.3	125.3	59.4	184.7	204.8	1,777.8
Total	5,906.6	1,444.3	129.9	1,574.2	374.6	7,855.4
Impairment provisions						
Commercial	18.1	59.9	1.5	61.4	44.3	123.8
Retail	28.4	11.1	7.5	18.6	24.3	71.3
Property	11.1	6.6	0.7	7.3	25.2	43.6
Total	57.6	77.6	9.7	87.3	93.8	238.7
Provision coverage ratio						
Commercial	0.9%	5.4%	7.1%	5.4%	35.0%	3.9%
Retail	1.1%	5.3%	15.2%	7.2%	56.0%	2.5%
Property	0.8%	5.3%	1.2%	4.0%	12.3%	2.5%
Total	1.0%	5.4%	7.5%	5.5%	25.0%	3.0%

NOTES TO THE CONSOLIDATED ACCOUNTS

For the year ended 31 July 2020

10. Loans and advances to customers *continued*

		Stage 2				
	Stage 1	Less than 30 days past due	Greater than or equal to 30 days past due	Total	Stage 3	Total
	£ million	£ million	£ million	£ million	£ million	£ million
At 31 July 2019						
Gross loans and advances to customers						
Commercial	2,647.7	293.1	17.6	310.7	84.7	3,043.1
Retail	2,577.1	239.3	4.9	244.2	26.5	2,847.8
Property	1,639.2	43.2	105.6	148.8	75.0	1,863.0
Total	**6,864.0**	**575.6**	**128.1**	**703.7**	**186.2**	**7,753.9**
Impairment provisions						
Commercial	12.5	10.8	1.1	11.9	27.4	51.8
Retail	10.4	11.2	0.5	11.7	15.0	37.1
Property	2.0	1.9	1.6	3.5	9.9	15.4
Total	**24.9**	**23.9**	**3.2**	**27.1**	**52.3**	**104.3**
Provision coverage ratio						
Commercial	0.5%	3.7%	6.3%	3.8%	32.3%	1.7%
Retail	0.4%	4.7%	10.2%	4.8%	56.6%	1.3%
Property	0.1%	4.4%	1.5%	2.4%	13.2%	0.8%
Total	**0.4%**	**4.2%**	**2.5%**	**3.9%**	**28.1%**	**1.3%**

Stage 1 loans and advances to customers have fallen during the year to £5,906.6 million (31 July 2019: £6,864.0 million), primarily as a result of migrations to Stages 2 and 3 during the second half of the year due to both macroeconomic and case-specific effects associated with Covid-19. Those same factors drove an increase in the Stage 1 impairment provisions to £57.6 million (31 July 2019: £24.9 million), which in turn increased the provision coverage ratio to 1.0% (31 July 2019: 0.4%).

Stage 2 loans and advances to customers increased by £870.5 million to £1,574.2 million (31 July 2019: £703.7 million) across all segments following an increased incidence of a significant increase in credit risk, as a result of the macroeconomic environment and its effect on our customers, reflective of our forbearance and associated staging detailed in note 22(c). Those same factors drove an increase in the Stage 2 impairment provisions to £87.3 million (31 July 2019: £27.1 million), which in turn increased the provision coverage ratio to 5.5% (31 July 2019: 3.9%).

Stage 3 loans and advances to customers similarly increased by £188.4 million to £374.6 million (31 July 2019: £186.2 million) with migrations occurring across all of our portfolios primarily in the wake of the effects of Covid-19, and Stage 3 impairment provisions increased to £93.8 million (31 July 2019: £52.3 million). Stage 3 Property exposures carry lower provision coverage than those in Retail and Commercial, reflecting the lower likelihood of loss. Property exposures comprise a greater proportion of total Stage 3 exposures than at 31 July 19, and this has therefore resulted in a slight decrease in the provision coverage ratio for this population to 25.0% (31 July 2019: 28.1%).

All of the above resulted in an increase in the total provision coverage ratio to 3.0% (31 July 2019: 1.3%).

NOTES TO THE CONSOLIDATED ACCOUNTS

For the year ended 31 July 2020

10. Loans and advances to customers *continued*

b) 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. All other repayments are presented in a separate line.

Expected credit loss ("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 expected credit loss 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 2019	**6,864.0**	**703.7**	**186.2**	**7,753.9**
New financial assets originated and further lending	**5,859.1**	**-**	**-**	**5,859.1**
Transfers to Stage 1	**105.4**	**(164.7)**	**(14.3)**	**(73.6)**
Transfers to Stage 2	**(2,206.1)**	**1,670.5**	**(0.8)**	**(536.4)**
Transfers to Stage 3	**(303.0)**	**(157.9)**	**365.9**	**(95.0)**
Net transfers between stages and repayments[1]	**(2,403.7)**	**1,347.9**	**350.8**	**(705.0)**
Repayments while stage remained unchanged and final repayments	**(4,511.7)**	**(386.5)**	**(57.8)**	**(4,956.0)**
Changes to model methodologies	**100.9**	**(89.4)**	**(11.5)**	**-**
Write offs	**(2.0)**	**(1.5)**	**(93.1)**	**(96.6)**
At 31 July 2020	**5,906.6**	**1,574.2**	**374.6**	**7,855.4**

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

NOTES TO THE CONSOLIDATED ACCOUNTS

For the year ended 31 July 2020

10. Loans and advances to customers *continued*

	Stage 1 £ million	Stage 2 £ million	Stage 3 £ million	Total £ million
Gross loans and advances to customers				
At 1 August 2018	6,479.2	597.3	260.1	7,336.6
New financial assets originated and further lending	5,856.4	-	-	5,856.4
Transfers to Stage 1	204.6	(195.3)	(65.1)	(55.8)
Transfers to Stage 2	(918.4)	791.5	(11.3)	(138.2)
Transfers to Stage 3	(249.9)	(126.7)	315.4	(61.2)
Net transfers between stages and repayments[1]	(963.7)	469.5	239.0	(255.2)
Repayments while stage remained unchanged and final repayments	(4,573.0)	(369.3)	(134.8)	(5,077.1)
Changes to model methodologies	86.5	23.0	(109.5)	-
Write offs	(21.4)	(16.8)	(68.6)	(106.8)
At 31 July 2019	**6,864.0**	**703.7**	**186.2**	**7,753.9**

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 £689.4 million (2019: £275.0 million). A loss of £3.4 million (2019: £nil) was recognised as a result of these modifications. The loss relating to all loans which were modified during the year was £5.9 million. The gross carrying amount at 31 July 2020 of modified loans and advances to customers which transferred from Stage 2 or 3 to Stage 1 during the year was £52.8 million (31 July 2019: £55.4 million).

	Stage 1 £ million	Stage 2 £ million	Stage 3 £ million	Total £ million
Impairment provisions on loans and advances to customers				
At 1 August 2019	**24.9**	**27.1**	**52.3**	**104.3**
New financial assets originated	**28.1**	**-**	**-**	**28.1**
Transfers to Stage 1	**0.9**	**(4.1)**	**(0.1)**	**(3.3)**
Transfers to Stage 2	**(13.9)**	**69.1**	**(0.1)**	**55.1**
Transfers to Stage 3	**(2.5)**	**(8.5)**	**82.9**	**71.9**
Net remeasurement of expected credit losses arising from transfers between stages and repayments[1]	**(15.5)**	**56.5**	**82.7**	**123.7**
Repayments and expected credit loss movements while stage remained unchanged and final repayments	**3.6**	**3.0**	**(0.3)**	**6.3**
Changes to model methodologies	**16.9**	**1.3**	**(3.6)**	**14.6**
Charge to the income statement	**33.1**	**60.8**	**78.8**	**172.7**
Write offs	**(0.4)**	**(0.6)**	**(37.3)**	**(38.3)**
At 31 July 2020	**57.6**	**87.3**	**93.8**	**238.7**

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

NOTES TO THE CONSOLIDATED ACCOUNTS

For the year ended 31 July 2020

10. Loans and advances to customers *continued*

	Stage 1 £ million	Stage 2 £ million	Stage 3 £ million	Total £ million
Impairment provisions on loans and advances to customers				
At 31 July 2018				39.1
IFRS 9 transition				58.2
At 1 August 2018	23.7	24.8	48.8	97.3
New financial assets originated	26.5	-	-	26.5
Transfers to Stage 1	1.0	(4.4)	(0.4)	(3.8)
Transfers to Stage 2	(6.4)	20.8	(0.2)	14.2
Transfers to Stage 3	(2.1)	(4.7)	48.2	41.4
Net remeasurement of expected credit losses arising from transfers between stages and repayments [1]	(7.5)	11.7	47.6	51.8
Repayments and expected credit loss movements while stage remained unchanged and final repayments	(17.5)	(7.5)	(11.4)	(36.4)
Changes to model methodologies	-	-	(0.3)	(0.3)
Charge to the income statement	1.5	4.2	35.9	41.6
Write offs	(0.3)	(1.9)	(32.4)	(34.6)
At 31 July 2019	**24.9**	**27.1**	**52.3**	**104.3**

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

	2020 £ million	2019 £ million
Impairment losses relating to loans and advances to customers		
Charge to income statement arising from movement in impairment provision	**172.7**	41.6
Amounts written off directly to income statement, net of recoveries and other costs	**7.8**	5.8
	180.5	47.4
Impairment losses relating to other financial assets	**2.9**	1.0
Impairment losses on financial assets recognised in the income statement	**183.4**	48.4

The contractual amount outstanding at 31 July 2020 on financial assets that were written off during the period and are still subject to enforcement activity was £12.4 million (2019: £12.7 million).

c) Finance lease and hire purchase agreement receivables

	2020 £ million	2019 £ million
Loans and advances to customers comprise		
Hire purchase agreement receivables	**2,998.0**	2,927.6
Finance lease receivables	**474.8**	453.1
Other loans and advances	**4,143.9**	4,268.9
At 31 July	**7,616.7**	7,649.6

NOTES TO THE CONSOLIDATED ACCOUNTS

For the year ended 31 July 2020

10. Loans and advances to customers *continued*

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

	2020 £ million	2019 £ million
Gross investment in finance leases and hire purchase agreement receivables due:		
One year or within	**1,461.1**	1,408.2
One to two years	**1,520.6**	1,519.8
Two to three years	**660.3**	606.4
Three to four years	**309.9**	282.9
Four to five years	**102.7**	84.5
More than five years	**72.0**	73.3
	4,126.6	3,975.1
Unearned finance income	**(546.6)**	(531.0)
	3,580.0	3,444.1
Present value of minimum lease and hire purchase agreement payments:		
Of which due:		
One year or within	**1,267.9**	1,218.9
One to two years	**1,320.7**	1,319.2
Two to three years	**573.8**	527.2
Three to four years	**268.7**	245.5
Four to five years	**88.6**	73.3
More than five years	**60.3**	60.0
	3,580.0	3,444.1

The aggregate cost of assets acquired for the purpose of letting under finance leases and hire purchase agreements was £6,183.4 million (2019: £6,060.4 million). The average effective interest rate on finance leases approximates to 10.2% (2019: 9.4%). The present value of minimum lease and hire purchase agreement payments reflects the fair value of finance lease and hire purchase agreement receivables before deduction of impairment provisions.

NOTES TO THE CONSOLIDATED ACCOUNTS

For the year ended 31 July 2020

11. Debt securities

	Fair value through other comprehensive income	Amortised cost	Total
	£ million	£ million	£ million
Certificates of deposit	-	285.9	285.9
Sovereign and central bank debt	72.2	-	72.2
At 31 July 2020	**72.2**	**285.9**	**358.1**

	Fair value through other comprehensive income	Amortised cost	Total
	£ million	£ million	£ million
Certificates of deposit	-	240.7	240.7
Sovereign and central bank debt	48.3	-	48.3
At 31 July 2019	48.3	240.7	289.0

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

	2020	2019
	£ million	£ million
Sovereign and central bank debt at 1 August	**48.3**	44.5
Additions	**22.7**	-
Currency translation differences	**(0.8)**	1.0
Changes in fair value	**2.0**	2.8
Sovereign and central bank debt at 31 July	**72.2**	48.3

12. Derivative financial instruments

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

	31 July 2020			31 July 2019		
	Notional value	Assets	Liabilities	Notional value	Assets	Liabilities
	£ million	£ million	£ million	£ million	£ million	£ million
Exchange rate contracts	**74.1**	**1.0**	**0.3**	242.1	1.2	5.5
Interest rate contracts	**3,131.0**	**38.9**	**20.4**	2,834.0	28.9	15.0
	3,205.1	**39.9**	**20.7**	3,076.1	30.1	20.5

Notional amounts of interest rate contracts totalling £2,130.2 million (2019: £2,282.7 million) and exchange rate contracts totalling £nil (2019: £nil) have a residual maturity of more than one year.

NOTES TO THE CONSOLIDATED ACCOUNTS

For the year ended 31 July 2020

12. Derivative financial instruments

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

	31 July 2020			31 July 2019		
	Notional value	**Assets**	**Liabilities**	Notional value	Assets	Liabilities
	£ million	**£ million**	**£ million**	£ million	£ million	£ million
Cash flow hedges						
Interest rate contracts	**747.1**	**-**	**8.4**	735.7	0.2	6.1
Fair value hedges						
Interest rate contracts	**1,234.3**	**35.3**	**7.9**	1,251.1	27.6	5.5

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 (2019: seven) 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, differences in the discount rates and cash flow timing differences between the hedged item and the hedging instrument.

NOTES TO THE CONSOLIDATED ACCOUNTS

For the year ended 31 July 2020

12. Derivative financial instruments *continued*

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

	On demand	Within three months	Between three and six months	Between six months and one year	Between one and five years	After more than five years	Total
	£ million	£ million	£ million	£ million	£ million	£ million	£ million
Fair value hedges							
Interest rate risk							
31 July 2020	-	**4.9**	**40.5**	**382.1**	**404.6**	**402.2**	**1,234.3**
31 July 2019	-	-	-	62.0	826.6	362.5	1,251.1

Fair value hedges are an average fixed rate of 2.7% (31 July 2019: 2.8%).

Details of the hedging instruments for the group's hedge effectiveness assessment are set out below:

	Changes in fair value of hedging instrument used for calculating hedge ineffectiveness 2020	Hedge ineffectiveness recognised in income statement 2020	Changes in fair value of hedging instrument used for calculating hedge ineffectiveness 2019	Hedge ineffectiveness recognised in income statement 2019
	£ million	£ million	£ million	£ million
Cash flow hedges				
Interest rate risk	**(2.0)**	**(0.1)**	(6.1)	-
Fair value hedges				
Interest rate risk	**4.8**	**0.1**	19.9	0.2

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

NOTES TO THE CONSOLIDATED ACCOUNTS

For the year ended 31 July 2020

12. Derivative financial instruments *continued*

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

	Carrying amount of hedged item	Accumulated amount of fair value adjustments on the hedged item	Changes in fair value of hedged item used for calculating hedge ineffectiveness
	£ million	£ million	£ million
At 31 July 2020			
Fair value hedges			
Assets			
Debt securities	**72.2**	**3.3**	**0.5**
Loans and advances to customers and undrawn commitments	**83.4**	**4.4**	**2.0**
	155.6	**7.7**	**2.5**
Liabilities			
Deposits by customers	**176.8**	**1.6**	**0.4**
Debt securities in issue	**614.6**	**22.1**	**(5.2)**
Amounts due on group undertakings	**144.9**	**5.0**	**(1.2)**
Subordinated loan capital	**176.6**	**1.9**	**(1.1)**
	1,112.9	**30.6**	**(7.1)**

	Carrying amount of hedged item	Accumulated amount of fair value adjustments on the hedged item	Changes in fair value of hedged item used for calculating hedge ineffectiveness
	£ million	£ million	£ million
At 31 July 2019			
Fair value hedges			
Assets			
Debt securities	48.3	2.8	2.9
Loans and advances to customers and undrawn commitments	25.5	2.4	2.4
	73.8	5.2	5.3
Liabilities			
Deposits by customers	240.5	2.0	(1.6)
Debt securities in issue	609.5	16.9	(16.6)
Amounts due on group undertakings	143.3	3.8	(3.5)
Subordinated loan capital	175.1	0.9	(3.3)
	1,168.4	23.6	(25.0)

NOTES TO THE CONSOLIDATED ACCOUNTS

For the year ended 31 July 2020

12. Derivative financial instruments *continued*

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

	Changes in fair value of hedged item used for calculating hedge ineffectiveness £ million	Losses 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			
At 31 July 2020	**1.9**	**(1.9)**	**-**
31 July 2019	6.1	(6.1)	0.1

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

NOTES TO THE CONSOLIDATED ACCOUNTS

For the year ended 31 July 2020

13. Intangibles assets

	Goodwill £ million	Software £ million	Intangible assets on acquisition £ million	Total £ million
Cost				
At 1 August 2018	25.4	137.6	23.2	186.2
Additions	0.2	47.1	0.6	47.9
Disposals	-	(7.1)	-	(7.1)
At 31 July 2019	25.6	177.6	23.8	227.0
Additions	2.4	44.9	-	47.3
Disposals	-	(14.8)	-	(14.8)
At 31 July 2020	**28.0**	**207.7**	**23.8**	**259.5**
Accumulated amortisation				
At 1 August 2018	-	68.9	6.9	75.8
Charge for the year	-	19.2	1.9	21.1
Disposals	-	(2.7)	-	(2.7)
At 31 July 2019	-	85.4	8.8	94.2
Charge for the year	-	24.0	2.0	26.0
Disposals	-	(14.8)	-	(14.8)
At 31 July 2020	**-**	**94.6**	**10.8**	**105.4**
Net book value at 31 July 2020	**28.0**	**113.1**	**13.0**	**154.1**
Net book value at 31 July 2019	25.6	92.2	15.0	132.8
Net book value at 1 August 2018	25.4	68.7	16.3	110.4

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

In the 2020 financial year, £2.0 million (2019: £1.9 million) of the amortisation charge is included in amortisation of intangible assets on acquisition and £24.0 million (2019: £19.2 million) of the amortisation charge is included in administrative expenses shown in the consolidated income statement.

NOTES TO THE CONSOLIDATED ACCOUNTS

For the year ended 31 July 2020

13. Intangibles assets *continued*

Impairment tests for goodwill
At 31 July 2020, goodwill has been allocated to seven individual cash generating units ("CGU") of which three are within Commercial, two within Retail and two within Property. Goodwill impairment reviews are carried out annually by assessing the recoverable amount of the group's CGUs, which is the higher of fair value less costs to sell and value in use. The recoverable amounts for all CGUs were measured based on value in use.

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

For cash flows beyond the group's three year planning horizon, a terminal value was calculated using a prudent annual growth rate of 0% (2019: 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 below.

At 31 July 2020, the results of the review, which includes careful consideration of the impact of Covid-19, indicate there is no goodwill impairment. The inputs used in the value in use calculations are sensitive, primarily to the impact of changes in the assumptions for future cash flows, discount rates and long-term growth rates. Having performed stress tested value in use calculations, the group believes that any reasonably possible change in the key assumptions which have been used would not lead 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 2020		31 July 2019	
Cash generating unit	**Goodwill £ million**	**Pre-tax discount rate %**	Goodwill £ million	Pre-tax discount rate %
Asset Finance	**8.2**	**13.1**	5.6	11.3
Commercial Acceptances	**3.5**	**12.1**	3.5	10.2
Novitas	**12.1**	**12.1**	12.1	10.2
Other	**4.2**	**12.1-13.4**	4.4	10.2-11.3
	28.0		25.6	

NOTES TO THE CONSOLIDATED ACCOUNTS

For the year ended 31 July 2020

14. Property, plant and equipment

	Short leasehold property £ million	Fixtures, fittings and equipment £ million	Assets held under operating lease £ million	Motor vehicles £ million	Right of use assets[1] £ million	Total £ million
Cost						
At 1 August 2018	11.7	38.5	268.9	0.1	-	319.2
Additions	4.8	5.2	72.9	-	-	82.9
Disposals	(0.7)	(1.7)	(27.7)	-	-	(30.1)
At 31 July 2019	15.8	42.0	314.1	0.1	-	372.0
IFRS 16 transition (note 27)	-	-	-	-	24.2	24.2
At 1 August 2019	15.8	42.0	314.1	0.1	24.2	396.2
Additions	0.1	2.5	54.0	-	6.1	62.7
Disposals	(0.4)	(2.9)	(26.7)	-	(0.7)	(30.7)
At 31 July 2020	**15.5**	**41.6**	**341.4**	**0.1**	**29.6**	**428.2**
Accumulated depreciation						
At 1 August 2018	5.2	23.8	70.1	0.1	-	99.2
Charge for the year	2.0	6.6	36.1	-	-	44.7
Disposals	(0.7)	(1.3)	(12.5)	-	-	(14.5)
At 31 July 2019	6.5	29.1	93.7	0.1	-	129.4
Charge for the year	1.7	5.6	44.3	-	6.9	58.5
Disposals	(0.3)	(2.6)	(18.5)	-	(0.2)	(21.6)
At 31 July 2020	**7.9**	**32.1**	**119.5**	**0.1**	**6.7**	**166.3**
Net book value at 31 July 2020	**7.6**	**9.5**	**221.9**	**-**	**22.9**	**261.9**
Net book value at 31 July 2019	9.3	12.9	220.4	-	-	242.6
Net book value at 1 August 2018	6.5	14.7	198.8	-	-	220.0

[1] Right of use assets relate to the group's leasehold properties £16.8 million (2019: £nil), motor vehicles £5.8 million (2019: £nil) and equipment/other £0.3 million (2019: £nil).

NOTES TO THE CONSOLIDATED ACCOUNTS

For the year ended 31 July 2020

14. Property, plant and equipment *continued*

There was no gain or loss from the sale of assets held under operating leases for the year ended 31 July 2020 (2019: £0.3 million gain).

	31 July 2020 £ million	31 July 2019 £ million
Future minimum lease rentals receivable under non-cancellable operating leases		
One year or within one year	**43.8**	42.0
One to two years	**28.5**	31.3
Two to three years	**15.9**	20.7
Three to four years	**6.7**	10.5
Four to five years	**2.2**	3.2
More than 5 years	**1.3**	0.6
	98.4	108.3

NOTES TO THE CONSOLIDATED ACCOUNTS

For the year ended 31 July 2020

15. Other assets and other liabilities

	31 July 2020 £ million	31 July 2019 £ million
Prepayments, accrued income and other assets		
Prepayments and accrued income	**136.8**	122.8
Trade and other receivables	**21.7**	17.5
Amounts owed by parent undertaking	**2.5**	11.9
	161.0	152.2
Accruals, deferred income and other liabilities		
Accruals and deferred income	**93.5**	93.7
Trade and other payables	**73.3**	38.3
Provisions	**10.2**	7.1
	177.0	139.1

Provisions movements in the year:

	Property £ million	Other £ million	Total £ million
Movements during the year:			
At 1 August 2018	3.9	5.0	8.9
Additions	0.9	2.2	3.1
Utilised	-	(3.0)	(3.0)
Released	(1.4)	(0.5)	(1.9)
At 31 July 2019	3.4	3.7	7.1
Additions	0.4	5.0	5.4
Utilised	-	(1.7)	(1.7)
Released	(0.1)	(0.5)	(0.6)
At 31 July 2020	**3.7**	**6.5**	**10.2**

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

NOTES TO THE CONSOLIDATED ACCOUNTS

For the year ended 31 July 2020

16. Financial liabilities

	On demand £ million	Within three months £ million	Between three months and one year £ million	Between one and two years £ million	Between two and five years £ million	After more than five years £ million	Total £ million
At 31 July 2020							
Deposits by banks	**25.5**	**123.3**	**4.0**	**-**	**-**	**-**	**152.8**
Deposits by customers	**543.3**	**1,103.9**	**2,799.2**	**1,151.8**	**319.5**	**-**	**5,917.7**
Bank loans and overdrafts	**3.9**	**0.1**	**-**	**262.0**	**228.0**	**-**	**494.0**
Debt securities in issue	**22.1**	**35.3**	**915.0**	**212.4**	**158.7**	**271.1**	**1,614.6**
	594.8	**1,262.6**	**3,718.2**	**1,626.2**	**706.2**	**271.1**	**8,179.1**

	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 2019							
Deposits by banks	12.5	15.7	29.8	-	-	-	58.0
Deposits by customers	78.3	1,232.7	2,817.9	1,157.2	352.3	-	5,638.4
Bank loans and overdrafts	16.4	0.3	-	213.2	276.8	-	506.7
Debt securities in issue	16.9	25.6	143.6	937.8	210.9	271.1	1,605.9
	124.1	1,274.3	2,991.3	2,308.2	840.0	271.1	7,809.0

As discussed in note 22(c) the group has accessed £262.0 million (31 July 2019: £490.0 million) cash under the Bank of England's Term Funding Scheme and £228.0 million (31 July 2019: £nil) under the Term Funding Scheme with Additional Incentives for SMEs. Cash from the Term Funding Scheme and repurchase agreements is included within bank loans and overdrafts. Residual maturities of the Term Funding Scheme and repurchase agreements are as follows:

	On demand £ million	Within three months £ million	Between three months and one year £ million	Between one and two years £ million	Between two and five years £ million	After more than five years £ million	Total £ million
31 July 2020	**-**	**-**	**-**	**262.0**	**228.0**	**-**	**490.0**
31 July 2019	-	0.3	-	213.2	276.8	-	490.3

NOTES TO THE CONSOLIDATED ACCOUNTS

For the year ended 31 July 2020

17. Amounts due to group undertakings

	31 July 2020 £ million	31 July 2019 £ million
Amounts due to ultimate parent undertaking	**329.6**	324.0

18. Subordinated loan capital

	Prepayment date	Initial interest rate	31 July 2020 £ million	31 July 2019 £ million
Final maturity date				
2026	2021	7.42%	**15.5**	15.5
2026	2021	7.62%	**31.0**	31.0
2027	2022	4.25%	**176.5**	175.1
			223.0	221.6

NOTES TO THE CONSOLIDATED ACCOUNTS

For the year ended 31 July 2020

19. Share-based awards

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

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

	2020	2019
SAYE	1,493.8p	1,479.6p
LTIP	1,284.6p	1,542.7p
DSA	1,381.0p	1,528.9p
SMP	1,247.4p	1,554.0p

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

	Options outstanding 2020		Options outstanding 2019	
Exercise price range	**Number outstanding**	**Weighted average remaining contractual life (years)**	Number outstanding	Weighted average remaining contractual life (years)
SAYE				
Between £8 and £9	618,299	3.7	-	-
Between £9 and £10	101,383	3.1	-	-
Between £11 and £12	206,900	1.6	397,647	2.1
Between £12 and £13	114,734	1.2	165,691	2.2
LTIP				
Nil	420,509	2.1	509,457	2.2
DSA				
Nil	499,097	1.8	468,476	1.8
SMP				
Nil	-	-	66,738	1.2
Total	**1,960,922**	**2.5**	1,608,009	2.0

NOTES TO THE CONSOLIDATED ACCOUNTS

For the year ended 31 July 2020

19. Share-based awards *continued*

Following a review of the Remuneration Policy ("Policy"), a new Policy was approved by shareholders at the Annual General Meeting in November 2018. Under this new Policy, DSA and LTIP were updated and SMP was discontinued while SAYE remained unchanged. The following summary information relates to the current Policy only. Please refer to CBG's Annual Report 2020 for full details of the schemes.

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

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

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

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

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

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

NOTES TO THE CONSOLIDATED ACCOUNTS

For the year ended 31 July 2020

20. Contingent liabilities, guarantees and commitments

Contingent liabilities

Financial Services Compensation Scheme ("FSCS")

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

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

Guarantees

	31 July 2020 £ million	31 July 2019 £ million
Guarantees and irrevocable letters of credit	**9.8**	6.5

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

Commitments

Undrawn facilities, credit lines, other commitments to lend

	31 July 2020 £ million	31 July 2019 £ million
Within one year[1]	**1,220.2**	1,125.6
Total commitments	**1,220.2**	1,125.6

[1] Includes both recoverable and irrecoverable commitments.

Operating lease commitments

IFRS 16 Leases was effective for the group from 1 August 2019. IFRS 16 replaced IAS 17 Leases and resulted in the group, where it was the lessee, recognising all leases on the balance sheet, subject to certain exemptions. See note 1 for the group's new accounting policy, note 14 for right of use assets recognised on the balance sheet under IFRS 16 and note 27 for the transition impact.

At 31 July 2019, the group had outstanding off balance sheet commitments for future minimum lease rentals payable under non-cancellable operating leases, which fell due as follows:

	31 July 2019	
	Premises £ million	Other £ million
Within one year	6.8	2.3
Between one and five years	23.6	2.6
After more than five years	4.5	-
Total commitments	34.9	4.9

NOTES TO THE CONSOLIDATED ACCOUNTS

For the year ended 31 July 2020

20. Contingent liabilities, guarantees and commitments *continued*

In the year ended 31 July 2019, minimum operating lease payments recognised in the consolidated income statement amounted to £5.3 million.

Other commitments
The group had contracted capital commitments relating to capital expenditure of £27.5 million (2019: £8.9 million)

21. Capital

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

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

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

The group maintains a strong capital base to support the development of the business and to ensure the group meets the TCR and additional Capital Requirements Directive buffers at all times. As a result, the group maintains capital adequacy ratios comfortably above minimum regulatory requirements. The group complied with all of the externally imposed capital requirements to which they are subject for the years ended 31 July 2020 and 2019.

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

At 31 July 2020, the group's common equity tier 1 capital ratio increased to 13.4% (31 July 2019: 12.4%).

Common equity tier 1 capital increased to £1,103.9 million (31 July 2019: £1,039.8 million) primarily due to retained profit with the impact of higher impairment charges largely offset by the capital add-back under transitional IFRS 9 arrangements.

Risk weighted assets decreased to £8,250.4 million (31 July 2019: £8,453.6 million) due to a reduction in loan book RWAs including the impact of the accelerated application of the CRR2 SME supporting factor.

NOTES TO THE CONSOLIDATED ACCOUNTS

For the year ended 31 July 2020

21. Capital *continued*

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

	31 July 2020 £ million	31 July 2019 £ million
Common equity tier 1 ("CET1") capital		
Called up share capital	**122.5**	122.5
Retained earnings	**1,081.8**	1,055.3
Other reserves recognised for common equity tier 1 capital	**(2.7)**	(2.9)
Deductions from common equity tier 1 capital		
Intangible assets, net of associated deferred tax liabilities	**(147.9)**	(127.4)
Foreseeable dividend[1]	**(50.0)**	(52.3)
Prudent valuation adjustment	**(0.1)**	(0.1)
IFRS 9 transitional arrangements[2]	**100.3**	44.70
CET1 capital	**1,103.9**	1,039.8
Tier 2 capital - subordinated debt	**190.0**	197.5
Total regulatory capital[3]	**1,293.9**	1,237.3
Risk weighted assets (notional)[3] - unaudited		
Credit and counterparty risk	**7,722.9**	7,940.6
Operational risk[4]	**505.9**	485.2
Market risk[4]	**21.6**	27.8
	8,250.4	8,453.6
CET1 capital ratio[3]	**13.4%**	12.3%
Total capital ratio[3]	**15.7%**	14.6%

[1] Under the Regulatory Technical Standard on own funds, a deduction has been recognised at 31 July 2020 for a foreseeable dividend being the proposed final dividend as set out in note 8.

[2] The group has elected to apply IFRS 9 transitional arrangements for 31 July 2020, which allow the capital impact of expected credit losses to be phased in over the transition period. For 31 July 2020 relief has been applied at 85%. The Covid-19 regulatory measures finalised in June 2020 will allow for 100% relief on stage 1 and stage 2 impairment provisions recognised since 1 January 2020. This additional relief will apply to the group's capital ratios throughout FY21 and FY22 before reducing on a straight-line basis over the following four financial years.

[3] Shown after applying the IFRS9 transitional arrangements and the Capital Requirement Regulations transitional and qualifying own funds arrangements. At 31 July 2020, the fully loaded CET1 capital ratio is 12.3% and total capital ratio is 14.4% (31 July 2019: CET1 capital ratio 11.8% and total capital ratio 13.9%).

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

NOTES TO THE CONSOLIDATED ACCOUNTS

For the year ended 31 July 2020

21. Capital *continued*

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

	31 July 2020 £ million	31 July 2019 £ million
Equity	**1,198.0**	1,176.4
Difference in equity under regulatory individual consolidation basis	**(3.1)**	(6.9)
Regulatory deductions from equity:		
Foreseeable dividend[1]	**(50.0)**	(52.3)
IFRS 9 transitional arrangements[2]	**100.3**	44.7
Intangible assets, net of associated deferred tax liabilities	**(147.9)**	(127.4)
Prudent valuation adjustment	**(0.1)**	(0.1)
Other reserves not recognised for common equity tier 1 capital:		
Cash flow hedging reserve	**5.7**	4.4
Non-controlling interests	**1.0**	1.0
CET1 capital	**1,103.9**	1,039.8

[1] Under the Regulatory Technical Standard on own funds, a deduction has been recognised at 31 July 2020 for a foreseeable dividend being the proposed final dividend as set out in note 8.

[2] The group has elected to apply IFRS 9 transitional arrangements for 31 July 2020, which allow the capital impact of expected credit losses to be phased in over the transition period.

NOTES TO THE CONSOLIDATED ACCOUNTS

For the year ended 31 July 2020

22. Financial risk management

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

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

(a) Classification

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

	Derivatives designated as hedging instruments £ million	Fair value through profit or loss £ million	Fair value through other comprehensive income £ million	Amortised cost £ million	Total £ million
At 31 July 2020					
Assets					
Cash and balances at central banks	-	-	-	1,375.8	1,375.8
Loans and advances to banks	-	-	-	78.0	78.0
Loans and advances to customers	-	-	-	7,616.7	7,616.7
Amounts due to group undertakings	-	-	-	-	-
Debt securities	-	-	72.2	285.9	358.1
Derivative financial instruments	35.3	4.6	-	-	39.9
Other financial assets	-	-	-	12.2	12.2
	35.3	4.6	72.2	9,368.6	9,480.7
Liabilities					
Deposits by banks	-	-	-	152.8	152.8
Deposits by customers	-	-	-	5,917.7	5,917.7
Loans and overdrafts from banks	-	-	-	494.0	494.0
Debt securities in issue	-	-	-	1,614.6	1,614.6
Derivative financial instruments	16.3	4.4	-	-	20.7
Amounts due to group undertakings	-	-	-	329.6	329.6
Subordinated loan capital	-	-	-	223.0	223.0
Other financial liabilities	-	-	-	101.7	101.7
	16.3	4.4	-	8,833.4	8,854.1

NOTES TO THE CONSOLIDATED ACCOUNTS

For the year ended 31 July 2020

22. Financial risk management *continued*
(a) Classification *continued*

	Derivatives designated as hedging instruments	Fair value through profit or loss	Fair value through other comprehensive income	Amortised cost	Total
	£ million	£ million	£ million	£ million	£ million
At 31 July 2019					
Assets					
Cash and balances at central banks	-	-	-	1,106.4	1,106.4
Loans and advances to banks	-	-	-	59.5	59.5
Loans and advances to customers	-	-	-	7,649.6	7,649.6
Amounts due to group undertakings	-	-	-	11.9	11.9
Debt securities	-	-	48.3	240.7	289.0
Derivative financial instruments	27.8	2.3	-	-	30.1
Other financial assets	-	-	-	8.9	8.9
	27.8	2.3	48.3	9,077.0	9,155.4
Liabilities					
Deposits by banks	-	-	-	58.0	58.0
Deposits by customers	-	-	-	5,638.4	5,638.4
Loans and overdrafts from banks	-	-	-	506.7	506.7
Debt securities in issue	-	-	-	1,605.9	1,605.9
Derivative financial instruments	11.6	8.9	-	-	20.5
Amounts due to group undertakings	-	-	-	324.0	324.0
Subordinated loan capital	-	-	-	221.6	221.6
Other financial liabilities	-	-	-	62.7	62.7
	11.6	8.9	-	8,417.3	8,437.8

(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 2020		31 July 2019	
	Fair Value	**Carrying Value**	Fair Value	Carrying Value
	£ million	**£ million**	£ million	£ million
Subordinated loan capital	**227.0**	**223.0**	234.1	221.6
Debt securities in issue	**695.9**	**686.4**	713.2	691.5

NOTES TO THE CONSOLIDATED ACCOUNTS

For the year ended 31 July 2020

22. Financial risk management *continued*
(b) Valuation *continued*

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

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities where prices are readily available and represent actual and regularly occurring market transactions on an arm's length basis. An active market is one in which transactions occur with sufficient frequency to provide ongoing pricing information;

- Level 2 fair value measurements are those derived from quoted prices in less active markets for identical assets or liabilities or those derived from inputs other than quoted prices that are observable for the asset or liability, either directly as prices or indirectly derived from prices; and

- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data ("unobservable inputs").

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

Instruments classified as Level 2 predominantly comprise less liquid listed equity shares, investment grade corporate bonds and over-the-counter derivatives. The fair value of equity shares and bonds are derived from quoted prices in less active markets in comparison to level 1. Over-the-counter derivatives largely relate to interest rate and exchange rate contracts (see note 12 for further information). The valuation of such derivatives includes the use of discounted future cash flow models, with the most significant input into these models being interest rate yield curves developed from quoted rates.

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

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

There were no significant transfers between Level 1, 2 and 3 in 2020 and 2019.

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

NOTES TO THE CONSOLIDATED ACCOUNTS

For the year ended 31 July 2020

22. Financial risk management *continued*
(b) Valuation *continued*

	Level 1 £ million	Level 2 £ million	Level 3 £ million	Total £ million
At 31 July 2020				
Assets				
Debt securities:				
Sovereign and central bank debt	**72.2**	**-**	**-**	**72.2**
Derivative financial instruments	**-**	**39.9**	**-**	**39.9**
	72.2	**39.9**	**-**	**112.1**
Liabilities				
Derivative financial instruments	**-**	**20.7**	**-**	**20.7**
Contingent consideration	**-**	**-**	**3.5**	**3.5**
	-	**20.7**	**3.5**	**24.2**

	Level 1 £ million	Level 2 £ million	Level 3 £ million	Total £ million
At 31 July 2019				
Assets				
Debt securities:				
Sovereign and central bank debt	48.3	-	-	48.3
Derivative financial instruments	-	30.1	-	30.1
	48.3	30.1	-	78.4
Liabilities				
Derivative financial instruments	-	20.5	-	20.5
Contingent consideration	-	-	2.5	2.5
	-	20.5	2.5	23.0

NOTES TO THE CONSOLIDATED ACCOUNTS

For the year ended 31 July 2020

22. Financial risk management *continued*
(b) Valuation *continued*

Movements in financial instruments categorised as Level 3 were:

	Contingent Consideration £ million
At 1 August 2018	(1.2)
Total loss recognised in the consolidated income statement	(0.8)
Purchases and issues	(0.5)
At 31 July 2019	(2.5)
Total loss recognised in the consolidated income statement	**(0.4)**
Purchases and issues	**(0.6)**
At 31 July 2020	**(3.5)**

The gains recognised in the consolidated income statement relating to instruments held at the year end amounted to £0.4 million (2019: £nil).

(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 group.

The group applies consistent and prudent lending criteria to mitigate credit risk. Its lending activities are predominantly secured across a diverse range of asset classes. Details of average tenor and loan size by business can be found in the strategic report. This ensures concentration risk is controlled in both the loan book and associated collateral. Currently credit risk appetites are set around unsecured lending to ensure the secured lending position is under regular review. Unsecured lending accounts for 11.3% of assets, although 77% of this total benefits from some degree of structural protection. Whilst not necessarily comprising formal, tangible security, this protection provides various degrees of loss mitigation. Examples include so-called "soft" assets and After The Event insurance cover.

The group has established limits for all counterparties with whom it places deposits, enters into derivative contracts or whose debt securities are held, and the credit quality of the counterparties is monitored. While these amounts may be material, the counterparties are all regulated institutions with investment grade credit ratings assigned by international credit rating agencies and fall within the large exposure limits set by regulatory requirements.

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

NOTES TO THE CONSOLIDATED ACCOUNTS

For the year ended 31 July 2020

22. Financial risk management *continued*
(c) Credit risk *continued*

	31 July 2020 £ million	31 July 2019 £ million
On balance sheet		
Cash and balances at central banks	**1,375.8**	1,106.4
Loans and advances to banks	**78.0**	59.5
Loans and advances to customers	**7,616.7**	7,649.6
Debt securities	**358.1**	289.0
Derivative financial instruments	**39.9**	30.1
Other financial assets	**12.2**	8.9
	9,480.7	9,143.5
Off balance sheet		
Undrawn commitments	**235.4**	221.9
Guarantees	**9.8**	6.5
Total maximum exposure to credit risk	**9,725.9**	9,371.9

Assets pledged and received as collateral
The group pledges assets for repurchase agreements and securities borrowing agreements which are generally conducted under terms that are customary to standard borrowing contracts.

At 31 July 2020, the group was a participant of the Bank of England's Term Funding Scheme and Term Funding Scheme with Additional Incentives for SMEs. Under these schemes, asset finance loan receivables of £758.5 million (31 July 2019: £790.6 million) and retained notes relating to Motor Finance loan receivables of £109.0 million (31 July 2019: £35.4 million) were positioned as collateral with the Bank of England, against which £262.0 million of cash (31 July 2019: £490.0 million) was drawn under the Term Funding Scheme and £228.0 million (31 July 2019: £nil) under the Term Funding Scheme with Additional Incentives for SMEs. 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 £1,601.1 million (31 July 2019 restated: £1,418.9 million) of its insurance premium and motor loan receivables in return for cash and asset-backed securities in issue of £1,037.1 million (31 July 2019: £949.8 million). This includes £109.0 million (31 July 2019: £35.4 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 102. Consistent and prudent lending criteria are applied across the whole loan book with emphasis on the quality of the security provided.

NOTES TO THE CONSOLIDATED ACCOUNTS

For the year ended 31 July 2020

22. Financial risk management *continued*
(c) Credit risk *continued*

Financial assets: Loans and advances to customers
Credit risk management and monitoring
The overall credit risk appetite is set by the group board. The monitoring of credit policy is the responsibility of the Group's Risk and Compliance committees. 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, and oversight and approval of large complex credit deals. This team reports through the chief credit risk officer ("CCRO") to the group chief risk officer ("GCRO") and provides monthly reporting to the Credit Risk Management Committee ("CRMC") and Group Risk and Compliance Committee ("GRCC"). The group has a dual approach to mitigating credit risk by:

- Lending on a predominantly secured basis with emphasis on both the customer's ability to repay and the quality of the underlying security to minimise any loss should the customer not be able to repay; and
- Applying greater scrutiny both analytically and in terms of escalation of sanctioning authority where the asset securing a loan is less tangible, or in cases of higher loan to valuation ("LTV").

Collections and recoveries processes are designed to provide a fair, consistent and effective operation for arrears management. We seek to engage in early communication with borrowers experiencing difficulty in meeting their repayments, to obtain their commitment to maintaining or re-establishing a regular payment plan. Additional resource has been allocated to this activity in light of the increase in required concessions relating to Covid-19.

Covid-19 approach
The past few months have been unprecedented in their severity and uncertainty with a large number of our customers approaching us for additional financial support. Further information on the support and concessions this comprises can be found in the forbearance section below entitled "Additional support for customers impacted by Covid-19".

As the global pandemic has progressed, the impact on our customers has been progressively assessed. We have been tracking closely the payment performance of our customers and the uptake of concessions, and have also deployed contact strategies to reach out to try and ascertain the short to medium term intentions of our customers with regard to resuming normal payments, or indeed the need for further concessions. The result of these individual contacts has informed our assessment of staging at an individual facility level. 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 monitors uptake of Covid-19 specific concessions and reports on these to the CRMC and GRCC, which utilise this enhanced forbearance reporting for tactical and strategic planning, and to assess the impacts of concessions granted. Our additional reporting tracks the trajectory of Covid-19 specific forbearance across our business units and examines sector and asset concentrations.

In addition to the Covid-19 specific forbearance measures covered below, following accreditation, we have been able to offer many of our customers facilities 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 for small businesses. We have seen good demand for loans under these schemes with over 1,430 of these loans approved within our Invoice, Property, and Asset and Leasing businesses.

We maintain a regular reporting cycle of the uptake of these facilities and monitor usage compared to approved overall credit limits. In addition to facilities already approved and drawn we have a strong pipeline of cases that are undergoing eligibility assessment. At 31 July 2020 lending under the CBILS and associated scheme totalled £194 million across 901 loans, noting that CBILS constitutes the vast majority of such exposures. Additionally, at 31 July 2020, £159 million across 529 loans had been credit approved and were awaiting drawdown.

NOTES TO THE CONSOLIDATED ACCOUNTS

For the year ended 31 July 2020

22. Financial risk management *continued*
(c) Credit risk *continued*

Forbearance
Forbearance occurs when a customer is experiencing difficulty in meeting their financial commitments and a concession is granted, by changing the terms of the financial arrangement, which would not otherwise be considered. This arrangement can be temporary or permanent depending on the customer's circumstances.

The group reports on forborne exposures as either performing or non-performing in line with regulatory requirements. A forbearance policy is maintained to ensure the necessary processes are in place to enable consistently fair treatment of each customer and that they are managed based on their individual circumstances. The arrangements agreed with customers will aim to create a sustainable and affordable financial position, thereby reducing the likelihood of suffering a credit loss. The forbearance policy is periodically reviewed to ensure it is still effective.

Additional support for customers impacted by Covid-19
The economic conditions resulting from Covid-19 have been unprecedented in terms of the financial support required by our customers who find themselves in difficulty, and we have introduced a range of additional forbearance measures to support them. Concessions granted to customers as a consequence of Covid-19 are varied across our lending businesses. In all instances, where further support is required this is considered on a case-by-case basis as we seek to assist our customers during these unpredictable times. The number of customers supported via concessions offered has increased to 66,153.

In Retail, concessions in Motor Finance have typically taken the form of a period of breathing space without payments, followed by a payment plan to meet the revised outstanding balance, with the customer enjoying deferral of payment without the compounding of interest on the outstanding balance. Similarly, in Premium Finance, affected customers have been offered revised repayments over a short-term horizon. In Commercial, for Asset customers, a capital repayment holiday has been the most common form of concession offered. In Invoice customers have been offered the option to flex repayment percentages and overpayments where required. Finally, Property, fee concessions on extensions have been granted. Our Commercial and Property businesses account for the vast majority of our forborne loan balances.

The cure periods of these forborne exposures are subject to expert judgement and are underpinned by carefully considered assumptions. Our cure approach varies dependent on divisional split and ranges from instant cure when concession ends (subject to customer confirmation of no adverse performance) to a three-month cure period applicable in other circumstances. In some instances where the facility is of short tenor the exposure may remain forborne for the residual life of the facility.

Other forbearance (non Covid-19)
The group 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, as well as other forms of forbearance such as moratorium, covenant waivers, and rate concessions.

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

1. When all due payments, as per the amended contractual terms, have been made in a timely manner over a continuous repayment period (loan is considered as performing);
2. A minimum two-year probation period has passed from the date the forborne exposure was considered as performing;
3. None of the customer's exposures with Close Brothers are more than 30 days past due at the end of the probation period; and
4. The regulatory requirement for an additional 12-month cure period for a non-performing forborne exposure to become performing-forborne is also applied where required in addition to the above.

NOTES TO THE CONSOLIDATED ACCOUNTS

For the year ended 31 July 2020

22. Financial risk management *continued*
(c) Credit risk *continued*

Forbearance analysis
At 31 July 2020, the gross carrying amount of exposures with forbearance measures was £1,596.2 million (31 July 2019: £174.5 million). The key driver of this increase is Covid-19 related forbearance which comprises 88% (£1,410.4 million) of forborne exposures at 31 July 2020. As set out on page 52, a Covid-19 related concession does not in itself constitute a significant increase in credit risk; accordingly, 26% and 72% of these loans are in stages 1 and 2 respectively.

An analysis of forborne loans as at 31 July 2020 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-Jul-20	**7,855.4**				
Non-Covid-19 forbearance		**185.8**	**2.4%**	**34.5**	**3,039**
Covid-19 forbearance		**1,410.4**	**18.0%**	**71.9**	**66,153**
	7,855.4	**1,596.2**	**20.3%**	**106.4**	**69,192**
31-Jul-19	7,753.9				
Non-Covid-19 forbearance		174.5	2.3%	18.7	3,612
Covid-19 forbearance		-	-	-	-
	7,753.9	174.5	2.3%	18.7	3,612

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 2020			31 July 2019
	Covid-19 £ million	**Non Covid-19 £ million**	**Total forborne loans £ million**	Total forborne loans £ million
Property	**326.6**	**131.6**	**458.2**	97.7
Commercial	**832.8**	**50.1**	**882.9**	70.9
Retail	**251.0**	**4.1**	**255.1**	5.9
Total	**1,410.4**	**185.8**	**1,596.2**	174.5

NOTES TO THE CONSOLIDATED ACCOUNTS

For the year ended 31 July 2020

22. Financial risk management *continued*
(c) Credit risk *continued*

The following is a breakdown of the number of customers supported by segment:

	31 July 2020			31 July 2019
	Number of customers supported			Total number of customers supported
	Covid-19	Non-Covid-19	Total	
Property	**187**	**55**	**242**	39
Commercial	**7,322**	**284**	**7,606**	265
Retail	**58,644**	**2,700**	**61,344**	3,308
Total	**66,153**	**3,039**	**69,192**	3,612

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 2020			31 July 2019
	Covid-19 related	Non Covid-19 related	Forborne loans	Forborne loans
	£ million	£ million	£ million	£ million
Extension outside terms	**440.1**	**138.0**	**578.1**	130.3
Refinancing	**0.5**	**15.2**	**15.7**	26.2
Moratorium	**969.8**	**28.6**	**998.4**	14.2
Other modifications	**-**	**4.0**	**4.0**	3.8
Total	**1,410.4**	**185.8**	**1,596.2**	174.5

Divisional 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. 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 or refundable 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 promptly 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 re regularly reviewed to ensure that they are performing satisfactorily, with Residential Development facilities monitored, broadly, on a monthly basis by independent Close Brothers appointed Project Monitoring Surveyors ("PMS") to certify build payments and the residual cost-to-complete. This ensures the thorough supervision of all live developments and facilitates the monthly checking of on-site progress against original build plan.

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

NOTES TO THE CONSOLIDATED ACCOUNTS

For the year ended 31 July 2020

22. Financial risk management *continued*
(c) Credit risk *continued*

Credit risk reporting
The following table sets out loans and advances to customers, trade receivables and undrawn facilities by the group's internal credit risk grading. 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 no concerns on ability to meet obligations as they fall due. Standard monitoring in place.

Medium risk: Evidence of deterioration in the credit risk profile of the borrower exists which requires increased monitoring. Potential concerns on ability to meet obligations as they fall due may exist.

High risk: Evidence of significant deterioration in the credit risk profile of the borrower exists which requires enhanced management. Full repayment may not be achieved with potential for loss identified.

NOTES TO THE CONSOLIDATED ACCOUNTS

For the year ended 31 July 2020

22. Financial risk management *continued*
(c) Credit risk *continued*

	Stage 1 £ million	Stage 2 £ million	Stage 3 £ million	Total £ million
31 July 2020				
Gross loans and advances to customers				
Low risk	**5,777.5**	**1,134.1**	**34.7**	**6,946.3**
Medium risk	**112.5**	**345.3**	**25.0**	**482.8**
High risk	**5.1**	**89.6**	**309.6**	**404.3**
Ungraded	**11.5**	**5.2**	**5.3**	**22.0**
	5,906.6	**1,574.2**	**374.6**	**7,855.4**
Undrawn facilities				
Low risk	**1,188.6**	**12.2**	**10.6**	**1,211.4**
Medium risk	**-**	**7.6**	**0.1**	**7.7**
High risk	**-**	**-**	**1.1**	**1.1**
	1,188.6	**19.8**	**11.8**	**1,220.2**
Trade receivables[1]				
Low risk	**3.7**	**-**	**-**	**3.7**
Medium risk	**-**	**4.5**	**-**	**4.5**
High risk	**-**	**-**	**2.6**	**2.6**
	3.7	**4.5**	**2.6**	**10.8**

	Stage 1 £ million	Stage 2 £ million	Stage 3 £ million	Total £ million
31 July 2019				
Gross loans and advances to customers				
Low risk	6,837.6	477.8	55.2	7,370.6
Medium risk	14.9	224.3	45.7	284.9
High risk	-	1.2	79.5	80.7
Ungraded	11.5	0.4	5.8	17.7
	6,864.0	703.7	186.2	7,753.9
Undrawn facilities				
Low risk	1,108.9	8.5	3.8	1,121.2
Medium risk	-	4.4	-	4.4
	1,108.9	12.9	3.8	1,125.6
Trade receivables[1]				
Low risk	6.9	-	-	6.9
Medium risk	-	0.7	-	0.7
High risk	-	-	1.2	1.2
	6.9	0.7	1.2	8.8

1 Lifetime expected credit losses are recognised for all trade receivables under the IFRS 9 simplified approach.

NOTES TO THE CONSOLIDATED ACCOUNTS

For the year ended 31 July 2020

22. Financial risk management *continued*
(c) Credit risk *continued*

Low risk loans and advances to customers represent 89% of the overall portfolio (31 July 2019: 95%), reflecting the strong quality of the portfolio with the remaining 12% of loans in medium risk, high risk and ungraded (31 July 2019: 5%). The shift in loans to higher risk grades is primarily due to macroeconomic and case-specific effects of Covid-19.

Low risk and Stage 2 represent 14% (31 July 2019: 6%) of loans and advances to customers, primarily reflecting early arrears cases, or agreements which have triggered a significant increase in credit risk indicator, or a 30 days past due backstop. These loans are considered to be performing and standard monitoring continues to apply. Covid-19 forbearance has precipitated migration from Stage 1 to Stage 2 in line with our approach outlined on page 52, which can be seen in the lower balances in low risk Stage 1 category compared to last year, and a resultant higher balance in the low risk Stage 2 category year on year. Loans and advances to customers reflected as low risk and Stage 3 primarily relate to agreements which have triggered the 90 days past due backstop but where full repayment is expected.

Medium risk agreements account for 6% (31 July 2019: 4%) of total loans and advances to customers. This is primarily driven by significant increase in credit risk indicators having been triggered, warranting increased monitoring. Loans and advances to customers reflected as medium risk and 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 agreements account for 5% (31 July 2019: 1%) of total loans and advances to customers with the majority corresponding with Stage 3, largely driven by increased defaults as a result of Covid-19. The increase in high risk Stage 2 exposure partly reflects the impact of Covid-19, as well as enhancements made to our internal risk models which provide greater differentiation between accounts.

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 Property and Commercial 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, where an additional layer of protection may exist through broker recourse.

The group's collateral policies have not materially changed during the reporting period and there has been no significant change in the overall quality of the collateral held by the group since the prior period. Collateral values and time to realise assets are likely to have been impacted by Covid-19 though it is not currently anticipated that this will materially impact the quality of the collateral held.

NOTES TO THE CONSOLIDATED ACCOUNTS

For the year ended 31 July 2020

22. Financial risk management *continued*
(c) Credit risk *continued*

Analysis of gross loans and advances to customers by LTV ratio is provided below. The value of collateral used in determining the LTV ratio is based upon data captured at loan origination, or where available, a more recent updated valuation.

	Retail £ million	Commercial £ million	Property £ million	Total £ million
LTV[1]				
60% or lower	**158.5**	**407.1**	**953.0**	**1,518.6**
60% to 70%	**160.6**	**256.0**	**685.5**	**1,102.1**
70% to 80%	**335.6**	**265.4**	**67.1**	**668.1**
80% to 90%	**1,152.8**	**589.0**	**2.9**	**1,744.7**
90% to 100%	**389.3**	**997.1**	**20.7**	**1,407.1**
Greater than 100%	**230.1**	**251.0**	**48.6**	**529.7**
Structurally protected[2]	**424.9**	**255.1**	**-**	**680.0**
Unsecured	**54.0**	**151.1**	**-**	**205.1**
At 31 July 2020	**2,905.8**	**3,171.8**	**1,777.8**	**7,855.4**

1 Government lending scheme facilities are allocated to a low LTV category reflecting the nature of the Government guarantee and resultant level of lending risk.

2 Exposures are considered structurally protected when, in management's judgement, they have characteristics which mitigate the credit risk of the exposure to a significant extent, in spite of not representing tangible security.

	Retail £ million	Commercial £ million	Property £ million	Total £ million
LTV[1]				
60% or lower	149.9	209.3	1,126.5	1,485.7
60% to 70%	159.1	276.1	626.8	1,062.0
70% to 80%	344.2	363.8	74.0	782.0
80% to 90%	1,109.9	696.5	7.1	1,813.5
90% to 100%	370.0	916.9	7.6	1,294.5
Greater than 100%	241.0	267.9	21.0	529.9
Structurally protected	378.7	157.1	-	535.8
Unsecured	95.0	155.5	-	250.5
At 31 July 2019	2,847.8	3,043.1	1,863.0	7,753.9

1 Restated to aid comparability. The analysis in the 2019 Annual Report included gross loans and advances to customers where exposure at origination exceeded £1.0 million only.

NOTES TO THE CONSOLIDATED ACCOUNTS

For the year ended 31 July 2020

22. Financial risk management *continued*
(c) Credit risk *continued*

Gross loans and advances to customers which are credit-impaired split by LTV ratio:

	Retail £ million	Commercial £ million	Property £ million	Total £ million
LTV				
60% or lower	**1.0**	**4.8**	**68.7**	**74.5**
60% to 70%	**1.7**	**11.5**	**42.2**	**55.4**
70% to 80%	**5.3**	**16.2**	**23.8**	**45.3**
80% to 90%	**14.3**	**22.8**	**0.7**	**37.8**
90% to 100%	**8.6**	**32.5**	**20.7**	**61.8**
Greater than 100%	**5.9**	**23.4**	**48.7**	**78.0**
Structurally protected	**6.1**	**10.0**	**-**	**16.1**
Unsecured	**0.5**	**5.2**	**-**	**5.7**
At 31 July 2020	**43.4**	**126.4**	**204.8**	**374.6**

	Retail £ million	Commercial £ million	Property £ million	Total £ million
LTV[1]				
60% or lower	0.4	1.9	10.1	12.4
60% to 70%	0.7	4.8	29.8	35.3
70% to 80%	2.2	8.3	12.5	23.0
80% to 90%	9.5	17.5	1.6	28.6
90% to 100%	4.3	21.3	-	25.6
Greater than 100%	5.1	17.3	21.0	43.4
Structurally protected	3.7	5.3	-	9.0
Unsecured	0.6	8.3	-	8.9
At 31 July 2019	26.5	84.7	75.0	186.2

1 Restated to aid comparability. The analysis in the 2019 Annual Report included gross loans and advances to customers where exposure at origination exceeded £1.0 million only.

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 considered to be investment grade and in Stage 1.

NOTES TO THE CONSOLIDATED ACCOUNTS

For the year ended 31 July 2020

***22.* Financial risk management** *continued*
(d) Market risk

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

Interest rate risk
The group's exposure to interest rate risk arises in the Banking division and the remainder of this section relates to the Banking division accordingly. 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 12.

The Asset and Liability Committee ("ALCO") monitors the interest rate risk exposure across the balance sheet. There are three main sources of interest rate risk recognised, which could adversely impact future income or the value of the balance sheet:

- repricing risk occurs when assets and liabilities reprice at different times;
- embedded optionality risk occurs as a result of special conditions attached to contract terms embedded in some assets and liabilities; and
- basis risk occurs where there is a mismatch in the interest rate reference rate for assets and liabilities.

Interest rate risk within the banking book 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.

The table below sets out the earnings at risk ("EaR") due to a parallel shift in interest rates at 31 July 2020:

	2020	2019
	£ million	£ million
0.5% increase	**(9.8)**	(4.0)
0.5% decrease	**1.7**	5.1

The average impact in 2020 on our base case EaR measure due to a parallel 0.5% increase or decrease in interest rates was a £8.2 million (2019: £4.3 million) decrease and £5.7 million (2019: £5.2 million) increase respectively.

In March 2020 the Bank of England reduced Base rate twice from 0.75% to 0.10% following the onset of Covid-19 causing market rates to fall. This resulted in an increase in EaR under a 0.5% increase due to embedded floors on some variable rate loans becoming more profitable in the lower rate environment. This additional profit is at risk should rates rise back up and is reflected in a higher EaR measure. In the event of market rates decreasing further, additional profits would be generated primarily due to the optionality within some variable rate loans. No floor is applied to the stressed yield curves.

The table below sets out the assessed impact on our base case economic value of equity ("EV") due to a shift in interest rates at 31 July 2020:

	2020	2019
	£ million	£ million
0.5% increase	**(3.1)**	-
0.5% decrease	**3.3**	-

The average impact in 2020 on our base case EV measure due to a parallel 0.5% increase or decrease in interest rates was a £2.2 million (2019: £0.4 million) increase and £2.2 million (2019: £0.4 million) decrease respectively.

NOTES TO THE CONSOLIDATED ACCOUNTS

For the year ended 31 July 2020

22. Financial risk management *continued*
(d) Market risk *continued*

The EV measure used for monitoring was changed from a 'parallel shift up 0.5% to a 'Short rates down, long rates up' yield curve stress in 2019 to reflect the bank's repricing profile and external interest rate environment. The impact on our base case EV due to a 'Short rates down, long rates up' shift in interest rates at 31 July 2020 was a reduction in the EV of £3.4 million (31 July 2019: reduction of £6.4 million).

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

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

	2020 **£ million**	2019 £ million
20% strengthening of sterling against the euro	**(1.9)**	(3.4)

The group has additional material currency assets and liabilities primarily as a result of treasury operations. These assets and liabilities are matched by currency, using exchange rate derivative contracts where necessary. Details of these contracts are disclosed in note 12. The group has policies and processes in place to manage foreign currency risk, and as such the impact of any reasonably expected exchange rate fluctuations would not be material.

Non-trading financial instruments
Net gains and losses on non-trading financial instruments are disclosed in note 12.

22. Financial risk management
(e) Liquidity risk

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

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

NOTES TO THE CONSOLIDATED ACCOUNTS

For the year ended 31 July 2020

22. Financial risk management *continued*
(e) Liquidity risk *continued*

The following table details the contractual maturities of the group's on balance sheet financial liabilities on an undiscounted cash flow basis:

	On demand £ million	Less than three months £ million	More than three months but not more than six months £ million	More than six months but not more than one year £ million	More than one year but not more than five years £ million	More than five years £ million	Total £ million
At 31 July 2020							
Financial liabilities							
Deposits by banks	**25.1**	**123.3**	**0.3**	**4.1**	**-**	**-**	**152.8**
Deposits by customers	**543.2**	**1,105.8**	**1,358.0**	**1,464.5**	**1,511.5**	**-**	**5,983.0**
Loans and overdrafts from banks	**3.9**	**0.1**	**0.1**	**0.2**	**490.9**	**-**	**495.2**
Debt securities in issue	**-**	**38.4**	**519.9**	**412.7**	**404.8**	**284.3**	**1,660.1**
Derivative financial instruments	**-**	**5.2**	**3.9**	**8.3**	**22.8**	**5.2**	**45.4**
Subordinated loan capital	**-**	**1.7**	**3.7**	**5.4**	**43.3**	**234.6**	**288.7**
Lease liabilities (note 27)	**0.1**	**4.2**	**2.2**	**3.9**	**17.6**	**0.2**	**28.2**
Other financial liabilities	**12.3**	**54.6**	**1.6**	**1.8**	**2.2**	**-**	**72.5**
Total	**584.6**	**1,333.3**	**1,889.7**	**1,900.9**	**2,493.1**	**524.3**	**8,725.9**
At 31 July 2019							
Financial liabilities							
Deposits by banks	12.5	15.7	27.8	2.0	-	-	58.0
Deposits by customers	69.7	1,235.7	1,137.7	1,700.5	1,573.9	-	5,717.5
Loans and overdrafts from banks	16.4	0.9	0.9	1.8	493.9	-	513.9
Debt securities in issue	-	29.5	37.1	127.5	1,195.8	292.1	1,682.0
Derivative financial instruments	0.1	7.5	5.8	8.6	34.8	9.0	65.8
Subordinated loan capital	-	1.7	3.7	5.4	43.3	245.4	299.5
Other financial liabilities	11.6	46.9	1.3	1.4	1.5	-	62.7
Total	110.3	1,337.9	1,214.3	1,847.2	3,343.2	546.5	8,399.4

NOTES TO THE CONSOLIDATED ACCOUNTS

For the year ended 31 July 2020

22. Financial risk management *continued*
(e) Liquidity risk *continued*

Derivative financial instruments in the table above includes net currency swaps. The following table shows the currency swaps on a gross basis:

	On demand	*In less than three months*	In more than three months *but not more* than six months	In more than six months but *not more* than one year	In more than one year but *not more* than five years	*In more* than five years	Total
	£ million	£ million	£ million	£ million	£ million	£ million	£ million
At 31 July 2020	**-**	**79.5**	**3.5**	**7.6**	**21.9**	**5.2**	**117.7**
At 31 July 2019	5.6	163.3	88.8	8.6	34.8	9.0	310.1

(f) Offsetting
The following table shows the impact on derivative financial assets and liabilities which have not been offset but for which the group has enforceable master netting arrangements in place with counterparties. The net amounts show the exposure to counterparty credit risk after offsetting benefits and collateral, and are not intended to represent the group's actual exposure to credit risk.

Master netting arrangements allow outstanding transactions with the same counterparty to be offset and settled net, either unconditionally or following a default or other predetermined event. Financial collateral on derivative financial instruments consists of cash settled, typically daily, to mitigate the mark to market exposures.

	Gross amounts recognised	Master netting arrangements	Financial Collateral	Net amounts after offsetting under IFRS 7
	£ million	£ million	£ million	£ million
At 31 July 2020				
Derivative financial assets	**39.9**	**(14.2)**	**(25.0)**	**0.7**
Derivative financial liabilities	**20.7**	**(14.2)**	**(4.0)**	**2.5**

	Gross amounts recognised	Master netting arrangements	Financial Collateral	Net amounts after offsetting under IFRS 7
	£ million	£ million	£ million	£ million
At 31 July 2019				
Derivative financial assets	30.1	(14.9)	(12.4)	2.8
Derivative financial liabilities	20.5	(14.9)	(5.4)	0.2

NOTES TO THE CONSOLIDATED ACCOUNTS

For the year ended 31 July 2020

23. Pensions

CBG operates defined contribution pension schemes for eligible employees as well as a defined benefit pension scheme which is closed to new members and further accrual. Assets of all schemes are held separately from those of CBG.

Defined contribution scheme
During the year the charge to the consolidated income statement for the group's defined contribution pension schemes was £8.5 million (2019: £7.0 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 2020, this scheme had 33 (31 July 2019: 37) deferred members and 52 (31 July 2019: 49) pensioners and dependants.

24. Related party transactions

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

Key management have banking and asset management relationships with the company which are entered into in the normal course of business. Amounts included in deposits by customers at 31 July 2020 attributable, in aggregate, to key management were £0.3 million (31 July 2019: £0.2 million).

At 31 July 2020, amounts due to group undertakings of £329.6 million (31 July 2019: £324.0 million) largely related to the group providing banking services to the parent undertaking in its normal capacity as a deposit taker.

25. Ultimate parent undertaking

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

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

NOTES TO THE CONSOLIDATED ACCOUNTS

For the year ended 31 July 2020

26. Consolidated cash flow statement reconciliation

	31 July 2020 £ million	31 July 2019 £ million
(a) Reconciliation of operating profit before tax to net cash inflow from operating activities		
Operating profit before tax from continuing operations	**99.5**	254.1
Profit before tax on discontinued operations	-	0.8
Tax paid	**(73.4)**	(52.2)
Depreciation and amortisation	**84.5**	65.8
Increase in interest receivable and prepaid expenses	**(2.6)**	(17.8)
Increase in interest payable and accrued expenses	**(0.5)**	-
Net cash inflow from trading activities	**107.5**	250.7
Decrease/(increase) in:		
Loans and advances to banks and central banks not repayable on demand	**(13.5)**	1.3
Loans and advances to customers	**(87.8)**	(416.6)
Assets let under operating leases	**(45.6)**	(62.7)
Certificates of deposits	**(45.2)**	10.0
Sovereign and central bank debt	**(22.7)**	-
Other assets less other liabilities	**114.5**	0.4
Increase/(decrease) in:		
Debt securities and subordinated loan capital issued	**6.9**	63.7
Deposits by banks	**93.4**	2.8
Deposits by customers	**285.7**	136.5
Loans and overdrafts from banks	**(12.7)**	8.0
Net cash inflow/(outflow) from operating activities	**380.5**	(5.9)
(b) Analysis of net cash outflow in respect of the purchase of subsidiaries and non-controlling interests		
Cash consideration paid	**(1.1)**	(2.7)
(c) Analysis of net cash inflow in respect of the sale of discontinued operations and subsidiary		
Cash consideration received	-	86.7
(d) Analysis of cash and cash equivalents [1]		
Cash and balances at central banks	**1,362.6**	1,094.9
Loans and advances to banks repayable on demand	**50.7**	44.0
	1,413.3	1,138.9

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

During the period ended 31 July 2020, the non-cash changes on debt financing amounted to £8.5 million (2019: £8.7 million) largely arising from interest accretion and fair value hedging movements.

NOTES TO THE CONSOLIDATED ACCOUNTS

For the year ended 31 July 2020

27. Implementation of IFRS 16

The group adopted IFRS 16 from 1 August 2019. The standard has been applied on a modified retrospective basis and comparative information has not been restated. More information on changes to the group's accounting policies can be found in note 1.

At transition date, the group applied the option to measure right of use assets at an amount equal to the lease liability, adjusted for prepaid or accrued payments. This resulted in the recognition on the balance sheet of right of use assets of £24.2 million and lease liabilities of £26.5 million, with no impact on shareholders' equity. The right of use assets and lease liabilities, which largely relate to properties previously accounted for as operating leases, are included within Property, plant and equipment and Other liabilities respectively.

The weighted average incremental borrowing rate applied to lease liabilities at transition date was 2%. At 31 July 2019, IAS 17 operating lease commitments as disclosed in note 20 of the Annual Report 2019 amounted to £29.2 million. The difference between this and total lease liabilities recognised at 1 August 2019 on transition largely relates to the impact of discounting.

During the year, the group's parent company, CBG, determined that the Crown Place head office lease in substance belonged to CBG, resulting in a reduction in CBL's lease liability of approximately £18.0 million from the estimated total liability.

The group did not reassess whether a contract is, or contains, a lease on transition as permitted by IFRS 16. In addition, the following practical expedients were applied on transition:

- Reliance on previous assessment of whether a lease is onerous;
- Recognition exemption for leases with a remaining term of less than 12 months at transition date;
- Exclusion of initial direct costs from the measurement of right of use assets;
- Use of hindsight in determining lease term if the contract contains options to extend or terminate; and
- Application of a single discount rate to a portfolio of leases with reasonably similar characteristics.

COMPANY BALANCE SHEET

At 31 July 2020

	Note	31 July 2020 £ million	31 July 2019 £ million
Assets			
Cash and balances at central banks		**1,375.8**	1,106.4
Loans and advances to banks	29	**30.8**	27.0
Loans and advances to customers	30	**5,639.7**	5,621.3
Amounts due from group undertakings		**2,161.5**	2,235.2
Debt securities	31	**358.1**	289.0
Derivative financial instruments	32	**39.9**	30.1
Investments in subsidiaries	33	**121.1**	117.9
Intangible assets	34	**111.6**	93.8
Property, plant and equipment	35	**32.9**	16.1
Deferred tax assets	28	**42.3**	50.5
Current tax assets		**36.5**	-
Prepayments, accrued income and other assets	36	**140.6**	123.4
Total assets		**10,090.8**	9,710.7
Liabilities			
Deposits by banks	37	**152.4**	58.0
Deposits by customers	37	**5,862.7**	5,638.4
Loans and overdrafts from banks	37	**492.9**	503.9
Derivative financial instruments	32	**18.2**	20.3
Amounts due to group undertakings	37	**1,960.9**	1,946.9
Subordinated loan capital	38	**223.0**	221.6
Current tax liabilities		**-**	14.6
Accruals, deferred income and other liabilities	36	**152.8**	117.6
Total liabilities		**8,862.9**	8,521.3
Equity			
Called up share capital		**122.5**	122.5
Retained earnings		**1,113.6**	1,073.4
Other reserves		**(8.2)**	(6.5)
Total equity		**1,227.9**	1,189.4
Total liabilities and equity		**10,090.8**	9,710.7

The Company reported a profit for the financial year ended 31 July 2020 of £94.8 million (2019: £187.5 million).

The financial statements of Close Brothers Limited, registration number 195626, were approved and authorised for issue by the board of Directors on 21 September 2020 and signed on its behalf by:

A. Sainsbury
Director

M. B. Morgan
Director

COMPANY STATEMENT OF CHANGES IN EQUITY

For the year ended 31 July 2020

	Called-up share capital*	Retained Earnings	Other reserves: Exchange movements reserve	Other reserves: FVOCI reserve	Other reserves: Cash flow hedging reserve	Total attributable to owners of the Company
	£ million	£ million	£ million	£ million	£ million	£ million
At 1 August 2018	122.5	968.4	(2.5)	0.8	0.1	1,089.3
Profit for the year	-	187.5	-	-	-	187.5
Other comprehensive expense	-	-	(0.3)	(0.1)	(4.5)	(4.9)
Total comprehensive income/(expense) for the year	-	187.5	(0.3)	(0.1)	(4.5)	182.6
Dividends paid	-	(82.2)	-	-	-	(82.2)
Other movements	-	(0.1)	-	-	-	(0.1)
Income tax	-	(0.2)	-	-	-	(0.2)
At 31 July 2019	122.5	1,073.4	(2.8)	0.7	(4.4)	1,189.4
Profit for the year	-	94.8	-	-	-	94.8
Other comprehensive income/(expense)	-	-	0.2	(0.5)	(1.4)	(1.7)
Total comprehensive income/(expense) for the year	-	94.8	0.2	(0.5)	(1.4)	93.1
Dividends paid	-	(54.6)	-	-	-	(54.6)
At 31 July 2020	**122.5**	**1,113.6**	**(2.6)**	**0.2**	**(5.8)**	**1,227.9**

*Allotted, called-up and fully-paid capital comprised 122,480,000 ordinary shares of £1 each (2019: 122,480,000 ordinary shares of £1 each). The company has one class of ordinary shares which carry no right to fixed income. In the event of liquidation, assets would be distributed among the holders of ordinary shares in proportion to the amounts paid up on the ordinary shares.

THE NOTES TO THE COMPANY ACCOUNTS

For the year ended 31 July 2020

28. Deferred taxation

Movements in deferred tax assets and liabilities were as follows:

	Capital allowances £ million	Share-based payments and deferred compensation £ million	Other £ million	Cash flow hedging £ million	Impairment losses £ million	Total £ million
At 1 August 2018	38.5	3.3	(0.3)	-	13.1	54.6
Charge to the income statement	(3.2)	(0.3)	-	-	(1.5)	(5.0)
(Charge)/credit to other comprehensive income	(0.3)	-	0.1	1.5	-	1.3
Credit to equity	-	*(0.4)*	-	-	-	*(0.4)*
At 31 July 2019	35.0	2.6	(0.2)	1.5	11.6	50.5
Charge to the income statement	(4.4)	(0.5)	-	-	(4.3)	(9.2)
Credit to other comprehensive income	0.3	-	0.1	0.6	-	1.0
At 31 July 2020	**30.9**	**2.1**	**(0.1)**	**2.1**	**7.3**	**42.3**

29. Loans and advances to banks

	On demand £ million	Within three months £ million	Between three months and one year £ million	Between one and two years £ million	Between two and five years £ million	Total £ million
At 31 July 2020	**30.8**	**-**	**-**	**-**	**-**	**30.8**
At 31 July 2019	27.0	-	-	-	-	27.0

30. 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 2020	**68.5**	**1,453.5**	**1,859.5**	**1,112.1**	**1,272.5**	**49.1**	**5,815.2**	**(175.5)**	**5,639.7**
At 31 July 2019	75.1	1,409.4	1,877.1	1,040.8	1,262.1	39.2	5,703.7	(82.4)	5,621.3

THE NOTES TO THE COMPANY ACCOUNTS

For the year ended 31 July 2020

30. Loans and advances to customers *continued*

a) 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	Less than 30 days past due	Greater than or equal to 30 days past due	Total	Stage 3	Total
	£ million	£ million	£ million	£ million	£ million	£ million
At 31 July 2020						
Gross loans and advances to customers						
Commercial	770.5	728.2	18.5	746.7	95.9	1,613.1
Retail	2,523.1	202.0	48.0	250.0	41.9	2,815.0
Property	1,093.6	112.8	27.7	140.5	153.0	1,387.1
Total	4,387.2	1,043.0	94.2	1,137.2	290.8	5,815.2
Impairment provisions						
Commercial	5.7	37.6	1.2	38.8	24.8	69.3
Retail	27.8	10.7	7.2	17.9	22.9	68.6
Property	8.4	5.8	0.3	6.1	23.1	37.6
Total	41.9	54.1	8.7	62.8	70.8	175.5
Provision coverage ratio						
Commercial	0.7%	5.2%	6.5%	5.2%	25.9%	4.3%
Retail	1.1%	5.3%	15.0%	7.2%	54.7%	2.4%
Property	0.8%	5.1%	1.1%	4.3%	15.1%	2.7%
Total	1.0%	5.2%	9.2%	5.5%	24.3%	3.0%

THE NOTES TO THE COMPANY ACCOUNTS

For the year ended 31 July 2020

30. Loans and advances to customers *continued*

		Stage 2				
	Stage 1	Less than 30 days past due	Greater than or equal to 30 days past due	Total	Stage 3	Total
	£ million	£ million	£ million	£ million	£ million	£ million
At 31 July 2019						
Gross loans and advances to customers						
Commercial	1,272.1	142.9	14.9	157.8	55.6	1,485.5
Retail	2,490.0	236.0	4.7	240.7	25.3	2,756.0
Property	1,316.6	32.4	78.9	111.3	34.3	1,462.2
Total	5,078.7	411.3	98.5	509.8	115.2	5,703.7
Impairment provisions						
Commercial	8.6	7.6	1.1	8.7	15.6	32.9
Retail	10.1	11.0	0.5	11.5	13.9	35.5
Property	1.6	1.7	1.5	3.2	9.2	14.0
Total	20.3	20.3	3.1	23.4	38.7	82.4
Provision coverage ratio						
Commercial	0.7%	5.3%	7.4%	5.5%	28.1%	2.2%
Retail	0.4%	4.7%	10.6%	4.8%	54.9%	1.3%
Property	0.1%	5.2%	1.9%	2.9%	26.8%	1.0%
Total	0.4%	4.9%	3.1%	4.6%	33.6%	1.4%

Stage 1 loans and advances to customers have fallen during the year to £4,387.2 million (31 July 2019: £5,078.7 million), primarily as a result of migrations to Stages 2 and 3 during the second half of the year due to both macroeconomic and case-specific effects associated with Covid-19. Those same factors drove an increase in the Stage 1 impairment provisions to £41.9 million (31 July 2019: £20.3 million), which in turn increased the provision coverage ratio to 1.0% (31 July 2019: 0.4%).

Stage 2 loans and advances to customers increased by £627.4 million to £1,137.2 million (31 July 2019: £509.8 million) across all segments following an increased incidence of a significant increase in credit risk, as a result of the macroeconomic environment and its effect on our customers, reflective of our forbearance and associated staging detailed above. Those same factors drove an increase in the Stage 2 impairment provisions to £62.8 million (31 July 2019: £23.4 million), which in turn increase the provision coverage ratio to 5.5% (31 July 2019: 4.6%).

Stage 3 loans and advances to customers similarly increased by £175.6 million to £290.8 million (31 July 2019: £115.2 million) with migrations occurring across all of our portfolios primarily in the wake of the effects of Covid-19, and Stage 3 impairment provisions increased to £70.8 million (31 July 2019: £38.7 million). Stage 3 Property exposures carry lower provision coverage than those in Retail and Commercial, reflecting the lower likelihood of loss. Property exposures comprise a greater proportion of total Stage 3 exposures than as at July 19, and this has therefore resulted in a slight decrease in the provision coverage ratio for this population to 24.3% (31 July 2019: 33.6%).

All of the above resulted in an increase in the total provision coverage ratio to 3.0% (31 July 2019; 1.4%).

THE NOTES TO THE COMPANY ACCOUNTS

For the year ended 31 July 2020

30. Loans and advances to customers *continued*

b) 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. All other repayments are presented in a separate line.

ECL model methodologies may be updated or enhanced from time to time and the impact 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 2019	**5,078.7**	**509.8**	**115.2**	**5,703.7**
New financial assets originated and further lending	**4,699.6**	**-**	**-**	**4,699.6**
Transfers to Stage 1	**79.9**	**(140.3)**	**(0.2)**	**(60.6)**
Transfers to Stage 2	**(1,679.5)**	**1,322.7**	**-**	**(356.8)**
Transfers to Stage 3	**(254.2)**	**(125.6)**	**312.9**	**(66.9)**
Net transfers between stages and repayments[1]	**(1,853.8)**	**1,056.8**	**312.7**	**(484.3)**
Repayments while stage remained unchanged and final repayments	**(3,644.2)**	**(336.1)**	**(43.2)**	**(4,023.5)**
Changes to model methodologies	**107.4**	**(91.9)**	**(15.4)**	**0.1**
Write offs	**(0.5)**	**(1.4)**	**(78.5)**	**(80.4)**
At 31 July 2020	**4,387.2**	**1,137.2**	**290.8**	**5,815.2**

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

THE NOTES TO THE COMPANY ACCOUNTS

For the year ended 31 July 2020

30. Loans and advances to customers *continued*

	Stage 1 £ million	Stage 2 £ million	Stage 3 £ million	Total £ million
Gross loans and advances to customers				
At 1 August 2018	4,855.8	411.4	164.5	5,431.7
New financial assets originated and further lending	4,763.0	-	-	4,763.0
Transfers to Stage 1	150.1	(150.2)	(43.4)	(43.5)
Transfers to Stage 2	(704.8)	577.0	(0.6)	(128.4)
Transfers to Stage 3	(149.6)	(77.7)	180.8	(46.5)
Net transfers between stages and repayments[1]	(704.3)	349.1	136.8	(218.4)
Repayments while stage remained unchanged and final repayments	(3,850.6)	(254.1)	(87.0)	(4,191.7)
Changes to model methodologies	28.7	16.7	(45.4)	-
Write offs	(13.9)	(13.3)	(53.7)	(80.9)
At 31 July 2019	5,078.7	509.8	115.2	5,703.7

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

	Stage 1 £ million	Stage 2 £ million	Stage 3 £ million	Total £ million
Impairment provisions on loans and advances to customers				
At 1 August 2019	**20.3**	**23.4**	**38.7**	**82.4**
New financial assets originated	**23.4**	**-**	**-**	**23.4**
Transfers to Stage 1	**0.5**	**(3.7)**	**-**	**(3.2)**
Transfers to Stage 2	**(11.7)**	**55.6**	**-**	**43.9**
Transfers to Stage 3	**(2.2)**	**(8.1)**	**71.3**	**61.0**
Net remeasurement of expected credit losses arising from transfer between stages and repayments[1]	**(13.4)**	**43.8**	**71.3**	**101.7**
Repayments and ECL movements while stage remained unchanged and final repayments	**(2.6)**	**(3.8)**	**(5.3)**	**(11.7)**
Changes to model methodologies	**14.2**	**-**	**(4.4)**	**9.8**
Charge to the income statement	**21.6**	**40.0**	**61.6**	**123.2**
Write offs	**-**	**(0.6)**	**(29.5)**	**(30.1)**
At 31 July 2020	**41.9**	**62.8**	**70.8**	**175.5**

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

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For the year ended 31 July 2020

30. Loans and advances to customers *continued*

	Stage 1 £ million	Stage 2 £ million	Stage 3 £ million	Total £ million
Impairment provisions on loans and advances to customers				
At 31 July 2018				30.9
IFRS 9 transition				49.1
At 1 August 2018	19.7	20.4	39.9	80.0
New financial assets originated	22.6	-	-	22.6
Transfers to Stage 1	0.7	(4.0)	(0.2)	(3.5)
Transfers to Stage 2	(4.9)	18.4	(0.1)	13.4
Transfers to Stage 3	(1.8)	(4.4)	38.9	32.7
Net remeasurement of expected credit losses arising from transfer between stages and repayments[1]	(6.0)	10.0	38.6	42.6
Repayments and ECL movements while stage remained unchanged and final repayments	(15.8)	(5.4)	(11.8)	(33.0)
Changes to model methodologies	-	-	-	-
Charge to the income statement	0.8	4.6	26.8	32.2
Write offs	(0.2)	(1.6)	(28.0)	(29.8)
At 31 July 2019	20.3	23.4	38.7	82.4

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

	2020 £ million	2019 £ million
Impairment losses relating to loans and advances to customers		
Charge to income statement arising from movement in impairment provision	**123.2**	32.2
Amounts written off directly to income statement, net of recoveries and other costs	**5.0**	3.8
	128.2	36.0
Impairment losses relating to other financial assets	**0.3**	1.1
Impairment losses on financial assets recognised in income statement	**128.5**	37.1

c) Finance lease and hire purchase agreement receivables

	2020 £ million	2019 £ million
Loans and advances to customers comprise		
Hire purchase agreement receivables	**2,678.6**	2,644.6
Finance lease receivables	**226.3**	234.6
Other loans and advances	**2,734.7**	2,742.1
At 31 July	**5,639.6**	5,621.3

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For the year ended 31 July 2020

30. Loans and advances to customers *continued*

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

	2020 £ million	2019 £ million
Gross investment in finance leases and hire purchase agreement receivables due:		
One year or within	**1,208.0**	1,202.5
One to two years	**1,370.1**	1,332.3
Two to three years	**551.8**	524.2
Three to four years	**254.2**	239.3
Four to five years	**82.3**	69.6
More than five years	**39.7**	37.5
	3,506.1	3,405.4
Unearned finance income	**(484.6)**	(467.6)
	3,021.5	2,937.8
Present value of minimum lease and hire purchase agreement payments:	**3,021.5**	2,937.8
Of which due:		
One year or within	**1,037.7**	1,032.9
One to two years	**1,184.4**	1,154.1
Two to three years	**475.8**	452.6
Three to four years	**218.9**	206.1
Four to five years	**70.6**	59.8
More than five years	**34.1**	32.3
	3,021.5	2,937.8

The aggregate cost of assets acquired for the purpose of letting under finance leases and hire purchase agreements was £5,320.3 million (2019: £5,299.4 million). The average effective interest rate on finance leases approximates to 10.4% (2019: 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.

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For the year ended 31 July 2020

31. Debt securities

	Fair value through other comprehensive income	Amortised cost	Total
	£ million	£ million	£ million
At 31 July 2020			
Certificates of deposit	-	285.9	285.9
Sovereign and central bank debt	72.2	-	72.2
	72.2	285.9	358.1
At 31 July 2019			
Certificates of deposit	-	240.7	240.7
Sovereign and central bank debt	48.3	-	48.3
	48.3	240.7	289.0

32. Derivative financial instruments

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

	31 July 2020			31 July 2019		
	Notional value	Assets	Liabilities	Notional value	Assets	Liabilities
	£ million	£ million	£ million	£ million	£ million	£ million
Exchange rate contracts	74.1	1.0	0.3	242.1	1.2	5.5
Interest rate contracts	2,792.8	38.9	17.9	2,683.5	28.9	14.8
	2,866.9	39.9	18.2	2,925.6	30.1	20.3

Notional amounts of interest rate contracts totalling £1,915.3 million (2019: £2,236.5 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 2020			31 July 2019		
	Notional value	Assets	Liabilities	Notional value	Assets	Liabilities
	£ million	£ million	£ million	£ million	£ million	£ million
Cash flow hedges						
Interest rate contracts	747.1	-	8.3	735.7	0.2	6.1
Fair value hedges						
Interest rate contracts	1,234.3	35.2	7.9	1,251.1	27.6	5.5

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.

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For the year ended 31 July 2020

32. Derivative financial instruments *continued*

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 (2019: seven) years. The company applies portfolio cash flow hedging for interest rate risk exposures on a portfolio of actual and forecast variable interest rate cash flows arising from variable rate borrowings.

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

To assess hedge effectiveness the change in fair value or cash flows of the hedging instruments are 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, differences in the discount rates and cash flow timing differences between the hedged item and the hedging instrument.

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

33. Investment in subsidiaries

	2020 £ million
Cost	
at 1 August 2019	134.6
Additions	6.7
at 31 July 2020	**141.3**
Less: amounts written off	
at 1 August 2019	16.7
Movement during the year	3.5
at 31 July 2020	**20.2**
Carrying value	
At 31 July 2020	**121.1**
At 31 July 2019	117.9

A list of the company's subsidiaries can be found at note 44. An impairment of £1.1 million was recognised during the year.

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34. Intangible assets

	Goodwill £ million	Software £ million	Intangible assets on acquisition £ million	Total £ million
Cost				
At 1 August 2019	4.3	171.7	4.5	180.5
Additions	-	41.2	-	41.2
Disposals	-	(14.7)	-	(14.7)
At 31 July 2020	**4.3**	**198.2**	**4.5**	**207.0**
Accumulated amortisation				
At 1 August 2019	-	83.2	3.5	86.7
Charge for the year	-	23.1	0.3	23.4
Disposals	-	(14.7)	-	(14.7)
At 31 July 2020	**-**	**91.6**	**3.8**	**95.4**
Net book value at 31 July 2020	**4.3**	**106.6**	**0.7**	**111.6**
Net book value at 31 July 2019	4.3	88.5	1.0	93.8

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

In the 2020 financial year, £0.3 million (2019: £0.3 million) of the amortisation charge is included in amortisation of intangible assets on acquisition and £23.1 million (2019: £18.4 million) of the amortisation charge is included in administrative expenses shown in the consolidated income statement.

At 31 July 2020, goodwill has been allocated to one single CGU. The company's policy for testing goodwill for impairment is referred to in Note 13 of the consolidated accounts.

At 31 July 2020, the results of the review indicate there is no goodwill impairment.

	31 July 2020		31 July 2019	
Cash Generating Unit	**Goodwill £ million**	**Pre-tax discount rate %**	Goodwill £ million	Pre-tax discount rate %
Bank	**4.3**	**12.1**	4.3	10.2

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35. Property, plant and equipment

	Short leasehold property £ million	Fixtures, fittings and equipment £ million	Assets held under operating lease £ million	Right of use assets[1] £ million	Total £ million
Cost					
At 31 July 2019	14.3	31.3	1.0	-	46.6
IFRS 16 transition (note 42)				19.4	19.4
At 1 August 2019	14.3	31.3	1.0	19.4	66.0
Additions	-	2.9	-	6.7	9.6
Disposals	(0.3)	(2.3)	-	(0.4)	(3.0)
At 31 July 2020	**14.0**	**31.9**	**1.0**	**25.7**	**72.6**
Accumulated depreciation					
At 1 August 2019	5.6	24.2	0.7	-	30.5
Charge for the year	1.6	3.8	0.1	6.2	11.7
Disposals	(0.3)	(2.1)	-	(0.1)	(2.5)
At 31 July 2020	**6.9**	**25.9**	**0.8**	**6.1**	**39.7**
Net book value at 31 July 2020	**7.1**	**6.0**	**0.2**	**19.6**	**32.9**
Net book value at 31 July 2019	8.7	7.1	0.3	-	16.1

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

	31 July 2020 £ million	31 July 2019 £ million
Future minimum lease rentals receivable under non-cancellable operating leases		
One year or within one year	**0.1**	0.1
One to two years	**-**	0.1
	0.1	0.2

THE NOTES TO THE COMPANY ACCOUNTS

For the year ended 31 July 2020

36. Other assets and liabilities

	31 July 2020 £ million	31 July 2019 £ million
Prepayments, accrued income and other assets		
Prepayments and accrued income	**131.8**	117.2
Trade and other receivables	**8.8**	6.2
	140.6	123.4
Accruals, deferred income and other liabilities		
Accruals and deferred income	**77.5**	77.4
Trade and other payables	**66.5**	34.4
Provisions	**8.8**	5.8
	152.8	117.6

Provisions movements in the year:

	Property £ million	Other £ million	Total £ million
Provisions movements during the year			
At 1 August 2019	2.3	3.5	5.8
Additions	0.3	4.9	5.2
Utilised	-	(1.6)	(1.6)
Released	(0.1)	(0.5)	(0.6)
At 31 July 2020	**2.5**	**6.3**	**8.8**

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

37. Financial liabilities

	On demand £ million	Within three months £ million	Between three months and one year £ million	Between one and two years £ million	Between two and five years £ million	After more than five years £ million	Total £ million
At 31 July 2020							
Deposits by banks	**25.1**	**123.2**	**4.1**	**-**	**-**	**-**	**152.4**
Deposits by customers	**488.3**	**1,103.9**	**2,799.2**	**1,151.8**	**319.5**	**-**	**5,862.7**
Bank loans and overdrafts	**2.9**	**-**	**-**	**262.0**	**228.0**	**-**	**492.9**
Amounts due to group undertakings	**117.7**	**35.3**	**1,026.0**	**212.4**	**298.4**	**271.1**	**1,960.9**
	634.0	**1,262.4**	**3,829.3**	**1,626.2**	**845.9**	**271.1**	**8,468.9**

THE NOTES TO THE COMPANY ACCOUNTS

For the year ended 31 July 2020

37. Financial liabilities *continued*

	On demand	Within three months	Between three months and one year	Between one and two years	Between two and five years	After more than five years	Total
	£ million	£ million	£ million	£ million	£ million	£ million	£ million
At 31 July 2019							
Deposits by banks	12.4	15.7	29.9	-	-	-	58.0
Deposits by customers	78.3	1,232.7	2,817.9	1,157.2	352.3	-	5,638.4
Bank loans and overdrafts	13.6	0.3	-	213.2	276.8	-	503.9
Amounts due to group undertakings[1]	68.7	65.7	253.2	937.8	350.4	271.1	1,946.9
	173.0	1,314.4	3,101.0	2,308.2	979.5	271.1	8,147.2

1 The maturity classification of prior year amounts owed to group undertakings were corrected in the current year. This change had no impact to the total balance disclosed.

As discussed in note 22(c) the group has accessed £262.0 million (31 July 2019: £490.0 million) cash under the Bank of England's Term Funding Scheme and £228.0 million (31 July 2019: £nil) under the Term Funding Scheme with Additional Incentives for SMEs. Cash from the schemes and repurchase agreements is included within bank loans and overdrafts. Residual maturities of the schemes and repurchase agreements are as follows:

	On demand	**Within three months**	**Between three months and one year**	**Between one and two years**	**Between two and five years**	**After more than five years**	**Total**
	£ million	**£ million**	**£ million**	**£ million**	**£ million**	**£ million**	**£ million**
31 July 2020	**-**	**-**	**-**	**262.0**	**228.0**	**-**	**490.0**
31 July 2019	-	0.3	-	213.2	276.8	-	490.3

38. Subordinated loan capital

	Prepayment date at company's option	Initial interest rate (%)	**31 July 2020 £ million**	31 July 2019 £ million
Final maturity date				
2026	2021	7.42	**15.5**	15.5
2026	2021	7.62	**31.0**	31.0
2027	2022	4.25	**176.5**	175.1
			223.0	221.6

THE NOTES TO THE COMPANY ACCOUNTS

For the year ended 31 July 2020

39. Contingent liabilities, guarantees and commitments

Contingent liabilities

Financial Services Compensation Scheme ("FSCS")

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

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

Guarantees

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

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

Operating lease commitments

IFRS 16 Leases was effective for the group from 1 August 2019. IFRS 16 replaced IAS 17 Leases and resulted in the group, where it was the lessee, recognising all leases on the balance sheet, subject to certain exemptions. See note 1 for the group's new accounting policy, note 35 for right of use assets recognised on the balance sheet under IFRS 16 and note 42 for the transition impact. At 31 July 2019, the group had outstanding off balance sheet commitments for future minimum lease rentals payable under non-cancellable operating leases, which fell due as follows:

	31 July 2020 £ million	31 July 2019 £ million
Guarantees:		
Guarantees and irrecoverable letters of credit	**1.9**	1.9
Capital commitments are as follows:		
- contracted for but not provided for	**9.0**	0.3
Annual commitments under non-cancellable operating leases were as follows:		
- within one year		7.0
- between two and five years		23.6
- after five years		4.3
		34.9
Other items:		
Undrawn facilities, credit lines, other commitments to lend:		
- within one year	**983.6**	907.5
	983.6	907.5

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40. Capital

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

The PRA supervises the company for prudential purposes and receives information on the capital adequacy of, and sets capital requirements for, the group as a whole.

The capital position for the group is disclosed in note 21 to the consolidated accounts. Further information on capital, risk exposures and the risk assessment process are disclosed in the Close Brothers Group plc's Pillar 3 disclosures which can be found on the group's website.

41. Financial instruments

As a financial services company, financial instruments are central to the company's activities. The risks associated with financial instruments represent a significant component of the risks faced by the company and are analysed in more detail below.

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

(a) Classification

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

	Derivatives designated as hedging instruments	Fair value through profit or loss	Fair value through other comprehensive income	Amortised cost	Total
	£ million	£ million	£ million	£ million	£ million
As at 31 July 2020					
Assets					
Cash and balances at central banks	-	-	-	1,375.8	1,375.8
Loans and advances to banks	-	-	-	30.8	30.8
Loans and advances to customers	-	-	-	5,639.7	5,639.7
Amounts due from group undertakings	-	-	-	2,161.5	2,161.5
Debt securities	-	-	72.2	285.9	358.1
Derivative financial instruments	35.3	4.6	-	-	39.9
Other financial assets	-	-	-	0.8	0.8
	35.3	4.6	72.2	9,494.5	9,606.6
Liabilities					
Deposits by banks	-	-	-	152.4	152.4
Deposits by customers	-	-	-	5,862.7	5,862.7
Loans and overdrafts from banks	-	-	-	492.9	492.9
Derivative financial instruments	16.2	2.0	-	-	18.2
Amounts due to group undertakings	-	-	-	1,960.9	1,960.9
Subordinated loan capital	-	-	-	223.0	223.0
Other financial liabilities	-	-	-	84.6	84.6
	16.2	2.0	-	8,776.5	8,794.7

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For the year ended 31 July 2020

41. Financial instruments *continued*
(a) Classification *continued*

	Derivatives designated as hedging instruments £ million	Fair value through profit or loss £ million	Fair value through other comprehensive income £ million	Amortised cost £ million	Total £ million
As at 31 July 2019					
Assets					
Cash and balances at central banks	-	-	-	1,106.4	1,106.4
Loans and advances to banks	-	-	-	27.0	27.0
Loans and advances to customers	-	-	-	5,621.3	5,621.3
Amounts due from group undertakings	-	-	-	2,235.2	2,235.2
Debt securities	-	-	48.3	240.7	289.0
Derivative financial instruments	27.8	2.3	-	-	30.1
Other financial assets	-	-	-	0.7	0.7
	27.8	2.3	48.3	9,231.3	9,309.7
Liabilities					
Deposits by banks	-	-	-	58.0	58.0
Deposits by customers	-	-	-	5,638.4	5,638.4
Loans and overdrafts from banks	-	-	-	503.9	503.9
Derivative financial instruments	11.6	8.7	-	-	20.3
Amounts due to group undertakings	-	-	-	1,946.9	1,946.9
Subordinated loan capital	-	-	-	221.6	221.6
Other financial liabilities	-	-	-	53.2	53.2
	11.6	8.7	-	8,422.0	8,442.3

THE NOTES TO THE COMPANY ACCOUNTS

For the year ended 31 July 2020

41. Financial instruments *continued*
(b) Valuation

The fair values of the company's financial assets and liabilities are not materially different from their carrying values, with the exception of subordinated loan capital.

	Fair value		Carrying Value	
	31 July 2020	31 July 2019	**31 July 2020**	31 July 2019
	£ million	£ million	**£ million**	£ million
Subordinated loan capital	**227.0**	234.1	**223.0**	221.6

Note 22(b) to the consolidated financial statements outlines the valuation hierarchy into which financial instruments measured at fair value are categorised. The tables below show the classification of financial instruments held at fair value in accordance with the valuation hierarchy. There were no significant transfers between Level 1, 2 and 3 in 2020 and 2019.

	Level 1	Level 2	Level 3	Total
	£ million	£ million	£ million	£ million
As at 31 July 2020				
Assets				
Sovereign and central bank debt	**72.2**	**-**	**-**	**72.2**
Derivative financial instruments	**-**	**39.9**	**-**	**39.9**
	72.2	**39.9**	**-**	**112.1**
Liabilities				
Derivative financial instruments	**-**	**18.2**	**-**	**18.2**
Contingent Consideration	**-**	**-**	**3.5**	**3.5**
	-	**18.2**	**3.5**	**21.7**
As at 31 July 2019				
Assets				
Sovereign and central bank debt	48.3	-	-	48.3
Derivative financial instruments	-	30.1	-	30.1
	48.3	30.1	-	78.4
Liabilities				
Derivative financial instruments	-	20.3	-	20.3
Contingent Consideration	-	-	2.5	(2.5)
	-	20.3	2.5	22.8

THE NOTES TO THE COMPANY ACCOUNTS

For the year ended 31 July 2020

41. Financial instruments *continued*
(b) Valuation *continued*

Movements in financial instruments categorised as Level 3 during the year were:

	Contingent Consideration
	£ million
At 1 August 2018	(1.2)
Total loss recognised in the consolidated income statement	(0.8)
Purchases and issues	(0.5)
At 31 July 2019	(2.5)
Total loss recognised in the consolidated income statement	**(0.4)**
Purchases and issues	**(0.6)**
At 31 July 2020	**(3.5)**

The gains recognised in the consolidated income statement relating to instruments held at the year end amounted to £0.4 million (2019: £nil).

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41. Financial instruments *continued*
(c) Credit risk

Note 22(c) to the consolidated financial statements outlines the forbearance measures.

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

	31 July 2020 £ million	31 July 2019 £ million
On balance sheet		
Cash and balances at central banks	**1,375.8**	1,106.4
Loans and advances to banks	**30.8**	27.0
Loans and advances to customers	**5,639.7**	5,621.3
Amounts due from group undertakings	**2,161.5**	2,235.2
Debt securities	**358.1**	289.0
Derivative financial instruments	**39.9**	30.1
Other financial assets	**0.8**	0.7
	9,606.6	9,309.7
Off balance sheet		
Undrawn commitments	**55.8**	56.8
Guarantees	**1.9**	1.9
	57.7	58.7
Total maximum exposure to credit risk	**9,664.3**	9,368.4

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For the year ended 31 July 2020

41. Financial instruments *continued*
(c) Credit risk *continued*

An analysis of forborne loans as at 31 July 2020 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 2020	**5,815.2**				
Non-Covid-19 forbearance		**148.7**	**2.6%**	**29.0**	**2,956**
Covid-19 forbearance		**1,231.4**	**21.2%**	**64.4**	**64,711**
	5,815.2	**1,380.1**	**23.7%**	**93.4**	**67,667**
31 July 2019	5,703.7				
Non-Covid-19 forbearance		124.1	2.2%	16.5	3,529
Covid-19 forbearance		-	-	-	-
	5,703.7	124.1	2.2%	16.5	3,529

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 2020			31 July 2019
	Covid-19 £ million	**Non Covid-19 £ million**	**Total forborne loans £ million**	Total forborne loans £ million
Property	**288.7**	**107.9**	**396.6**	82.6
Commercial	**704.3**	**36.7**	**741.0**	35.6
Retail	**238.4**	**4.1**	**242.5**	5.9
Total	**1,231.4**	**148.7**	**1,380.1**	124.1

The following is a breakdown of the number of customers supported by segment:

	Number of customers supported			31 July 2019
	Covid-19	**Non-Covid-19**	**Total**	Total number of customers supported
Property	**136**	**22**	**158**	20
Commercial	**7,024**	**234**	**7,258**	3,308
Retail	**57,551**	**2,700**	**60,251**	201
Total	**64,711**	**2,956**	**67,667**	3,529

THE NOTES TO THE COMPANY ACCOUNTS

For the year ended 31 July 2020

41. Financial instruments *continued*
(c) Credit risk *continued*

The following is a breakdown of forborne loans by concession type split by those driven by Covid-19 compared to concessions that have arisen in the normal course of business:

	31 July 2020			31 July 2019
	Covid-19 related	Non Covid-19 related	Forborne loans	Forborne loans
	£ million	£ million	£ million	£ million
Extension outside terms	377.7	109.4	487.1	84.3
Refinancing	0.5	15.2	15.7	26.1
Moratorium	853.2	22.8	876.0	11.0
Other modifications	-	1.3	1.3	2.7
Total	1,231.4	148.7	1,380.1	124.1

	Stage 1	Stage 2	Stage 3	Total
	£ million	£ million	£ million	£ million
31 July 2020				
Loans and advances to customers				
Low	4,266.0	837.4	30.8	5,134.2
Medium	111.4	214.1	22.1	347.6
High	2.5	85.6	232.7	320.8
Ungraded	7.3	-	5.3	12.6
	4,387.2	1,137.1	290.9	5,815.2
Undrawn facilities				
Low	959.4	11.0	7.6	978.0
Medium	-	4.5	-	4.5
High	-	-	1.1	1.1
	959.4	15.5	8.7	983.6
Trade receivables[1]				
Low	0.8	-	-	0.8
	0.8	-	-	0.8

1 Lifetime expected credit losses are recognised for all trade receivables under the IFRS 9 simplified approach.

THE NOTES TO THE COMPANY ACCOUNTS

For the year ended 31 July 2020

41. Financial instruments *continued*
(c) Credit risk *continued*

	Stage 1 £ million	Stage 2 £ million	Stage 3 £ million	Total £ million
31 July 2019				
Loans and advances to customers				
Low	5,063.9	392.1	26.2	5,482.2
Medium	9.1	116.0	26.9	152.0
High	-	0.3	63.2	63.5
Ungraded	0.5	-	5.5	6.0
	5,073.5	508.4	121.8	5,703.7
Undrawn facilities				
Low	894.0	7.6	1.4	903.1
Medium	-	4.4	-	4.4
	894.0	12.0	1.4	907.5
Trade receivables[1]				
Low	4.8	-	-	4.8
Medium	-	0.7	-	0.7
High	-	-	1.2	1.2
	4.8	0.7	1.2	6.7

1 Lifetime expected credit losses are recognised for all trade receivables under the IFRS 9 simplified approach.

THE NOTES TO THE COMPANY ACCOUNTS

For the year ended 31 July 2020

41. Financial instruments *continued*
(c) Credit risk *continued*

Analysis of gross loans and advances to customers by LTV ratio is provided below.

	Retail £ million	Commercial £ million	Property £ million	Total £ million
LTV[1]				
60% or lower	**153.7**	**235.3**	**809.7**	**1,198.7**
60% to 70%	**155.7**	**109.0**	**494.1**	**758.8**
70% to 80%	**322.3**	**184.7**	**13.2**	**520.2**
80% to 90%	**1,138.2**	**323.2**	**0.7**	**1,462.1**
90% to 100%	**377.4**	**473.1**	**20.7**	**871.2**
Greater than 100%	**223.1**	**202.2**	**48.6**	**473.9**
Structurally protected[2]	**424.9**	**-**	**-**	**424.9**
Unsecured	**20.0**	**85.4**	**-**	**105.4**
At 31 July 2020	**2,815.3**	**1,612.9**	**1,387.0**	**5,815.2**

1 Government lending scheme facilities are allocated to a low LTV category reflecting the nature of the Government guarantee and resultant level of lending risk.
2 Exposures are considered structurally protected when, in management's judgement, they have characteristics which mitigate the credit risk of the exposure to a significant extent, in spite of not representing tangible security.

	Retail £ million	Commercial £ million	Property £ million	Total £ million
LTV[1]				
60% or lower	145.3	98.4	970.2	1,213.9
60% to 70%	154.2	126.6	436.2	717.0
70% to 80%	330.9	197.2	25.1	553.2
80% to 90%	1,096.2	325.8	2.3	1,424.3
90% to 100%	358.6	469.1	7.6	835.3
Greater than 100%	233.7	189.9	20.9	444.5
Structurally protected	378.7	-	-	378.7
Unsecured	58.1	78.7	-	136.8
At 31 July 2019	2,755.7	1,485.7	1,462.3	5,703.7

1 Restated to aid comparability. The analysis in the 2019 Annual Report included gross loans and advances to customers where exposure at origination exceeded £1.0 million only.

THE NOTES TO THE COMPANY ACCOUNTS

For the year ended 31 July 2020

41. Financial instruments *continued*
(c) Credit risk *continued*

Gross loans and advances to customers which are credit-impaired split by LTV ratio:

	Retail £ million	Commercial £ million	Property £ million	Total £ million
LTV				
60% or lower	**1.0**	**4.3**	**58.8**	**64.1**
60% to 70%	**1.6**	**10.7**	**15.5**	**27.8**
70% to 80%	**5.1**	**14.1**	**8.5**	**27.7**
80% to 90%	**14.0**	**22.4**	**0.7**	**37.1**
90% to 100%	**8.3**	**22.3**	**20.7**	**51.3**
Greater than 100%	**5.6**	**19.9**	**48.7**	**74.2**
Structurally protected	**6.1**	**-**	**-**	**6.1**
Unsecured	**0.3**	**2.2**	**-**	**2.5**
At 31 July 2020	**42.0**	**95.9**	**152.9**	**290.8**

	Retail £ million	Commercial £ million	Property £ million	Total £ million
LTV[1]				
60% or lower	0.4	1.4	2.0	3.8
60% to 70%	0.7	3.1	11.4	15.2
70% to 80%	2.1	7.7	-	9.8
80% to 90%	9.2	17.1	-	26.3
90% to 100%	3.9	16.0	-	19.9
Greater than 100%	4.8	9.6	20.9	35.3
Structurally protected	3.7	-	-	3.7
Unsecured	0.4	0.8	-	1.2
At 31 July 2020	25.2	55.7	34.3	115.2

1 Restated to aid comparability. The analysis in the 2019 Annual Report included gross loans and advances to customers where exposure at origination exceeded £1.0 million only.

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 considered to be investment grade and in Stage 1.

THE NOTES TO THE COMPANY ACCOUNTS

For the year ended 31 July 2020

41. Financial instruments *continued*
(d) Market risk

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

(e) Liquidity risk

The company's liquidity risk management policy is explained in note 22(e) to the consolidated accounts.

The following table analyses the contractual maturities of the company's on balance sheet financial liabilities on an undiscounted cash flow basis.

	On demand £ million	Less than three months £ million	More than three months but not more than six months £ million	More than six months but not more than one year £ million	More than one year but not more than five years £ million	More than five years £ million	Total £ million
At 31 July 2020							
Financial liabilities							
Deposits by banks	**25.1**	**123.2**	**-**	**4.0**	**-**	**-**	**152.3**
Deposits by customers	**488.3**	**1,105.7**	**1,358.1**	**1,464.5**	**1,511.5**	**-**	**5,928.1**
Loans and overdrafts from banks	**2.9**	**0.1**	**0.1**	**0.2**	**490.9**	**-**	**494.2**
Derivative financial instruments	**-**	**4.8**	**3.5**	**7.7**	**21.9**	**5.2**	**43.1**
Subordinated loan capital	**-**	**1.7**	**3.7**	**5.4**	**43.3**	**234.6**	**288.7**
Lease liabilities (note 42)	**0.1**	**3.3**	**1.7**	**3.1**	**15.5**	**0.2**	**23.9**
Other financial liabilities	**10.3**	**46.7**	**0.3**	**1.3**	**1.1**	**-**	**59.7**
	526.7	**1,285.5**	**1,367.4**	**1,486.2**	**2,084.2**	**240.0**	**6,990.0**
At 31 July 2019							
Financial liabilities							
Deposits by banks	12.4	15.7	27.8	2.0	-	-	57.9
Deposits by customers	69.7	1,235.7	1,137.8	1,700.5	1,573.9	-	5,717.6
Loans and overdrafts from banks	13.6	0.9	0.9	1.8	494.0	-	511.2
Derivative financial instruments	0.1	7.5	5.8	8.7	34.8	9.0	65.9
Subordinated loan capital	-	1.7	3.7	5.4	43.3	245.4	299.5
Other financial liabilities	9.6	41.1	0.5	1.4	0.6	-	53.2
	105.4	1,302.6	1,176.5	1,719.8	2,146.6	254.4	6,705.3

THE NOTES TO THE COMPANY ACCOUNTS

For the year ended 31 July 2020

41. Financial instruments *continued*

(f) Offsetting

The following table shows the impact on derivative financial assets and liabilities which have not been offset but for which the group has enforceable master netting arrangements in place with counterparties. The net amounts show the exposure to counterparty credit risk after offsetting benefits and collateral, and are not intended to represent the group's actual exposure to credit risk.

Master netting arrangements allow outstanding transactions with the same counterparty to be offset and settled net, either unconditionally or following a default or other predetermined event. Financial collateral on derivative financial instruments consists of cash settled, typically daily, to mitigate the mark to market exposures.

	Gross amounts recognised	**Master netting arrangements**	**Financial Collateral**	**Net amounts after offsetting under IFRS 7**
	£ million	**£ million**	**£ million**	**£ million**
At 31 July 2020				
Derivative financial assets	**39.9**	**(14.2)**	**(25.0)**	**0.7**
Derivative financial liabilities	**18.2**	**(14.2)**	**(4.0)**	**-**

	Gross amounts recognised	Master netting arrangements	Financial Collateral	Net amounts after offsetting under IFRS 7
	£ million	£ million	£ million	£ million
At 31 July 2019				
Derivative financial assets	30.1	(14.9)	(12.4)	2.8
Derivative financial liabilities	20.3	(14.9)	(5.4)	-

THE NOTES TO THE COMPANY ACCOUNTS

For the year ended 31 July 2020

42. Implementation of IFRS 16

The group adopted IFRS 16 from 1 August 2019. The standard has been applied on a modified retrospective basis and comparative information has not been restated. More information on changes to the group's accounting policies can be found in note 1.

At transition date, the group applied the option to measure right of use assets at an amount equal to the lease liability, adjusted for prepaid or accrued payments. This resulted in the recognition on the balance sheet of right of use assets of £19.4 million and lease liabilities of £21.9 million, with no impact on shareholders' equity. The right of use assets and lease liabilities, which largely relate to properties previously accounted for as operating leases, are included within Property, plant and equipment and Other liabilities respectively.

The weighted average incremental borrowing rate applied to lease liabilities at transition date was 2%. At 31 July 2019, IAS 17 operating lease commitments as disclosed on page 102 of the Annual Report 2019 amounted to £24.3 million. The difference between this and total lease liabilities recognised at 1 August 2019 on transition largely relate to the impact of discounting.

During the year, the group's parent company, CBG, determined that the Crown Place head office lease in substance belonged to CBG, resulting in a reduction in CBL's lease liability of approximately £18.0 million from the estimated total liability.

The group did not reassess whether a contract is, or contains, a lease on transition as permitted by IFRS 16. In addition, the following practical expedients were applied on transition:

- Reliance on previous assessment of whether a lease is onerous;
- Recognition exemption for leases with a remaining term of less than 12 months at transition date;
- Exclusion of initial direct costs from the measurement of right of use assets;
- Use of hindsight in determining lease term if the contract contains options to extend or terminate; and
- Application of a single discount rate to a portfolio of leases with reasonably similar characteristics.

THE NOTES TO THE COMPANY ACCOUNTS

For the year ended 31 July 2020

43. Post balance sheet events

There were no significant events after the reporting period affecting the group or company.

44. Investment in subsidiaries

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

Air and General Finance Limited[2]
Armed Services Finance Limited[4]
Arrow Audit Services Limited[1]
Corporate Asset Solutions Limited[1]
Capital Lease Solutions Limited[1]
CBM Holdings Limited[1]
Close Asset Finance Limited[2]
Close Brewery Rentals Limited[5]
Close Brothers Asset Finance GmbH (Germany)[10]
Close Brothers Factoring GmbH (Germany)[10]
Close Brothers Finance plc[1]
Close Brothers Military Services Limited[4]
Close Brothers Premium DAC[12]
Close Brothers Technology Services Limited (85% shareholding)[1,13]
Close Brothers Vehicle Hire Limited[9]
Close Business Finance Limited[2]
Close Credit Management (Holdings) Limited[1]
Close Finance (CI) Limited (Jersey)[11]
Close International Bank Holdings Limited (Guernsey)[3]
Close Invoice Finance Limited[1]
Close Leasing Limited[8]
Close Motor Finance Limited[4]
Commercial Acceptances Limited[6]
Commercial Finance Credit Limited[2]
Finance For Industry Limited[1]
Finance For Industry Services Limited[1]
Kingston Asset Finance Limited[2]
Kingston Asset Leasing Limited[2]
Metropolitan Factors Limited[1]
Micgate Holdings (UK) Limited[1]
Novitas Loans Limited[2]
Novitas (Salisbury) Limited[2]
Surrey Asset Finance Limited[2]

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

Brook Funding (No.1) Limited[9]
Close PF Funding I Limited[7]
Orbita Holdings Limited[9, 13]
Orbita Funding 2016-1 plc[9]
Orbita Funding 2017-1 plc[9]
Orbita Funding 2020-1 plc[9]

Registered office:

1. 10 Crown Place, London EC2A 4FT, United Kingdom.
2. Wimbledon Bridge House, Hartfield Road, Wimbledon, London SW19 3RU, United Kingdom.
3. 1st and 2nd Floors, Elizabeth House, Les Ruettes Brayes, St Peter Port, GY1 1EW, Guernsey.
4. Roman House, Roman Road, Doncaster, South Yorkshire DN4 5EZ, United Kingdom.
5. Unit 1, Kingfisher Park, Headlands Business Park, Ringwood, Hampshire BH24 3NX, United Kingdom.
6. 100 George Street, London W1U 8NU, United Kingdom.
7. 35 Great St. Helen's, London EC3A 6AP, United Kingdom.
8. Lows Lane, Stanton-By-Dale, Ilkeston, Derbyshire DE7 4QU, United Kingdom.
9. Olympic Court Third Avenue, Trafford Park Village, Manchester M17 1AP, United Kingdom.
10. Grosse Bleiche 35 -39, 55116 Mainz, Germany.
11. Conway House, Conway Street, St Helier, JE4 5SR, Jersey.
12. Swift Square, Building 1, Santry Demesne, Northwood, Dublin 9, D09 A0E4, Ireland.

Notes

13. Orbita Holdings has taken the small companies exemption from the requirements of the 2006 Act relating to the audit of individual accounts by virtue of section 479A

CAUTIONARY STATEMENT

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

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