Close Brothers

Close Brothers Limited Annual Report 2023

COMPANY NUMBER: 195626

PROFILE

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

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

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

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

HIGHLIGHTS

	31 July 2023 £ million	31 July 2022 £ million
Statutory profit on ordinary activities before taxation	**120.7**	229.4
Loans and advances to customers (including operating lease assets)	**9,526.2**	9,098.9
Deposits by customers	**7,724.5**	6,770.4
Shareholders' funds	**1,336.4**	1,326.0
Total assets	**12,488.1**	11,508.3

COMPANY INFORMATION

Directors

Mike Biggs*	Chairman
Mike Morgan*	Director
Adrian Sainsbury*	Director
Oliver Corbett*	Director
Peter Duffy*	Director
Patricia Halliday*	Director
Lesley Jones*	Director (Resigned 17 November 2022)
Bridget Macaskill*	Director (Resigned 17 November 2022)
Tesula Mohindra*	Director
Mark Pain*	Director
Sally Williams*	Director
Tracey Graham*	Director
Kari Hale*	Director (Appointed 28 June 2023)

* Director of Close Brothers Group plc

Company Secretary
H.M. Thorpe

Independent Auditors
PricewaterhouseCoopers
LLP

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Registered Number
195626

STRATEGIC REPORT

Business Review

Continued Demand and Loan Book Growth, as we Maintained our Pricing Discipline and Margin in an Uncertain Market Environment

This year has seen a heightened level of uncertainty in the market backdrop from a combination of factors including the ongoing conflict in Ukraine, UK inflation reaching its highest level in more than 40 years and the Bank of England base rate rising to 5% in June 2023, which have all created challenges for our individual and SME customers. The deterioration in the external environment has also adversely impacted the economic variables our businesses are sensitive to, which has been reflected in higher forward-looking impairment provisions. Notwithstanding the economic uncertainty, we continued to support our customers and lend throughout the cycle on responsible terms, consistently applying our prudent underwriting and pricing discipline. We believe that we have the right model to thrive in this environment and are confident in the opportunity it creates for us to lean in and support consumers and SME businesses.

Adjusted operating profit reduced 47% to £120.7 million (2022: £229.5 million), primarily reflecting higher impairment charges related to Novitas. On a pre-provision basis, adjusted operating profit reduced 2% to £324.7 million (2022: £332.8 million) as growth in income, driven by good loan book growth and a strong net interest margin, was offset by an increase in costs. Statutory operating profit decreased to £120.7 million (2022: £229.4 million).

Excluding Novitas, CBL adjusted operating profit decreased 15% to £227.3 million (2022: £268.8 million), primarily driven by higher impairment charges to reflect the uncertain macroeconomic outlook and increased costs, which more than offset income growth including support from our growth initiatives.

The loan book increased 5% over the year to £9.5 billion (31 July 2022: £9.1 billion), driven by strong demand in our Commercial businesses, notwithstanding the reduction in the Novitas net loan book, and high drawdowns in Property, partly offset by the reduction in the Novitas net loan book. Growth in our Premium and UK Motor Finance books was more than offset by the run-off of the Republic of Ireland Motor Finance loan book. We saw an acceleration of growth in the second half of the year to 5%, following a 1% decline in the loan book in the first half of 2023.

Excluding our businesses in run-off, Novitas and the Republic of Ireland Motor Finance, the loan book grew 8% to £9.3 billion (31 July 2022: £8.6 billion).

Operating income increased by 3% to £714.4 million (2022: £695.4 million), reflecting the loan book growth and strong net interest margin, partially offset by the run-off of Novitas and the Irish Motor Finance business. Excluding Novitas, operating income grew 5%.

The net interest margin decreased marginally to 7.7% (2022: 7.8%), principally due to reduced income from Novitas. Excluding Novitas, the net interest margin was stable at 7.6% (2022: 7.6%), reflecting both pricing discipline on new lending and actions taken to optimise the group's liability mix and funding costs in a rising rate environment. We are well positioned to maintain a strong net interest margin and remain focused on asset pricing, we expect cost of funds to increase further in the next financial year.

Adjusted operating expenses increased 7% to £389.7 million (2022: £362.6 million) as we continued to invest in strategic programmes. 57% (£15.4 million) of the increase related to higher staff costs, driven mainly by inflation-related salary rises and growth-driven hires. This was partly offset by reduced performance-linked compensation due to the impact of Novitas on the group's financial performance in 2023. The expense/income ratio increased to 54.5% (2022: 52.1%) and the compensation ratio increased marginally to 30% (2022: 29%).

[1]Business-as-usual ("BAU") costs rose 6% to £303.1 million (2022: £284.8 million), with over half of the increase driven by higher staff costs, as well as an uplift in property running costs to reflect the current inflationary environment[1]. Costs related to Novitas reduced £8.7 million (2022: £14.6 million) as we continue to wind down the businesses.

Investment costs rose 23% to £77.9 million (2022: £63.2 million), of which £40.0 million (2022: £29.4 million) was driven mainly by spend on our strategic costs management initiatives, growth initiatives and operational resilience. Depreciation charges related to our investment projects rose to £37.9 million (2022: £33.8 million).

We see investment through the cycle as vital in protecting our model, enhancing efficiency and future-proofing our income generation capabilities. Our investments in cyber and data centres are part of a programme to continually enhance our business and operational resilience.

We have implemented a programme directly aligned to the requirements of the FCA's Consumer Duty, with workstreams including fair value assessments, enhanced product reviews and enhancing customer communications. Our focus is now on continuing to embed our compliance and implementing Consumer Duty changes for books of business not open to new customers.

Across our businesses, we have been investing in our digital capabilities to support our relationship-based model and make our experts even more valuable. Our Asset Finance transformation programme has introduced a single platform, adding new functionality, improved customer insights and increased efficiency. In Motor Finance we have seen a significant increase in new business proposals though our digital channels and in Premium Finance, we are using technology to reduce the time taken to make credit underwriting decisions for large business applications and have introduced a digital

[1] Related ongoing costs resulting from investment projects are recategorised from investment costs to BAU costs after one year. For comparison purposes, £6.5 million has been recategorised from investment costs to BAU costs in the 2022 financial year to adjust for investment projects' ongoing costs that commenced prior to the 2023 financial year.

STRATEGIC REPORT

payment link for customers in arrears. Our previous investment in our Customer Deposit platform has enabled us to grow our Savings proposition, introducing new offerings and increase customer numbers, whilst achieving good customer satisfaction scores.

We have intensified our focus on cost efficiency, particularly in light of recent inflationary pressures. We have a number of strategic cost management initiatives in progress, which aim to create capacity to accommodate growth, inflation and investment to support our business, and are evaluating additional opportunities for efficiency. Our multi-year technology transformation programme focused on strategic IT services is well under way. As part of this, we are moving to a new operating model, making use of third-party providers to reduce our cost base and create efficiencies. The programme will enhance the service we provide to our customers and increase our operational resilience and flexibility. Our Retail simplification programme is focused on transforming operations and reducing the cost of running the business, whilst enhancing the operational risk and control environment. The programme also aims to increase broker, customer and colleague satisfaction and loyalty. A new customer relationship platform has been introduced in Premium Finance, as well as case management and automation tools, which are driving a reduction in case handling and credit decisioning times.

Whilst we remain focused on achieving positive operating leverage over the medium term, we expect costs for the 2024 financial year to increase between c.8-10%, primarily as a result of higher average salary awards at the end of the 2023 financial year and a normalisation of performance linked compensation. As we progress our strategic cost management initiatives, investment costs and related depreciation are expected to increase and will be partly offset by efficiency savings.

We remain focused on achieving positive operating leverage over the medium term. In the 2025 financial year, we expect cost growth to align with income growth more closely, reflecting volume and activity-related expenses, a projected stabilisation of inflationary pressures, as well as further benefits from efficiency gains resulting from our strategic cost management initiatives. We expect costs related to our existing investment programmes to stabilise after the 2025 financial year.

Impairment charges increased significantly to £204.0 million (2022: £103.3 million), corresponding to a bad debt ratio of 2.2% (2022: 1.2%). This was driven primarily by increased provisions in relation to Novitas of £116.8 million (2022: £60.7 million), of which £114.6 million were incurred in the first half of the year. As a result, there was an increase in overall provision coverage to 3.9% (31 July 2022: 3.1%).

Additionally, a further £87.2 million of impairment charges were recognised to take into account weaker macroeconomic variables and outlook, as well as a stabilisation of arrears in the Motor Finance business at a higher level as a result of cost-of-living pressures on customers. They also reflect an ongoing review of provisions and coverage across our loan portfolios and model refinements. Excluding Novitas, the bad debt ratio increased to 0.9% (2022: 0.5%), although remains slightly below our long-term bad debt ratio of 1.2%. The coverage ratio increased marginally to 2.1% (31 July 2022: 1.9%).

Whilst we have not seen a significant impact on credit performance, we continue to monitor closely the evolving impacts of rising inflation and cost of living on our customers. We remain confident in the quality of our loan book, which is predominantly secured, prudently underwritten, diverse, and supported by the deep expertise of our people.

Accelerating our Efforts to Resolve Issues Relating to Novitas

The decision to wind down Novitas, a provider of finance for the legal sector we acquired in 2017, and to withdraw from the legal services financing market, followed a strategic review in July 2021 which concluded that the business was not aligned with the Close Brothers model. Some of the key attributes of our model such as in-house lending expertise, a strong track record of performance and underlying security of the loans have proven not to be evident in Novitas.

The business continues to work with solicitors and insurers, to support existing customers and manage the existing book to ensure good customer outcomes. As announced in January 2023, we have accelerated our efforts to resolve the issues surrounding Novitas. We initiated formal legal action against one of the After the Event ("ATE") insurers regarding the potential recoverability of funds in relation to failed cases and were considering our position in respect of other insurers. As a result, an increased provision to reflect the expectation of a longer time frame to recovery for related loans was included in the £24.8 million of provisions taken in the first five months of the 2023 financial year. We have since entered into a settlement with another smaller ATE insurer.

In the first half of the year, we also undertook a review of certain cases being funded which had limited prospects of successfully progressing through the courts. As a result of this review, an additional provision of £89.8 million was recognised, which assumed a material increase in the Probability of Default ("PD") and Loss Given Default ("LGD") assumptions and a longer time frame to recovery across the majority of the portfolio. It also assumed reassessed estimates for recoverability of interest on the relevant loans, in line with accounting requirements.

Consequently, we recognised provisions of £114.6 million in relation to Novitas in the first half. While we will continue to review provisioning levels in light of future developments, including the experienced credit performance of the book and the outcome of the group's initiated legal action, we believe the provisions adequately reflect the remaining risk of credit losses for the Novitas loan book (c.£59.9 million net loan book at 31 July 2023). In addition, in line with IFRS 9 requirements, a proportion of the expected credit loss is expected to unwind, over the estimated time to recovery period, to interest income. The group remains focused on maximising the recovery of remaining loan balances, either through successful

STRATEGIC REPORT

outcome of cases or recourse to the customers ATE insurers, whilst complying with its regulatory obligations and always focusing on ensuring good customer outcomes.

We expect net income related to Novitas to reduce from c.£18.9 million in financial year 2023 to c.£9 million in financial year 2024.

Continued Focus on Delivering Disciplined Growth

We remain focused on delivering disciplined growth whilst prioritising our margins and credit quality, with our growth initiatives delivering a significant contribution of loan book growth. We continue to actively work to identify incremental and new opportunities in line with our business model and overall remain confident in the growth outlook for the loan book over both the short and medium term. We believe that we have the right model to thrive in this environment and are confident in the opportunity it creates for us to lean in and support consumers and SME businesses.

As the UK aligns towards a net zero economy, we recognise a significant opportunity for delivering disciplined growth. Our specialist energy team has provided finance for over 1,600MW of installed generation and storage capacity to date and we continue to broaden our expertise in green and transition assets. In line with our ambition to provide funding for £1.0 billion of battery electric vehicles by the end of the 2027 financial year, we have lent £164 million over the last year.

The Asset Finance business remains well positioned to capitalise on continued demand for finance from SMEs. Our new initiatives are proving successful, with the recently hired agricultural equipment and materials handling teams both having written healthy levels of new business over the year and building strong pipelines, as we continue to expand our coverage into adjacent asset classes and markets.

In Invoice Finance, we continue to focus on taking advantage of opportunities in the asset-based lending ("ABL") space, building on the success we have seen this year with our first syndication deal and our expansion to cover larger loan sizes. We have also expanded our offering with our new bespoke lending team, which offers loan structures to SMEs requiring growth and investment capital and closed its first deal earlier this year.

The Motor Finance transformation programme, which is now complete, has created the digital capabilities for us to enhance our proposition for dealers, partners and customers. We are currently rolling out a new dealer partner onboarding process and our partnership with iVendi has driven an uplift in proposal volumes. Our partnership with AutoTrader, providing dealers with data and insights to effectively manage their forecourts, continues to prove successful and we are leveraging the investment made in our commercial partner programme to support additional routes to market. In addition, we have expanded our credit policy to provide broader coverage of Alternatively Fuelled Vehicles ("AFVs") as they become more prevalent in the second-hand car market. In September 2023, we announced our agreement to acquire Bluestone Motor Finance (Ireland) DAC, which will provide a platform for us to build our Motor Finance business in Ireland.

In Premium Finance, we continue to focus on our digital, data and insight capabilities to enhance our offering, with our Foresight model helping to support brokers' decisioning by providing unique customer behaviour insights. We are expanding our new business capabilities through the use of a customer relationship management platform and the launch of a programme to support commercial lines brokers with the promotion and sale of premium finance.

In Property, following the successful piloting of a specialist buy-to-let extension to our existing bridging finance customers, we are continuing to offer this product and wrote a healthy level of business during the year. We are seeing good demand for initiatives including our enhanced loan-to-value product for select customers, alongside our continued focus on growing our regional loan book. We are also looking to expand further our partnership with Travis Perkins, which enables SME housebuilders to access discounted building supplies and materials directly via a credit facility. Although the economic uncertainty is expected to continue to impact activity in the property market, our pipeline of undrawn commitments remains strong.

Key Financials[2]

	31 July 2023 £ million	31 July 2022 £ million	Change %
Operating income	**714.4**	695.4	3
Adjusted operating expenses	**(389.7)**	(362.6)	7
Impairment losses on financial assets	**(204.0)**	(103.3)	97
Adjusted operating profit	**120.7**	229.5	(47)

	31 July 2023 %	31 July 2022 %
Net interest margin[3]	**7.7%**	7.8%
Expense/income ratio[4]	**54.6%**	52.1%
Bad debt ratio[5]	**2.2%**	1.2%
Return on net loan book[6]	**1.3%**	2.6%
Return on opening equity[7]	**6.7%**	12.8%

STRATEGIC REPORT

	31 July 2023 £ million	31 July 2022 £ million	Change %
Closing loan book *and operating* lease assets	**9,526.2**	9,098.9	5

Key Financials (Excluding Novitas)[2]

	31 July 2023 £ million	31 July 2022 £ million	Change %
Operating income	**695.5**	659.4	5
Adjusted operating expenses	**(381.0)**	(348.0)	9
Impairment losses on financial assets	**(87.2)**	(42.6)	105
Adjusted operating profit	**227.3**	268.8	(15)

	31 July *2023* %	31 July 2022 %
Net interest margin[3]	**7.6%**	7.6%
Expense/income ratio[4]	**54.8%**	53.0%
Bad debt ratio[5]	**0.9%**	0.5%

	31 July 2023 £ million	31 July 2022 £ million	Change %
Closing loan book and operating lease assets	**9,466.3**	8,939.5	6

2 Adjusted measures are presented on a basis consistent with prior periods and exclude amortisation of intangible assets on acquisition, to present the performance of the group's acquired businesses consistent with its other businesses; and any exceptional and other adjusting items which do not reflect underlying trading performance.
3 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.
4 Total adjusted operating expenses on adjusted operating income.
5 Impairment losses as a percentage of average net loans book and operating lease assets.
6 Adjusted operating profit from lending activities divided by average net loans book and operating lease assets.
7 Adjusted operating profit after tax and non-controlling interests on opening equity, excluding non-controlling interests.

Continued Demand Across our Businesses with Good Loan Book Growth

The loan book increased 5% over the year to £9.5 billion (31 July 2022: £9.1 billion), driven by strong demand in our Commercial businesses, notwithstanding the reduction in the Novitas net loan book, and high drawdowns in Property. Growth in our Premium and UK Motor Finance books was more than offset by the run-off of the Republic of Ireland Motor Finance loan book. We saw particularly strong growth in the second half of the year, following a 1% decline in the loan book in the first half of 2023.

Excluding Novitas, the loan book grew 6% to £9.5 billion (31 July 2022: £8.9 billion). Excluding our businesses in run-off, Novitas and the Republic of Ireland Motor Finance, the loan book grew 8% to £9.3 billion (31 July 2022: £8.6 billion).

The Commercial loan book grew 6% to £4.8 billion (31 July 2022: £4.6 billion), despite the roll-off of government supported lending under schemes such as the Coronavirus Business Interruption Loan Scheme ("CBILS"), supported by strong demand and growth initiatives. Excluding Novitas, the Commercial book increased 8% to £4.8 billion (31 July 2022: £4.4 billion). The net loan book of government supported lending stood at £456 million at 31 July 2023 (31 July 2022: £748 million).

Asset Finance grew 5% as we saw strong new business volumes in our Leasing business, particularly from our Contract Hire and Energy portfolios, and good demand for our new initiatives including our Agriculture offering. Invoice and Speciality Finance grew 7%, notwithstanding the reduction in the Novitas net loan book, as we saw strong new business and higher utilisation in Invoice Finance and good growth in our Irish business. The Invoice Finance business also completed its first syndication deal during the year. Excluding Novitas, the Invoice and Speciality Finance loan book increased 16%.

The Retail loan book contracted 2% to £3.0 billion (31 July 2022: £3.1 billion), driven mainly by the decline in the Republic of Ireland loan book. Motor Finance decreased 5% as the run-off of the Irish book more than offset 3% growth in the UK Motor book as we enhanced our proposition and focused on new routes to market through our commercial partners. Premium Finance grew 4% year-on-year, following the seasonal decline in the first half, driven by an increase in new business volumes from individuals and larger premium sizes reflecting inflation.

The Republic of Ireland Motor Finance business accounted for 11% of the Motor Finance loan book (31 July 2022: 18%) and 2% of the Banking loan book (31 July 2022: 4%). As announced in September 2023, we have reached an agreement to acquire Bluestone Motor Finance (Ireland), with the acquisition expected to complete in the fourth quarter of calendar year 2023. This will provide a platform for us to build our Motor Finance business in Ireland, following the cessation of our previous partnership in that country last year.

The Property loan book grew 16%, despite uncertainty in the housing market, as we saw strong drawdowns from our healthy pipeline and normalising repayments from the elevated levels seen in the prior year, as the buoyant UK property market had resulted in heightened unit sales by developers. We are seeing good demand for initiatives including our specialist buy-to-let extension and our enhanced loan-to-value product for select customers, alongside our continued focus on growing our regional loan book.

STRATEGIC REPORT

Loan Book Analysis

	31 July 2023 £ million	31 July 2022 £ million	Change %
Commercial	**4,821.3**	4,561.4	6
Commercial – Excluding Novitas	**4,761.4**	4,402.0	8
Asset Finance[8]	**3,387.1**	3,217.4	5
Invoice and Speciality Finance[8]	**1,434.2**	1,344.0	7
Invoice and Speciality Finance – Excluding Novitas[8]	**1,374.3**	1,184.6	16
Retail	**3,001.8**	3,064.0	**(2)**
Motor Finance[9]	**1,948.4**	2,051.2	(5)
Premium Finance	**1,053.4**	1,012.8	4
Property	**1,703.1**	1,473.5	**16**
Closing loan book and operating lease assets[10]	**9,526.2**	9,098.9	**5**
Closing loan book and operating lease assets – Excluding Novitas	**9,466.3**	8,939.5	**6**

8. The Asset Finance and Invoice and Speciality Finance loan books have been re-presented for 31 July 2022 to reflect the recategorization of Close Brothers Vehicle Hire ("CBVH") from Invoice and Speciality Finance to Asset Finance
9. The Motor Finance loan book includes £206.7 million (31 July 2022: £367.2 million) relating to the Republic of Ireland Motor Finance business, which is in run-off following the cessation of our previous partnership in the Republic of Ireland from 30 June 2022.
10. Includes operating lease assets of £223.4 million (31 July 2022: £185.4 million) that relate to Asset Finance and £47.8 million (31 July 2022: £54.6 million) to Invoice and Speciality Finance.

Commercial

The Commercial businesses provide specialist, predominantly secured lending principally to the SME market and include Asset Finance and Invoice and Speciality Finance. We finance a diverse range of sectors, with Asset Finance offering commercial asset financing, hire purchase and leasing solutions across a broad range of assets including commercial vehicles, machine tools, contractors' plant, printing equipment, company car fleets, energy project finance, and aircraft and marine vessels, as well as our Vehicle Hire business. The Invoice and Speciality Finance business provides debt factoring, invoice discounting and asset-based lending, as well as covering some of our specialist businesses such as Brewery Rentals and Novitas. As previously announced, Novitas ceased lending to new customers in July 2021.

Despite the market uncertainty, our Commercial businesses saw good customer demand over the year, with Invoice Finance experiencing strong new business levels and an uptick in utilisation. We have focused on asset pricing discipline in line with our model, actively choosing to pass through higher rates on new lending where appropriate notwithstanding the competitive market. Our new initiatives have proven successful, with our agriculture and materials handling teams writing healthy levels of new business over the year and our first syndication deal completed.

Adjusted operating profit for Commercial declined significantly to £16.2 million (2022: £92.1 million), driven primarily by a significant increase in impairment charges related to Novitas. Statutory operating profit reduced to £16.2 million (2022: £92.0 million).

On a pre-provision basis, adjusted operating profit decreased 7% to £153.7 million (2022: £164.5 million) as an increase in costs and impairment charges more than offset income growth.

Excluding Novitas, adjusted operating profit decreased 7% to £122.8 million (2022: £131.4 million) as income growth was more than offset by higher costs.

Operating income increased 1% to £348.1 million (2022: £344.5 million), reflecting good loan book growth and higher average volumes in Invoice and Speciality Finance. The net interest margin decreased to 7.4% (2022: 7.9%), driven mainly by the reduction in Novitas income. Excluding Novitas, the net interest margin decreased marginally to 7.2% (2022: 7.3%), primarily reflecting the timing delay in passing through higher interest rates to customers compared to increased funding costs, partly offset by increased activity-driven fees and benefits of central funding mix actions taken in light of the rising interest rate environment.

Adjusted operating expenses grew 8% to £194.4 million (2022: £180.0 million), driven by investment spend in relation to the Asset Finance transformation programme and strategic growth initiatives, as well as higher staff costs to reflect the inflationary environment. This was partly offset by lower advisory costs in relation to Novitas. The expense/income ratio increased to 56% (2022: 52%) as higher costs more than offset the growth in income.

Impairment charges rose significantly to £137.5 million (2022: £72.4 million), with £116.8 million incurred in relation to Novitas, £114.6 million of which were recognised in the first half of the year. As a result, there was an increase in provision coverage to 5.2% (31 July 2022: 4.0%).

Excluding Novitas, impairment charges increased to £20.7 million (2022: £11.7 million), corresponding to a bad debt ratio of 0.5% (2022: 0.3%). This increase primarily reflected additional provisions to take into account weaker macroeconomic variables and outlook. The coverage ratio reduced marginally to 1.4% (31 July 2022: 1.6%)

Retail

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

We have seen a solid performance in our Retail businesses this year despite the challenging market backdrop. In Motor Finance, we have focused on prioritising our margin and pricing discipline in line with our model, passing through higher rates on new lending. As reported at the half year 2023 results and in line with comparable trends observed across the wider industry, we have seen arrears increase and stabilise at a higher level in our Motor Finance loan book, reflecting cost of living pressures on our customers.

STRATEGIC REPORT

Nonetheless, we remain comfortable with the quality of our portfolio, underpinned by our underwriting discipline and prudent level of provisions. In Premium Finance, volumes in our consumer business have increased year-on-year and we have seen the impact of premium inflation in the second half of the year with growth in average loan sizes.

Operating profit for Retail reduced to £34.9 million (2022: £61.8 million), as income growth was more than offset by higher costs and increased impairment charges.

Operating income rose 4% to £248.3 million (2022: £237.8 million), driven by growth in the UK Motor Finance loan book and an increase in the net interest margin to 8.2% (2022: 7.9%) despite higher funding costs, as we continued to focus on pricing discipline and benefited from central funding mix actions taken in light of the rising interest rate environment.

Operating expenses increased 8% to £164.4 million (2022: £151.6 million), primarily driven by investment in the Retail businesses to create efficiencies whilst delivering customer and control benefits, including depreciation costs related to these investments, as well as higher staff costs, particularly in legal and compliance. In Premium Finance, we have continued to invest in further enhancing our processes in line with regulatory requirements. As a result, the expense/income ratio increased to 66% (2022: 64%).

Following the FCA's Motor Market review in 2019, the group continues to receive a number of complaints, some of which are with the Financial Ombudsman Service, and is subject to a number of claims through the courts regarding historic commission arrangements with intermediaries on its Motor Finance products. Whilst the review of these complaints and claims is ongoing, any potential financial impact remains uncertain.

Impairment charges rose to £49.0 million (2022: £24.4 million), corresponding to a bad debt ratio of 1.6% (2022: 0.8%). This was driven by the uncertain macroeconomic outlook and increased arrears and forbearance levels in Motor Finance, uncertain macroeconomic outlook and increased arrears in Motor Finance, which have stabilised since the first half, as well as an ongoing review of provisions and coverage. As a result, the provision coverage ratio increased to 2.9% (31 July 2022: 2.2%).

We remain confident in the credit quality of the Retail loan book. The Motor Finance loan book is predominantly secured on second hand vehicles which are less exposed to depreciation or significant declines in value than new cars. Our core Motor Finance product remains hire-purchase contracts, with less exposure to residual value risk associated with Personal Contract Plans ("PCP"), which accounted for c.9% of the Motor Finance loan book at 31 July 2023. The Premium Finance loan book benefits from various forms of structural protection including premium refundability and, in most cases, broker recourse for the personal lines' product.

Property

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

This year has seen a slowdown across the UK property market following a period of heightened activity, with rising interest rates negatively impacting buyer sentiment. Whilst we have seen a fall in housebuilding levels and some contraction in house prices, we have delivered a strong performance, with record drawdowns, growth in active customer numbers and our pipeline remaining healthy at over £1 billion. We have also focused on retaining our margin and pricing discipline as we adhere to our through-the-cycle lending approach.

Operating profit in Property declined 8% to £69.6 million (2022: £75.6 million), as an increase in impairment charges more than offset income growth. On a pre-provision basis, operating profit grew 6% to 87.1 million (2022: £82.1 million) as we achieved positive operating leverage in the business.

Operating income increased 4% to £118.0 million (2022: £113.1 million) driven by strong loan book growth and higher fee income. The net interest margin decreased to 7.4% (2022: 7.6%), reflecting higher cost of funds and the benefit of interest rate floors in the prior year.

Operating expenses were stable at £30.9 million (2022: £31.0 million) as we maintained our strict focus on cost discipline. As a result, the expense/income ratio reduced to 26% (2022: 27%).

Impairment charges increased to £17.5 million (2022: £6.5 million), resulting in a bad debt ratio of 1.0% (2022: 0.4%), as we recognised additional provisions to reflect weakening macroeconomic variables and outlook, in particular lower projected house prices, and an ongoing review of provisions and coverage. The provision coverage ratio remained stable at 2.4% (31 July 2022: 2.4%).

The Property loan book is conservatively underwritten, with typical LTVs below standard market levels. We work with experienced, professional developers, with a focus on mid-priced family housing, and have minimal exposure to the prime central London market, with our regional loan book making up over 50% of the Property Finance portfolio. Our long track record, expertise and quality of service ensure the business remains resilient to competition and continues to generate high levels of repeat business.

Capital

The Prudential Regulation Authority ("PRA") supervises Close Brothers Limited on an individual consolidation basis as permitted under the UK Capital Requirements Regulation ("CRR") article 9. The individual consolidation group does not include all subsidiary undertakings and therefore differs to the accounting consolidation group under IFRS. All figures shown below are for this individual consolidation group. The prudent management of capital is a core part of our business model and has been a key focus in the evolving environment to ensure we can continue to support customers, clients and colleagues.

STRATEGIC REPORT

The CET1 capital ratio reduced from 13.5% to 12.4%, mainly driven by loan book growth in the year (-c.80bps), a decrease in IFRS 9 transitional arrangements (-c.50bps) and deduction of dividends paid and foreseen (-c.70bps), partly offset by capital generation through profit (c.85bps) and a decrease in risk weighted assets associated with derivatives and credit valuation adjustment ("CVA") (c.35bps). The impact of Novitas on the CET1 capital ratio was (c.125bps) and consists of impact on retained earnings (c.90bps) and IFRS 9 transitional arrangements (c.45bps), offset by a reduction in loan book RWAs (c.10bps).

CET1 capital decreased 5% to £1,139.6 million (31 July 2022: £1,194.4 million), reflecting a decrease in the transitional IFRS 9 add-back to capital of £51.2 million, the regulatory deduction of dividends paid and foreseen of £65.1 million and an increase in the intangible assets deducted from capital of £14.1 million. This was partially offset by the capital generation through profit of £78.1 million.

Total capital decreased 4% to £1,339.6 million (31 July 2022: £1,394.4 million).

RWAs increased by 4% to £9.2 billion (31 July 2022: £8.8 billion), mainly driven by growth in the Commercial and Property loan books. This was partly offset by a decrease in RWAs associated with derivatives and CVA following changes to the derivatives calculation to recognise netting agreements and to implement the standardised approach to counterparty credit risk.

As a result, CET1, tier 1 and total capital ratios were 12.4% (31 July 2022: 13.5%), 12.4% (31 July 2022: 13.5%), and 14.6% (31 July 2022: 15.8%), respectively.

The group applies IFRS 9 regulatory transitional arrangements which allows banks to add back to their capital base a proportion of the IFRS 9 impairment charges during the transitional period. Our capital ratios are presented on a transitional basis after the application of these arrangements. On a fully loaded basis, without their application, the CET1, tier 1 and total capital ratios would be 12.1%, 12.1% and 14.3%, respectively.

The PRA Consultation Paper 16/22 on Basel 3.1 standards was published in November 2022, with changes expected to be implemented or phased in from 2025-2030. Following initial analysis, we estimate that if implemented in its current form, it would represent an increase of up to c.10% in the group's RWAs calculated under the standardised approach. This is primarily as a result of the proposed removal of the SME supporting factor and the proposed approach to the classification of Retail SMEs and associated risk weights. The group looks forward to the publication of the final regulatory rules and has sufficient management actions available to address the impact should the proposals remain unchanged.

We continue to make positive progress in our preparations for a transition to the Internal Ratings Based ("IRB") approach. Following the submission of our initial application to the PRA in December 2020, our application has successfully transitioned to Phase 2 of the process. Additional documentation has been submitted to the regulator and engagement continues. Our Motor Finance, Property Finance and Energy portfolios, where the use of models is most mature, were submitted with our initial application, with work on subsequent portfolios in progress.

	31 July 2023 £ million	31 July 2022 £ million
CET1 capital	**1,139.6**	1,194.4
Total capital	**1,339.6**	1,394.4
RWAs	**9,159.2**	8,847.6
CET1 capital ratio (transitional)[11]	**12.4%**	13.5%
Tier 1 capital ratio (transitional)	**12.4%**	13.5%
Total capital ratio (transitional)	**14.6%**	15.8%

11 The impact of Novitas on the CET1 capital ratio was (–c.125bps), of which (-c.90bps) relates to retained earnings, (-c.35bps) relates to the IFRS 9 transitional arrangements and c.10bps relates to RWAs.

Funding

Our Treasury function is focused on managing funding and liquidity to support the Banking businesses, as well as interest rate risk. This incorporates our Savings business, which provides simple and straightforward savings products to both individuals and businesses at consistently competitive rates, whilst being committed to providing the highest level of customer service.
Whilst we have seen a volatile backdrop over the year, with the collapse of Silicon Valley Bank and Credit Suisse, and wholesale funding markets seeing very limited activity for significant periods, our diverse funding sources enabled us to adapt our position through the cycle, based on market conditions and demand.

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. We do this through 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 public and private secured funding programmes and a diverse mix of customer deposits.

We increased total funding in the year by 8% to £12.0billion (31 July 2022: £11.1 billion) which accounted for 126% (31 July 2022: 123%) of the loan book at the balance sheet date. Although the average cost of funding increased to 3.2% (2022: 1.2%) due to rapidly rising interest rates, we took actions to mitigate this pressure by optimising the group's liability mix based on funding needs, customer demand and market pricing. While we are well positioned to continue benefiting from our diverse funding base, we expect cost of funds to remain elevated in the next financial year as a result of higher interest rates and customer deposit pricing pressure.

Customer deposits increased 13% to £7.7 billion (31 July 2022: £6.8 billion) with non-retail deposits decreasing 5% to £3.5 billion (31 July 2022: £3.7 billion) and retail deposits

STRATEGIC REPORT

increasing by 35% to £4.2 billion (31 July 2022: £3.1 billion), as we actively sought to grow our retail deposit base and optimise our funding mix in light of market conditions. Our retail deposits are predominantly term or notice accounts, with c.85% of retail deposits protected by the Financial Services Compensation Scheme. We remain focused on delivering fair outcomes for our customers and are on track for the implementation of the FCA's Consumer Duty.

We continue to realise benefits from the investment made in the customer deposit platform, which delivered a resilient and scalable platform and enabled us to enhance our Savings proposition. In May 2023, we expanded our product offering with the introduction of Easy Access accounts, complementing our fixed rate cash ISA and Notice Account range. We are focused on identifying opportunities to continue to expand our product range, which will support us in growing and diversifying our retail deposit base and further optimise our cost of funding and maturity profile.

Secured funding increased 6% to £1.7 billion (31 July 2022: £1.6 billion) as we renewed and extended our Premium Finance warehouse securitisation to £650.0 million (31 July 2022: £500.0 million). We maintained our current drawings under the Term Funding Scheme for Small and Medium-sized Enterprises ("TFSME") at £600.0 million (31 July 2022: £600.0 million). Over the next 12 months, £228 million of TFSME will mature, which we expect to fund in line with our prudent and diverse approach.

Unsecured funding, which includes senior unsecured and subordinated bonds and undrawn committed revolving facilities, reduced to £1.0 billion (31 July 2022: £1.2 billion) as we sought to optimise our funding mix in light of market conditions.

Our credit ratings remain strong, reflecting the group's profitability, capital position, diversified business model and consistent risk appetite. Moody's Investors Services ("Moody's") reaffirmed their rating for Close Brothers Limited as "Aa3/P1", whilst upgrading the outlook from "negative" to "stable" in November 2022. Fitch Ratings ("Fitch") reaffirmed their rating for Close Brothers Limited as "A-/F2", whilst downgrading the outlook from "stable" to "negative" in March 2023.

Funding Analysis[12]

	31 July 2023 £ million	31 July 2022 £ million
Customer deposits	**7,724.5**	6,770.4
Secured funding	**1,676.6**	1,598.7
Unsecured funding[13]	**1,018.1**	1,204.0
Group Funding[14]	**250.0**	250.4
Equity	**1,336.4**	1,325.9
Total available funding	**12,005.6**	11,149.4
Total funding % loan book[15]	**126%**	123%

12 Numbers relate to core funding and exclude working capital facilities at the business level.
13 Unsecured funding excludes £27.7 million (31 July 2022: £10.2 million) of non-facility overdrafts included in borrowings and includes £150.0 million (31 July 2022: £205.0 million) of undrawn facilities.
14 Group Funding includes proceeds from the CBG Bond issuance held on deposit with CBL
15 Total funding as a % of loan book includes operating lease assets in the loan book figure.

Liquidity

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

We continued to maintain higher liquidity relative to the pre-Covid-19 position to provide additional flexibility given the uncertain UK economic outlook, whilst enabling us to maximise any opportunities available. Over the year, treasury assets increased 16% to £2.2 billion (31 July 2022: £1.9 billion) and were predominantly held on deposit with the Bank of England.

We regularly assess and stress test the group's liquidity requirements and continue to meet the liquidity coverage ratio ("LCR") regulatory requirements for CBL, which for liquidity and funding metrics is regulated by the PRA on an individual basis excluding any subsidiary undertakings. The Bank's 12-month average LCR to 31 July 2023 was 1,106% (31 July 2022: 885%). In addition to internal measures, we monitor funding risk based on the CRR rules for the net stable funding ratio ("NSFR") which became effective on 1 January 2022. CBL's four-quarter average NSFR to 31 July 2023 was 140.5% (point in time NSFR at 31 July 2022: 133.6%).

Liquidity Analysis

	31 July 2023 £ million	31 July 2022 £ million
Cash and balances at central banks	**1,937.0**	1,254.7
Sovereign and central bank debt[16]	**186.1**	415.4
Certificates of deposit	**-**	185.0
Covered bonds	**106.3**	-
Treasury assets	**2,229.4**	1,855.1

16 There were no encumbered sovereign and central bank debt or covered bonds as at 31 July 2023 (31 July 2022: £215.5 million)

Future developments

Our purpose is to help the people and businesses of Britain thrive over the long term. Our strategy to achieve this purpose is built on our responsibility – being to help address the social, economic and environmental challenges facing our business, our people, customers and clients, now and into the future. Future priorities include:

- Retaining our strong capital, funding and liquidity position.
- Continuing to focus on pricing and prudent underwriting whilst lending through the cycle.
- Progressing further our strategic cost management initiatives and evaluating additional opportunities for efficiency, with a view to achieving positive operating leverage over the medium term.
- Continuing preparations for a transition to the IRB

approach, although the timetable remains under the direction of the PRA.
- Complying with regulatory changes, whilst further strengthening our operational and cyber resilience.
- Continuing to embed our compliance with Consumer Duty requirements and implementing Consumer Duty changes for books of business not open to new customers.
- Monitoring and mitigating external threats, including the heightened uncertainty in the economic and geopolitical environment and competition from both established and emerging players.

Sustainability and Responsible Banking

Close Brothers Group has set out commitments to be net zero by 2050. We are implementing the recommendation of the Task Force on Climate-related Financial Disclosures (TCFD) and taking action to meet expectations set by the PRA, BoE and FCA. This requires wide-ranging collaboration both within the bank and externally to develop the tools and methodologies needed. As such, we have adopted a unified approach across the company, and therefore present TCFD disclosures on that basis in the Annual Report of the company's ultimate parent company, CBG.

Non-Financial Information Statement

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

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

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

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

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

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

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

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

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

The directors seek to engage directly with stakeholders wherever possible on certain issues, though the size of the Group means that stakeholder engagement often takes place at an operational or Group level. This approach creates greater efficiency and facilitates a greater positive impact on environmental, social and other issues than may be possible at an individual company level, as well as

STRATEGIC REPORT

ensuring consistency of approach across the Group. Where engagement has taken place at operational level, the outcome of that engagement has been brought to the board for its consideration where relevant throughout the year. During the financial year, the company has taken advantage of greater flexibility brought about by the Covid-19 pandemic to engage with stakeholders both in-person and virtually, including holding 'hybrid' events to widen participation. Additional details on engagement at Group level with stakeholders, including employees, suppliers, customers, the community and environment can be found in the Strategic Report section of the Annual Report and Accounts of Close Brothers Group plc.

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

OUR STAKEHOLDERS	WHY WE FOCUS ON THEM AND THE IMPACT OF ENGAGEMENT	STAKEHOLDERS' KEY PRIORITIES	HOW THE BOARD AND MANAGEMENT HAVE ENGAGED AND CONSIDERED STAKEHOLDER INTERESTS DURING THE YEAR
Colleagues	With approximately 2,800 employees around the UK, in Ireland, the Channel Islands and Germany, we have a diverse and motivated workforce which delivers the highest levels of service to our customers, clients and partners. We are committed to the development of our colleagues, ensuring they are supported and engaged. Listening to our colleagues enables us to build an engaged workforce, allowing us to develop and retain high levels of expertise. We are able to ensure we are considering the views of all colleagues and making sure everyone feels included.	• A safe working environment. • A fair, supportive, diverse and inclusive culture where employee feedback is valued. • Being appropriately rewarded for their contributions. • Opportunities for training and development.	**Our engagement** We conducted our latest employee opinion survey, which closed in February 2023, to gather feedback from our colleagues anonymously. The results of our employee opinion survey gave us insight into key topics including customers and clients, leadership, wellbeing, culture, a sense of belonging, and reward and recognition. Follow-up focus groups were conducted with different teams to understand more around colleague sentiment, with action plans created to ensure we are focusing on the areas that matter most to our colleagues as well as ensuring we are meeting the needs of other stakeholders. We have seven employee-led inclusion networks which control their own agendas and act as a voice for our minority colleague groups.
Customers, clients and partners	Our long-term success depends on the strength of our relationships with customers, clients and partners, our specialist expertise and the maintenance of high standards of service. Central to all decision-making is doing the right thing for customers, clients and partners, by helping them access financial solutions to meet their needs	• Building and maintaining strong personal relationships based on trust, understanding and specialist expertise. • Understanding, treating and valuing them as individuals.	**Our engagement** We undertook an independent customer experience assessment, versus other organisations and sectors, which identified opportunities for enhancing the experience we deliver to our customers. We continued to hold customer forums across each

STRATEGIC REPORT

OUR STAKEHOLDERS	WHY WE FOCUS ON THEM AND THE IMPACT OF ENGAGEMENT	STAKEHOLDERS' KEY PRIORITIES	HOW THE BOARD AND MANAGEMENT HAVE ENGAGED AND CONSIDERED STAKEHOLDER INTERESTS DURING THE YEAR
	across all market conditions. We engage with our customers throughout their end-to-end journey and actively seek their feedback.	• Fair and equitable conduct of business. • Receiving consistent, responsive and supportive service delivered with simplicity, clarity and ease. • Meeting their needs throughout changing economic cycles. • Implementing customer-led propositions that meet their individual needs.	of our businesses, with feedback proactively reviewed, areas of improvement identified, and actions taken to meet our customers' changing needs. We created our Customer Commitment to provide a framework for further embedding customer centricity into our culture and decision-making and outlining how we want customers, clients and partners to feel in doing business with us. We conducted an independent assessment of how we are supporting vulnerable customers, are sharing good practice via our Vulnerable Customer forum, and building a charter that articulates our commitment and approach.
Suppliers	Our business is supported by a broad range of suppliers, enabling us to provide high standards of service to our customers, clients and partners. We are focused on ensuring we have transparent and sustainable working relationships with our suppliers. Engagement is focused on driving an open and collaborative approach with our suppliers, as we work together to ensure services support us to meet our goals, whilst considering areas for improvement.	• Strong and sustainable relationships with Close Brothers. • Fair and equitable conduct of business. • Appropriate and clear payment procedures. • An understanding of the Close Brothers Group purpose and strategy. • Robust risk management framework.	**Our engagement** We conducted our annual supplier survey to engage with our suppliers on topics such as how they feel about doing business with us, how likely they would be to recommend us as a client and the transparency of our strategies and priorities. This year's survey has indicated that: - 41% of our suppliers have described the support they receive in delivering their services to Close Brothers as "Excellent", a 14% increase from last year. - 43% of our suppliers have described Close Brothers transparency and fairness in doing business as "Excellent", a 22% increase from last year. - 33% of our suppliers have described Close Brothers understanding of their business as "Excellent", a 14% increase from last year.

STRATEGIC REPORT

OUR STAKEHOLDERS	WHY WE FOCUS ON THEM AND THE IMPACT OF ENGAGEMENT	STAKEHOLDERS' KEY PRIORITIES	HOW THE BOARD AND MANAGEMENT HAVE ENGAGED AND CONSIDERED STAKEHOLDER INTERESTS DURING THE YEAR
			We piloted an enhanced Code of Conduct with seven suppliers to be used within our supply chain. Engagement took place with suppliers on a range of sustainability topics. Regular review meetings were held with our suppliers, with strategic meetings taking place at least quarterly with our top-tier suppliers.
Regulators and Government	We are committed to sustaining high standards of business conduct in line with regulatory, governmental and legal expectations and operate prudently within the laws and regulations that apply to us. We foster an open and transparent relationship with all our regulators, government authorities and trade associations in the jurisdictions in which we operate. Active engagement helps to ensure we are aware of and adapting to the evolving regulatory framework.	• Customer outcomes. • Operational and financial resilience. • Financial crime prevention. • Environmental, social and governance. • Digitisation and analytics.	**Our engagement** We engaged with relevant regulatory supervision teams through regular meetings and maintained dialogue through event-driven discussions. We undertook reporting and analysis as requested, enabling these stakeholders to better understand our business activities and how we are operating in a controlled and prudent manner in line with their expectations. We continued to engage with the PRA on our IRB approach application, with additional documentation submitted to the regulator during the year. We have provided information in support of the FCA's focus on the cost of living. We have actively monitored the FCA's formal and informal guidance regarding implementation of Consumer Duty to help us align our approach with regulatory expectations.
Communities and Environment	Close Brothers is committed to contributing lasting value and making a positive impact on the communities in which we operate and the environment more broadly. This underpins the growing range of programmes and initiatives we	• A suitable strategy for approaching sustainability issues.	**Our engagement** Colleagues completed numerous volunteering activities to positively impact local communities including volunteering at food banks and supporting youth groups such

STRATEGIC REPORT

OUR STAKEHOLDERS	WHY WE FOCUS ON THEM AND THE IMPACT OF ENGAGEMENT	STAKEHOLDERS' KEY PRIORITIES	HOW THE BOARD AND MANAGEMENT HAVE ENGAGED AND CONSIDERED STAKEHOLDER INTERESTS DURING THE YEAR
	support that benefit society and the environment. Engaging with local communities helps the board and our employees develop their understanding of our clients, customers and partners so that we can support them and help them to achieve their ambitions, whilst also building employee engagement. We firmly believe that environmental considerations should form an integral part of our business decisions, and employees across the group are actively engaged on responsible behaviours and environmental issues.	• Support for community initiatives. • Take active steps to ensure equity of opportunity, regardless of background or experience. • A long-term focus on addressing the impacts of climate change.	as guide, scout and cadet groups and children's sports teams. Several colleagues, including members of our group executive committee, continue to fulfil trustee roles for various charities to support local communities. Extended our partnership with the University of Sheffield AMRC Training Centre to fund a further 20 apprenticeships through the Close Brothers SME Apprentice Programme. Continued to partner with upReach, offering placements to six university students from lower socioeconomic backgrounds.
Investors	Close Brothers has a proven and resilient business model and is focused on generating long-term, sustainable value for its investors, while also maintaining a strong balance sheet. Our investors are the providers of capital to our business, so it is important that we engage actively with them and listen and respond to their feedback through an established and comprehensive programme throughout the year.	• Strong returns and financial resilience through the cycle. • Capital generation and distributions. • Sustainable and consistent business model. • Appropriate governance practices and regard for environmental and social responsibility.	**Our engagement** We maintained our comprehensive programme of communication throughout the year, providing regular market updates, holding two analyst presentations and presenting at seven sales desk briefings and two conferences. We undertook investor roadshows covering the UK, Europe and North America, meeting more than 70 existing and prospective shareholders. Our chairman held a corporate governance roadshow, meeting with six of our top shareholders. Retail investors had the opportunity to engage with board members at the Group AGM and ask questions. Following our update announcement on Novitas in January 2023, Group engaged with approximately 50% of our shareholders and all of our sell-side analyst followers, as

OUR STAKEHOLDERS	WHY WE FOCUS ON THEM AND THE IMPACT OF ENGAGEMENT	STAKEHOLDERS' KEY PRIORITIES	HOW THE BOARD AND MANAGEMENT HAVE ENGAGED AND CONSIDERED STAKEHOLDER INTERESTS DURING THE YEAR
			well as our credit rating agencies. We instructed one of our advisers to conduct a survey covering a significant proportion of our share register to collect anonymous feedback on our strategy and communications.

Furthermore, set out below is an example of the way in which the board of the company has engaged directly with key stakeholders during the financial year, how stakeholder interests have been considered in the decision-making of the directors, 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. The company is a wholly owned subsidiary of Close Brothers Group PLC and, as such, the duty of directors to have regard to the need to act fairly as between members of the company is limited.

Case study

Below is an example of the way 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: Investment in Retail Finance

We see investment through the cycle as vital in protecting our model, enhancing efficiency, and future-proofing our income generation capabilities, whilst enabling us to meet emerging regulatory requirements and implement system upgrades. Each year, the consolidated investment plan is presented to the board for its review and challenge, if thought fit, approval. Any material changes proposed subsequently are also presented for approval.

The board initially approved investment in a Retail simplification programme that will transform operations and reduce the cost of running the business, whilst enhancing the operational risk and control environment. The board then considered subsequent proposals from the Retail Finance business to deliver the projects over a longer time scale than originally anticipated, to balance the operational capacity for delivery and the investment demands across other areas of the business.

The board continues to monitor the progress of the investment programme and any further proposals that may be made in the future.

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

- The board recognises the need for investment to support different areas of the business.
- The board considered various scenarios for extending the time frame of delivery for the Retail simplification programme.
- The need to balance thorough planning with the ability to react and adapt was explored.
- The impact of various investment options on the Retail business, its colleagues and customers were discussed at length.
- Other competing investment priorities were also considered.
- The board noted the revised plans being put in place by Retail to deliver the projects over a longer time scale than originally expected.
- Having considered all factors in depth, the board agreed that extending the time frame for delivery was in the best interests of the company and its stakeholders as a whole.

Our Responsibility

Employee Engagement

Listening to the views of our colleagues is essential to drive and maintain employee engagement, ensuring our culture is one where everyone feels like they belong, can thrive and is proud to work for us.

Our latest Employee Opinion Survey closed in February 2023. Our high engagement score of 87% was retained and we received an excellent response rate of 90%, giving us the confidence that our results are reflective of all colleagues. Our financial year 2023 employee opinion scores remained closely aligned to last year and we retained high scores around expertise, teamwork, treating customers and clients fairly and believing in our shared purpose.

Engagement rate		Response rate	
2023	2022	**2023**	2022
87%	87%	**90%**	86%

Our organisational culture remains particularly strong when compared to other financial services firms, with high scoring questions against the Financial Services Culture board benchmarks including positive comparisons regarding our resilience, honesty, and responsiveness. Employee opinion survey feedback demonstrated a strong sense of belonging with 96% of colleagues feeling included and 94% feeling they are treated with respect.

Employee Development

We provide a full range of training and development for our people irrespective of where they are in their careers. We work with our colleagues from induction and technical training to management, leadership and talent development programmes. All colleagues have access to our learning portal where they can access a broad range of learning offerings including practical tools and e-learning modules on a wide variety of topics.

The average number of training hours across the group was 23.7 per employee during the year, reflecting an increase in regulatory process and local training initiatives. We require all employees to complete relevant regulatory training on an annual basis with further training offered when required.

We continue to run open application processes for cross company mentoring schemes that are delivered in partnership with Moving Ahead; These include both Mission Include (supporting those who identify as being from an ethnic minority background) and Gender Equity (with a focus on supporting females in progressing to senior roles). In 2023 We were shortlisted as a 'Mentor Organisation of the Year' for both Mission Include and Gender Equity.

We run several tailored junior training programmes across the business which are aimed at growing high-potential individuals to progress into senior roles. Similar to our mentoring schemes, these programmes are open to everyone by means of an application process to promote inclusivity at all levels.

The formal development of our talent pipeline remains a key focus. We continue to support our entry level programmes through our school leaver programme, Aspire. This two-year scheme offers placements in two business areas within the group, where individuals rotate around client facing and front office teams whilst also having the opportunity to gain an apprenticeship qualification. Upon completion, we also offer the option for Aspire trainees to complete degree level apprenticeship qualifications should they wish to do so.

To enhance our graduate programme, we have designed and implemented a new and comprehensive development pathway aligned to our management competency framework. This includes soft skill development, networking events with our Group executive committee, corporate social responsibility challenges and group projects as well as the opportunity to complete professional qualifications.

To support our high potential colleagues, our financial year 2023 emerging leaders programme saw 20 individuals across the wider Group taking part with a 50:50 gender split. 35% of the cohort received a promotion either during or following completion of the programme.

Building our inclusive culture through further embedding our code of conduct, we continue to ensure all our new starters receive our "Close Brothers Way" e-learning module, focusing on our cultural attributes and expected behaviours. This year, we worked with members of our employee inclusion networks to update the content for all colleagues which was rolled out in 2023.

Supporting our people

We are acutely aware of the impact the pandemic has had, and continues to have, on our colleagues. In response to this, we want to provide as much support to our people as possible. Recognising the cost-of-living crisis, we offered a number of webinars to our colleagues through BUPA focusing on financial wellbeing and self-care.

We understand that flexibility has become increasingly important to people, and we want to offer flexibility in as many ways as we can. This year we have introduced a new 'Working from Abroad' policy to give colleagues flexibility to work in different locations where possible. We also understand that more informal flexibility is appreciated by colleagues to support with balancing other commitments in their everyday lives. Our newly established Working Parents and Carers' Network, aims to create a community for those with caring responsibilities to share experiences and advice.

All colleagues are offered company-funded private healthcare with high take-up rates across the group. As part of the UK offering, BUPA provides a wealth of health and wellbeing support as well as dedicated mental health support.

This year, we introduced two new benefits to colleagues to enhance our overall benefits offering. Colleagues are now able to access dental cover and an Online GP service. We are confident that these additional offerings help ensure our benefit package remains fit for purpose and satisfies the expectations of our colleagues.

STRATEGIC REPORT

Diversity and Equality

As signatories to the Race at Work Charter, we demonstrate our commitment to their seven key actions to help improve representation of ethnic minorities across all levels of the organisation. In support of this commitment, we continue to monitor our ethnicity disclosure rates. As of 31 July 2023, our Group disclosure rate has increased to 85% in comparison to 83% at the end of the previous year.

The Group target is to have at least 14% of our managers to identify from an ethnic minority background by 2025, forms part of our Long-Term Incentive Plan objectives and demonstrates our commitment towards improving representation of all colleagues from an ethnic minority background. At 31 July 2023, 9% (31 July 2022: 10%) of our managers were from an ethnic minority background.

Last summer, we welcomed 31 students to join us for six-week placements as part of the 10,000 Black Interns programme. Our partnership enables us to support the career development of students with an ethnic minority background, as well as supporting the career progression of our colleagues from an ethnic minority background across the Group. Of the 31 summer interns, five individuals secured permanent roles within the Group following their internship and 2 also returned for a second internship this summer.

The board continues to support the recommendations of the Parker Review and the composition of the board is in line with the advice to have at least one director of colour. The board will continue to take opportunities to further strengthen the diversity of backgrounds and experience among its directors as part of future board-level recruitment.
Searches.

The R.E.A.C.H. (Race, Ethnicity and Cultural Heritage) network, sponsored by our Group head of internal audit, continues to raise awareness by promoting events throughout the year. For example, during Black History Month, numerous engagement events were arranged, encouraging everyone to get involved and demonstrate allyship. The network also hosted a panel discussion during Ramadan for colleagues to share their own experiences and help others gain a greater understanding. These activities are instrumental in supporting our overall diversity and inclusion agenda.

As an inclusive employer, we strongly support social mobility, creating a sense of belonging for everyone, irrespective of their background. Our social mobility network is sponsored by our commercial CEO and, alongside raising awareness, is committed to ensuring equity of opportunity, regardless of background and experience. We continue to partner with upReach, a charity committed to transforming social mobility. In the summer, we again offered six-week placements to six university students from
lower socioeconomic backgrounds. These internships continue to have a positive impact on broadening our talent pool for entry level roles with interns applying for and successfully securing permanent roles within the firm.

Charity

Our two main corporate charity partners are chosen by our colleagues as part of our employee opinion survey and these remain Make-A-Wish Foundation, who grant wishes for children with life-threatening illnesses, and Cancer Research UK, which we have now supported for 10 consecutive years. To date, we are proud to have raised over £600,000 for Cancer Research UK as well as donating clothing and items to be sold across their 600 shops, nationwide.

Over the last four years, we have raised over £200K for Make-A-Wish Foundation, enabling them to grant over 80 magical wishes for critically ill children and their families.

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

Our Payroll Giving Scheme matches charitable contributions while allowing employee donations to be made directly from pre-tax salary. Approximately 13% of employees across the Group were signed up to Payroll Giving at 31 July 2023, achieving us a thirteenth consecutive year of the Payroll Giving Quality Mark Gold Award and ensuring that we have met our target of maintaining this standard.

Principal Risks and Uncertainties

Risk Management

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

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

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

Further details on our approach to risk management and corresponding framework can be found on pages 83 to 130 of the Annual Report of the company's ultimate parent company, CBG.

STRATEGIC REPORT

Risks and uncertainties

At the core of our Enterprise Risk Management Framework and the risk process lifecycle sit our suite of Principal Risks.

These are the risks which have been identified as those most material in the delivery of the group's strategic objectives. This suite is subject to ongoing review to ensure that the framework remains aligned to the prevailing risk environment.

The group's activities, business model and strategy remain unchanged; as a result, several of the principal risks faced and the approach to mitigating them remains broadly consistent with prior years. However, reflective of the current environment, legal and regulatory risk has been added as a principal risk and business and strategic risk has been updated (previously business risk). Three risks previously included have been reclassified to non-principal risks to reflect their relative immateriality to the group risk profile. Climate risk remains a cross-cutting risk that could impact across all principal risks.

The table on pages 20 to 23 gives an overview of these principal risks and possible impacts, as well as the outlook pertaining to these. More detailed information on each of these follows on pages 24 to 51 which set out the frameworks in place to manage these risks.

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

Climate Risk

Running alongside the suite of principal risks is climate risk, which the group categorises as a cross-cutting risk, as the impacts arising from climate change have the ability to impact across the spectrum of principal risks. In addition, transitional risks from climate change which may have a medium-to longer-term impact on the group's product offering, operations and strategic direction are captured in the group's emerging risks. For further information on the Group's climate risk response, see the Sustainability Report on pages 38 to 64 of the Group's Annual Report.

Climate risk represents a continued area of focus, and the group continues to closely monitor government and regulatory developments in parallel to managing its own carbon footprint and supporting its customers to manage their climate risk impacts. The short-dated tenor of the lending book and strong business model resilience capabilities mitigate current risk exposure while the continued embedding of the climate framework will enable the group to review the evolution of the risk landscape on an ongoing basis.

Emerging risks and uncertainties

The group's suite of principal risks is accompanied by a portfolio of emerging risks reflecting broader market uncertainties. The group defines an emerging risk as a risk that may potentially become material in the delivery of the group's strategic objectives but the risk and its applicability to the group may not yet be fully understood or assessed. This incorporates input and insight from both a top-down and bottom-up perspective:

- Top-down: identified by directors and executives at a group level via the Group Risk and Compliance Committee ("GRCC") and the board.
- Bottom-up: identified at a business level and escalated, where appropriate, via risk updates to the GRCC.

This year, to reflect the evolving nature of risks that accompany the implementation of group strategy, change execution risk has been included as a new emerging risk. Pages 22 to 23 of the Strategic Report provide further information on how the group is adapting to changes in the operating environment. Strategic disruption has also been included as a new emerging risk, a reposition of the previous technological change and new business model's risk.

The established framework for monitoring these risks supports the group's organisational readiness to respond. Additionally, active monitoring of the correlation impacts across emerging risks, uncertainties and principal risks is undertaken.

Group-level emerging risks are monitored by the GRCC and Risk Committee on an ongoing basis, with agreed mitigating actions in place to ensure the group's preparedness should a risk crystallise. Ongoing monitoring also tracks several sub-risks to support identification of key themes and any patterns of deterioration or potential risk crystallisations.

STRATEGIC REPORT

Principal risk	Outlook
Business and Strategic Risk The risk of realising lower than anticipated profits or experiencing a loss rather than a profit due to changing market conditions, pursuing an ineffective strategy or ineffective implementation of strategy. *See page 24*	➔ • Notwithstanding the continued uncertain macroeconomic environment, the group's business model remains proven and resilient. • The group continues to focus on supporting customers, maintaining underwriting standards and investing in its business. • The group remains prepared for a range of different economic and business scenarios to ensure it has the resources and operational capability to perform effectively.
Capital Risk The risk that the group has insufficient regulatory capital (including equity and other loss-absorbing debt instruments) to operate effectively, including meeting minimum regulatory requirements, and to operate within board-approved risk appetite and support its strategic goals. *See page 25*	➔ • Although the continuing macroeconomic uncertainty may impact capital in the short to medium term, the group's capital position is expected to remain above risk appetite. • Capital requirements for Coronavirus Business Interruption Loans ("CBILS") will increase as these loans refinance without a government guarantee. • The PRA Consultation Paper 16/22 on Basel 3.1 standards was published in November 2022, with changes expected to be implemented or phased in from 2025-2030. As highlighted in the first half results, following initial analysis, it is estimated that if implemented in its current form, it would represent an increase of up to c.10% in the group's RWAs calculated under the standardised approach. This is primarily as a result of the proposed removal of the SME supporting factor and the proposed approach to the classification of Retail SMEs and associated risk weights. The group looks forward to the publication of the final regulatory rules and has sufficient management actions available to address the impact should the proposals remain unchanged.
Conduct Risk The risk that the group's behaviours, or those of its colleagues, whether intentional or unintentional, result in poor outcomes for customers or the markets in which it operates. It is rooted in the importance of delivering good customer outcomes at every stage of the customer journey. *See page 28*	↑ • Pressure due to the external macroeconomic environment continues to increase financial pressure on consumers as a result of the higher cost of living. • Consumer Duty sets a higher standard of care for retail customers including the need to act to deliver good customer outcomes and avoid foreseeable harm. Activities introduced as part of the implementation programme will continue to embed and may necessitate further evolution of the conduct risk framework.
Credit Risk The risk of a reduction in earnings and/or value due to the failure of a counterparty or associated party, with whom the group has contracted or is exposed as part of its operations, to meet its obligations in a timely manner. See page 30	↑ • Uncertainty in the macroeconomic and geopolitical environment leading to high inflation and rising interest rates which could result in higher credit losses in the future. The loan book continues to display resilience due to consistent prudent lending criteria and risk appetite; however, the need for proactive monitoring remains. • Target financial institutions remain of appropriate credit quality.

STRATEGIC REPORT

Funding and Liquidity Risk Funding risk is the risk of loss caused by the inability to raise funds at an acceptable price or to access markets in a timely manner. Liquidity risk is defined as the risk that liabilities cannot be met when they fall due or can only be met at an uneconomic price. *See page 44*	➔ • Despite ongoing macroeconomic uncertainty which has increased market competitiveness, the Banking division's ability to fund the loan book is expected to be unaffected with continued access to a wide range of funding sources.
Legal and Regulatory Risk The risk of non-compliance with laws and regulations which could give rise to fines, litigation, sanctions and the potential for material adverse impact upon the group. *See page 46*	↑ • The inherent risk arising in financial services as an industry in the jurisdictions in which we operate continues to increase. • Notwithstanding the strong controls in effect limiting residual risk exposure arising from regulatory expectations, external changes may have a follow-on impact to the group's residual exposure. • Legal risks such as complaints in relation to historic commission arrangements may give rise to a potential future obligation to compensate customers.
Non-Traded Market Risk The risk to the value of assets or liabilities outside the trading book that arises from changes in market prices such as interest rates, credit spreads and foreign exchange rates. *See page 47*	↑ • The group expects exposure to interest rate risk and foreign exchange ("FX") risk to remain at similar levels to those seen this year, but credit spread risk in the banking book ("CSRBB") is expected to increase as the group restructures its high-quality liquid asset ("HQLA") portfolio.
Operational Risk The risk of loss or adverse impact resulting from inadequate or failed internal processes, people and systems or from external events. This includes the risk of loss resulting from fraud/financial crime, cyber-attacks and information security breaches. See page 49	➔ • Established group-wide operational risk framework and methodology continues to mature, with expectation on best practice increasing. • A changing internal and external environment raised challenges and may impact managing our people. • The group continues to plan and predict resource needs to support its strategy, business change execution and wider technology and information security transformation. • Additionally, financial crime and fraud risks are inherent in doing business necessitating the requirement to maintain effective systems and controls.
Reputational Risk The risk of detriment to stakeholder perception of the group, leading to impairment of its reputation and future goals, due to any action or inaction of the company, its employees or associated third parties. See page 51	➔ • Established group-wide and employee-level focus on responsibility and sustainability enables an approach in all businesses that aligns to a range of stakeholder expectations, which is supported by group-level oversight.

↑ Risk increase ➔ Stable ↓ Risk decrease

STRATEGIC REPORT

Emerging risk/uncertainty	Mitigating actions and key developments
Cross-cutting risks	
Geopolitical uncertainty M	• The group operates predominantly in the UK and Republic of Ireland, covering approximately 98% of the loan book exposure. • Monitoring is in place to track changes in the geopolitical landscape that could have an impact on the group and its operations, its customers and its supply chain, either directly or indirectly. • The group has a strong financial position and maintains capital and liquidity levels well in excess of regulatory minima. • Regular stress testing is undertaken on performance and financial position in the event of various adverse conditions to test the robustness and resilience of the group. • The group adopts a prudent and conservative approach and regularly reviews its risk appetite to ensure it remains appropriate in the prevailing geopolitical and economic environment.
Medium to long-term transitional climate risks M	• Transitional climate risks across the medium to long term may potentially impact the group's product offering, operations and strategic direction. • The group continues to mature its climate risk framework, overseen by the Group Climate Committee. • Regular updates are provided to the Risk Committee, which retains oversight responsibility, while *senior management responsibility is assigned to the group chief risk officer.* • Monitoring is in place to continually identify and assess climate risks and opportunities, supported by annual consideration of climate-related scenario analysis. • The group conducts ongoing reviews and consideration of new green-growth lending opportunities through the Commercial Green Initiatives Working Group to align with its transition roadmap
Financial risks	
Economic uncertainty S	• The persistence of macroeconomic uncertainty within the UK and/or globally (for example from financial volatility or changes to macroeconomic policies) can impact business, customer and broader market confidence. • The group's business model aims to ensure that it is able to trade successfully and support clients in a wide range of economic conditions. By maintaining a strong financial and capital position, the group aims to be able to absorb short-term economic downturns, respond to any change in activity or market demand, and in so doing build long-term relationships by supporting clients when it really matters. • The group focuses on credit quality and returns rather than overall growth or market share and continues to invest in the business for the long term, to support customers and clients through the cycle. • Regular stress testing is undertaken on performance and financial position in the event of various adverse conditions to test the robustness and resilience of the group. • The group adopts a prudent and conservative approach and regularly reviews its risk appetite to ensure it remains appropriate in the prevailing macroeconomic environment.

S Short-term emergence M Medium-term emergence L Long-term emergence

STATEGIC REPORT

Emerging risk/uncertainty	Mitigating actions and key developments
Operational risks	
Legal and regulatory change S	• The group operates in a developing, complex and demanding regulatory environment. An established horizon scanning and monitoring framework is maintained to identify regulatory and legal changes that could materially impact its operations, including legislative and regulatory reform, changes in regulatory practice and case law developments. • The group engages regularly with regulators in the jurisdictions in which it operates, including the Prudential Regulatory Authority ("PRA") and Financial Conduct Authority ("FCA") in the UK, as well as industry bodies and external advisers, to understand relevant changes. • High-level gap and impact analyses are undertaken to assess new compliance requirements and identify any changes required to the group's systems and controls, processes and procedures, with programmes of work initiated as necessary. The extent and nature of this work ranges from simple isolated process changes to large multi-year projects, depending on the complexity and scale of the change.
Supply chain risk M	• The group faces emerging supply chain risk through growing exposure to more complex supply chains and reliance on third-party suppliers for the provision of key services. • The group's third-party management framework ensures a risk-based approach is adopted with regard to the identification, classification and management of the many potential business impacts that can result from failures in the supply chain. • Through the identification of inherent risks at the outset of all third-party engagements, appropriate due diligence is completed prior to onboarding, suitably robust contracts are put in place and effective life cycle management is implemented. • Ongoing reporting of key risk and performance indicators coupled with periodic supplier reviews from the third-party monitoring team help to manage supply chain risk. Oversight of all material suppliers is retained via the GRCC while continuity of service is a key focus for all critical relationships with risks mitigated through resilience planning and identification of potential alternative solutions where possible. • The group is also continuing to improve its understanding and management of concentration risk across critical third parties and their extended supply chains.
Strategic risks	
Change execution risk S	• The group faces change execution risk through its projects and investment in delivering change across the group, in line with its strategic objectives and regulatory obligations. • Delivering and successfully embedding change in line with these priorities can lead to delivery pressures for complex projects and initiatives with concurrent demands impacting the operational capability of the group's people and systems. • Regular project updates are provided to senior management to support effective management of any execution risks and ensure transformation is implemented efficiently with strong governance in place.
Strategic disruption M	• Strategic disruption may arise from technological change or new business models that have the potential to impact the group's market position and future profitability. • While regulation remains a barrier to entry for many potential new competitors, consumer expectations continue to evolve, challenging existing capabilities and traditional approaches. Competitors are adapting in response, while new financial technology companies continue to develop alternative business models. • For example, cloud-delivered solutions reduce barriers to entry and new product time to market, which allows new competitors and start-ups to compete in the market- place more rapidly. • In addition, the growing prevalence of artificial intelligence in the market represents a potential threat given the current rate of adoption and is difficult to predict. Notwithstanding, artificial intelligence also introduces an opportunity to rapidly expand the group's product and customer base to enter new markets. • Market developments are closely monitored through horizon scanning to identify and understand emerging dynamics as well as the evolving preferences of the group's customers. The group prides itself on its deep knowledge of its customers and clients and the industries and sectors in which they operate.

Key:

Risk increase Stable Risk decrease

Business and strategic risk

Business and strategic risk is the risk of realising lower than anticipated profits, or experiencing a loss rather than a profit, due to changing market conditions, pursuing an ineffective strategy or ineffective implementation of strategy.

Exposure
The group operates in an environment where it is exposed to an array of independent influencing factors. Its profitability can be impacted by: the broader UK economic climate; front-line sales performance; changes in technology, regulation and customer behaviour; cost movements; and competition from traditional and new players. All of these can vary in both nature and extent across its divisions.

Changes in these factors may affect the group's ability to write loans as it seeks to maintain its desired risk and reward criteria, or result in additional investment requirements and higher costs of operation
across the group.

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

- focusing on specialist markets where the group can build leading market positions based on service, expertise and relationships;
- focusing on credit quality and returns rather than overall loan book growth or market share;
- investing in the business for the long term;
- maintaining a strong balance sheet and prudently managing the group's financial resources; consistently supporting our customers and clients through the cycle; and
- acting sustainably and responsibly, considering the interests of all stakeholder groups and growing demand for sustainable products and services.

Measurement
Business and strategic risk is measured through a number of key performance metrics and risk indicators at a business, divisional and group level which provide transparency on progress and execution against strategy. These indicators are typically reported monthly via relevant committees, with oversight also exercised via the board, most notably through its review of key financial metrics and underlying performance trends.

Alongside these measures, the status of key group initiatives and projects is also tracked and discussed, noting the importance of their successful delivery to the group's strategic trajectory.

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

The group's core strategic pillars are regularly reviewed to ensure continued focus on strategic priorities that support the business model and enable the group to adapt to changes and expectations in the external operating environment.

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

The group also builds and maintains long-term relationships with its clients and intermediaries based on:

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

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

The group is further protected by the diversity of its businesses and product portfolio, which provides resilience against competitive pressure or market weakness in any one of the sectors it operates in.

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

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

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

Capital and liquidity adequacy planning conducted as part of both the annual internal capital adequacy assessment process ("ICAAP") and internal liquidity adequacy assessment process ("ILAAP") is also used to assess the resilience of the group's current strategy and business model in the event of different stress scenarios. Although not formally linked, outputs and analysis from both exercises are used to guide strategic planning.

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

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

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

Outlook

Notwithstanding the continued uncertain macroeconomic environment and the impact of rising inflation and interest rates on our customers and wider financial market conditions, the group's business model remains resilient. The group continues to focus on supporting customers, maintaining prudent underwriting standards and investing in the business.

The group remains prepared for a range of different economic and business scenarios to ensure it has the resources and operational capability to continue to perform effectively through this period of uncertainty.

Capital risk

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

Exposure

The group's exposure to capital risk principally arises from its requirement to meet minimum regulatory requirements set out in the CRR and from related additional requirements and guidelines specified by the PRA and is usually specified in terms of minimum capital ratios which assess the level of regulatory capital and risk weighted assets. The group operates a prudent business model which results in comparatively low levels of leverage and so risk-based capital requirements are, and are likely to remain, the group's binding constraint.

The PRA supervises CBL on an individual consolidation 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. For the purpose of this section, all figures and all references to "group" relate to this individual consolidation group. 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 first table of the "measurement" section. 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 is required to hold at all times. Pillar 3 requires firms to publish a set of disclosures which allow market participants to assess information on the firm's capital, risk exposures and risk assessment process. Pillar 3 disclosures are required for the CBG consolidated group with certain key disclosures for the CBL group. The 2023 Pillar 3 disclosures, which are unaudited, can be found on the Group's website at www.closebrothers.com/investor-relations.

Risk Appetite

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

- support the development and growth of business;
- continue to meet Pillar 1 requirements, TCR, additional Capital Requirements Directive buffers and leverage ratio requirements; and
- be able to withstand a severe but plausible stress scenario with satisfactory capital and leverage ratios.

A prudent capital position is a core part of the group's business model, allowing it to grow and invest in the business, support paying dividends to shareholders and meet regulatory requirements.

Capital triggers and limits are maintained within the risk appetite framework and are approved by the board at least annually.

Measurement

Capital risk is measured using CET1, tier 1 and total capital ratios, and leverage ratios, determined in line with regulatory capital adequacy requirements. These ratios, and associated metrics, are actively monitored, and reported quarterly to the regulator.

Analysis of the composition of regulatory capital and Pillar 1 RWAs and a table showing the movement in CET1 capital during the year are shown on the following pages.

The CET1 capital ratio reduced from 13.5% to 12.4%, mainly driven by loan book growth in the year, the impact of the IFRS 9 transitional arrangements and deduction of dividends paid and foreseen, partly offset by capital generation through profit and a decrease in risk weighted assets associated with derivatives and CVA. The impact of Novitas on the CET1 capital ratio was (-c.125bps) and consists of impact on retained earnings (c.90bps) and IFRS 9 transitional arrangements (c.45bps), offset by a reduction in loan book RWAs (c.10bps).

CET1 capital decreased to £1,139.6 million (31 July 2022: £1,194.4 million) primarily due to a decrease in the transitional IFRS 9 add-back to capital, the regulatory deduction of dividends paid and foreseen and an increase in the intangible assets deducted from capital. This was partially offset by capital generation through profit.

RWAs, calculated using the standardised approaches, increased to £9,159.2 million (31 July 2022: £8,847.6 million) mainly driven by growth in the Commercial and Property business loan books. This was partly offset by a decrease in RWAs associated with derivatives and CVA following changes to the derivatives calculation to recognise netting agreements and to implement the standardised approach to counterparty credit risk.

Composition of regulatory capital and Pillar 1 risk weighted assets (unaudited)

	31 July 2023 £ million	31 July 2022 £ million
CET1 capital		
Shareholders' equity per balance sheet	**1,336.4**	1,325.9
Difference in equity under regulatory individual consolidation basis	**(21.4)**	(10.0)
Regulatory adjustments to equity		
Intangible assets, net of associated deferred tax liabilities	**(172.1)**	(158.0)
Foreseeable dividend[1]	**-**	(24.5)
Cash flow hedging reserve	**(34.4)**	(21.7)
Prudent valuation adjustment	**(0.4)**	(0.4)
Insufficient coverage for non-performing exposures[2]	**(0.4)**	–
IFRS 9 transitional arrangements[3]	**31.9**	83.1
CET1 capital[4]	**1,139.6**	1,194.4
Tier 2 capital – subordinated debt[4]	**200.0**	200.0
Total regulatory capital[4]	**1,339.6**	1,394.4
RWAs[5]		
Credit and counterparty credit risk	**8,544.7**	8,263.0
Operational risk[5]	**602.4**	561.1
Market risk[5]	**12.1**	23.5
	9,159.2	8,847.6
CET1 capital ratio[4]	**12.4%**	13.5%
Total capital ratio[4]	**14.6%**	15.8%

[1]Under the CRR Article 26 on own funds, no deduction has been recognised at 31 July 2023 as there is no proposed final dividend for the year ended 31 July 2023. A deduction was recognised at 31 July 2022 for a foreseeable dividend, being the final dividend proposed for the year ended 31 July 2022.

[2]In line with CRR, effective on 1 January 2022, the CET1 capital includes a regulatory deduction where there is insufficient coverage for non-performing exposures, amounting to £0.4 million at 31 July 2023 (31 July 2022: £0.0 million).

[3]The group has elected to apply IFRS 9 transitional arrangements for 31 July 2023, which allow the capital impact of expected credit losses to be phased in over the transitional period.

[4]Shown after applying IFRS 9 transitional arrangements and the CRR transitional and qualifying own funds arrangements in force at the time. Without their application, at 31 July 2023 the CET1 capital ratio would be 12.1% and total capital ratio 14.3% (31 July 2022: CET1 capital ratio 12.7% and total capital ratio 14.9%).

[5]Operational and market risk include an adjustment at 8% in order to determine notional RWAs.

STRATEGIC REPORT

Movement in CET1 capital during the year (unaudited):

	2023 £ million	2022 £ million
CET1 capital at 1 August	**1,194.4**	1,224.9
Profit in the period attributable to shareholders	**78.1**	163.7
Dividends paid and foreseen	**(65.1)**	(88.6)
IFRS 9 transitional arrangements	**(51.2)**	(34.8)
Increase in intangible assets, net of associated deferred tax liabilities	**(14.1)**	(22.1)
Change in software assets treatment[1]	**-**	(46.3)
Other movements in reserves recognised for CET1 capital	**2.1**	(2.2)
Other movements in adjustments from CET1 capital	**(0.4)**	(0.2)
CET1 capital at 31 July	**1,139.6**	1,194.4

[1]Upon implementation of CRR, effective 1 January 2022, the CET1 ratio no longer included the benefit related to software assets which were previously exempt from the deduction requirement for intangible assets from CET1.

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

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

The CAC is responsible for measuring and monitoring the capital position and reporting to the board on a regular basis, with any changes to the capital structure of the group reserved for the group board. As noted above, information on the group's capital adequacy is reported to the CAC, whose membership consists of finance, business and risk executives and senior management. The CAC also monitors actual, forecast and stressed capital metrics using an Internal Ratings-Based IRB approach in order to prepare for anticipated future mandatory transition to this approach.

Outlook

Although the continuing macroeconomic uncertainty may impact capital in the short to medium term, the group's capital position is expected to remain above risk appetite.

Capital requirements for CBILS loans will increase as these loans refinance without a government guarantee.

Changes in requirements as a result of IFRS 9 transitional effects and changes in capital buffer structures are captured in the group's capital planning process.

The PRA Consultation Paper 16/22 on Basel 3.1 standards was published in November 2022, with changes expected to be implemented or phased in from 2025-2030. Following initial analysis, the group estimates that if implemented in its current form, it would represent an increase of up to c.10% in the group's RWAs calculated under the standardised approach. This is primarily as a result of the proposed removal of the SME supporting factor and the proposed approach to the classification of Retail SMEs and associated risk weights. The group looks forward to the publication of the final regulatory rules and has sufficient management actions available to address the impact should the proposals remain unchanged.

Conduct risk

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

STRATEGIC REPORT

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

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

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

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

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

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

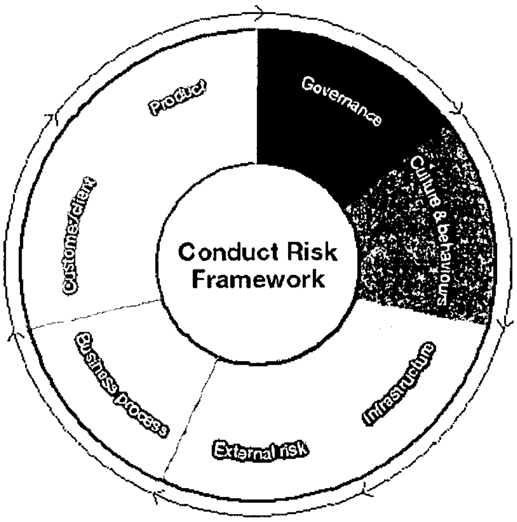
- The group takes steps to proactively identify conduct risks and encourages all individuals across the organisation to feel responsible for managing conduct risks within their business area and/or function. The group provides support to colleagues to enable them to improve the conduct of their business or function, including group-wide and specialist training where required
- The group's remuneration strategy is designed to incentivise good behaviours and due consideration is given to individual conduct as part of any remuneration.
- Policies and standards set out expectations of employees and key controls to ensure conduct risk is managed within the agreed risk appetite, including for essential areas such as dealing with clients, dealing with markets, complaint handling, vulnerable customers, and conflicts of interest. Mandatory staff training on key conduct areas is provided on a regular basis.
- All products are subject to a robust risk-based product development and review process.

Monitoring
Risk identification and timely management action are undertaken by management and employees as the first line of defence. The risk and compliance functions provide support, review and independent challenge to ensure conduct risk reporting is robust, remains fit for purpose, and agreed management actions appropriately mitigate the identified risks.

The compliance monitoring function undertakes regular reviews of key areas, such as complaint handling and vulnerable customer processes, to confirm customers are experiencing good outcomes. Group internal audit provides independent assurance on the control effectiveness of key areas using a risk-based approach.

All risk and compliance committees are required to review conduct risk reporting and outputs and consider any required action. Where appropriate, issues may be escalated to both the GRCC and the Risk Committee.

Over the past year, conduct risk reporting has continued to mature to provide increased transparency and visibility to monitor conduct risk. Reporting on, and monitoring of, conduct risk will continuously evolve with the introduction of new regulatory requirements per the FCA's Consumer Duty for retail customers for in-scope businesses, and in light of the ever-changing regulatory landscape.



STRATEGIC REPORT

Outlook

Conduct risk increased in the year as the macroeconomic environment continues to increase financial pressure on consumers as a result of the higher cost of living, caused by rising inflation and interest rates which remain volatile due to various factors. Whilst there have been some improvements, the medium to long-term outlook remains uncertain. This may widen or increase the number of individuals and businesses requiring credit. As a result, support for customers in financial difficulty, including vulnerable customers, is expected to increase.

To enhance consumer protection, in addition to various publications and "Dear CEO" letters to support retail customers facing rising costs or financial difficulty, the FCA has outlined new requirements under Consumer Duty. This introduces a new Principle 12 that requires firms to act to deliver good outcomes for retail customers, as well as cross-cutting rules which require firms to act in good faith, *avoid causing foreseeable harm and enable and support* retail customers to pursue their financial objectives. It sets a higher standard than the existing Principle 6 (a firm must pay due regard to the interests of its customers and treat them fairly) and Principle 7 (a firm must pay due regard to the information needs of its clients and communicate information to them in a way which is clear, fair and not misleading) for retail customers.

Implementation activities for Consumer Duty were successfully delivered ahead of the FCA's implementation deadline of 31 July 2023, including enhancements to the Conduct Risk Framework to incorporate additional mechanisms for monitoring the delivery of good customer outcomes going forward.

Whilst these activities continue to embed, the group is focused on maintaining its culture of tailoring its approach to supporting customers to drive good customer outcomes.

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 arises mainly 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 on page 10 of the group's annual report. This ensures concentration risk is controlled in both the loan book and associated collateral. Credit risk appetites are set around unsecured and structurally protected lending to ensure our portfolios remain predominantly secured. At 31 July 2023, secured lending accounts for 90.4% (31 July 2022: 89.6%) of the loan book.

The group has established limits for all financial 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 are monitored in accordance with the regulatory large exposure's framework.

Managing credit risk

Exposure
As a lender to businesses and individuals, the group is exposed to credit losses if customers are unable to repay loans and outstanding interest and fees. At 31 July 2023 loans and advances to customers was £9.6 billion (31 July 2022: £9.1 billion).

Further details on loans and advances to customers and debt securities held are in notes 10 and 11 on pages 88 to 95 of the financial statements. Further commentary on the credit quality of the loan book is outlined on pages 41 to 42 of the group's annual report.

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

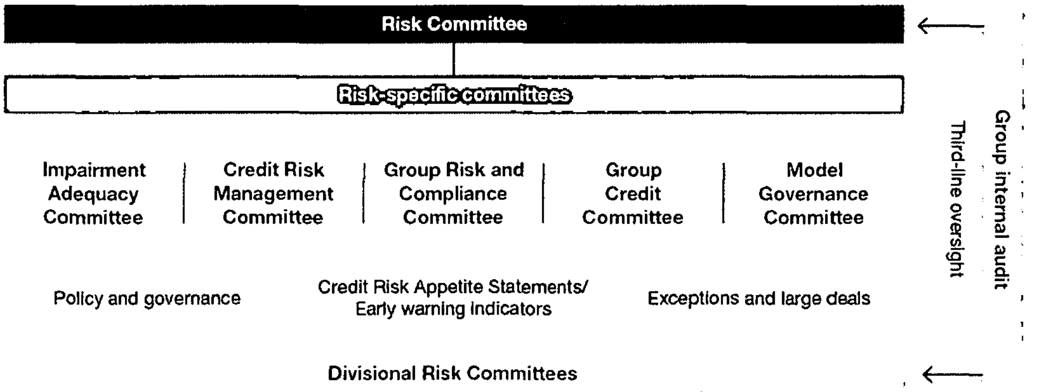
To support this approach, the group maintains a credit risk appetite framework to define and align credit risk strategy with its overall appetite for risk and business strategies, as defined by the board.

The group Credit Risk Appetite Statement ("CRAS") outlines the specific level of credit risk that the group is willing to assume, utilising defined quantitative limits and triggers against agreed measures, and covers both credit concentration and portfolio performance measures.
The measures supporting the group CRAS are based on the following key principles:

1. To lend within familiar asset classes in well-known and understood markets.
2. To operate as a predominantly secured, or structurally protected, lender against identifiable and accessible assets, and maintain conservative loan-to-value ("LTV") ratios across the group's portfolios.
3. To maintain a diversified loan portfolio (by business, asset class and UK geography), as well as a short average tenor and low average loan size.
4. To rely on local underwriting expertise, with authority delegated from the Risk Committee, with ongoing central oversight.
5. To maintain rigorous and timely collections and arrears management processes.
6. To operate strong control and governance within the lending businesses, overseen by a central group credit risk team.

STRATEGIC REPORT

Credit Risk Governance Framework



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

The CRAS is embedded into business-unit credit risk management through a hierarchy of local triggers and limits, which are approved by the CRMC performance and is also monitored monthly via divisional RCCs. Material breaches are escalated via established governance channels.

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

Measurement

A consistent, accurate and consolidated central credit reporting framework is in place and represents a key tool for effective credit risk management and measurement by the central group credit risk team. The framework facilitates the identification, measurement, monitoring and control of all material credit risks within the lending portfolios, setting clear credit risk appetite within which all lending is originated and ensuring that asset portfolios are grown responsibly and profitably.

A centralised dataset incorporates:

- the use of common data definitions within Credit Risk Management Information ("CRMI") across all business units;
- consistent and controlled extraction and housing of credit data from the bank's core business systems;
- dynamic credit risk management to improve strategic policy decision-making;
- oversight and control of the profile of the lending book to manage credit risk appetite; and
- identification, monitoring and control of material credit risks against a clear and communicated CRAS.

Mitigation

Credit assessment and lending criteria

The group's general approach to credit mitigation is based on the provision of affordable lending on a secured or structurally protected basis, against assets that are known and understood. These assets are typically easily realisable with strong secondary markets and predictable values and spread across a broad range of classes within established sectors.

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

The common lending principles are as follows:

1. Predominantly secured lender: 97.9% of loan book secured or structurally protected.
2. Short average tenor: portfolio residual maturity of 16 months.
3. Small average loan size and low single-name concentration risk with balance for the top 10 facility limits representing less than 6% of book.
4. Further diversification by sector, asset class and UK geography.
5. Local underwriting expertise with central oversight: focus on assets that are known and understood, with continued investments in people and systems.

Exposure to credit losses is minimised by applying these strict lending criteria when testing the credit quality of the borrower and maintaining consistent and conservative LTV ratios with low average loan size and short-term tenors. All lending criteria and assessment procedures are thoroughly documented in robust credit policies and standards, at both a group and business level.

Expertise

Across the various businesses, credit risk employees are specialists in their area and can support loan book growth in a manner that is consistent with both risk strategy and appetite. This local distribution allows the formation of strong relationships with customers and intermediaries based on a deep understanding of their needs and the markets in which they operate. Consistent underwriting discipline and lending against assets that are known and understood benefits customers through the cycle and allows maintenance of a track record of strong margins and profitability.

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

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

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

These underwriting approaches are reinforced by timely collections and arrears management, working in conjunction with the customer to ensure the best possible outcome for customers.

The local model is supported by central oversight and control. An independent central group credit risk team provides ongoing monitoring of material credit risks through regular reviews of appetite and policy.

Monitoring
High-level requirements are outlined in documented standards covering the identification, monitoring and management of customers in financial difficulty, with detailed credit policy and guidance formalised within local credit policies, including guidelines on the identification and treatment of vulnerable customers.

Documented policy includes business-specific definitions for identifying customers in, or likely to experience, financial difficulty. There are accompanying courses of action outlined that protect the group's position, taking account of the terms/covenants of facilities, security enforcement options, legal remedies and third-party intervention (for example, brokers).

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

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

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

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

Third line of defence: Internal audit
The third line of defence is the Group internal audit function. This team uses both a risk-based approach and a rolling programme of reviews to ensure that the first and second lines of defence are working effectively.

Divisional overview
The Commercial business 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 comprises loans of less than £2.5 million. Credit quality is assessed predominantly on an individual loan-by-loan basis. During and after the pandemic, the Commercial business has provided additional support to customers using the CBILS, Coronavirus Large Business Interruption Loan Scheme ("CLBILS"), and Recovery Loan Scheme ("RLS") products, which benefit from UK government guarantees. Collection and recovery activity is executed promptly by experts with relevant experience in specialised assets. This approach allows remedial action to be implemented at the appropriate time to minimise potential loss.

The Retail business is predominantly high-volume secured or structurally protected lending. The majority of the loan book comprises 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 restore customers to a performing status, with recovery methods applied to minimise potential loss.

STRATEGIC REPORT

The Property business is predominantly a low-volume, specialised lending portfolio with credit quality assessed on an individual loan-by-loan basis. The majority of the loan book comprises residential development loans of less than £10 million. All loans are regularly reviewed to ensure that they are performing satisfactorily, with Residential Development facilities monitored monthly by independently appointed project monitoring surveyors ("PMSs") 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 the Commercial and Property businesses, performing loans with elevated levels of credit risk may be placed on watch lists depending on the perceived severity of the credit risk.

Outlook

Credit losses increased in the year to 31 July 2023, primarily reflecting the impact of updated assumptions in relation to expected case failure, time to recover and recovery rates for the Novitas portfolio, but also the underlying impacts of ongoing market uncertainty, which continue to be monitored closely.

Relative to 31 July 2022, the overall credit risk outlook reflects a heightened level of uncertainty in the macroeconomic environment in the short to medium term due to a combination of evolving factors. These include the ongoing conflict in Ukraine, the rising cost of living and inflation. In addition, the long-term effects of the pandemic and subsequent cessation of various government support schemes could have an impact on both consumers and businesses. The impact of this on our customers, including potential lagging factors continues to be closely monitored. These factors could result in higher credit losses in the future.

Risk appetite has remained consistent with the group's prudent, through-the-cycle underwriting standards.

Forborne balances have increased year-on-year. They remain lower than peaks observed during the pandemic; however, they are above pre-pandemic levels.

Further details on loans and advances to customers and debt securities held are in notes 10 and 11 the financial statements on pages 88 to 95.

Credit Risk Highlights (audited)

	31-Jul 2023 £m	31-Jul 2022 £m
Loans and advances		
Property business	**1,744.7**	1,510.2
Retail business	**3,091.2**	3,133.9
Commercial business	**4,799.6**	4,500.4
Of which Novitas	**244.0**	272.7
Excluding Novitas	***4,555.6***	*4,227.7*
Total gross loans and advances to customers	**9,635.5**	9,144.5
Impairment provisions		
Property business	**41.7**	36.7
Retail business	**89.4**	69.9
Commercial business	**249.5**	179.0
Of which Novitas	***184.1***	*113.3*
Excluding Novitas	***65.4***	*65.7*
Total impairment provision	**380.6**	285.6
Provision coverage ratio		
Property business	**2.4%**	2.4%
Retail business	**2.9%**	2.2%
Commercial business	**5.2%**	4.0%
Novitas only	***75.5%***	*41.5%*
Excluding Novitas	*1.4%*	*1.6%*
Total impairment coverage ratio	**3.9%**	3.1%
Part- and non-performing loans		
Loans in Stage 2	**1,062.0**	1,158.9
Of which Novitas	**1.3**	96.0
Loans in Stage 3	**583.4**	358.6
Of which Novitas	**241.7**	75.4
Stage 2 coverage	**3.0%**	6.8%
Excluding Novitas	***3.0%***	*2.6%*
Stage 3 coverage	**49.8%**	43.8%
Excluding Novitas	***31.2%***	*36.4%*

Stage allocation of loans and advances to customers has been applied in line with the definitions set out on page 88 of the notes to the financial statements.

During the year the staging profile of loans and advances to customers deteriorated as a result of Novitas migrations into Stage 3. At 31 July 2023, 82.9% (31 July 2022: 83.4%) of gross loans and advances to customers were Stage 1. Stage 2 loans and advances to customers decreased to 11.0% (31 July 2022: 12.7%) as transfers into Stage 3 have offset migrations into Stage 2 associated with a significant increase in credit risk. The remaining 6.1% (31 July 2022: 3.9%) of loans and advances to customers was deemed to be credit-impaired and was classified as Stage 3.

Overall impairment provisions increased to £380.6 million (31 July 2022: £285.6 million), following regular reviews of staging and provision coverage for individual loans and portfolios. The movement in impairment provisions was driven by Novitas, which reflects the latest case failure, time to recover and recovery rate assumptions used. Excluding Novitas, impairment provisions increased across the remainder of the group to £196.5 million (31 July 2022: £172.3 million), reflecting the impact of external pressures resulting from deterioration in the macroeconomic environment.

As a result, there has been an increase in provision coverage to 3.9% (31 July 2022: 3.1%).

Provision coverage analysis by business (audited)

In Commercial, the impairment coverage ratio increased to 5.2% (31 July 2022: 4.0%), reflecting the impacts of updated Novitas assumptions. The significant increase in credit provisions against the Novitas loan book reflects the latest assumptions on case failure, time to recover and recovery rates.

Excluding Novitas, the Commercial provision coverage ratio decreased to 1.4% (31 July 2022: 1.6%) as additional provisions to take into account weaker macroeconomic variables and outlook were offset by write-offs on Stage 3 balances.

In Retail, the provision coverage ratio increased to 2.9% (31 July 2022: 2.2%) reflecting uncertain macroeconomic outlook and increased arrears and forbearance levels in the Motor Finance business as a result of continued cost-of-living pressures on customers as well as longer collect-out processes for Stage 3 balances compared to the prior year.

In Property the provision coverage ratio was stable at 2.4% (31 July 2022: 2.4%), with write-offs on well-provided single names, offset by deteriorating macroeconomic conditions and strong levels of new business.

See the financial statements for full staging tables and analysis, and page 37 of the group annual report for additional detail on changes to macroeconomic forecasts that have impacted provisions during financial year 2023.

Measuring credit risk across our businesses

In order to effectively assess credit risk across the group, a number of judgements and estimates are used. These are based on historical experience and reasonable expectations of future events and are reviewed on an ongoing basis.

In particular, 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, which have a material impact on the accounts. This assessment, which requires judgement, is unbiased and probability-weighted and uses historical, current and forward-looking information. The most significant judgements and estimates are set out below.

While the impact of climate change represents a source of uncertainty, the group does not consider climate-related risks to be a critical accounting judgement or estimate at 31 July 2023. Climate risk continues to be a key area of focus for the group and it continues to assess the sensitivity of assets and customers to climate-related risks as part of regular credit monitoring. Transitional climate risks are considered to be largely mitigated by short average loan book tenors (16 months), conservatively secured and diversified portfolios, and the rigorous underwriting, monitoring and control processes that are in place.

Use of judgements

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

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. Typically, the group assesses whether a significant increase in credit risk has occurred based on a quantitative and qualitative assessment, with a "30 days past due" backstop.

Due to the diverse nature of the group's lending businesses, the specific indicators of a significant increase in credit risk vary by business and may include some or all of the following factors:

- quantitative assessment: the lifetime probability of default ("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 each business to ensure that the increased risk since origination is appropriately captured;
- qualitative assessment: events or observed behaviour indicate credit deterioration. This includes a wide range of information that is reasonably available including individual credit assessments of the financial performance of borrowers as appropriate during routine reviews, plus forbearance and watch list information; or
- backstop criteria: the "30 days past due" backstop is met.

Definition of default

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

Use of estimates

Expected credit loss provisions are a key source of estimation uncertainty which, depending on a wide range of factors, could result in a material adjustment to the carrying amounts of assets and liabilities in the next financial year.

The accuracy of expected credit loss provisions can be impacted by unpredictable effects or unanticipated changes to modelled estimates. In addition, forecasting errors could also occur due to macroeconomic scenarios or weightings differing from actual outcomes observed. Regular model monitoring, validations and provision adequacy reviews are key mechanisms to manage estimation uncertainty across model estimates. Provisions relating to Novitas loans are also sensitive to specific estimation uncertainty associated with case failure rates, expected recovery rates and time to recovery periods. Further detail on these most significant estimates is set out in the following section.

Modelled estimates

The calculation of expected credit losses ("ECL") for loans and advances to customers, either on a 12-month or lifetime basis, is based on the PD, the exposure at default ("EAD") and the loss given default ("LGD") and includes forward looking macroeconomic information where appropriate. PD, EAD and LGD parameters are projected over the remaining life of each exposure. ECL is calculated for each future quarter by multiplying the three parameters and is then discounted back to the reporting date and summed. The discount rate used in the ECL calculation is the effective interest rate.

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

Probability of default

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

Exposure at default

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

Loss given default

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

Novitas loans (audited)

Since 31 July 2022, there has been an increase in the expected credit loss provision in Novitas. The two assumptions requiring the most significant judgement relate to expected recovery rates and time to recovery periods in Novitas. During 2021 and 2022, expected case failure rates were considered a significant judgement. Due to the migration of loans to Stage 3, as explained below, expected case failure rates are no longer considered to be a significant judgement while time to recovery periods have become a significant judgement.

Case failure rates represent a forward-looking probability assessment of successful case outcomes through court proceedings or out-of-court settlements. Recovery rates represent the level of interest and capital that is covered by an insurance policy and expected to be recoverable once a case fails. Time to recovery periods represent management's view on timing using weighted probabilities.

Novitas provides funding to individuals who wish to pursue legal cases. The majority of the Novitas portfolio, and therefore provision, relates to civil litigation cases. To protect customers in the event that their case fails, it was a condition of the Novitas loan agreements that an individual purchased an After the Event ("ATE") insurance policy which covered the loan.

As previously announced, following a strategic review, in July 2021 the group decided to cease permanently the approval of lending to new customers across all of the products offered by Novitas and withdraw from the legal services financing market. Since that time, the Novitas loan book has been in run-off, and the business has continued to work with solicitors and insurers, with a focus on supporting existing customers and managing the existing book to ensure good customer outcomes, where it is within Novitas' ability to do so.

In the first half of the financial year under review, management reviewed and updated its assumptions for expected case failure rates, expected time to recover periods and expected recovery rates to reflect experienced credit performance and ongoing dialogue with customers insurers. This included initiating formal legal action against one of the ATE insurers regarding the potential recoverability of funds in relation to failed cases and considering its position in respect of other insurers. As a result, a number of updates were made to the expected credit loss provision calculation resulting in an increase of

£70.8 million to £184.1 million (31 July 2022: £113.3 million). The increase to the expected credit loss provision is net of write-offs previously provided for and does not include write-offs and costs taken directly to the income statement.

Based on the current position, the majority of loans in the portfolio have been assessed as credit-impaired and have been migrated to Stage 3, with expected case failure rates increased accordingly. Expected credit losses for the portfolio have been calculated by comparing the gross loan balance to expected cash flows discounted at the original effective interest rate, over an appropriate time to recover period. In line with IFRS 9, a proportion of the expected credit loss is expected to unwind, over the estimated time to recovery period, to interest income, which reflects the requirement to recognise interest income on Stage 3 loans on a net basis.

Since 31 July 2022, a material increase in the expected case failure rate assumptions and decrease in the expected recovery rate assumptions have been recognised and the recoverability of interest on relevant loans has been reassessed.

Further detail on the impairment provision is included in note 10 to the financial statements.

Given that the majority of the Novitas portfolio is in Stage 3, the key sources of estimation uncertainty for the portfolio's expected credit loss provision are recovery rates and time to recover periods and recovery rates. On this basis management have assessed and completed sensitivity analysis when compared to the expected credit loss provision for Novitas of 184.1 million (31 July 2022: £113.3 million). At 31 July 2023, a 10% absolute deterioration or improvement in recovery rates would increase or decrease the ECL provision by £11.0 million. Separately, a 12-month improvement in the time to recover period will reduce the ECL provision by £12.1 million, while a 12 month delay in the time to recover period will increase the ECL provision by £10.0 million

Forward-looking information (audited)

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

In order to calculate forward-looking provisions, economic scenarios are sourced from Moody's Analytics. These scenarios cover a range of plausible economic conditions that are then used to project potential credit outcomes for each portfolio. An overview of these scenarios using key macroeconomic indicators is provided on page 37. Ongoing benchmarking of the scenarios to other economic providers is carried out monthly to provide management with comfort on Moody's Analytics scenario paths.

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

The impact of forward-looking information varies across the group's lending businesses because of the differing sensitivity of each portfolio to specific macroeconomic variables. This is reflected through the development of bespoke macroeconomic models that recognise the specific response of each business to the macroeconomic environment.

The modelled impact of macroeconomic scenarios and their respective weightings is reviewed by business experts in relation to stage allocation and coverage ratios at the individual and portfolio level, incorporating management's experience and knowledge of customers, the sectors in which they operate, and the assets financed.

This includes assessment of the reaction of the ECL in the context of the prevailing and forecast economic conditions, for example where currently higher interest rates and inflationary conditions exist compared to recent periods. Economic forecasts have evolved over the course of 2023 and reflect the continued economic challenges and uncertainty. Forecasts deployed in IFRS 9 macroeconomic models are updated on a monthly basis. At 31 July 2023, the latest baseline scenario forecasts GDP growth of 0.5% in calendar year 2023 and an average base rate of 4.9% across calendar year 2023. CPI is forecast to be 5.2% in calendar year 2023 in the baseline scenario, with 1.5% forecast in the protracted downside scenario over the same period.

At 31 July 2022, the scenario weightings were: 30% strong upside, 32.5% baseline, 20% mild downside, 10.5% moderate downside and 7% protracted downside. As economic forecasts are considered to appropriately recognise deterioration in the macroeconomic environment, no change has been made to the weightings ascribed to the scenarios since 31 July 2022.

Given the current economic uncertainty, further analysis has been undertaken to assess the appropriateness of the five scenarios used. This included benchmarking the baseline scenario to consensus economic views, as well as consideration of an additional forecast related to stagflation, which could be considered as an alternative downside scenario.

Compared to the scenarios in use in the expected credit losses calculation, the stagflation scenario includes a longer period of higher interest rates coupled with a shallower but extended impact on GDP. Due to the relatively short tenor of the portfolios, the stagflation scenario is considered to be of less relevance that those

STRATEGIC REPORT

deployed. This is supported by the fact that, due to the higher severity of recessionary factors in the existing scenarios, using the stagflation scenario instead of the moderate or protracted downside scenario would result in lower expected credit losses.

The final scenarios deployed reflect overall deterioration in the UK economic outlook relative to 31 July 2022, and factor in recent developments including dampened GDP growth for 2024 and 2025 and a Bank of England base rate peak in late 2023 following persistent high levels of inflation. Under the baseline scenario, UK headline CPI inflation continues to fall from its peak owing to sustained base rate increases and eased supply chain pressures. House price outlook includes contraction across all scenarios; however, house prices return to growth sooner than previously anticipated. Unemployment rate forecasts have marginally improved compared to 31 July

FY 2023 and FY 2022 Scenario Forecasts and Weights (audited)

	Baseline		Upside (strong)		Downside (mild)		Downside (moderate)		Downside (protracted)	
	2023	2024	2023	2024	2023	2024	2023	2024	2023	2024
On 31 July 2023										
UK GDP growth	0.5%	0.3%	1.3%	3.0%	(0.2%)	(2.3%)	(0.6%)	(4.8%)	(0.8%)	(6.2%)
UK unemployment	4.1%	4.4%	3.9%	3.9%	4.2%	4.8%	4.4%	6.5%	4.5%	7.7%
UK HPI growth	(6.3%)	(1.4%)	(0.4%)	8.3%	(9.1%)	(6.9%)	(10.8%)	(13.2%)	(12.6%)	(20.1%)
BoE base rate	4.9%	5.5%	4.9%	5.7%	4.8%	4.8%	4.7%	4.2%	4.5%	3.6%
Consumer Price Index	5.2%	2.2%	4.8%	2.2%	3.8%	1.2%	3.0%	(0.3%)	1.5%	(2.3%)
Weighting	32.5%		30%		20%		10.5%		7%	

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

Notes:
UK GDP growth: National Accounts Annual Real Gross Domestic Product, Seasonally Adjusted - year-on-year change (%)
UK unemployment: ONS Labour Force Survey, Seasonally Adjusted - Average (%)
UK HPI growth: Average nominal house prices, Land Registry, Seasonally Adjusted - Q4-to-Q4 change (%)
BoE base rate: Bank of England base rate - Average (%)
Consumer Price Index: ONS, All items, annual inflation – Q4-to-Q4 change (%)

	Five-year average (calendar years 2023 - 2027)				
	Baseline	**Upside (Strong)**	**Downside (mild)**	**Downside (moderate)**	**Downside (protracted)**
At 31 July 2023					
UK GDP growth	0.9%	1.7%	0.5%	0.0%	(0.1%)
UK unemployment	4.4%	3.9%	4.6%	6.4%	7.3%
UK HPI growth	0.5%	2.1%	(1.1%)	(2.9%)	(5.4%)
BoE base rate	3.8%	3.8%	3.5%	2.8%	2.3%
Consumer Price Index	2.6%	2.6%	2.1%	1.6%	0.7%
Weighting	32.5%	30%	20%	10.5%	7%

STRATEGIC REPORT

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

Notes:
UK GDP growth: National Accounts Annual Real Gross Domestic Product, Seasonally Adjusted - CAGR (%)
UK unemployment: ONS Labour Force Survey, Seasonally Adjusted - Average (%)
UK HPI growth: Average nominal house prices, Land Registry, Seasonally Adjusted - CAGR (%)
BoE base rate: Bank of England base rate - Average (%)
Consumer Price Index: ONS, All items, annual inflation - CAGR (%)

The forecasts represent an economic view at 31 July 2023, after which the economic uncertainty has continued. These trends, including the risk of further interest rate rises, and their impact on scenarios and weightings, are subject to ongoing monitoring by management.

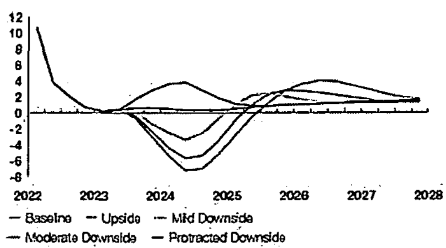
The tables on page 37-38 show economic assumptions within each scenario, and the weighting applied to each at 31 July 2023. The metrics shown are key UK economic indicators, chosen to describe the economic scenarios. These are the main metrics used to set scenario paths, which then influence a wide range of additional metrics that are used in expected credit loss models. The first tables show the forecasts of the key metrics for the scenarios utilised for calendar years 2022 and 2023. The subsequent tables show averages and peak-to-trough ranges for the same key metrics over the five-year period from 2023 to 2027.

These periods have been included as they demonstrate the short, medium and long-term outlooks for the key macroeconomic indicators which form the basis of the scenario forecasts. The portfolio has an average residual maturity of 16 months, with c.98% of loan value having a maturity of five years or less.

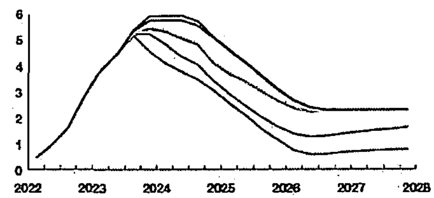
The following charts on page 38 and 39 represent the quarterly forecast data included in the above tables incorporating actual metrics up to 31 July 2023. The dark blue line shows the baseline scenario, while the other lines represent the various upside and downside scenarios.

The tables on page 39 provide a summary for the five-year period (calendar year 2023-2027) of the peak-to-trough range of values of the key UK economic variables used within the economic scenarios at 31 July 2023 and 31 July 2022:

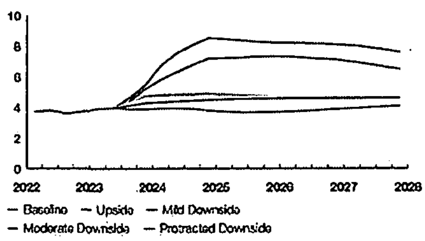
Real Gross Domestic Product (Annual % Change)



Bank of England Base Rate (%)

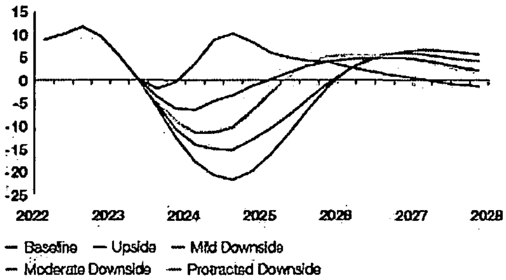


Unemployment Rate (%)

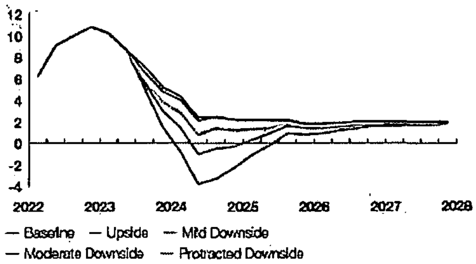


STATEGIC REPORT

House Price Index – Current Prices (Annual % Change)



Consumer Price Index (Annual % Change)



	Five-year average (calendar years 2023 - 2027)									
	Baseline		**Upside (strong)**		**Downside (mild)**		**Downside (moderate)**		**Downside (protracted)**	
	Peak	**Trough**	**Peak**	**Trough**	**Peak**	**Trough**	**Peak**	**Trough**	**Peak**	**Trough**
At 31 July 2023										
UK GDP Growth	**4.6%**	**0.1%**	**8.7%**	**0.1%**	**2.5%**	**(3.0%)**	**0.3%**	**(5.9%)**	**0.3%**	**(8.1%)**
UK Unemployment	**4.6%**	**3.9%**	**4.1%**	**3.7%**	**4.9%**	**3.9%**	**7.3%**	**3.9%**	**8.5%**	**3.9%**
UK HPI Growth	**2.6%**	**(7.8%)**	**12.9%**	**(3.1%)**	**(0.5%)**	**(15.4%)**	**(0.5%)**	**(24.0%)**	**(0.5%)**	**(32.1%)**
BoE Base Rate	**5.8%**	**2.3%**	**5.9%**	**2.3%**	**5.4%**	**2.2%**	**5.2%**	**1.3%**	**5.2%**	**0.6%**
Consumer Price Index	**10.2%**	**1.8%**	**10.2%**	**1.8%**	**10.2%**	**0.8%**	**10.2%**	**(1.0%)**	**10.2%**	**(3.8%)**
Weighting	**32.5%**		**30%**		**20%**		**10.5%**		**7%**	

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

Notes:
UK GDP growth: Maximum and minimum quarterly GDP as a percentage change from start of period (%)
UK unemployment: Maximum and minimum unemployment rate (%)
UK HPI growth: Maximum and minimum average nominal house price as a percentage change from start of period (%)
BoE base rate: Maximum and minimum Bank of England base rate (%)
Consumer Price Index: Maximum and minimum inflation rate over the five-year period (%).

STATEGIC REPORT

Scenario sensitivity analysis (audited)

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

- For the majority of the portfolios, the modelled expected credit loss provision has been recalculated under the upside strong and downside protracted scenarios described above, applying a 100% weighting to each scenario in turn. The change in provision requirement is driven by the movement in risk metrics under each scenario and resulting impact on stage allocation.
- Expected credit losses based on a simplified approach, which do not utilise a macroeconomic model and require expert judgement, are excluded from the sensitivity analysis.
- In addition to the above, key considerations for the sensitivity analysis are set out below, by segment:
  - In Commercial, the sensitivity analysis excludes Novitas, which is subject to a separate approach, as it is deemed more sensitive to credit factors than macroeconomic factors.
  - In Retail, the sensitivity analysis does not apply further stress to the expected credit loss provision on loans and advances to customers in Stage 3, because the measurement of expected credit losses is considered more sensitive to credit factors specific to the borrower than macroeconomic scenarios.
  - In Property, the sensitivity analysis excludes individually assessed provisions, and certain sub-portfolios which are deemed more sensitive to credit factors than the macroeconomic scenarios.

Based on the above analysis, at 31 July 2023, application of 100% weighting to the upside strong scenario would decrease the expected credit loss by £18.1 million whilst application of 100% weighting to the downside protracted scenario would increase the expected credit loss by £32.7 million, driven by the afore mentioned 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 10 to the financial statements. The modelled impact presented is based on gross loans and advances to customers at 31 July 2023; it does not incorporate future changes relating to performance, growth or credit risk. In addition, given the change in the macroeconomic conditions, underlying modelled provisions and methodology, and refined approach to adjustments, comparison between the sensitivity results at 31 July 2023 and 31 July 2022 is not appropriate.

The economic environment remains uncertain and future impairment charges may be subject to further volatility, including from changes to macroeconomic variable forecasts impacted by geopolitical tensions and sustained cost-of-living pressures.

Use of adjustments

Limitations in the group's expected credit loss models or input data may be identified through ongoing model monitoring and validation of models. In certain circumstances, management make appropriate adjustments to model-calculated expected credit losses. These adjustments are based on management judgements or quantitative back-testing to ensure expected credit loss provisions adequately reflect all known information. These adjustments are generally determined by considering the attributes or risks of a financial asset which are not captured by existing expected credit loss model outputs. Management adjustments are actively monitored, reviewed, and incorporated into future model developments where applicable.

Macroeconomic forecasts continue to react to a range of external factors including the ongoing conflict in Ukraine, government attempts to address cost-of-living and inflationary pressures, and long-term impacts of the pandemic. In response, our use of adjustments has evolved. In particular, adjustments have been applied in the second half of the year in response to improvements in macroeconomic forecasts that resulted in releases in modelled provisions. A number of these releases were considered premature or counterintuitive by management and adjustments have been made as a result. These adjustments recognise the ongoing uncertainty associated with the current environment.

The approach to adjustments continues to reflect the use of expert management judgement which incorporates management' s experience and knowledge of customers, the areas in which they operate, and the underlying assets financed.

The need for adjustments will continue to be monitored as new information emerges which might not be recognised in existing models.

At 31 July 2023, £17.0 million (31 July 2022: £(2.8) million of the expected credit loss provision was attributable to adjustments.

STRATEGIC REPORT

Other credit risk tables

Segmental credit risk (audited)

The following tables sets out loans and advances to customers, trade receivables and undrawn facilities by the group's internal credit risk grading and illustrates the allocation of these per IFRS 9 staging category for comparative purposes. The analysis of lending has been prepared based on the following risk categories:

Low risk: The credit risk profile of the borrower is considered acceptable with the borrower considered likely to meet obligations as they fall due. Standard monitoring is in place.

Medium risk: Evidence of deterioration in the credit risk profile of the borrower exists which requires increased monitoring. Potential concerns over their 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.

Low risk loans and advances to customers represent 87% (31 July 2022: 88%) of the overall portfolio, reflective of prudent and consistent approach to credit risk management. 80% (31 July 2022: 80%) of total advances are classified as low risk Stage 1, driven by the strong quality of the portfolio. Low risk Stage 2 represents 7% (31 July 2022: 8%) of loans and advances to customers, largely comprising early arrears cases, or agreements which have triggered a significant increase in credit risk indicator, or the "30 days past due" backstop. Low risk Stage 3 loans and advances to customers primarily relate to agreements which have triggered the "90 days past due" backstop but where full repayment is expected.

Medium risk loans account for 7% (31 July 2022: 8%) of total loans and advances to customers, of which the majority is in Stage 2. Medium risk Stage 1 remained stable at 3% (31 July 2022: 3%).

Medium risk Stage 2 represents 3% (31 July 2022: 4%) of the overall portfolio. Loans and advances to customers reflected as medium risk Stage 3 primarily relate to agreements that have triggered the "90 days past due" backstop in addition to other significant increases in credit risk triggers.

High risk loans account for 6% (31 July 2022: 4%) of total loans and advances to customers, with the majority corresponding to Stage 3. This increase reflects the significant migration of Novitas accounts into Stage 3 following updates to assumptions for expected case failure rates, expected time to recover periods and expected recovery rates.

	Stage 1 £ million	Stage 2 £ million	Stage 3 £ million	Total £ million
At 31 July 2023				
Gross loans and advances to customers				
Low risk	**7,702.4**	**693.9**	**23.2**	**8,419.5**
Medium risk	**278.7**	**313.1**	**48.8**	**640.6**
High risk	**9.1**	**55.0**	**511.4**	**575.5**
	7,990.2	**1,062.0**	**583.4**	**9,635.6**
Undrawn facilities				
Low risk	**1,322.3**	**21.5**	**0.1**	**1,343.9**
Medium risk	**-**	**2.7**	**-**	**2.7**
High risk	**-**	**-**	**1.9**	**1.9**
	1,322.3	**24.2**	**2.0**	**1,348.5**
Trade receivables[1]				
Low risk	**10.1**	**-**	**-**	**10.1**
Medium risk	**-**	**0.7**	**-**	**0.7**
High risk	**-**	**-**	**2.5**	**2.5**
	10.1	**0.7**	**2.5**	**13.3**

Lifetime expected credit losses are recognised for all trade receivables under the IFRS 9 simplified approach. The figures presented are on a net basis after deducting for expected credit losses of £2.0 million (31 July 2022: £3.2 million) relating to predominantly Stage 3 receivables.

	Stage 1 £ million	Stage 2 £ million	Stage 3 £ million	Total £ million
At 31 July 2022				
Gross loans and advances to customers				
Low risk	7,356.7	706.9	21.4	8,085.0
Medium risk	259.3	401.9	47.3	708.5
High risk	11.0	50.1	289.9	351.0
	7,627.0	1,158.9	358.6	9,144.5
Undrawn facilities				
Low risk	1,230.9	10.7	-	1,241.6
Medium risk	0.4	3.8	-	4.2
High risk	-	2.4	0.2	2.6
	1,231.3	16.9	0.2	1,248.4
Gross Trade receivables				
Low risk	8.5	-	-	8.5
Medium risk	-	0.4		0.4
High risk	-	-	0.8	0.8
	8.5	0.4	0.8	9.7

STRATEGIC REPORT

Forbearance (audited)

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 all customers and that each is managed based on their individual circumstances. The arrangements agreed with customers will aim to create a sustainable and affordable financial position, thereby reducing the likelihood of suffering a credit loss. The forbearance policy is periodically reviewed to ensure it remains effective.

The group offers 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 LTV or overpayments) and refinancing, which may incorporate an extension of the loan tenor and capitalisation of arrears. Furthermore, other forms of forbearance such as moratorium, covenant waivers and rate concessions are also offered.

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

1. the loan is considered as performing and there is no past-due amount according to the amended contractual terms;

2. a minimum two-year probation period has passed from the date the forborne exposure was considered as performing, during which time regular and timely payments have been made; and

3. none of the customer's exposures with Close Brothers are more than 30 days past due at the end of the probation period.

At 31 July 2023 the gross carrying amount of exposures with forbearance measures was £214.6 million (31 July 2022: £208.9 million). The key driver of this increase has been movement of high-value individual exposures in Property and higher volumes of business-as-usual forbearance in our Motor Finance business resulting from enduring cost-of-living pressures on customers.

The reduction in volumes across all segments is driven by the continued run-off of Covid-19 related concessions, lower volumes in Premium Finance related to short loan tenors and general resilience across all portfolios.

As the number of customers supported via Covid-19 related concessions has continued to reduce (noting no new Covid-19 forbearance arrangements have been offered in the period), the low outstanding volumes have been consolidated into the single forbearance total in the following tables.

An analysis of forborne loans is shown in the table below:

	Gross loans and advances to customers £ million	Forborne loans £ million	Forborne loans as a percentage of gross loans and advances to customers %	Provision on forborne loans £ million	Number of customers supported
31 July 2023	**9,635.6**	**214.6**	**2.2%**	**56.1**	**6,996**
31 July 2022	9,144.5	208.9	2.3%	44.3	11,043

The following is a breakdown of forborne loans by segment:

	31 July 2023 £ million	31 July 2022 £ million
Commercial	**38.0**	62.3
Retail	**28.8**	23.0
Property	**147.8**	123.6
Total	**214.6**	208.9

The following is a breakdown of forborne loans by segment:

	31 July 2023 Number of customers supported	31 July 2022 Number of customers supported
Commercial	**243**	518
Retail	**6,700**	10,467
Property	**53**	58
Total	**6,996**	11,043

The following is a breakdown of forborne loans by concession type:

	31 July 2023 Number of customers supported	31 July 2022 Number of customers supported
Extension outside terms	**105.8**	113.0
Refinancing	**10.4**	3.0
Moratorium	**66.1**	69.9
Other modifications	**32.3**	23.0
Total	**214.6**	208.9

Government lending schemes (audited)

Over the pandemic period, following accreditation, customers' were offered facilities under the UK government introduced CBILS, the CLBILS and the Bounce Back Loan Scheme ("BBLS"), thereby enabling the group to maximise its support to small businesses. At 31

STRATEGIC REPORT

July 2023, there are 4,364 (31 July 2022: 5,445) remaining facilities, with a residual balance of £456.3 million (31 July 2022: £747.5 million) following repayments across the Property, Asset Finance and Leasing and Invoice and Speciality Finance businesses.

The group also received accreditation to offer products under the RLS, and schemes in the Republic of Ireland. Applications for facilities under phase 2 of the RLS closed in June 2022 and recently facilities have been offered under the new RLS phase 3. At 31 July 2023, there are 943 (31 July 2022: 560) live facilities, with balances of £215.6 million (31 July 2022: £166.1 million), and a further 58 (31 July 2022: 73) approved facilities with limits of £14.3 million (31 July 2022: £15.6 million).

The group maintains a regular reporting cycle of these facilities to monitor performance. To date, a number of claims have been made and payments received under the government guarantee.

Collateral held (audited)

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, LTV and age at origination, and exposure maturity and in-life inspection requirements. An asset valuation is undertaken as part of the loan origination process.

The principal types of collateral held by the group against loans and advances to customers in the Property and Commercial businesses include residential and commercial property and charges over business assets such as equipment, inventory and accounts receivable. Within Retail the group holds collateral primarily in the form of vehicles in Motor Finance and refundable insurance premiums in Premium Finance, where an additional layer of protection may exist through broker recourse.

The group's collateral policies have not materially changed during the reporting period and there has been no significant change in the overall quality of the collateral held by the group since the prior period. There has been an increase in the proportion of exposures in higher LTV bands as exposures backed by government lending schemes have run-off and been replaced by more normalised LTV profiles.

Unsecured and structurally protected populations have reduced year on year, consistent with limited appetite for growth in unsecured lending and lower new business volumes in structurally protected portfolios.

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 valuation.

	Commercial	**Retail**	**Property**	**Total**
	£ million	**£ million**	**£ million**	**£ million**
LTV[1]				
60% or lower	**1,021.0**	**150.3**	**1,083.9**	**2,255.2**
>60% to 70%	**588.6**	**152.4**	**475.3**	**1,216.3**
>70% to 80%	**468.7**	**336.3**	**84.0**	**889.0**
>80% to 90%	**777.9**	**1,067.5**	**12.3**	**1,857.7**
>90% to 100%	**1,285.2**	**505.0**	**14.1**	**1,804.3**
Greater than 100%	**226.5**	**387.7**	**74.7**	**688.9**
Structurally protected[2]	**265.5**	**452.0**	**-**	**717.5**
Unsecured	**166.2**	**40.0**	**0.5**	**206.7**
At 31 July 2023	**4,799.6**	**3,091.2**	**1,744.8**	**9,635.6**

	Commercial	Retail	Property	Total
	£ million	£ million	£ million	£ million
LTV[1]				
60% or lower	1,238.2	179.5	1,011.4	2,429.1
>60% to 70%	471.6	179.5	367.3	1,018.4
>70% to 80%	375.5	374.9	49.8	800.2
>80% to 90%	692.7	1,108.0	4.5	1,805.2
>90% to 100%	1,052.6	477.6	-	1,530.2
Greater than 100%	213.3	318.9	77.2	609.4
Structurally protected[2]	291.7	452.8	-	744.5
Unsecured	164.8	42.7	-	207.5
At 31 July 2022	4,500.4	3,133.9	1,510.2	9,144.5

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

	Commercial	**Retail**	**Property**	**Total**
	£ million	**£ million**	**£ million**	**£ million**
LTV1				
60% or lower	**48.6**	**1.7**	**31.7**	**82.1**
>60% to 70%	**4.6**	**2.3**	**15.9**	**22.8**
>70% to 80%	**4.2**	**6.9**	**23.9**	**35.0**
>80% to 90%	**8.9**	**19.3**	**9.1**	**37.3**
>90% to 100%	**19.2**	**22.2**	**13.6**	**55.0**
Greater than 100%	**4.8**	**15.8**	**74.7**	**95.2**
Structurally protected2	**229.5**	**5.0**	**--**	**234.5**
Unsecured	**19.5**	**1.5**	**0.5**	**21.5**
At 31 July 2023	**339.3**	**74.7**	**169.3**	**583.4**

STRATEGIC REPORT

	Commercial £ million	Retail £ million	Property £ million	Total £ million
LTV[1]				
60% or lower	42.5	1.7	9.2	53.4
>60% to 70%	0.7	2.4	14.2	17.3
>70% to 80%	2.7	7.0	19.1	28.8
>80% to 90%	16.4	17.9	4.4	38.7
>90% to 100%	10.1	19.1	-	29.2
Greater than 100%	4.8	11.9	77.1	93.8
Structurally protected[2]	56.5	4.1	-	60.6
Unsecured	35.4	1.4	-	36.8
At 31 July 2022	169.1	65.5	124.0	358.6

1. Government lending scheme facilities totalling £732.4 million (31 July 2022: £913.5 million), are allocated to a low LTV category reflecting the nature of the government guarantee and resultant level of lending risk.
2. Exposures are considered structurally protected when, in management's judgement, they have characteristics which mitigate the credit risk of the exposure to a significant extent, in spite of not representing tangible security. The increase in credit-impaired structurally protected gross loans and advances is a result of updates to Novitas assumptions

Funding and liquidity risk

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

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

Exposure
Funding and liquidity are managed on a legal entity basis with each of the group's divisions responsible for ensuring it maintains sufficient liquidity for its own purposes. The group's divisions operate independently of each other with no liquidity reliance.

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

The group's ILAAP covers potential event drivers from a range of stress testing scenarios, including idiosyncratic examples. This ensures liquidity management remains a source of strength and features a robust and prudent approach to assessing and maintaining liquidity requirements.

Further detail on the group's funding and liquidity exposure is provided on page 10 of the Business Review and page 44 of the financial statements.

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

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

Measurement
A variety of metrics are used to measure the group's funding and liquidity position to ensure compliance with both external regulatory requirements and internal risk appetite. These metrics cover both the short and long-term view of liquidity and funding and have limits and early warning indicators in place that are approved via the Asset and Liability Committee ("ALCO"). These metrics include term funding as a percentage of loan book, weighted average tenor of loan book versus weighted average tenor of funding, available cash balance with the Bank of England, and liquid to total assets ratio.

Funding is measured and monitored in accordance with the group's funding plan, which seeks to ensure that the bank maintains a balanced and prudent approach to its funding risk that is in line with risk appetite. The funding plan is supplemented by metrics that highlight any funding concentration risks, funding ratios and levels of encumbrance. The NSFR was implemented by the PRA on 1 January 2022. For liquidity and funding ratios, CBL is regulated by the PRA on an individual basis excluding any subsidiary undertakings and had a four-quarter average NSFR to 31 July 2023 of 140.5% point in time. (31 July 2022: 133.6%), comfortably more than the binding minimum requirement of 100%.

Liquidity is managed in accordance with regulatory requirements and the ILAAP which is approved by the board. The bank's LCR is significantly above the regulatory requirement. This is because the nature of the funding model means that it holds higher inflow compared to outflows within the 30-day period and significantly more high-quality liquid assets ("HQLA") than is required under regulatory metrics. The bank's 12-month average LCR to 31 July 2023 was 1,106% (31 July 2022: 885%).

In addition to regulatory metrics, the group also uses a suite of internally developed liquidity stress scenarios to monitor its potential liquidity exposure daily and determine its high-quality liquid asset requirements. This ensures that the bank remains within risk appetite and identifies potential areas of vulnerability. The outcomes of these scenarios are formally reported to the ALCO, GRCC and board.

STATEGIC REPORT

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

The following table analyses the contractual maturities of the group's on-balance sheet financial liabilities on an undiscounted cash flow 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 2023							
Financial liabilities							
Deposits by banks	**10.3**	**43.7**	**89.7**	**-**	**-**	**-**	**143.7**
Deposits by customers	**175.1**	**1,838.3**	**1,972.9**	**1,869.6**	**2,140.6**	**-**	**7,996.5**
Loans and overdrafts from banks	**27.7**	**13.0**	**8.8**	**246.6**	**384.2**	**-**	**680.3**
Debt securities in issue	**-**	**47.8**	**125.0**	**163.8**	**1,380.9**	**416.3**	**2,133.8**
Derivative financial instruments	**0.2**	**21.7**	**23.5**	**39.0**	**167.6**	**73.0**	**325.0**
Subordinated loan capital	**-**	**2.0**	**-**	**2.0**	**16.0**	**213.0**	**233.0**
Lease liabilities	**0.2**	**2.7**	**2.5**	**4.7**	**10.0**	**0.7**	**20.8**
Other financial liabilities.	**20.3**	**46.8**	**0.4**	**2.5**	**2.5**	**-**	**72.5**
Total	**233.8**	**2,016.0**	**2,222.8**	**2,328.2**	**4,101.8**	**703.0**	**11,605.6**

	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
Financial liabilities							
Deposits by banks	6.0	51.9	98.8	4.1	-	-	160.8
Deposits by customers	120.9	1,645.1	2,046.5	1,600.1	1,427.2	-	6,839.8
Loans and overdrafts from banks	10.2	1.9	1.9	3.7	610.5	-	628.2
Debt securities in issue	-	30.3	252.8	366.4	890.7	444.2	1,984.4
Derivative financial instruments	-	6.3	9.0	16.0	89.0	55.6	175.9
Subordinated loan capital	-	2.0	-	2.0	15.0	218.0	237.0
Lease liabilities	0.2	2.4	2.3	4.5	14.7	0.9	25.0
Other financial liabilities	15.4	56.0	0.9	2.4	2.2	0.1	77.0
Total	152.7	1,795.9	2,412.2	1,999.2	3,049.3	718.8	10,128.1

Growth in the balance sheet over the current year has been funded through longer term customer deposits with maturities between one and five years, supporting and maintaining the principles of 'borrow long, lend short'.

STATEGIC REPORT

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

The group operates a three lines of defence model with the treasury function responsible for the measurement and management of the group's funding and liquidity position and asset and liability management risk providing independent review and challenge. ALCO provides oversight of funding and liquidity and supports the relevant senior managers in discharging their senior management function responsibilities.

Outlook

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

Legal and regulatory risk

Legal and regulatory risk is the risk of non-compliance with laws and regulations which could give rise to fines, litigation, sanctions and the potential for material adverse impact upon the group.

Exposure
The group is subject to the laws and regulations of the various jurisdictions in which it operates. This exposure includes risks of breaching financial services regulations and laws, as well as action resulting from contractual breach and litigation.

Risk appetite
The group has minimal appetite for legal and regulatory risk, seeking to operate to high ethical standards and expecting its staff to operate in accordance with the laws, regulations and voluntary codes which impact the group and its activities.

The group seeks to avoid knowingly operating in a manner which is contrary to the provisions of the regulatory system and has no tolerance for knowingly transacting business outside the scope of its regulatory permissions or relevant legislation.

The group will respond in an appropriate, risk-based and proportionate manner to any changes to the legal and regulatory environment, as well as changes driven by any strategic initiatives.

Measurement
The group monitors and manages its legal, regulatory and compliance risks through regular engagement and interaction across the organisation, and the implementation of appropriate policies, standards and procedures. This includes reliance on a formal horizon scanning capability to identify changes, as well as regular management information which enables oversight and challenge via RCCs.

Mitigation
The group's Enterprise Risk Management Framework, including its suite of policies and standards and the associated three lines of defence operating model, sets common control objectives across risk disciplines. This consistent approach to setting and embedding control expectations acts to mitigate the likelihood and impact of events which could give rise to legal and regulatory risk.

Dedicated specialist legal and compliance teams with relevant knowledge and experience provide advice, support and challenge to the group's businesses, enabling alignment with legal and regulatory requirements. These teams further have the ability to consult with external experts on technical or otherwise complex matters as appropriate.

Internal change and investment processes consider regulatory and legal inputs, such that sufficient funding can be allocated to deliver system and process changes in line with evolving regulatory and legal expectations.

Monitoring
In line with the group's three lines of defence model, businesses monitor their alignment with standards on an ongoing basis. Relevant management information, including the output of quality assurance activities, is reviewed by the RCCs.

An independent compliance monitoring team undertakes assurance to assess compliance with key regulations and the effectiveness of associated controls. Reports are provided to management and any remedial actions identified are tracked to completion.

Legal and compliance teams monitor for external developments through both structured horizon scanning activity and engagement in industry forums.

Outlook

Legal and regulatory risk is inherently elevated in financial services as an industry. The UK government's current proposals to reform UK financial services regulation and potential divergence between the UK and EU regulatory regimes could affect and provide further challenges for the group.

The inherent risk exposure for the group continues to increase across the jurisdictions in which it operates. The nature and scale of any risk exposure related to the introduction of Consumer Duty by the FCA remains to be seen as it embeds across industry. Separately, the group's retail lending offerings in the Republic of Ireland operate in an environment with increasing regulatory activity – the Central Bank of Ireland continues to embed further regulatory expectations with respect to operational resilience and customer outcomes.

The group operates strong controls which limit residual risk exposure arising from regulatory expectations, however the external drivers increasing inherent risk may have a follow-on impact to the firm's residual exposure.

The group faces legal risks that could result in substantial monetary damages or fines. Specifically, the group has received a number of complaints, some of which are with the Financial Ombudsman Service, and is subject to a number of claims through the courts regarding historic commission arrangements with intermediaries on its Motor Finance products. This follows the FCA's Motor Market Review in 2019. Depending on the outcome of the court's rulings and/or regulatory findings on the matter, these complaints and claims may give rise to a potential future obligation to compensate customers. It is not currently possible to estimate the financial impact (if any) or scope of these or any future related claims.

Non-traded market risk

Non-traded market risk is the risk to the value of assets or liabilities outside the trading book that arises from changes in market prices such as interest rates credit spreads and foreign exchange rates.

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

IRRBB is predominantly incurred in the group as a result of its lending and funding activities.

CSRBB arises from the HQLA portfolio held in Treasury.

FX risk is incurred from:

- managing the funding requirements of the businesses through deposit gathering and wholesale funding, and managing the associated foreign exchange risks;
- conducting foreign exchange payment services on behalf of the group; and
- non-sterling investments.

Risk appetite
The group has a restricted 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 use interest rate swaps to secure the margin on its loans and advances to customers.

The group has a limited appetite for credit spread risk which occurs due to its holdings of HQLA assets, which primarily comprise highly rated UK and European supranational debt, sovereign debt, agency bonds and UK covered bonds.

The group has a restricted appetite for foreign exchange risk. It avoids large open positions and sets individual currency limits to mitigate the risk.

Measurement

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

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

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

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

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

EaR impact (audited) [1]
The table below sets out the assessed impact on net interest income over a 12-month period from interest rate changes. The results shown are for an instantaneous and parallel change in interest rates as at 31 July.

	31 July 2023	31 July 2022
0.5% increase	**3.0**	3.7
2.5% increase	**14.9**	19.3
0.5% decrease	**(3.0)**	(0.3)
2.5% decrease	**(15.0)**	19.2

1 The prior year comparative has been restated.

The group also monitors any potential earning exposure from basis mismatches between its lending and funding activities on a monthly cadence. To provide a clearer assessment of the group's exposure to interest rate this has been excluded from the EaR numbers disclosed for the current year and the prior year comparatives.

The group's EaR at 31 July 2023 reflects its policy to ensure exposure to interest rate shocks is managed within the group's risk appetites. The EaR measure is a combination of the group's repricing profile, which is positively correlated to rising rates, and its optionality risk, which is negligible in the current higher rate environment.

EV impact (audited)
The following table sets out the assessed impact on our base case EV, which measures the impact on equity value of an instantaneous and parallel change in interest rates as at 31 July:

	31 July 2023	31 July 2022
0.5% increase	**0.0**	1.1
2.5% increase	**0.4**	6.5
0.5% decrease	**0.2**	(0.8)
2.5% decrease	**2.4**	5.3

The group's EV at 31 July 2023 reflects its policy to ensure exposure to interest rate shocks is managed within the group's risk appetites. and embedded optionality to cover interest rate floors within the bank's lending and borrowing activities.

Credit spread risk
Treasury holds assets for the purpose of liquidity management. All treasury assets at 31 July 2023 were LCR Level 1. Derivatives are used to mitigate interest rate risk exposure from treasury assets.

Credit spread sensitivity is measured by comparing the impact of a one-basis-point change in credit spread on the value of the group's liquidity portfolio. CSRBB is assessed by calculating potential changes in value of the liquidity portfolio, based on historic stresses to credit spreads. The group has started the process of restructuring its liquidity portfolio, as shown in the following table, so its current exposure to credit spread risk is modest.

The table below sets out the total exposure to each asset class within the group's liquidity portfolio at 31 July 2023:

	31 July 2023 £ million	31 July 2022 £ million
Cash and balances at central banks	**1,937.0**	1,254.7
Sovereign and central bank debt (LCR Level 1)	**186.1**	415.4
Covered bonds (LCR Level 1)	**106.3**	–
Certificates of deposit	**-**	185.0
Treasury assets	**2,229.4**	1,855.1

At 31 July 2022, sovereign and central bank debt holdings included encumbered UK government debt of £216.9 million. The bank did not hold any encumbered assets in its liquidity portfolio at 31 July 2023.

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

The group's largest FX exposure is from its euro lending and funding activities. A change in the euro exchange rate would increase the group's equity by the following amounts:

	2023 £ million	2022 £ million
20% strengthening of sterling against the euro	**0.3**	(1.7)

The group seeks to match its assets and liabilities by currency, any remaining gaps are hedged using exchange rate derivative contracts. Details of these derivatives are disclosed in note 12.

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

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

All marketable securities are "hold to collect and sell" and have their interest rate exposure hedged with vanilla interest rate swaps.

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

Monitoring
The ALCO monitors the non-traded market risk exposure for the group. Treasury is responsible for day-to-day management of all non-traded market risks. Day-to-day oversight is exercised via a combination of daily reporting by the treasury finance team, and divisional RCC review and challenge. Further independent oversight is provided via the second line of defence through the asset liability management risk team ("ALM Risk"), with monthly reporting into ALCO.

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

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

Outlook

The group expects exposure to IRRBB and FX risk to remain at similar levels to those seen this year, but CRSBB is expected to increase as the group restructures its HQLA portfolio.

Operational risk

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

Exposure

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

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

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

Risk appetite

The group manages its exposure to operational risk through a balanced consideration of investment case and risk, accepting that it is not proportionate or feasible to fully eliminate operational risk.

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

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

Measurement

Operational risk is measured through key risk indicators ("KRIs"), observed impact of risk incidents, risk and control self-assessment and scenario analysis.

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

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

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

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

Mitigation

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

- sustaining robust operational risk management processes, governance and management information;
- investment decisions that prioritise risk benefits via key systems, third party relationships, processes and teams;
- 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 its risk profile; and
- planning and rehearsing strategic and operation
- responses to severe but plausible stress scenarios.

Operational risk areas of focus

Model risk focus

Robust model risk framework embedded across the group to reduce the risk of potential adverse outcomes arising from the use of models.

The group uses models for a range of different purposes, including provisioning, stress testing, credit approval, risk management and financial reporting. In doing so, it seeks to minimise the occurrence of financial loss, lost income or reputational damage while ensuring transparency regarding the level of model risk incurred. A model risk framework is embedded across the group to manage and mitigate this risk through the model life cycle.

This is underpinned by a group Model Risk Policy and various supporting standards and procedures outlining clear roles and responsibilities in terms of model risk management.

As part of the model risk framework, a dedicated model risk management team is also in place, responsible for the independent validation of all models, the identification of potential limitations and assumptions, and the proposal of approval recommendations, including the use of expert judgement to adjust model outputs or identify appropriate post-model adjustments. The Model Governance Committee ("MGC") provides oversight of the group's exposure to model risk through the review, approval and monitoring of material models used within the group, alongside regular reporting on a set of defined KRIs which form part of the group risk appetite. Ongoing evolution of the model risk framework is aligned to external regulatory requirements, best industry practice and the firm's ongoing advanced internal-rating-based ("AIRB") application.

Data risk focus

Growing maturity across a discipline which underpins the group's approach to information.

The group views data risk holistically through the life cycle from acquisition to usage and eventual disposal. Development of a data governance methodology to identify, assess, treat and report risk and issues across our critical data elements continues.Data governance forums monitor the group's position within the established risk governance framework, with data ownership and accountability as key focus areas.

Data risk interlinks with the group's approach to operational risk in key areas such as data protection, model management, end user computing management and information security. Complementary frameworks allow a linked language and shared approach in policies, standards and controls.

Cyber risk focus

The group recognises the importance of protecting information and systems from the ever-growing cyber threat faced by the financial services industry.

The group uses an industry-standard framework to anchor its cyber risk management, continually assessing and developing its maturity.

The group acknowledges the challenge of preventing all incidents as the capabilities and tactics of malicious actors advance; the group focuses its efforts across a spectrum of controls to mitigate occurrence and potential impacts.A Group chief information security officer maintains a dedicated team and sets the policy for the group's approach, with an emphasis on delivering controls against identified external and internal threats.

The cyber risk management life cycle is aligned to the group's broader approach to operational risk management. The group has strategic partnerships with external experts, participates in industry forums and utilises the "three lines of defence" model to manage cyber risk. This is underpinned by supporting standards and baselines which set the terms for the management of cyber risk. The Risk Committee has oversight of the group's cyber risk profile, supported by detailed oversight from the Operations and Technology Risk Committee ("OTRC").

Resilience focus

Resilience supports successful outcomes over time for the group's customers and other stakeholders.

Resilience minimises the impact of operational disruptions to business services. In particular, the group has considered the regulatory objectives in this area, focusing on potential intolerable harm caused by severe but plausible events.

This goal is aligned to the foundations for the group's long-term success, and in particular to its strategy of providing exceptional service to its customers. The priority is to improve the experience of and minimise harm to customers in the event of operational disruption.

The group has an established multi-year programme to implement and maintains a sustainable approach to resilience.

Monitoring

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

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

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

Outlook

The operational risk profile has broadly remained stable compared to the prior period. Key drivers remain market-wide people risks relating to recruitment and retention, industry-wide security, cyber threats and some continued supply chain impacts arising from the Russia/Ukraine conflict and the potential for increasing trends in attempted external fraud coinciding with increasing cost-of-living pressures. The group is investing in data and tooling capability to support greater management insights and coupled with continued investments across its businesses, it continues to deliver and focus on improved control maturity.

Reputational risk

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

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

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

Risk appetite
The group has a strong reputation which it has built over many years and considers it a valuable asset, managing it accordingly through consistent focus on a set of cultural and ethical attributes. The group has no tolerance for behaviours that contradict these attributes in a manner that could harm, and avoids engaging with third parties, markets or products that would inhibit the group's adherence to them.

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

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

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

Mitigation
Reputational risk management is embedded through the organisation, including via:

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

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

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

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

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

Outlook

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

The strategic report was approved by the board and signed on its behalf by:

A J Sainsbury

Adrian Sainsbury
Director
26th September 2023

DIRECTORS' REPORT

The directors of the company present the audited consolidated accounts for the year ended 31 July 2023.

Strategic Report

The company's Strategic Report can be found on pages 3 to 51 of this Annual Report.

Business activities

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

Results and dividends

The consolidated results for the year are shown on page 67 of the accounts.

In September 2022, the directors recommended a final dividend for the 2022 financial year of £24.5 million. The dividend was paid in November 2022. In July 2023, an interim dividend was paid of £65 million. No final dividend was declared for 2023.

Directors of the company

The names of the directors of the company at the date of this report, are given on page 2 of this Annual Report. All the directors listed on that page were directors of the company throughout the year and up to the date of signing the accounts, apart from Lesley Jones and Bridget Macaskill, who both resigned on the 11th November 2022 and Kari Hale who was appointed as a director on 28th June 2023.

Details of the directors' remuneration can be found in the Directors' Remuneration note on page 85 of this Annual Report.

Directors' indemnities and insurance

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

Company Secretary

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

Capital Structure

The company's share capital comprises one class of ordinary share with a nominal value of £1 each. At 31 July 2023, 122,480,000 (2022: 122,480,000) ordinary shares were in issue.

Research and Development Activities

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

Post-Balance Sheet Events

After the reporting period, on 22 August 2023, the company issued and allotted 65 million ordinary shares of £1 each to its immediate parent company Close Brothers Holdings Limited, which resulted in an increase of £65 million in the company's ordinary share capital.

On 20 September 2023, the group announced that it reached an agreement to acquire Bluestone Motor Finance (Ireland) DAC, a provider of motor finance in Ireland. The transaction is expected to complete in Q4 of the 2023 calendar year.

Branches

The Company has no branches outside the United Kingdom.

Political Donations

No political donations were made during the year (2022: £nil).

Financial Instruments

Details of the group's financial instruments can be found in note 25 to the accounts begins on page 113.

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 19 to 51 of the Strategic Report, and the risks associated with the group's financial instruments are analysed in note 25 on pages 113 to 121 of the accounts. The group's hedging policy can also be found in significant accounting policies on pages 73 of the accounts.

Business relationships

The company values the strong reputation it has built with customers, clients, partners and other stakeholders, which is critical to the long-term sustainability of the group's business. The company has chosen, in accordance with section 414C(11) of the Companies Act 2006, to include in its Strategic Report, information about how the directors have had regard to the need to foster the company's business relationships with suppliers, customers and others, and the effect of that regard, including on the principal decisions taken by the company during the financial year, that would otherwise be disclosed in this Directors' Report. Further details can be found on page 16 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 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 17 of the Strategic Report. Such information is incorporated by reference and forms part of the Directors' Report.

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

The company encourages the involvement of employees in the company's performance through two types of share schemes operated by the Group: a Sharesave scheme (Save As You Earn) and a share incentive plan (Buy As You Earn). Employees are eligible for the Sharesave scheme upon joining and become eligible for the share incentive plan after completing six months' continuous employment with the company.

Further detail on wider employee engagement at Group level can be found in the Strategic Report section of the Annual Report and Accounts of Close Brothers Group plc.

Employees with Disabilities

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

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

Business Energy Efficiency Reporting

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

Climate Change

On behalf of Close Brothers Group plc, the Board and Board Risk Committee review and approve the Group's approach to managing the financial risks and opportunities associated with climate change. Close Brothers Limited adopts the Group approach with adaptation as determined by local requirements. The Group's Task Force on Climate-Related Financial Disclosures ("TCFD") Report is published as part of the Close Brothers Group plc 2023 Annual Report within the Sustainability 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, maintaining its consistent track record of delivering profits. The group remains well positioned in each of its core businesses, is well capitalised and soundly funded, and has good levels of liquidity. In making their going concern assessment, the directors have also considered the operational agility and resilience of the company and the group. The directors continually expect to maintain a high level of operational and system performance.

The directors acknowledges that the risk landscape is constantly evolving and as such continually reviews its principal and emerging risks. As part of this review, risks are assessed with robust oversight exercised at both a local business unit and group level through risk and compliance committees and the board.

In order to satisfy the statutory requirement that the company and the group have adequate resources to continue to operate for the foreseeable future, the directors have reviewed the group's operating plan to 31 July 2026 ("3YSP"). This covers a period of at least 12 months from the date of approval of the financial statements together with its funding and capital position, the impact of further stress scenarios and a number of key risks which are set out in the Strategic Report under the heading Principal risks and uncertainties: funding and liquidity on page 44 and capital position on page 25.

As part of the directors' consideration of the appropriateness of adopting the going concern basis in preparing the Annual Report, a range of forward-looking scenario analyses have been considered. This included the central and downside scenarios and the Close Brothers high inflation and severe recession scenarios. For each business, the directors have also considered the impact of the central and downside scenarios on financial performance. These include expected customer demand, which underpins loan book growth, as well as the impact of rising interest rates and inflationary pressures on our customers and the effect this will have on the bad debt ratio and net interest margin.

In addition, two stress testing scenarios modelled for the group's Internal Capital Adequacy Assessment Process ("ICAAP") and used for the going concern assessment. One scenario tested the impact of high inflation combined with a high Bank of England base rate whilst the other tested the impact of a sharp UK recession. In all modelled scenarios it was concluded that no significant structural changes to the company or group will be required.

Under all scenarios the company and group continue to operate with sufficient levels of liquidity and capital for the next 12 months from the reporting date, with the group's capital ratios and liquidity in excess of regulatory requirements.

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

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

Independent Auditors

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

Disclosure of Information to the Independent Auditors

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

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

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

Statement of Corporate Governance Arrangements

Approach to Corporate Governance

In accordance with the Large and Medium-sized Companies and Group (Accounts and Reports) Regulations 2008 (as amended by the Companies (Miscellaneous Reporting) Regulations 2018) (the "Regulations"), the directors of the company are required to provide a statement stating which corporate governance code has been followed during the year, including how the company applied the code, and whether it departed from any aspects of the code. For the year ended 31 July 2023, the company has applied the Wates Corporate Governance Principles for Large Private Companies (the "Principles") in its corporate governance arrangements. The following section explains the company's approach to corporate governance, and its application of the Principles.

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

At the highest level of the Group, the board of Close Brothers Group plc ("CBG") provides effective leadership for the Group as a whole, including in relation to strategy, purpose, culture, values and risk management. As a company listed on the London Stock Exchange, CBG applies the principles and provisions of the UK Corporate Governance Code (the "Code"). Further detail on its compliance with the Code in the financial year ended 31 July 2023 can be found in the Corporate Governance Report within CBG's 2023 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 significant contribution of the company to the wider Group.

As part of the Group's corporate governance arrangements, the CBG board is supported by four board committees: the Audit Committee, the Nomination and Governance

DIRECTORS' REPORT

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

Principle One - Purpose and Leadership

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

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

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

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

Consistent with that of the Group, the company's strategic approach focuses on three objectives: to protect, grow and sustain the company's business model. The company's purpose is helping the people and 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. The board recognises the importance that culture, and values play in the long-term success and sustainability of the company, and the role of the board in monitoring and assessing culture. The board also acknowledges the importance of individual directors and the board as a whole acting with integrity, leading by example, promoting the desired culture, and setting the "tone from the top".

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

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

Principle Two - Board Composition

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

At the date of this report, the board has eleven members: the chairman, two executive directors and eight 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 52.

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

The CBG Nomination and Governance Committee, which is concerned with the business of the Group including the company, reviews the structure, size and composition of the

board and is responsible for identifying and recommending to the board new directors for appointment. The overall size of the board has grown slightly in recent years as new directors have been appointed to bring additional and complementary knowledge, skills and experience, and to ensure continuity of membership and knowledge as other directors approach the end of their terms in the years ahead. The board considers that its current size and structure remain appropriate given the scale and complexity of the company's operations, which include regulated activities, and the need to ensure an orderly succession and transition between directors.
Board appointments are made following rigorous consideration by the CBG Nomination and Governance Committee of the balance of skills, experience, knowledge and diversity required for the board to operate effectively as a whole. When considering board composition and appointments, the board and the CBG Nomination and Governance Committee continue to have regard to relevant best practice and the findings of relevant industry reviews. Further detail is set out in the Corporate Governance Report within the CBG Annual Report.

The board acknowledges the importance of diversity in its broadest sense and its membership is made up of individuals from a range of different backgrounds and experiences. At the date of this report, four of the eleven members of the board are women, and the composition of the board meets the recommendation of the Parker Review that a FTSE 250 board should have at least one director of colour.

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

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

The board undertakes an annual evaluation of its effectiveness. During the year ending 31 July 2023, the board undertook an internal process to review its effectiveness and performance. The review concluded that the board remains strong and effective, and that it has responded well to the challenges arising from the uncertain current economic situation. The evaluation also acknowledged that the board has addressed each of the recommendations made in the previous evaluation in 2022. The board welcomes the findings and will work to consider opportunities for incremental improvements during the year ahead.

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

Principle Three - Director Responsibilities

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

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

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

During the financial year, the board continued to ensure that it provides effective oversight of the company's operations, and challenge and support for senior management, whilst maintaining its clear focus on stakeholder interests. Various ad hoc board meetings have been held as required to consider specific matters as they arise. The board has delegated responsibility for certain matters to its committees and is also supported by the board committees of its ultimate parent company, CBG, which consider relevant items relating to the company as part of the wider Group. Further information on the operation of the CBG board committees, including consideration of items relevant to the company, can be found in the Corporate Governance Report within the CBG Annual Report.

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

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

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

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

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

Principle Four - Opportunity and Risk

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

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

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

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

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

Principle Five - Remuneration

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

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

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

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

Principle Six - Stakeholders

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

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

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

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

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

In the 2023 financial year, the board spent time considering its broader responsibility to help address the social, economic and environmental challenges facing its business, colleagues and customers. Throughout the year, the board has discussed the connection between the company's responsibility, wider stakeholder considerations and its long-term positioning, including the link to attracting and retaining talent at all levels of its operations, supporting customers, clients and partners, and the Group's continuing efforts towards reducing its impact on the environment.

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

Statement of directors' responsibilities in respect of the financial statements

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the group financial statements in accordance with UK-adopted international accounting standards and the company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law). In preparing the group financial statements, the directors have also elected to comply with International Financial Reporting Standards issued by the International Accounting Standards Board (IFRSs as issued by IASB).

Under company law, directors must not approve the financial statements unless they are satisfied that they give 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 UK-adopted international accounting standards and IFRSs issued by IASB have been followed for the group financial statements and United Kingdom Accounting Standards, comprising FRS 101 have been followed for the company financial statements, subject to any material departures disclosed and explained in the financial statements;

DIRECTORS' REPORT

- make judgements and accounting estimates that are reasonable and prudent; and

- *prepare the financial statements on the going* concern basis unless it is inappropriate to presume that the group and company will continue in business.

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

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

The Directors' Report has been approved by the board and signed by order of the board by:

H.M. Thorpe
Company Secretary

26 September 2023

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 2023 and of the group's profit and the group's cash flows for the year then ended;
- the group financial statements have been properly prepared in accordance with UK-adopted international accounting standards as applied in accordance with the provisions of the Companies Act 2006;
- the company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, including 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 2023; 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.

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

Our audit approach

Overview
Audit scope

- The scope of our audit and the nature, timing and extent of audit procedures performed were determined by our risk assessment, the financial significance of components and other qualitative factors (including history of misstatement through fraud or error).
- We performed audit procedures over components considered financially significant in the context of the group (full scope audit) or in the context of individual primary statement account balances (audit of specific account balances).
- We performed other procedures including analytical review procedures to mitigate the risk of material misstatement in the residual components.

Key audit matters

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

Materiality

- Overall group materiality: £10.4m (2022: £11.4m) based on 5% of profit before tax.
- Overall company materiality: £10.6m (2022: £11.5m) based on 5% of profit before tax.
- Performance materiality: £7.8m (2022: £8.5m) (group) and £7.9m (2022: £8.6m) (company).

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

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

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

The key audit matters below are consistent with last year.

Key audit matter	**How our audit addressed the key audit matter**
Determination of expected credit loss ('ECL') provisions on loans and advances to customers (group and company)	
As at 31 July 2023, the Group (Company) has gross loans and advances to customers of £9,635.6m (£6,590.4m), with ECL provisions of £380.6m (£162.2m) held against them. The determination of ECL provisions is inherently judgemental and involves setting assumptions using forward looking information reflecting the Group's view of potential future economic events. This can give rise to increased estimation uncertainty. There continues to be uncertainty in the determination of ECL provisions, including assessing how a high inflation environment coupled with high interest rates, falling real estate values and other economic developments may impact the credit performance of the lending book. The Group has initiated formal legal action against one of the After the Event ("ATE") insurers in relation to the failed cases of the Novitas Loans business. This has resulted in a significant change to the model methodology in the current year however this remains subjective and the ECL is sensitive to potential outcomes and estimated time to recovery. Models are used to collectively assess and determine ECL allowances on loans and advances. We consider the following elements of the determination of modelled ECL to be significant: • The application of forward-looking economic scenarios used in the models and the weightings assigned to those scenarios; • The sufficiency and completeness of post-model adjustments that are recorded to take	With the support of our credit risk modelling specialists and economics experts, we performed the following procedures: For collectively assessed ECL provisions: • We understood and critically assessed the appropriateness of the ECL accounting policy and model methodologies used by management. • We independently replicated ECL models for the company's Asset Finance and Motor Finance businesses, using management's model methodology and assumptions. • We tested model performance through review and replication of key model monitoring tests. We assessed the performance of key model elements, including LGD, and considered if they indicated that the models continued to perform appropriately or if any post-model adjustments were required. • We critically assessed the reasonableness of management's selected economic scenarios and associated scenario weightings, giving specific consideration to current and future economic uncertainty. We assessed their reasonableness against known or likely economic events including relating to UK economic uncertainty. • We compared the severity and magnitude of the assumptions used in the base scenario to external forecasts and historic trends; • Based on our knowledge and understanding of the limitations in management's models

Key audit matter	How our audit addressed the key audit matter
into account economic risks not captured by the models; • In respect of the Novitas portfolio, the appropriateness of assumptions used in the determination of the recoveries from insurers and the estimated time to recover; and • The Loss Given Default ("LGD") component for the company's Asset Finance business, given that the LGD model was developed over a period with more benign macroeconomic conditions than the expected conditions over the forecast period. ECL provisions on individually large exposures to counterparties who are in default at the reporting date, are estimated on an individual basis. We consider that only the individually assessed loans of the company's Property business constitute a significant risk in the current year. The risk relates to the assumptions made on the amount and timing of the expected future cash flows under multiple, probability weighted scenarios. Relevant references • Note 2 - Critical accounting estimates and judgements • Note 10 - Loans and advances to customers (Group) • Note 28 - Loans and advances to customers (Company)	and emerging industry risks, we evaluated the completeness and sufficiency of the post model adjustments proposed by management; • We evaluated the LGD model performance for the Asset Finance business and the sufficiency of the extent to which LGD is impacted by macroeconomic factors; and • We evaluated management's model used to derive the Novitas Loans ECL and critically assessed the assumptions for time to recover and recovery rate. We met with management's external legal counsel to corroborate assumptions. For individually assessed provisions: For a sample of individually assessed loans in default and related ECL allowances in the Property business, we: • Evaluated the basis on which the allowances were determined and the evidence supporting the analysis performed by management; • Independently challenged whether the key assumptions used, such as the recovery strategies, collateral values and ranges of potential outcomes were appropriate given the borrower's circumstances; • Re-performed management's provision calculation, critically assessing key inputs including expected future cash flows, discount rates, valuations of collateral held and the weightings applied to scenario outcomes; and • Considered the extent to which the exposure is impacted by economic conditions including high inflation and interest rate levels and whether these factors had been appropriately reflected in the ECL provision. We tested and evaluated the reasonableness of relevant disclosures made in the financial statements. Based on the evidence obtained, we concluded that the methodologies, modelled assumptions and management judgements used in the determination of collective and individually assessed expected credit losses to be appropriate.

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

We performed a risk assessment, giving consideration to relevant external and internal factors, including climate change, economic risks, relevant accounting and regulatory developments, as well as the group's strategy. We also considered our knowledge and experience obtained in prior year audits. We continually assessed the risks and updated the scope of our audit where necessary. As part of considering the impact of climate change in our risk assessment, we evaluated management's assessment of the impact of climate risk, which is set out in the Sustainability Report, including their conclusion that there is no material impact on the financial statements. In particular, we considered management's assessment of the impact on ECL on loans and advances to customers, being the financial statement line item we determined to be most likely to be impacted by climate risk. Management's assessment gave consideration to a number of matters, including the exposure of underlying portfolios to transition risk. Management's conclusion that there is no material impact is consistent with our audit findings.

The group is divided into three segments (Retail, Commercial and Property). The consolidated financial statements are a consolidation of the components within those segments.

In establishing the overall approach to the group audit, we determined the type of work that is required to be performed over the components by us, as the group engagement team, or auditors within the PwC network of firms operating under our instruction ('component auditors'). Where the work was performed by component auditors, we determined the level of involvement we needed to have in their audit work to be able to conclude whether sufficient appropriate audit evidence had been obtained as a basis for our opinion on the consolidated financial statements as a whole. This included regular communication with the component auditors throughout the audit, the issuance of instructions, a review of the results of their work on the key audit matters and formal clearance meetings.

Any components which were considered individually financially significant in the context of the group's consolidated financial statements (defined as components which represent more than or equal to 10% of the total revenue of the consolidated group) were considered full scope components. We considered the individual financial significance of other components in relation to primary statement account balances. Our scoping also considered the presence of any significant audit risks and other qualitative factors (including history of misstatements through fraud or error).

Certain account balances were audited centrally by the group engagement team mainly where the processes are centralised. The remaining balances and components, in our judgement, did not present a reasonable possibility of a risk of material misstatement either individually or in aggregate. We performed other procedures such as tests of information technology controls and group level analytical review procedures.

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

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

	Financial statements - group	**Financial statements - company**
Overall materiality	£10.4m (2022: £11.4m).	£10.6m (2022: £11.5m).
How we determined it	5% of profit before tax	5% of profit before tax
Rationale for benchmark applied	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.	Profit before tax is the primary measure used by the shareholders in assessing the performance of the entity, and is a generally accepted benchmark for determining audit materiality.

For each component in the scope of our group audit, we allocated a materiality that is less than our overall group materiality. The range of materiality allocated across components was £0.7m to £9.7m. Certain components were audited to a local statutory audit materiality that was also less than our overall group materiality.

We use performance materiality to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds overall materiality. Specifically, we use performance materiality in determining the scope of our audit and the nature and extent of our testing of account balances, classes of transactions and disclosures, for example in determining sample sizes. Our performance materiality was 75% (2022: 75%) of overall materiality, amounting to £7.8m (2022: £8.5m) for the group financial statements and £7.9m (2022: £8.6m) for the company financial statements.

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

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £500,000 (group audit) (2022: £500,000) and £500,000 (company audit) (2022: £500,000) as well as misstatements below those amounts that, in our view, warranted reporting for qualitative reasons.

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

- A detailed risk assessment to identify factors that could impact the going concern basis of accounting, including both internal risk (i.e strategy execution) and external risk (i.e macroeconomic risk in the UK including cost of living and banking sector volatility);

- Understanding and evaluating the group's financial forecasts, liquidity and capital position over the going concern period, including consideration of whether the stress scenarios applied were appropriate for assessing going concern;

- Consideration of credit rating agency ratings and any actions by the agency; and

- Reading and evaluating the adequacy of the disclosures made in the financial statement in relation to going concern.

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

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

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

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

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

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

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

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

Strategic Report and Directors' Report
In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors' Report for the year ended 31 July 2023 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

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

Responsibilities for the financial statements and the audit

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

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

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

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

Based on our understanding of the group and industry, we identified that the principal risks of non-compliance with laws and regulations related to breaches of laws and regulations, principally those determined by the Prudential Regulatory Authority ("PRA") and the Financial Conduct Authority ("FCA"), and we considered the extent to which non-compliance might have a material effect on the financial statements. We also considered those laws and regulations that have a direct impact on the financial statements such as the Companies Act 2006 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 manual journal entries to manipulate financial performance, management bias through judgements and assumptions in significant accounting estimates and significant one-off or unusual transactions. The group engagement team shared this risk assessment with the component auditors so that they could include appropriate audit procedures in response to such risks in their work. Audit procedures performed by the group engagement team and/or component auditors included:

- Discussions with management and those charged with governance including consideration of known or suspected instances of non-compliance with laws and regulation and fraud;
- Assessment of matters reported on the Group's whistleblowing helpline and the results of management's investigation of such matters;
- Challenging assumptions and judgements made by management in their significant accounting estimates, in particular in relation to the allowance for ECL;
- Identifying and testing any higher risk journal entries;
- Incorporating unpredictability into the nature, timing and/or extent of our testing; and
- Reviewing key correspondence with the FCA and PRA.

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

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

For the year ended 31 July 2023

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

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

Other required reporting

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

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

We have no exceptions to report arising from this responsibility.

Appointment
Following the recommendation of the Audit Committee, we were appointed by the directors on 17 May 2017 to audit the financial statements for the year ended 31 July 2018 and subsequent financial periods. The period of total uninterrupted engagement is 6 years, covering the years ended 31 July 2018 to 31 July 2023.

H. Varley

Heather Varley (Senior Statutory Auditor)

for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
26 September 2023

Consolidated Income Statement

for the year ended 31 July 2023

	Note	2023 £ million	2022 £ million
Interest income	4	**885.2**	689.7
Interest expense	4	**(297.9)**	(107.4)
Net interest income		**587.3**	582.3
Fee and commission income	4	**110.6**	98.1
Fee and commission expense	4	**(15.1)**	(14.7)
Other income	4	**109.4**	101.6
Depreciation of operating lease assets and other direct costs	14	**(77.8)**	(71.9)
Non-interest income		**127.1**	113.1
Operating income		**714.4**	695.4
Administrative expenses	4	**(389.7)**	(362.6)
Impairment losses on financial assets	10	**(204.0)**	(103.3)
Total operating expenses before amortisation of intangible assets on acquisition		**(593.7)**	(465.9)
Operating profit before amortisation of intangible assets on acquisition		**120.7**	229.5
Amortisation and impairment of intangible assets on acquisition	13	**-**	(0.1)
Operating profit before tax		**120.7**	229.4
Tax	7	**(31.6)**	(66.3)
Profit after tax		**89.1**	163.1
Profit attributable to shareholders		**89.1**	163.1

Consolidated Statement of Comprehensive Income

for the year ended 31 July 2023

	2023 £ million	2022 £ million
Profit after tax	**89.1**	163.1
Items that may be reclassified to income statement		
Currency translation gains/(losses)	**0.7**	(0.6)
Gains on cash flow hedging	**17.6**	30.6
Losses on financial instruments classified at fair value through other comprehensive income	**(3.8)**	(1.1)
Tax relating to items that may be reclassified	**(4.3)**	(7.9)
Other comprehensive income, net of tax	**10.2**	21.0
Total comprehensive income	**99.3**	184.1
Attributable to		
Shareholders	**99.3**	184.1
	99.3	**184.1**

Consolidated Balance Sheet

at 31 July 2023

	Note	31 July 2023 £ million	31 July 2022 £ million
Assets			
Cash and balances at central banks		**1,937.0**	1,254.7
Loans and advances to banks	9	**261.5**	85.6
Loans and advances to customers	10	**9,255.0**	8,858.9
Debt securities	11	**292.4**	600.4
Derivative financial instruments	12	**88.5**	71.1
Intangible assets	13	**175.0**	160.5
Property, plant and equipment	14	**304.5**	279.0
Current tax assets		**33.8**	40.8
Deferred tax assets	7	**4.8**	24.8
Prepayments, accrued income and other assets	15	**135.6**	132.5
Total assets		**12,488.1**	11,508.3
Liabilities			
Deposits from banks	16	**141.9**	160.5
Deposits from customers	16	**7,724.5**	6,770.4
Loans and overdrafts from banks	16	**635.3**	610.8
Debt securities in issue	16	**1,762.1**	1,810.5
Derivative financial instruments	12	**195.9**	89.2
Amounts due to group undertakings	17	**334.2**	356.7
Accruals, deferred income and other liabilities	15	**182.9**	197.7
Subordinated loan capital	18	**174.9**	186.5
Total liabilities		**11,151.7**	10,182.3
Equity			
Called up share capital		**122.5**	122.5
Retained earnings		**1,183.4**	1,183.2
Other reserves		**30.5**	20.3
Total shareholders' equity		**1,336.4**	1,326.0
Total equity		**1,336.4**	1,326.0
Total equity and liabilities		**12,488.1**	11,508.3

The consolidated financial statements were approved and authorised for issue by the board of directors on 26 September 2023 and signed on its behalf by:

Adrian J. Sainsbury
Director

M. B. Morgan
Director

Consolidated Statement of Changes in Equity

for the year ended 31 July 2023

	Called up share capital*	Retained earnings	Capital contribution reserve	Other Reserves: Exchange movements reserve	Other Reserves: FVOCI reserve	Other Reserves: Cash flow hedging reserve	Total attributable to equity holders	Non-controlling interests	Total equity
	£ million	£ million	£ million	£ million	£ million	£ million	£ million	£ million	£ million
At 1 August 2021	122.5	1,151.6	-	(1.2)	0.8	(0.3)	1,273.4	(1.0)	1,272.4
Profit for the year	-	163.1	-	-	-	-	163.1	-	163.1
Other comprehensive income	-	-	-	(0.3)	(0.7)	22.0	21.0	-	21.0
Total comprehensive income for the year	-	163.1	-	(0.3)	(0.7)	22.0	184.1	-	184.1
Other movements	-	(0.7)	-	-	-	-	(0.7)	1.0	0.3
Income tax	-	(0.7)	-	-	-	-	(0.7)	-	(0.7)
Dividends paid (note 8)	-	(130.1)	-	-	-	-	(130.1)	-	(130.1)
Capital contribution – parent equity-settled share-based payments	-	-	1.6	-	-	-	1.6	-	1.6
Return of capital contribution – parent equity-settled share-based payments	-	-	(1.6)	-	-	-	(1.6)	-	(1.6)
At 31 July 2022	122.5	1,183.2	-	(1.5)	0.1	21.7	1,326.0	-	1,326.0
Profit for the year	-	**89.1**	-	-	-	-	**89.1**	-	**89.1**
Other comprehensive income	-	-	-	**0.3**	**(2.8)**	**12.7**	**10.2**	-	**10.2**
Total comprehensive income for the year	-	**89.1**	-	**0.3**	**(2.8)**	**12.7**	**99.3**	-	**99.3**
Other movements	-	**0.9**	-	-	-	-	**0.9**	-	**0.9**
Income tax	-	**(0.2)**	-	-	-	-	**(0.2)**	-	**(0.2)**
Dividends paid (note 8)	-	**(89.6)**	-	-	-	-	**(89.6)**	-	**(89.6)**
Capital contribution – parent equity-settled share-based payments	-	-	**0.8**	-	-	-	**0.8**	-	**0.8**
Return of capital contribution – parent equity-settled share-based payments	-	-	**(0.8)**	-	-	-	**(0.8)**	-	**(0.8)**
At 31 July 2023	**122.5**	**1,183.4**	-	**(1.2)**	**(2.7)**	**34.4**	**1,336.4**	-	**1,336.4**

*Allotted, called-up and fully-paid share capital comprised 122,480,000 (2022: 122,480,000) ordinary shares of £1 each.

Consolidated Cash Flow Statement

for the year ended 31 July 2023

	Note	2023 £ million	2022 £ million
Net cash inflow from operating activities	24(a)	**1,017.4**	120.8
Net cash outflow from investing activities			
Purchase of:			
Property, plant and equipment		**(4.5)**	(4.6)
Intangible assets - software		**(52.1)**	(48.8)
Subsidiaries	24(b)	**-**	(0.1)
		(56.6)	(53.5)
Net cash inflow before financing activities		**960.8**	67.3
Financing activities			
Equity dividends paid		**(89.5)**	(127.9)
Amounts (paid)/received from group undertakings		**(17.8)**	12.8
Interest paid on debt financing		**(6.9)**	(6.9)
Payment of lease liabilities		**(9.3)**	(9.2)
Net increase/(decrease) in cash		**837.3**	(63.9)
Cash and cash equivalents at beginning of year		**1,303.2**	1,367.1
Cash and cash equivalents at end of year	24(c)	**2,140.5**	1,303.2

Notes to the Consolidated Accounts

for the year ended 31 July 2023

1. Significant accounting policies

(a) Reporting entity

Close Brothers Limited ("the company"), a limited company incorporated and domiciled in the UK (England), together with its subsidiaries (collectively, "the group"), operates through three (2022: three) operating segments; Commercial, Retail and Property, and is primarily located within the UK.

(b) Basis of preparation

The audited consolidated financial statements have been prepared in accordance with UK-adopted International Accounting Standards ("IAS").

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

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

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

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

The consolidated and company financial statements have been prepared on a going concern basis and under the historical cost convention, except for financial assets and liabilities held at fair value through profit or loss and financial assets held at fair value through other comprehensive income.

(c) Accounting developments

Standards adopted during the year

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

Finance (No.2) Act 2023 was substantively enacted in June 2023, and introduced the Pillar Two global minimum tax rate of 15% and a UK domestic minimum top-up tax with effect from 1 January 2024. The group has adopted the IAS 12 exception from recognition and disclosure regarding the impact on deferred tax assets and liabilities arising from this legislation. The company has adopted the same exception under FRS 101.

Future accounting developments

IFRS 17 Insurance Contracts and minor amendments to IFRSs issued by the IASB are effective for the group from 1 August 2023. These changes are expected to have no or an immaterial impact on the group.

Notes to the Consolidated Accounts

for the year ended 31 July 2023

1. Significant accounting policies *continued*

(d) Consolidation and investment in subsidiary

Subsidiaries

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

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

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

(e) Foreign currency translation

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

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

(f) Revenue recognition

Interest income

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

The effective interest rate method applies a rate that discounts estimated future cash payments or receipts over the expected life of a financial instrument to the gross carrying amount of a financial asset or to the amortised cost of a financial liability. 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. Interest income is recognised on a contractual basis where it is not possible to reliably estimate the cash flows or expected life of a financial instrument.

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.

(g) Adjusted measures

Adjusted measures exclude amortisation of intangible assets on acquisition. Amortisation of intangible assets on acquisition is excluded to present the performance of the group's acquired businesses consistent with its other businesses. The separate reporting of these items helps give an indication of the group's underlying performance.

Notes to the Consolidated Accounts

for the year ended 31 July 2023

1. Significant accounting policies *continued*

(h) Financial assets and liabilities (excluding derivatives)

Classification and measurement

Financial assets are classified at initial recognition on the basis of the business model within which they are managed and their contractual cash flow characteristics. The classification categories are amortised cost, fair value through other comprehensive income ("FVOCI") and fair value through profit or loss ("FVTPL").

Financial assets that are held to collect contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Initial recognition is at fair value plus directly attributable transaction costs. Interest income is accounted for using the effective interest rate method.

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

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

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

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

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

Derecognition

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

Modifications

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

Notes to the Consolidated Accounts

for the year ended 31 July 2023

1. **Significant accounting policies** *continued*

(i) Impairment of financial assets

Expected credit losses

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

At initial recognition, financial assets are considered to be in Stage 1 and a provision is recognised for 12 months of expected credit losses. If a significant increase in credit risk since initial recognition occurs, these financial assets are considered to be in Stage 2 and a provision is made for the lifetime expected credit losses. As a backstop, all financial assets 30 days past due are considered to have experienced a significant increase in credit risk and are transferred to Stage 2.

A financial asset will remain classified as Stage 2 until the credit risk has improved and it can be returned to Stage 1 or until it deteriorates such that it meets the criteria to move to Stage 3.

Where a financial asset no longer represents a significant increase in credit risk since origination it can move from Stage 2 back to Stage 1. As a minimum this means that all payments must be up-to-date, the quantitative probability of default assessment trigger is no longer met, and the account is not evidencing qualitative assessment triggers.

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

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

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

The calculation of expected credit losses for loans and advances to customers, either on a 12-month or lifetime basis, is based on the probability of default ("PD"), the exposure at default ("EAD") and the loss given default ("LGD"), and includes forward-looking macroeconomic information where appropriate. Further information on this calculation methodology can be found on pages 35 of the Strategic Report.

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

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

(j) Leases

Lessor

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

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

Notes to the Consolidated Accounts

for the year ended 31 July 2023

1. Significant 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.

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

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

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

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

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

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

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

Notes to the Consolidated Accounts

for the year ended 31 July 2023

1. Significant accounting policies *continued*

(o) Intangible assets

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

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

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

(p) Property, plant and equipment

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

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

(q) Share capital

Share issue costs

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

Dividends on ordinary shares

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

(r) Employee benefits

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

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

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

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

Notes to the Consolidated Accounts

for the year ended 31 July 2023

1. Significant accounting policies *continued*

(s) Share-based awards

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

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

The cost of LTIP and SAYE are based on the fair value of awards on the date of grant. Fair values of share-based awards are determined using the Black-Scholes pricing model, with the exception of fair values for market-based performance conditions, which are determined using Monte Carlo simulation. Both models take into account the exercise price of the option, the current share price, the risk-free interest rate, the expected volatility of CBG's share price over the life of the option award and other relevant factors. For non-market-based performance conditions, vesting conditions are not taken into account when measuring fair value, but are reflected by adjusting the number of shares in each award such that the amount recognised reflects the number that are expected to, and then actually do, vest. The fair value is expensed in the consolidated income statement on a straight-line basis over the vesting period, with a corresponding credit to the share-based payments reserve. At the end of the vesting period, or upon exercise, lapse or forfeit if earlier, this credit is transferred to retained earnings. Further information on CBG's schemes is provided in note 22.

(t) Provisions and contingent liabilities

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

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

(u) Taxes, including deferred taxes

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

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

(v) Cash and cash equivalents

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

(w) Segmental reporting

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

(x) Investment in subsidiaries (Company only)

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

Notes to the Consolidated Accounts

for the year ended 31 July 2023

2. Critical accounting estimates and judgements

The reported results of the group are sensitive to the accounting policies, assumptions and estimates that underlie the preparation of its financial statements. UK company law and IFRS require the directors, in preparing the group's financial statements, to select suitable accounting policies, apply them consistently and make judgements, estimates and assumptions that are reasonable.

The group's estimates and assumptions are based on historical experience and reasonable expectations of future events and are reviewed on an ongoing basis. Actual results in the future may differ from the amounts estimated due to the inherent uncertainty.

The group's critical accounting judgements, made in applying its accounting policies as described in note 1, and the key sources of estimation uncertainty that may have a significant risk of causing a material adjustment within the next financial year are set out below.

The impact of climate change on the group's judgements, estimates and assumptions has been considered in preparing these financial statements. While no material impact has been identified, climate risk continues to be monitored on an ongoing basis as set out in more detail on pages 19 and 22 in the Strategic Report.

Critical accounting judgements
The critical accounting judgements of the group relate to expected credit loss provisions calculated under IFRS 9 and are as follows:

- Establishing the criteria for a significant increase in credit risk; and
- Determining the appropriate definition of default.

Further information on these areas of judgements can be found in the 'Use of judgements' section on page 34 in the Strategic Report.

Key sources of estimation uncertainty
The key sources of estimation uncertainty of the group relate to expected credit loss provisions and are as follows:

- Two key model estimates, being time to recover periods and recovery rates, underpinning the expected credit loss provision of Novitas. The key Novitas estimates in the prior year were case failure rates and recovery rates;
- Forward-looking macroeconomic information incorporated into expected credit loss models. This was also a key estimate in the prior year; and
- Adjustments by management to model calculated expected credit losses due to limitations in the group's expected credit loss models or input data, which may be identified through ongoing model monitoring and validation of models. This is a new key estimate this year due to an increase in the size of the adjustment.

Additional disclosures on the estimation uncertainty relating to forward-looking macroeconomic, model adjustments and goodwill can be found in the 'Use of estimates' section on pages 35 to 36, 'Use of Adjustments' section on page 40, both in the Strategic Report, and Note 13 'Intangibles Assets' on pages 99 to 100 respectively.

Notes to the Consolidated Accounts

for the year ended 31 July 2023

3. *Segmental analysis*

The directors manage the group by class of business and present the segmental analysis on that basis. The group's activities are presented in three (2022: three) operating segments: Commercial, Retail and Property.

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

	Retail £ million	Commercial £ million	Property £ million	Total £ million
Summary income statement for the year ended 31 July 2023				
Net interest income	218.6	251.5	117.2	587.3
Non-interest income	29.7	96.6	0.8	127.1
Operating income	248.3	348.1	118.0	714.4
Administrative expenses	(142.8)	(171.5)	(26.5)	(340.8)
Depreciation and amortisation	(21.6)	(22.9)	(4.4)	(48.9)
Impairment losses on financial assets	(49.0)	(137.5)	(17.5)	(204.0)
Total operating expenses	(213.4)	(331.9)	(48.4)	(593.7)
Operating profit before tax	34.9	16.2	69.6	120.7
External operating income	308.6	451.1	170.3	930.0
Inter segment operating expense	(60.3)	(103.0)	(52.3)	(215.6)
Segment operating income	248.3	348.1	118.0	714.4

The Commercial operating segment above includes Novitas, which ceased lending to new customers in July 2021 following a strategic review. Novitas recorded an operating loss of £84.2 million (2022: loss of £39.3 million), driven by impairment losses of £116.8 million (2022: £60.7 million).

Novitas' income was £18.9 million (2022: £36.0 million), and expenses were £8.7 million (2022: £14.6 million). In line with IFRS 9's requirement to recognise interest income on Stage 3 loans on a net basis, income includes the partial unwinding over time of the expected credit loss recognised in the year following the transfer of the majority of loans to Stage 3. Further information on Novitas can be found in the Credit Risk section of the Strategic Report.

Notes to the Consolidated Accounts

for the year ended 31 July 2023

3. Segmental analysis *continued*

	Retail £ million	Commercial £ million	Property £ million	Total £ million
Summary balance sheet information at 31 July 2023				
Loan book and operating lease assets[1]	**3,001.8**	**4,821.3**	**1,703.1**	**9,526.2**

[1] The Commercial operating segment includes the net loan book of Novitas of £59.9 million.

	Retail	Commercial	Property	Total
Other segmental information for the year ended 31 July 2023				
Employees (average number)[1]	**1,194**	**1,450**	**201**	**2,845**

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

Notes to the Consolidated Accounts

for the year ended 31 July 2023

3. Segmental analysis *continued*

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

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

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

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

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

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

Notes to the Consolidated Accounts

for the year ended 31 July 2023

4. Operating profit before tax

	2023 £ million	2022 £ million
Interest income[1]		
Cash and balances at central banks	**64.5**	5.9
Loans and advances to banks	**4.1**	0.2
Loans and advances to customers	**807.4**	680.4
Other interest income	**9.2**	3.2
	885.2	689.7
Interest expense		
Deposits from banks	**(3.2)**	(0.1)
Deposits from customers	**(203.7)**	(64.1)
Borrowings	**(86.4)**	(32.6)
Interest expense from group undertakings	**(12.3)**	(9.9)
Other interest expense[2]	**7.7**	(0.7)
	(297.9)	(107.4)
Net interest income	**587.3**	582.3

[1] Interest income calculated using the effective interest method.
[2] Other interest expense includes interest income of £8.3 million relating to derivative assets and liabilities (2022: £0.1 million interest expense).

Notes to the Consolidated Accounts

for the year ended 31 July 2023

4. Operating profit before tax *continued*

	2023 £ million	2022 £ million
Fee and commission income	**110.6**	98.1
Fee and commission expense	**(15.1)**	(14.7)
	95.5	83.4

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 £110.6 million (2022: £98.1 million) and £15.1 million (2022: £14.7 million) respectively.

	2023 £ million	2022 £ million
Other income		
Operating lease assets rental income	**91.1**	85.4
Other[1]	**18.3**	16.2
	109.4	101.6

[1] Includes income from services provided in relation to operating lease assets

	2023 £ million	2022 £ million
Administrative expenses		
Staff costs:		
Wages and salaries	**177.4**	164.8
Social security costs	**24.4**	22.8
Share-based payments	**1.5**	1.8
Other pension costs	**11.6**	10.0
	214.9	199.4
Depreciation and amortisation	**48.9**	46.0
Other administrative expenses	**125.9**	117.2
Total administrative expenses	**389.7**	362.6

Notes to the Consolidated Accounts

for the year ended 31 July 2023

5. Information regarding directors

12 directors are remunerated by other group companies and provide their services to the company on a non-rechargeable basis. One director is remunerated by the company under a contract of employment, the figures shown below are in respect of their employment services.

Directors' fees were £nil (2022: nil) and directors' emoluments, excluding pension contributions, were £753,475 (2022: £1,100,000).

The highest paid director received emoluments of £753,475 (2022: £1,100,000) and pension contributions of £nil (2022: £nil).

Contributions paid to money purchase pension schemes, of which no directors (2022: nil) were members, amounted to £nil (2022: £nil). No director (2022: nil) was a member of a defined benefits pension scheme, and the company paid £nil (2022: £nil) to the scheme on their behalf.

No directors received any awards (2022: nil) under long-term incentive schemes operated by another group company. No (2022: nil) director exercised options under a long-term incentive scheme, with a gain of £nil (2022: £nil) from these exercises.

6. Information regarding the Auditors

	2023 £ million	2022[1] £ million
Fees payable		
Audit of the company's annual accounts	**1.4**	0.8
Audit of the company's subsidiaries pursuant to legislation	**1.0**	1.0
Audit related services	**0.1**	0.1
	2.5	1.9

[1]During the year, an additional audit fee of £0.1m (2022: £0.2 million) was paid to the auditors in relation to scope changes in the prior year audit, which is not included above.

The auditors of the group was PricewaterhouseCoopers LLP (2022: PricewaterhouseCoopers LLP).

Notes to the Consolidated Accounts

for the year ended 31 July 2023

7. Taxation

	2023 £ million	2022 £ million
Tax charged to the income statement		
Current tax:		
UK corporation tax	**21.7**	52.5
Foreign tax	**2.3**	1.9
Adjustments in respect of previous years	**(8.0)**	(2.7)
	16.0	51.7
Deferred tax:		
Deferred tax charge for the current year	**9.0**	12.0
Adjustments in respect of previous years	**6.6**	2.6
	15.6	14.6
Tax charge	**31.6**	66.3
Tax on items not (credited)/charged to the income statement		
Current tax relating to:		
Share-based payments	**(0.3)**	-
Deferred tax relating to:		
Cash flow hedging	**4.9**	8.6
Financial instruments classified as fair value through other comprehensive income	**(1.0)**	(0.4)
Share-based payments	**0.1**	0.7
Currency translation gains/(losses)	**0.4**	(0.3)
	4.1	8.6
Reconciliation to tax expense		
UK corporation tax for the year at 21.0% (2022: 19.0%) on operating profit before tax	**25.3**	43.6
Disallowable items and other permanent differences	**0.4**	0.9
Effect of different tax rates in other jurisdictions	**(0.3)**	(0.3)
Deferred tax impact of decreased tax rates	**1.0**	7.2
Banking surcharge	**6.6**	15.0
Prior year tax provision	**(1.4)**	(0.1)
	31.6	66.3

The standard UK Corporation tax rate for the financial year is 21.0% (2022: 19.0%). However, an additional 6.3% (2022: 8.0%) surcharge applies to banking company profits as defined in legislation (and only above a threshold amount). The 6.3% surcharge rate for the financial year arises due to the reduction in the surcharge from 8.0% to 3.0% from April 2023. The effective tax rate is 26.2% (2022: 28.9%) 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 2023

7. 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	Impairment losses £ million	Total £ million
At 1 August 2021	35.2	4.0	(0.4)	0.1	9.1	48.0
Charge to the income statement	(11.1)	(0.5)	-	-	(3.0)	(14.6)
Credit/(charge) to other comprehensive income	0.3	-	0.4	(8.6)	-	(7.9)
Charge to equity	-	(0.7)	-	-	-	(0.7)
At 31 July 2022	24.4	2.8	-	(8.5)	6.1	24.8
Charge to the income statement	**(12.2)**	**(0.4)**	**(2.8)**	**-**	**(0.2)**	**(15.6)**
(Charge)/credit to other comprehensive income	**(0.4)**	**-**	**1.0**	**(4.9)**	**-**	**(4.3)**
Charge to equity	**-**	**(0.1)**	**-**	**-**	**-**	**(0.1)**
At 31 July 2023	**11.8**	**2.3**	**(1.8)**	**(13.4)**	**5.9**	**4.8**

The group's deferred tax asset comprises £2.6 million liabilities (31 July 2022: £6.7 million assets) due within one year, and a £7.4 million (31 July 2022: £18.1 million) assets due after more than one year.

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

8. Dividends

	2023 £ million	2022 £ million
For each ordinary share		
Final dividend for previous financial year paid in November 2022: 20p (November 2021: 54p)	**24.5**	66.0
Interim dividend for current financial year paid in July 2023: 53p (April 2022: 51p)	**65.0**	61.9
Deemed distribution	**0.1**	2.2
	89.6	130.1

No final dividend relating to the year ended 31 July 2023 is proposed.

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 2023	**222.1**	**21.6**	**2.0**	**3.0**	**12.8**	**261.5**
At 31 July 2022	67.2	1.9	10.0	2.4	4.1	85.6

Notes to the Consolidated Accounts

for the year ended 31 July 2023

10. Loans and advances to customers

a) Maturity analysis of loans and advances to customers

The following table sets out a maturity analysis of loans and advances to customers. At 31 July 2023, loans and advances to customers with a maturity of two years or less was £7,158.8 million (31 July 2022: £6,733.0 million) representing 74.3% (31 July 2022: 73.6%) of total gross loans and advances to customers:

	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 gross loans and advances to *customers*	Impairment *provisions*	Total net loans and advances to *customers*
	£ million	£ million	£ million	£ million	£ million	£ million	£ million	£ million	£ million
At 31 July 2023	**76.5**	**2,597.8**	**2,636.5**	**1,848.0**	**2,337.2**	**139.6**	**9,635.6**	**(380.6)**	**9,255.0**
At 31 July 2022	141.3	2,354.2	2,369.0	1,868.5	2,235.0	176.5	9,144.5	(285.6)	8,858.9

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

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

		Stage 2				
	Stage 1	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 2023						
Gross loans and advances to customers						
Commercial	**3,686.1**	**750.9**	**23.2**	**774.1**	**339.4**	**4,799.6**
Of which: Commercial excluding Novitas	3,685.1	749.6	23.2	772.8	97.7	4,555.6
Of which: Novitas	1.0	1.3	-	1.3	241.7	244.0
Retail	**2,839.1**	**159.1**	**18.4**	**177.5**	**74.6**	**3,091.2**
Property	**1,465.0**	**85.7**	**24.7**	**110.4**	**169.4**	**1,744.8**
Total	**7,990.2**	**995.7**	**66.3**	**1,062.0**	**583.4**	**9,635.6**
Impairment provisions						
Commercial	**25.1**	**13.9**	**2.4**	**16.3**	**208.1**	**249.5**
Of which: Commercial excluding Novitas	24.9	13.6	2.4	16.0	24.5	65.4
Of which: Novitas	0.2	0.3	-	0.3	183.6	184.1
Retail	**27.9**	**11.6**	**2.6**	**14.2**	**47.3**	**89.4**
Property	**5.1**	**1.4**	**0.3**	**1.7**	**34.9**	**41.7**
Total	**58.1**	**26.9**	**5.3**	**32.2**	**290.3**	**380.6**
Provision coverage ratio						
Commercial	**0.7%**	**1.9%**	**10.3%**	**2.1%**	**61.3%**	**5.2%**
Of which: Commercial excluding Novitas	0.7%	1.8%	10.3%	2.1%	25.1%	1.4%
Of which: Novitas	20.0%	23.1%	0.0%	23.1%	76.0%	75.5%
Retail	**1.0%**	**7.3%**	**14.1%**	**8.0%**	**63.4%**	**2.9%**
Property	**0.3%**	**1.6%**	**1.2%**	**1.5%**	**20.6%**	**2.4%**
Total	**0.7%**	**2.7%**	**8.0%**	**3.0%**	**49.8%**	**3.9%**

Notes to the Consolidated Accounts

for the year ended 31 July 2023

10. Loans and advances to customers *continued*

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

	Stage 1	Stage 2			Stage 3	Total
		Less than 30 days past due	Greater than or equal to 30 days past due	Total		
	£ million	£ million	£ million	£ million	£ million	£ million
At 31 July 2022						
Gross loans and advances to customers						
Commercial	3,433.1	778.8	119.4	898.2	169.1	4,500.4
Of which: Commercial excluding Novitas	3,331.8	776.6	25.6	802.2	93.7	4,227.7
Of which: Novitas	101.3	2.2	93.8	96.0	75.4	272.7
Retail	2,937.6	121.4	9.4	130.8	65.5	3,133.9
Property	1,256.3	83.8	46.1	129.9	124.0	1,510.2
Total	7,627.0	984.0	174.9	1,158.9	358.6	9,144.5
Impairment provisions						
Commercial	25.6	14.3	52.0	66.3	87.1	179.0
Of which: Commercial excluding Novitas	16.8	13.3	2.5	15.8	33.1	65.7
Of which: Novitas	8.8	1.0	49.5	50.5	54.0	113.3
Retail	22.1	4.9	1.7	6.6	41.2	69.9
Property	2.6	4.2	1.2	5.4	28.7	36.7
Total	50.3	23.4	54.9	78.3	157.0	285.6
Provision coverage ratio						
Commercial	0.7%	1.8%	43.6%	7.4%	51.5%	4.0%
Of which: Commercial excluding Novitas	0.5%	1.7%	9.8%	2.0%	35.3%	1.6%
Of which: Novitas	8.7%	45.5%	52.8%	52.6%	71.6%	41.5%
Retail	0.8%	4.0%	18.1%	5.0%	62.9%	2.2%
Property	0.2%	5.0%	2.6%	4.2%	23.1%	2.4%
Total	0.7%	2.4%	31.4%	6.8%	43.8%	3.1%

Stage allocation of loans and advances to customers has been applied in line with the definitions set out on page 75 in Note 1 'Significant Accounting Policies'.

Additional disclosures on the stage allocation and movements of loans and advances to customers can be found on pages 30 to 41 *in the Strategic Report.*

Notes to the Consolidated Accounts

for the year ended 31 July 2023

10. Loans and advances to customers *continued*

c) Adjustments

By their nature, limitations in the group's expected credit loss models or input data may be identified through ongoing model monitoring and validation of models. In certain circumstances, management make appropriate adjustments to model-calculated expected credit losses. Adjustments have been identified as a key source of estimation uncertainty as set out in Note 2 'Critical Accounting Judgements and Estimates'.

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

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

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

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

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

ECL model methodologies may be updated or enhanced from time to time and the impacts of such changes are presented on a separate line. During the year, a number of enhancements were made to the models in the Premium business. The enhancements were made to address known model limitations and to ensure modelled provisions better reflect future loss emergence.

Enhancements to our model suite 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.

Notes to the Consolidated Accounts

for the year ended 31 July 2023

10. Loans and advances to customers *continued*

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

	Stage 1 £ million	Stage 2 £ million	Stage 3[1] £ million	Total £ million
Gross loans and advances to customers				
At 1 August 2022	**7,627.0**	**1,158.9**	**358.6**	**9,144.5**
New financial assets originated	**6,604.0**	**-**	**-**	**6,604.0**
Transfers to Stage 1	**276.2**	**(373.2)**	**(6.8)**	**(103.8)**
Transfers to Stage 2	**(1,068.6)**	**878.6**	**(16.1)**	**(206.1)**
Transfers to Stage 3	**(303.6)**	**(194.4)**	**421.5**	**(76.5)**
Net transfers between stages and repayments[2]	**(1,096.0)**	**311.0**	**398.6**	**(386.4)**
Repayments while stage remained unchanged and final repayments	**(5,118.8)**	**(403.5)**	**(100.4)**	**(5,622.7)**
Changes to model methodologies	**(25.6)**	**(4.0)**	**29.6**	**-**
Write offs	**(0.4)**	**(0.4)**	**(103.0)**	**(103.8)**
At 31 July 2023	**7,990.2**	**1,062.0**	**583.4**	**9,635.6**

1 A significant proportion of the Stage 3 movements is driven by Novitas with £174.4 million of transfers to Stage 3 and £37.4 million of write-offs. In addition, £49.2 million of Novitas movements are included within 'Repayments while stage remained unchanged and final repayments', comprising largely of accrued interest. The accrued interest is partly offset by ECL increases included within the adjacent ECL reconciliation, in line with IFRS 9's requirement to recognise interest income on Stage 3 loans on a net basis. Further information on Novitas can be found in the Credit Risk section of the Strategic Report.

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

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 £152.3 million (2022: £288.3 million). No gain or loss (2022: nil) was recognised as a result of these modifications. The gross carrying amount at 31 July 2023 of modified loans and advances to customers which transferred from Stage 2 or 3 to Stage 1 during the year was £14.8 million (31 July 2022: £110.2 million).

Notes to the Consolidated Accounts

for the year ended 31 July 2023

10. Loans and advances to customers *continued*

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

	Stage 1 £ million	**Stage 2 £ million**	**Stage 3[1] £ million**	**Total £ million**
Impairment provisions on loans and advances to customers				
At 1 August 2022	**50.3**	**78.3**	**157.0**	**285.6**
New financial assets originated	**46.7**	**-**	**-**	**46.7**
Transfers to Stage 1	**1.2**	**(7.7)**	**(1.0)**	**(7.5)**
Transfers to Stage 2	**(8.7)**	**27.7**	**(5.7)**	**13.3**
Transfers to Stage 3	**(11.2)**	**(53.3)**	**227.2**	**162.7**
Net remeasurement of expected credit losses arising from transfers between stages and repayments[2]	**(18.7)**	**(33.3)**	**220.5**	**168.5**
Repayments and ECL movements while stage remained unchanged and final repayments	**(17.8)**	**(10.7)**	**(20.0)**	**(48.5)**
Changes to model methodologies	**(2.2)**	**(1.9)**	**2.3**	**(1.8)**
Charge to the income statement	**8.0**	**(45.9)**	**202.8**	**164.9**
Write offs	**(0.2)**	**(0.2)**	**(69.5)**	**(69.9)**
At 31 July 2023	**58.1**	**32.2**	**290.3**	**380.6**

1 A significant proportion of the Stage 3 movements is driven by Novitas with £147.6 million of transfers to Stage 3 and £11.9 million of write-offs. Further information on Novitas can be found in the Credit Risk section of the Strategic Report.

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

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

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 2023

10. Loans and advances to customers *continued*

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

	2023 £ million	2022 £ million
Impairment losses relating to loans and advances to customers		
Charge to income statement arising from movement in impairment provisions	**164.9**	93.4
Amounts written off directly to income statement, net of recoveries and other costs	**39.4**	8.5
	204.3	101.9
Impairment (gains)/losses relating to other financial assets*	**(0.3)**	1.4
Impairment losses on financial assets recognised in the income statement	**204.0**	103.3

Impairment losses on financial assets of £204.0 million (2022: £103.3 million) include £116.8 million in relation to Novitas (2022: £60.7 million).

The contractual amount outstanding at 31 July 2023 on financial assets that were written off during the period and are still subject to recovery activity is £32.3 million (31 July 2022: £17.3 million).

e) Finance lease and hire purchase agreement receivables

	31 July 2023 £ million	31 July 2022 £ million
Net loans and advances to customers comprise		
Hire purchase agreement receivables	**3,671.3**	3,725.1
Finance lease receivables	**803.9**	694.4
Other loans and advances	**4,779.8**	4,439.4
At 31 July	**9,255.0**	8,858.9

Notes to the Consolidated Accounts

for the year ended 31 July 2023

10. Loans and advances to customers *continued*

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

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

	31 July 2023 £ million	31 July 2022 £ million
Gross investment in finance leases and hire purchase agreement receivables due:		
One year or within one year	**1,849.3**	1,740.2
>One to two years	**2,002.8**	1,927.1
>Two to three years	**972.5**	943.9
>Three to four years	**438.5**	475.1
>Four to five years	**115.5**	123.7
More than five years	**41.1**	36.2
	5,419.7	5,246.2
Unearned finance income	**(820.7)**	(731.4)
Present value of minimum lease and hire purchase agreement payments:	**4,599.0**	4,514.8
Of which due:		
One year or within one year	**1,567.2**	1,496.9
>One to two years	**1,691.7**	1,654.4
>Two to three years	**830.2**	815.7
>Three to four years	**375.3**	410.0
>Four to five years	**99.2**	106.6
More than five years	**35.4**	31.2
	4,599.0	4,514.8

The aggregate cost of assets acquired for the purpose of letting under finance leases and hire purchase agreements was £7,167.5 million (2022: £7,443.8 million). The average effective interest rate on finance leases approximates to 11.0% (2022: 9.9%). 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.

11. Debt securities

	Fair value through other comprehensive income £ million	Amortised cost £ million	Total £ million
Certificates of deposit	-	-	-
Sovereign and central bank debt	186.1	-	186.1
Covered bonds	106.3	-	106.3
At 31 July 2023	**292.4**	-	**292.4**

Notes to the Consolidated Accounts

for the year ended 31 July 2023

11. Debt securities *continued*

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

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

	2023 £ million	2022 £ million
Sovereign and central bank debt at 1 August	**415.4**	192.5
Additions	**269.7**	335.3
Redemptions	**(459.2)**	(80.0)
Currency translation differences	**(0.3)**	(1.2)
Movement in value	**(39.5)**	(31.2)
Sovereign and central bank debt at 31 July	**186.1**	415.4

Movements on the book value of covered bonds comprise:

	2023 £ million	2022 £ million
Covered bonds at 1 August	**-**	-
Additions	**105.4**	-
Movement in value	**0.9**	-
Covered bonds at 31 July	**106.3**	-

12. Derivative financial instruments

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

	31 July 2023			31 July 2022		
	Notional value £ million	Assets £ million	Liabilities £ million	Notional value £ million	Assets £ million	Liabilities £ million
Exchange rate contracts	**175.4**	**0.8**	**0.4**	65.3	0.6	0.2
Interest rate contracts	**3,493.3**	**87.7**	**195.5**	4,408.2	70.5	89.0
	3,668.7	**88.5**	**195.9**	4,473.5	71.1	89.2

Notional amounts of interest rate contracts totalling £2,682.8 million (31 July 2022: £3,828.8 million), which are held for interest rate risk management and interest margin stabilisation purposes, have a residual maturity of more than one year.

Notes to the Consolidated Accounts

for the year ended 31 July 2023

12. Derivative financial instruments *continued*

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

	31 July 2023			31 July 2022		
	Notional value £ million	**Assets £ million**	**Liabilities £ million**	Notional value £ million	Assets £ million	Liabilities £ million
Cash flow hedges						
Interest rate contracts	**297.7**	**8.5**	**2.9**	1,552.0	33.2	1.6
Fair value hedges						
Interest rate contracts	**1,614.7**	**42.2**	**173.3**	1,475.4	28.3	82.3

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 seven (2022: six) 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, basis mismatch, maturity mismatch, credit valuation adjustments and cash flow timing mismatch between the hedged item and the hedging instrument.

Notes to the Consolidated Accounts

for the year ended 31 July 2023

12. Derivative financial instruments *continued*

The maturity profiles for the notional amounts of the group's cash flow and fair value hedges are set out as follows.

	On demand £ million	Within three months £ million	Between three and six months £ million	Between six months and one year £ million	Between one and five years £ million	After more than five years £ million	Total £ million
Cash flow hedges							
Interest rate risk							
31 July 2023	**-**	**90.8**	**0.3**	**27.7**	**137.7**	**41.2**	**297.7**
31 July 2022	-	69.5	50.0	210.4	1,205.9	16.2	1,552.0
Fair value hedges							
Interest rate risk							
31 July 2023	**-**	**51.0**	**0.6**	**190.6**	**690.0**	**682.5**	**1,614.7**
31 July 2022	-	0.7	0.4	141.3	680.3	652.7	1,475.4

Cash flow hedges have an average fixed rate of 2.0% (31 July 2022: 1.0%). Fair value hedges have an average fixed rate of 1.6% (31 July 2022: 1.9%).

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

	Changes in fair value of hedging instrument used for calculating hedge ineffectiveness 2023 £ million	Hedge ineffectiveness recognised in income statement 2023 £ million	Changes in fair value of hedging instrument used for calculating hedge ineffectiveness 2022 £ million	Hedge ineffectiveness recognised in income statement 2022 £ million
Cash flow hedges				
Interest rate risk	**(26.2)**	**(0.1)**	29.6	0.1
Fair value hedges				
Interest rate risk	**(74.6)**	**-**	(50.4)	(0.1)

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

Notes to the Consolidated Accounts

for the year ended 31 July 2023

12. Derivative financial instruments *continued*

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

	Carrying amount of hedged item £ million	Accumulated amount of fair value adjustments on the hedged item £ million	Changes in fair value of hedged item used for calculating hedge ineffectiveness £ million
At 31 July 2023			
Fair value hedges			
Assets			
Debt securities	**186.1**	**(27.0)**	**(3.0)**
Loans and advances to customers and undrawn commitments	**124.3**	**(13.4)**	**(8.6)**
	310.4	**(40.4)**	**(11.6)**
Liabilities			
Deposits by customers	**280.3**	**(3.9)**	**(3.9)**
Debt securities in issue	**613.6**	**(142.5)**	**(70.2)**
Amounts due on group undertakings	**-**	**-**	**-**
Subordinated loan capital	**174.9**	**(25.1)**	**(12.1)**
	1,068.8	**(171.5)**	**(86.2)**

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

Notes to the Consolidated Accounts

for the year ended 31 July 2023

12. Derivative financial instruments *continued*

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

	Changes in fair value of hedged item used for calculating hedge ineffectiveness	Gains/(losses) on discontinued hedges recognised in other comprehensive income	(Losses)/gains from changes in value of hedging instrument recognised in other comprehensive income	Amounts reclassified from reserves to income statement1
	£ million	£ million	£ million	£ million
Cash flow hedges				
Interest rate risk				
At 31 July 2023	**26.1**	**43.3**	**(26.1)**	**1.5**
At 31 July 2022	(29.5)	(0.4)	29.6	(1.0)

[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 2023

13. Intangibles assets

	Goodwill £ million	Software £ million	Intangible assets on acquisition £ million	Total £ million
Cost				
At 1 August 2021	15.9	242.9	3.0	261.8
Additions	-	53.4	-	53.4
Disposals	-	(24.9)	-	(24.9)
At 31 July 2022	15.9	271.4	3.0	290.3
Additions	**-**	**49.5**	**-**	**49.5**
Disposals	**-**	**(16.5)**	**-**	**(16.5)**
At 31 July 2023	**15.9**	**304.4**	**3.0**	**323.3**
Accumulated amortisation				
At 1 August 2021	-	120.1	3.0	123.1
Amortisation charge for the year	-	32.0	0.1	32.1
Disposals	-	(25.3)	(0.1)	(25.4)
At 31 July 2022	-	126.8	3.0	129.8
Amortisation charge for the year	**-**	**33.8**	**-**	**33.8**
Disposals	**-**	**(15.3)**	**-**	**(15.3)**
At 31 July 2023	**-**	**145.3**	**3.0**	**148.3**
Net book value at 31 July 2023	**15.9**	**159.1**	**-**	**175.0**
Net book value at 31 July 2022	15.9	144.6	-	160.5
Net book value at 1 August 2021	15.9	122.8	-	138.7

Software includes assets under development of £87.8 million (31 July 2022: £69.7 million).

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

In the 2023 financial year, £nil (2022: £0.1 million) of the amortisation charge is included in amortisation of intangible assets on acquisition and £33.8 million (2022: £32.0 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 2023

13. Intangibles assets *continued*

Impairment tests for goodwill

At 31 July 2023, goodwill has been allocated to six (31 July 2022: six) individual Cash Generating Units ("CGUs"). Two are within Commercial, two within Retail and two within Property. Goodwill is allocated to the CGU in which the historical acquisition occurred and hence the goodwill originated. Further information on the performance of each division can be found in Note 3 'Segmental Analysis'. 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 forecasts based on the most recent three-year plans to determine the recoverable amount of each CGU. The key assumptions underlying management's three-year plans, which are based on past experience and forecast market conditions, are expected loan book growth rates and net return on loan book.

Beyond the group's three-year planning horizon, estimates of future cash flows in the fourth and fifth years are made by management with due consideration given to the key assumptions set out above. After the fifth year, a terminal value is calculated using an annual growth rate of 2%, which is consistent with the UK government's long-term inflation target. In the prior year, management applied a more prudent 0% annual growth rate. The cash flows are discounted using a pre-tax estimated weighted average cost of capital as set out in the following table. The discount rates used differ across the CGUs, reflecting the nature of the CGUs' business and the current market returns appropriate to the CGU that investors would require for a similar asset.

At 31 July 2023, the results of the review indicate there is no goodwill impairment. The inputs used in the value in use calculations are sensitive primarily to changes in the assumptions for future cash flows, discount rates and long-term growth rates. Having performed stress tested value in use calculations, the group believes that any reasonably possible change in the key assumptions which have been used would not lead to the carrying value of any CGU to exceed its recoverable amount.

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

	31 July 2023		31 July 2022	
Cash generating unit	**Goodwill £ million**	**Pre-tax discount rate %**	Goodwill £ million	Pre-tax discount rate %
Asset Finance	**8.2**	**17.2**	8.2	17.1
Commercial Acceptances	**3.5**	**17.3**	3.5	15.4
Other	**4.2**	**17.0-17.2**	4.2	15.4-17.1
	15.9		15.9	

Notes to the Consolidated Accounts

for the year ended 31 July 2023

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 2021	16.0	46.4	360.7	0.3	36.2	459.6
Additions	0.7	1.8	67.8	-	10.1	80.4
Disposals	(1.1)	(13.7)	(30.3)	-	(4.1)	(49.2)
At 31 July 2022	15.6	34.5	398.2	0.3	42.2	490.8
Additions	**0.5**	**3.7**	**93.1**	**0.2**	**7.8**	**105.3**
Disposals	**(0.1)**	**(3.7)**	**(42.2)**	**-**	**(6.1)**	**(52.1)**
At 31 July 2023	**16.0**	**34.5**	**449.1**	**0.5**	**43.9**	**544.0**
Accumulated depreciation						
At 1 August 2021	9.6	35.0	137.8	0.1	14.0	196.5
Depreciation and impairment charges for the year	1.7	3.8	40.6	0.1	8.5	54.7
Disposals	(1.1)	(15.4)	(20.2)	-	(2.7)	(39.4)
At 31 July 2022	10.2	23.4	158.2	0.2	19.8	211.8
Depreciation and impairment charges for the year	**2.1**	**4.1**	**45.5**	**0.1**	**8.8**	**60.6**
Disposals	**(0.1)**	**(3.4)**	**(25.8)**	**-**	**(3.6)**	**(32.9)**
At 31 July 2023	**12.2**	**24.1**	**177.9**	**0.3**	**25.0**	**239.5**
Net book value at 31 July 2023	**3.8**	**10.4**	**271.2**	**0.2**	**18.9**	**304.5**
Net book value at 31 July 2022	5.4	11.1	240.0	0.1	22.4	279.0
Net book value at 1 August 2021	6.4	11.4	222.9	0.2	22.2	263.1

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

Notes to the Consolidated Accounts

for the year ended 31 July 2023

14. Property, plant and equipment *continued*

There was a gain of £3.3 million from the sale of assets held under operating leases for the year ended 31 July 2023 (2022: £3.2 million).

	31 July 2022 £ million	31 July 2022 £ million
Future minimum lease rentals receivable under non-cancellable operating leases		
One year or within one year	**50.8**	49.2
>One to two years	**34.1**	28.2
>Two to three years	**22.5**	13.5
>Three to four years	**14.9**	5.6
>Four to five years	**8.1**	2.9
More than five years	**2.3**	0.6
	132.7	100.0

Notes to the Consolidated Accounts

for the year ended 31 July 2023

15. Other assets and other liabilities

	31 July 2023 £ million	31 July 2022 £ million
Prepayments, accrued income and other assets		
Prepayments and accrued income	**115.0**	109.3
Trade and other receivables	**20.3**	19.6
Amounts owed by parent undertaking	**0.3**	3.6
	135.6	132.5
Accruals, deferred income and other liabilities		
Accruals and deferred income	**101.3**	101.5
Trade and other payables	**70.3**	81.1
Provisions	**11.3**	15.1
	182.9	197.7

Provisions movements in the year:

	Claims £ million	Property £ million	Other £ million	Total £ million
Movements during the year:				
At 1 August 2021	5.8	4.0	3.2	13.0
Additions	5.8	0.8	0.9	7.5
Utilised	(1.3)	(0.2)	(1.4)	(2.9)
Released	(1.3)	(0.3)	(0.9)	(2.5)
At 31 July 2022	9.0	4.3	1.8	15.1
Additions	0.9	0.5	3.3	4.7
Utilised	(5.6)	-	(0.8)	(6.4)
Released	(2.0)	-	(0.1)	(2.1)
At 31 July 2023	**2.3**	**4.8**	**4.2**	**11.3**

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

Notes to the Consolidated Accounts

for the year ended 31 July 2023

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 2023							
Deposits by banks	**10.3**	**43.6**	**88.0**	**-**	**-**	**-**	**141.9**
Deposits by customers	**175.1**	**1,836.4**	**3,745.9**	**1,305.0**	**662.1**	**-**	**7,724.5**
Loans and overdrafts from banks	**27.7**	**7.6**	**228.0**	**262.0**	**110.0**	**-**	**635.3**
Debt securities in issue	**-**	**30.4**	**226.2**	**197.8**	**1,013.8**	**293.9**	**1,762.1**
Amounts due to group undertakings	**42.1**	**-**	**292.1**	**-**	**-**	**-**	**334.2**
	255.2	**1,918.0**	**4,580.2**	**1,764.8**	**1,785.9**	**293.9**	**10,598.0**

	On demand £ million	Within three months £ million	Between three months and one year £ million	Between one and two years £ million	Between two and five years £ million	After more than five years £ million	Total £ million
At 31 July 2022							
Deposits by banks	6.1	52.0	102.4	-	-	-	160.5
Deposits by customers	120.9	1,645.2	3,615.6	1,058.8	329.9	-	6,770.4
Loans and overdrafts from banks	10.3	0.6	-	228.0	371.9	-	610.8
Debt securities in issue	-	26.0	605.6	249.4	567.0	362.5	1,810.5
Amounts due to group undertakings	41.2	40.1	275.4	-	-	-	356.7
	178.5	1,763.9	4,599.0	1,536.2	1,268.8	362.5	9,708.9

As discussed in note 25(c) at 31 July 2023 the group accessed £600.0 million (31 July 2022: £600.0 million) and £5.0 million (31 July 2022: £nil) cash under the Bank of England's Term Funding Scheme with Additional Incentives for SMEs and Indexed Long-Term Repo respectively. Cash from the schemes is included within loans and overdrafts from banks. Residual maturities of the schemes are as follows:

	On demand £ million	Within three months £ million	Between three months and one year £ million	Between one and two years £ million	Between two and five years £ million	After more than five years £ million	Total £ million
At 31 July 2023	**-**	**7.6**	**228.0**	**262.0**	**110.0**	**-**	**607.6**
At 31 July 2022	-	0.6	-	228.0	372.0	-	600.6

Notes to the Consolidated Accounts

for the year ended 31 July 2023

17. Amounts due to group undertakings

	31 July 2023 £ million	31 July 2022 £ million
Amounts due to ultimate parent undertaking	**308.4**	330.5
Amounts due to other group undertakings	**25.8**	26.2
	334.2	356.7

18. Subordinated loan capital

	Prepayment date	Initial interest rate	31 July 2023 £ million	31 July 2022 £ million
Final maturity date				
2031	2026	2.0%	**174.9**	186.5
			174.9	186.5

Notes to the Consolidated Accounts

for the year ended 31 July 2023

19. Guarantees and commitments

Guarantees

	31 July 2023 £ million	31 July 2022 £ million
Earliest period in which guarantee could be called		
Within one year	**9.0**	3.3
More than one year	**3.2**	3.3
	12.2	6.6

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

Commitments
Undrawn facilities, credit lines and other commitments to lend

	31 July 2023 £ million	31 July 2022 £ million
Within one year[1]	**1,348.5**	1,248.4

[1] Includes both revocable and irrevocable commitments.

Other commitments
The group had contracted capital and other financial commitments of £79.5 million (2022: £114.9 million).

Contingent liabilities
Motor Finance commission arrangements
The group has received a number of complaints, some of which are with the Financial Ombudsman Service, and is subject to a number of claims through the courts regarding historic commission arrangements with intermediaries on its Motor Finance products. This follows the FCA's Motor Market Review in 2019. Depending on the outcome of the court's rulings and/or regulatory findings on the matter, these complaints and claims may give rise to a potential future obligation to compensate customers. It is not currently possible to estimate the financial impact, if any, or scope of these or any future related claims.

Notes to the Consolidated Accounts

for the year ended 31 July 2023

20. Related party transactions

Transactions with key management

Details of directors' remuneration are disclosed in Note 5.

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

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

	2023 £ million	2022 £ million
Emoluments		
Salaries and fees	1.1	1.1
Benefits and allowances	0.1	0.1
Performance related awards in respect of the current year:		
Cash	0.8	1.1
Deferred	-	0.2
	2.0	2.5
Share-based awards	-	0.5
	2.0	3.0

Gains upon exercise of options by key management personnel, expensed to the income statement in previous years, totalled £0.7 million (2022: £0.9 million).

Key management have banking relationships with the company which are entered into in the normal course of business. Amounts included in deposits by customers at 31 July 2023 attributable, in aggregate, to key management were £0.5 million (31 July 2022: £0.2 million).

At 31 July 2023, amounts due to group undertakings of £334.2 million (31 July 2022: £356.7 million) largely related to the group providing banking services to the parent undertaking in its normal capacity as a deposit taker.

Notes to the Consolidated Accounts

for the year ended 31 July 2023

21. 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. For more detailed information refer to the CBG Annual Report.

Defined contribution schemes
During the year the charge to the consolidated income statement for the group's defined contribution pension schemes was £11.6 million (2022: £10.0 million) representing contributions payable by the group and is included in administrative expenses.

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

During the year, the scheme entered into a buy-in transaction with an insurance company covering all members of the scheme. A buy-in is a bulk annuity policy that matches the scheme's assets and liabilities. It represents a significant de-risking of the investment portfolio and hence a significant reduction in the group's long-term exposure to pension funding risk. As a result of this transaction, the pension surplus on CBG's balance sheet has fallen to £1.34 million (31 July 2022: £7.2 million) relating to the cash held by the scheme, with the fair value of the insurance policy matched to the fair value of the scheme's liabilities, which remains subject to changes in actuarial valuations as presented in the CBG annual report. The loss of the pension surplus represents the one-off premium paid for the insurance policy and is recognised within other comprehensive income.

The scheme was closed to new entrants in August 1996 and closed to further accrual during 2012. At 31 July 2023, this scheme had 24 (31 July 2022: 26) deferred members and 56 (31 July 2022: 54) pensioners and dependants and 8 (31 July 2022: 8) insured annuitants.

Funding position
The scheme's most recent triennial actuarial valuation at 31 July 2021 showed that the scheme was fully funded. As such, no further contributions are scheduled.

Notes to the Consolidated Accounts

for the year ended 31 July 2023

22. 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"), and Long Term Incentive Plan ("LTIP").

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

	2023	2022
SAYE	**941.9p**	1,331.7p
LTIP	**1,075.9p**	1,452.2p
DSA	**988.3p**	1,340.0p

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

	Options outstanding 2023		Options outstanding 2022	
Exercise price range	**Number outstanding**	**Weighted average remaining contractual life (years)**	Number outstanding	Weighted average remaining contractual life (years)
SAYE				
Between £7 and £8	**1,058,367**	**2.8**	404,126	2.4
Between £8 and £9	**175,589**	**0.5**	276,945	1.6
Between £9 and £10	**57,504**	**2.7**	142,147	3.7
Between £10 and £11	**7,828**	**1.7**	51,695	1
Between £11 and £12	**4,737**	**1.0**	37,141	0.9
Between £12 and £13	**25,129**	**2.3**	48,845	2.9
Between £13 and £14	**16,929**	**1.8**	33,319	2.7
LTIP				
Nil	**224,955**	**3.2**	289,980	2.6
DSA				
Nil	**152,548**	**1.7**	157,764	1.5
Total	**1,723,586**	**2.5**	1,441,962	2.6

Notes to the Consolidated Accounts

for the year ended 31 July 2023

22. Share-based awards *continued*

The following summary information relates to the current Policy only. Please refer to CBG's Annual Report 2023 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.

23. 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 2023

24. Consolidated cash flow statement reconciliation

	2023 £ million	2022 £ million
(a) Reconciliation of operating profit before tax to net cash inflow from operating activities		
Operating profit before tax	**120.7**	229.4
Tax paid	**(3.6)**	(60.8)
Depreciation, amortisation and impairment	**94.4**	86.6
Impairment losses on financial assets	**204.0**	103.3
(Increase)/decrease in interest receivable and prepaid expenses	**(5.7)**	19.9
Decrease in interest payable and accrued expenses	**(0.2)**	(1.7)
Net cash inflow from trading activities	**409.6**	376.7
Cash (outflow)/inflow arising from changes in:		
Loans and advances to banks not repayable on demand	**(21.1)**	(5.9)
Loans and advances to customers	**(584.3)**	(515.0)
Assets let under operating leases	**(73.2)**	(54.5)
Certificates of deposit	**185.0**	79.7
Sovereign and central bank debt	**191.2**	(255.3)
Covered Bonds	**(105.4)**	-
Deposits by banks	**(22.1)**	11.8
Deposits by customers	**942.5**	142.7
Loans and overdrafts from banks	**24.5**	104.6
Debt securities in issue (net)	**10.4**	243.6
Derivative financial instruments (net)	**70.4**	-
Other assets less other liabilities	**(10.1)**	(7.6)
Net cash inflow from operating activities	**1,017.4**	120.8
(b) Analysis of net cash outflow in respect of the purchase of subsidiaries		
Cash consideration paid	**-**	(0.1)
(c) Analysis of cash and cash equivalents[1]		
Cash and balances at central banks	**1,918.4**	1,236.0
Loans and advances to banks	**222.1**	67.2
At 31 July	**2,140.5**	1,303.2

[1] Excludes £58.0 million (2022: £37.1 million) of Bank of England and other cash reserve accounts.

During the year ended 31 July 2023, the non-cash changes on debt financing amounted to £6.5 million (2022: £3.6 million) arising largely from interest accretion and fair value hedging movements.

Notes to the Consolidated Accounts

for the year ended 31 July 2023

25. Financial risk management

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

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

The group's Enterprise Risk Management Framework details the core risk management components and structures, and defines a consistent and measurable approach to identifying, assessing, controlling and mitigating, reviewing and monitoring, and reporting risk.

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 operate across the group, while risk management across the group is overseen by the Risk Committee.

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

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 2023					
Assets					
Cash and balances at central banks	-	-	-	1,937.0	1,937.0
Loans and advances to banks	-	-	-	261.5	261.5
Loans and advances to customers	-	-	-	9,255.0	9,255.0
Debt securities	-	-	292.4	-	292.4
Derivative financial instruments	50.7	37.8	-	-	88.5
Other financial assets	-	-	-	15.2	15.2
	50.7	37.8	292.4	11,468.7	11,849.6
Liabilities					
Deposits by banks	-	-	-	141.9	141.9
Deposits by customers	-	-	-	7,724.5	7,724.5
Loans and overdrafts from banks	-	-	-	635.3	635.3
Debt securities in issue	-	-	-	1,762.1	1,762.1
Derivative financial instruments	176.2	19.7	-	-	195.9
Amounts due to group undertakings	-	-	-	334.2	334.2
Subordinated loan capital	-	-	-	174.9	174.9
Other financial liabilities	-	-	-	91.8	91.8
	176.2	19.7	-	10,864.7	11,060.6

Notes to the Consolidated Accounts

for the year ended 31 July 2023

25. Financial risk management *continued*

(a) Classification *continued*

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

(b) Valuation

The fair values of the group's subordinated loan capital and debt securities in issue is set out below.

	31 July 2023		31 July 2022	
	Fair Value £ million	**Carrying Value £ million**	Fair Value £ million	Carrying Value £ million
Subordinated loan capital	**165.8**	**174.9**	180.0	186.5
Debt securities in issue	**1,752.2**	**1,762.1**	1,821.4	1,810.5

The fair value of gross loans and advances to customers at 31 July 2023 is estimated to be £9,046.2 million (carrying value: £9,255.0 million). The fair value of deposits by customers is estimated to be £7,668.7 million (carrying value: £7,724.5 million). These estimates are based on highly simplified assumptions and inputs and may differ to actual amounts received or paid. The differences between fair value and carrying value are not considered to be significant, and are consistent with management's expectations given the nature of the business and the short average tenor of the instruments. However, the differences have increased in comparison to the prior year in line with market interest rates.

Notes to the Consolidated Accounts

for the year ended 31 July 2023

25. 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 comprise sovereign and central bank debt and covered bonds. The fair value of these instruments is derived from quoted prices in active markets.

Instruments classified as Level 2 comprise over-the-counter derivatives. 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 comprise over-the-counter derivatives, which is new this year, and contingent consideration payable in relation to the acquisition of subsidiaries.

The valuation of Level 3 derivatives is similar to Level 2 derivatives and 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. 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.

During the year, £1.6 million of derivative financial assets and £1.8 million of derivative financial liabilities were transferred from Level 2 to 3. There were no other significant transfers between Level 1, 2 and 3 in 2023 and 2022.

Notes to the Consolidated Accounts

for the year ended 31 July 2023

25. Financial risk management *continued*

(b) Valuation *continued*

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

	Level 1 £ million	Level 2 £ million	Level 3 £ million	Total £ million
At 31 July 2023				
Assets				
Sovereign and central bank debt	**186.1**	**-**	**-**	**186.1**
Covered bonds	**106.3**	**-**	**-**	**106.3**
Derivative financial instruments	**-**	**77.4**	**11.1**	**88.5**
	292.4	**77.4**	**11.1**	**380.9**
Liabilities				
Derivative financial instruments	**-**	**184.7**	**11.2**	**195.9**
Contingent consideration	**-**	**-**	**0.4**	**0.4**
	-	**184.7**	**11.6**	**196.3**

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

Notes to the Consolidated Accounts

for the year ended 31 July 2023

25. Financial risk management *continued*

(b) Valuation *continued*

Movements in financial instruments categorised as Level 3 were:

	Derivative financial assets £ million	Derivative financial liabilities £ million	Contingent consideration £ million	Total £ million
At 1 August 2021	-	-	(0.6)	(0.6)
Total gains recognised in the consolidated income statement	-	-	0.1	0.1
Settlements	-	-	0.1	0.1
Transfers in	-	-	-	-
At 31 July 2022	-	-	(0.4)	(0.4)
Total gains recognised in the consolidated income statement	**9.5**	**(9.4)**	**-**	**0.1**
Settlements	**-**	**-**	**-**	**-**
Transfers in	**1.6**	**(1.8)**	**-**	**(0.2)**
At 31 July 2023	**11.1**	**(11.2)**	**(0.4)**	**(0.5)**

The overall gains recognised in the consolidated income statement relating to Level 3 instruments held at the year end amounted to £0.1 million (2022: £0.1 million gains).

(c) Credit risk

Credit risk is the risk of a reduction in earnings and/or value, as a result of the failure of a counterparty or associated party, with whom the group has contracted, to meet its obligations as they fall due. Credit risk mainly arises through the lending and treasury activities of the group.

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 2023

25. Financial risk management *continued*

(c) Credit risk *continued*

	31 July 2023 £ million	31 July 2022 £ million
On balance sheet		
Cash and balances at central banks	**1,937.0**	1,254.7
Loans and advances to banks	**261.5**	85.6
Loans and advances to customers	**9,255.0**	8,858.9
Debt securities	**292.4**	600.4
Derivative financial instruments	**88.5**	71.1
Other financial assets	**15.2**	10.6
	11,849.6	10,881.3
Off balance sheet		
Irrevocable undrawn commitments	**383.9**	302.8
Total maximum exposure to credit risk	**12,233.5**	11,184.1

Assets pledged and received as collateral

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

The group is a participant of the Bank of England's Term Funding Scheme with Additional Incentives for SMEs ("TFSME") and the Indexed Long-Term Repo ("ILTR").

Under these schemes, asset finance loan receivables of £863.4 million (31 July 2022: £626.1 million), UK gilts with a market value of £nil million (31 July 2022: £72.6 million), UK T-Bills with a market value of £nil million (31 July 2022: £144.3 million) and retained notes relating to Motor Finance loan receivables of £83.4 million (31 July 2022: £24.3 million) were positioned as collateral with the Bank of England, against which £600.0 million (31 July 2022: £600.0 million) of cash was drawn from the TFSME and £5.0 million (31 July 2022: £nil) from the ILTR.

The term of the TFSME transactions is four years from the date of each drawdown but the group may choose to repay earlier at its discretion. The term of the ILTR transaction is six months and cannot be repaid earlier. 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 £1,436.3 million (31 July 2022: £1,626.8 million) of its insurance premium and motor loan receivables in return for cash and asset-backed securities in issue of £1,187.4 million (31 July 2022: £1,156.0 million restated). This includes the £83.4 million (31 July 2022: £24.3 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 on its consolidated balance sheet.

The majority of loans and advances to customers are secured against specific assets. 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 2023

25. Financial risk management *continued*

(c) Credit risk *continued*

Financial assets: Loans and advances to customers
The group's approach to managing credit risk relating to loans and advances to customers is set out on pages 30 to 36 in the Strategic Report.

Information on the group's internal credit risk reporting can be found on page 41 in the Strategic Report, including an analysis of gross loans and advances to customers, trade receivables and undrawn facilities by the group's internal credit risk grading.

Information on the collateral held in relation to loans and advances to customers can be found on pages 43 to 44 in the Strategic Report, including an analyses of gross loans and advances to customers by LTV ratio.

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, sovereign and central bank debt and covered bonds. These financial assets are investment grade and in Stage 1.

(d) Market risk

Interest rate risk
Additional disclosures on the group's interest rate risk can be found on pages 47 to 48 in the Stategic Report.

Interest rate benchmark reform
In the prior year, the group completed the transition away from the use of LIBOR to alternative benchmark rates in loan documentation, treasury transactions and other forms of contract. At 31 July 2021, loans and advances to customers amounting to £995.5 million and derivatives with a notional value of £84.7 million were yet to transition to an alternative benchmark rate. The transition was subsequently completed by 31 December 2021 in compliance with the requirements set by the Prudential Regulation Authority and Financial Conduct Authority. There were no significant changes to the nature of the risks arising from financial instruments to which the group is exposed as a result of the transition.

Foreign exchange risk
Additional disclosures on the group's foreign exchange risk can be found on pages 48 to 49 in the Strategic Report

Non-trading financial instruments
Net gains and losses on non-trading financial instruments are disclosed in note 11.

Notes to the Consolidated Accounts

for the year ended 31 July 2023

25. Financial risk management *continued*

(e) Liquidity risk

Liquidity risk is the risk that liabilities cannot be met when they fall due or can only be met at an uneconomic price. The following table analyses the contractual maturities of the group's on balance sheet financial liabilities on an undiscounted cash flow basis. *Additional disclosures on the group's liquidity risk can be found on pages 44 to 46 of the Strategic Report.*

	On demand £ million	In less than three months £ million	In more than three months but not more than six months £ million	In more than six months but not more than one year £ million	In more than one year but not more than five years £ million	In more than five years £ million	Total £ million
At 31 July 2023							
Financial liabilities							
Deposits by banks	**10.3**	**43.7**	**89.7**	**-**	**-**	**-**	**143.7**
Deposits by customers	**175.1**	**1,838.3**	**1,972.9**	**1,869.6**	**2,140.6**	**-**	**7,996.5**
Loans and overdrafts from banks	**27.7**	**13.0**	**8.8**	**246.6**	**384.2**	**-**	**680.3**
Debt securities in issue	**-**	**47.8**	**125.0**	**163.8**	**1,380.9**	**416.3**	**2,133.8**
Derivative financial instruments	**0.2**	**21.7**	**23.5**	**39.0**	**167.6**	**73.0**	**325.0**
Subordinated loan capital	**-**	**2.0**	**-**	**2.0**	**16.0**	**213.0**	**233.0**
Lease liabilities	**0.2**	**2.7**	**2.5**	**4.7**	**10.0**	**0.7**	**20.8**
Other financial liabilities	**20.3**	**46.8**	**0.4**	**2.5**	**2.5**	**-**	**72.5**
Total	**233.8**	**2,016.0**	**2,222.8**	**2,328.2**	**4,101.8**	**703.0**	**11,605.6**

	On demand £ million	In less than three months £ million	In more than three months but not more than six months £ million	In more than six months but not more than one year £ million	In more than one year but not more than five years £ million	In more than five years £ million	Total £ million
At 31 July 2022							
Financial liabilities							
Deposits by banks	6.0	51.9	98.8	4.1	-	-	160.8
Deposits by customers	120.9	1,645.1	2,046.5	1,600.1	1,427.2	-	6,839.8
Loans and overdrafts from banks	10.2	1.9	1.9	3.7	610.5	-	628.2
Debt securities in issue	-	30.3	252.8	366.4	890.7	444.2	1,984.4
Derivative financial instruments	-	6.3	9.0	16.0	89.0	55.6	175.9
Subordinated loan capital	-	2.0	-	2.0	15.0	218.0	237.0
Lease liabilities	0.2	2.4	2.3	4.5	14.7	0.9	25.0
Other financial liabilities	15.4	56.0	0.9	2.4	2.2	0.1	77.0
Total	152.7	1,795.9	2,412.2	1,999.2	3,049.3	718.8	10,128.1

Notes to the Consolidated Accounts

for the year ended 31 July 2023

25. 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 2023	**41.2**	**153.9**	**26.0**	**39.4**	**167.5**	**73.0**	**501.0**
At 31 July 2022	1.7	69.8	9.0	16.0	88.9	55.6	241.0

(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 2023				
Derivative financial assets	**88.5**	**(77.1)**	**-**	**11.4**
Derivative financial liabilities	**195.9**	**(77.1)**	**(144.0)**	**(25.2)**

	Gross amounts recognised	Master netting arrangements	Financial Collateral	Net amounts after offsetting under IFRS 7
	£ million	£ million	£ million	£ million
At 31 July 2022				
Derivative financial assets	71.1	(69.1)	(0.5)	1.5
Derivative financial liabilities	89.2	(69.1)	(26.9)	(6.8)

Company Balance Sheet

at 31 July 2023

	Note	31 July 2023 £ million	31 July 2022 £ million
Assets			
Cash and balances at central banks		**1,937.0**	1,254.7
Loans and advances to banks	28	**166.8**	45.7
Loans and advances to customers	29	**6,428.2**	6,194.8
Amounts due from group undertakings		**3,315.5**	2,895.7
Debt securities	30	**292.4**	600.4
Derivative financial instruments	31	**77.4**	69.6
Investments in subsidiaries	32	**78.5**	80.1
Intangible assets	33	**157.2**	141.2
Property, plant and equipment	34	**24.5**	29.9
Current tax assets		**35.8**	39.7
Deferred tax assets	27	**7.3**	23.5
Prepayments, accrued income and other assets	35	**113.7**	110.3
Total assets		**12,634.3**	11,485.6
Liabilities			
Deposits from banks	36	**141.9**	160.5
Deposits from customers	36	**7,668.1**	6,716.9
Loans and overdrafts from banks	36	**617.9**	604.7
Derivative financial instruments	31	**195.9**	89.2
Amounts due to group undertakings	36	**2,314.1**	2,187.7
Subordinated loan capital	37	**174.9**	186.5
Accruals, deferred income and other liabilities	35	**140.2**	155.4
Total liabilities		**11,253.0**	10,100.9
Equity			
Called up share capital		**122.5**	122.5
Retained earnings		**1,229.2**	1,242.4
Other reserves		**29.6**	19.8
Total equity		**1,381.3**	1,384.7
Total equity and liabilities		**12,634.3**	11,485.6

The company reported a profit for the financial year ended 31 July 2023 of £75.2 million (2022: £169.5 million).

The company financial statements were approved and authorised for issue by the board of directors on 26 September 2023 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 2023

	Called-up share capital*	Retained Earnings	Capital contribution reserve	Other reserves: Exchange movements reserve	Other reserves: FVOCI reserve	Other reserves: Cash flow hedging reserve	Total attributable to owners of the Company
	£ million	£ million	£ million	£ million	£ million	£ million	£ million
At 1 August 2021	122.5	1,203.3	-	(1.9)	0.8	(0.3)	1,324.4
Profit for the year	-	169.5	-	-	-	-	169.5
Other comprehensive income	-	-	-	(0.1)	(0.7)	22.0	21.2
Total comprehensive income for the year	-	169.5	-	(0.1)	(0.7)	22.0	190.7
Dividends paid	-	(130.1)	-	-	-	-	(130.1)
Other movements	-	0.3	-	-	-	-	0.3
Income tax	-	(0.6)	-	-	-	-	(0.6)
Capital contribution – parent *equity-settled share-based* payments	-	-	1.3	-	-	-	1.3
Return of capital contribution – parent-equity settled share-based payments	-	-	(1.3)	-	-	-	(1.3)
At 31 July 2022	122.5	1,242.4	-	(2.0)	0.1	21.7	1,384.7
Profit for the year	-	**75.2**	-	-	-	-	**75.2**
Other comprehensive income	-	-	-	**(0.1)**	**(2.8)**	**12.7**	**9.8**
Total comprehensive income for the year.	-	**75.2**	-	**(0.1)**	**(2.8)**	**12.7**	**85.0**
Dividends paid	-	**(89.6)**	-	-	-	-	**(89.6)**
Other movements	-	**1.3**	-	-	-	-	**1.3**
Income tax	-	**(0.1)**	-	-	-	-	**(0.1)**
Capital contribution – parent equity-settled share-based payments	-	-	**0.7**	-	-	-	**0.7**
Return of capital contribution – parent-equity settled share-based payments	-	-	**(0.7)**	-	-	-	**(0.7)**
At 31 July 2023	**122.5**	**1,229.2**	-	**(2.1)**	**(2.7)**	**34.4**	**1,381.3**

*Allotted, called-up and fully-paid capital comprised 122,480,000 ordinary shares of £1 each (2022: 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.

Notes to The Company Accounts

for the year ended 31 July 2023

26. Employee Costs

	2023 £ million	2022 £ million
Staff costs		
Wages and salaries	**140.1**	131.3
Social security costs	**19.7**	18.5
Share-based payments	**1.2**	1.4
Other pension costs	**9.6**	8.3
	170.6	159.5

The company's average number of employees is 2,271 employees (2022: 2,138 employees).

Refer to note 5 of the consolidated accounts for full details of the directors' emoluments.

27. 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 2021	35.2	3.2	(0.4)	0.1	6.4	44.5
Charge to the income statement	(10.3)	(0.5)	-	-	(1.7)	(12.5)
Credit/(charge) to other comprehensive income	0.3	-	0.4	(8.6)	-	(7.9)
Charge to equity	-	(0.6)	-	-	-	(0.6)
At 31 July 2022	25.2	2.1	-	(8.5)	4.7	23.5
Charge to the income statement	**(11.0)**	**(0.5)**	**0.2**	**-**	**(0.5)**	**(11.8)**
(Charge)/credit to other comprehensive income	**(0.4)**	**-**	**1.0**	**(4.9)**	**-**	**(4.3)**
Charge to equity	**-**	**(0.1)**	**-**	**-**	**-**	**(0.1)**
At 31 July 2023	**13.8**	**1.5**	**1.2**	**(13.4)**	**4.2**	**7.3**

The company's deferred tax asset comprises £2.5 million liabilities (31 July 2022: £6.6 million assets) due within one year, and a £6.6 million (31 July 2022: £16.9 million) assets due after more than one year.

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

28. Loans and advances to banks

	On demand £ million	Within three months £ million	Between three months and one year £ million	Between one and two years £ million	Between two and five years £ million	Total £ million
At 31 July 2023	**166.8**	**-**	**-**	**-**	**-**	**166.8**
At 31 July 2022	45.7	-	-	-	-	45.7

Notes to The Company Accounts

for the year ended 31 July 2023

29. Loans and advances to customers

a) Maturity analysis of loans and advances to customers

	On demand £ million	Within three months £ million	Between three months and one year £ million	Between one and two years £ million	Between two and five years £ million	After more than five years £ million	Total gross loans and advances to customers £ million	Impairment provisions £ million	Total net loans and advances to customers £ million
At 31 July 2023	**68.8**	**1,351.6**	**2,091.7**	**1,359.0**	**1,674.2**	**45.1**	**6,590.4**	**(162.2)**	**6,428.2**
At 31 July 2022	66.1	1,256.2	1,826.4	1,440.8	1,692.0	47.1	6,328.6	(133.8)	6,194.8

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

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

		Stage 2				
	Stage 1 £ million	Less than 30 days past due £ million	Greater than or equal to 30 days past due £ million	Total £ million	Stage 3 £ million	Total £ million
At 31 July 2023						
Gross loans and advances to customers						
Commercial	1,930.7	227.3	22.0	249.3	71.0	2,251.0
Retail	2,726.9	154.0	17.7	171.7	72.8	2,971.4
Property	1,157.5	84.4	11.5	95.9	114.6	1,368.0
Total	5,815.1	465.7	51.2	516.9	258.4	6,590.4
Impairment provisions						
Commercial	16.3	5.4	2.2	7.6	15.2	39.1
Retail	27.0	11.4	2.5	13.9	45.8	86.7
Property	4.0	1.3	0.3	1.6	30.8	36.4
Total	47.3	18.1	5.0	23.1	91.8	162.2
Provision coverage ratio						
Commercial	0.8%	2.4%	10.0%	3.0%	21.4%	1.7%
Retail	1.0%	7.4%	14.1%	8.1%	62.9%	2.9%
Property	0.3%	1.5%	2.6%	1.7%	26.9%	2.7%
Total	0.8%	3.9%	9.8%	4.5%	35.5%	2.5%

Notes to The Company Accounts

for the year ended 31 July 2023

29. Loans and advances to customers *continued*

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

		Stage 2				
	Stage 1 £ million	Less than 30 days past due £ million	Greater than or equal to 30 days past due £ million	Total £ million	Stage 3 £ million	Total £ million
At 31 July 2022						
Gross loans and advances to customers						
Commercial	1,976.9	125.3	25.0	150.3	58.1	2,185.3
Retail	2,821.5	118.1	9.2	127.3	63.6	3,012.4
Property	941.9	79.6	27.0	106.6	82.4	1,130.9
Total	5,740.3	323.0	61.2	384.2	204.1	6,328.6
Impairment provisions						
Commercial	12.6	3.5	2.4	5.9	14.1	32.6
Retail	21.2	4.8	1.7	6.5	39.8	67.5
Property	1.9	4.0	1.2	5.2	26.6	33.7
Total	35.7	12.3	5.3	17.6	80.5	133.8
Provision coverage ratio						
Commercial	0.6%	2.8%	9.6%	3.9%	24.3%	1.5%
Retail	0.8%	4.1%	18.5%	5.1%	62.6%	2.2%
Property	0.2%	5.0%	4.4%	4.9%	32.3%	3.0%
Total	0.6%	3.8%	8.7%	4.6%	39.4%	2.1%

c) Adjustments

By their nature, limitations in the group's expected credit loss models or input data may be identified through ongoing model monitoring and validation of models. In certain circumstances, management make appropriate adjustments to model-calculated expected credit losses. Adjustments have been identified as a key source of estimation uncertainty as set out in Note 2 'Critical Accounting Judgements and Estimates'.

At 31 July 2023, £8.6m million of the expected credit loss provision was attributable to adjustments (31 July 2022: £(2.9)million).

Notes to The Company Accounts

for the year ended 31 July 2023

29. Loans and advances to customers *continued*

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

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

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

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

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

ECL model methodologies may be updated or enhanced from time to time and the impacts of such changes are presented on a separate line. During the year, a number of enhancements were made to the models in the Premium business. The enhancements were made to address known model limitations and to ensure modelled provisions better reflect future loss emergence.

Enhancements to our model suite 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 2022	**5,740.3**	**384.2**	**204.1**	**6,328.6**
New financial assets originated	**4,978.1**	**-**	**-**	**4,978.1**
Transfers to Stage 1	**72.6**	**(125.8)**	**(4.2)**	**(57.4)**
Transfers to Stage 2	**(721.5)**	**576.1**	**(10.0)**	**(155.4)**
Transfers to Stage 3	**(179.2)**	**(70.9)**	**196.1**	**(54.0)**
Net transfers between stages and repayments[1]	**(828.1)**	**379.4**	**181.9**	**(266.8)**
Repayments while stage remained unchanged and final repayments	**(4,050.3)**	**(243.4)**	**(106.2)**	**(4,399.9)**
Changes to model methodologies	**(24.6)**	**(3.1)**	**27.7**	**-**
Write offs	**(0.3)**	**(0.2)**	**(49.1)**	**(49.6)**
At 31 July 2023	**5,815.1**	**516.9**	**258.4**	**6,590.4**

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 Company Accounts

for the year ended 31 July 2023

29. Loans and advances to customers *continued*

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

	Stage 1 £ million	Stage 2 £ million	Stage 3 £ million	Total £ million
Gross loans and advances to customers				
At 1 August 2021	5,378.4	576.1	239.7	6,194.2
New financial assets originated	5,045.3	-	-	5,045.3
Transfers to Stage 1	159.6	(238.8)	(4.4)	(83.6)
Transfers to Stage 2	(486.2)	384.9	(12.9)	(114.2)
Transfers to Stage 3	(127.6)	(62.3)	140.7	(49.2)
Net transfers between stages and repayments[1]	(454.2)	83.8	123.4	(247.0)
Repayments while stage remained unchanged and final repayments	(4,228.7)	(275.6)	(119.0)	(4,623.3)
Write offs	(0.5)	(0.1)	(40.0)	(40.6)
At 31 July 2022	5,740.3	384.2	204.1	6,328.6

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 £111.8 million (2022: £229.3 million). No gain or loss (2022: nil) was recognised as a result of these modifications. The gross carrying amount at 31 July 2023 of modified loans and advances to customers which transferred from Stage 2 or 3 to Stage 1 during the year was £10.6 million (31 July 2022: £106.1 million).

	Stage 1 £ million	Stage 2 £ million	Stage 3 £ million	Total £ million
Impairment provisions on loans and advances to customers				
At 1 August 2022	**35.7**	**17.6**	**80.5**	**133.8**
New financial assets originated	**40.6**	**-**	**-**	**40.6**
Transfers to Stage 1	**0.5**	**(3.8)**	**(0.8)**	**(4.1)**
Transfers to Stage 2	**(6.8)**	**24.3**	**(5.2)**	**12.3**
Transfers to Stage 3	**(3.0)**	**(5.8)**	**70.0**	**61.2**
Net remeasurement of expected credit losses arising from transfer between stages and repayments[1]	**(9.3)**	**14.7**	**64.0**	**69.4**
Changes to model methodologies	**(2.1)**	**(1.9)**	**2.5**	**(1.5)**
Repayments and ECL movements while stage remained unchanged and final repayments	**(17.3)**	**(7.1)**	**(12.4)**	**(36.8)**
Charge to the income statement	**11.9**	**5.7**	**54.1**	**71.7**
Write offs	**(0.3)**	**(0.2)**	**(42.8)**	**(43.3)**
At 31 July 2023	**47.3**	**23.1**	**91.8**	**162.2**

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 Company Accounts

for the year ended 31 July 2023

29. Loans and advances to customers *continued*

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

	Stage 1 £ million	Stage 2 £ million	Stage 3 £ million	Total £ million
Impairment provisions on loans and advances to customers				
At 1 August 2021	36.2	38.3	79.6	154.1
New financial assets originated	31.8	-	-	31.8
Transfers to Stage 1	1.0	(9.7)	(1.5)	(10.2)
Transfers to Stage 2	(3.9)	13.5	(3.4)	6.2
Transfers to Stage 3	(2.0)	(9.1)	52.5	41.4
Net remeasurement of expected credit losses arising from transfer between stages and repayments[1]	(4.9)	(5.3)	47.6	37.4
Repayments and ECL movements while stage remained unchanged and final repayments	(26.9)	(15.3)	(10.1)	(52.3)
Charge to the income statement	-	(20.6)	37.5	16.9
Write offs	(0.5)	(0.1)	(36.6)	(37.2)
At 31 July 2022	35.7	17.6	80.5	133.8

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

	2023 £ million	2022 £ million
Impairment losses relating to loans and advances to customers		
Charge to income statement arising from movement in impairment provision	**71.7**	16.9
Amounts written off directly to income statement, net of recoveries and other costs	**6.9**	2.0
	78.6	18.9
Impairment losses relating to other financial assets	**(0.6)**	(0.1)
Impairment losses on financial assets recognised in income statement	**78.0**	18.8

The contractual amount outstanding at 31 July 2023 on financial assets that were written off during the period and are still subject to recovery activity is £19.0 million (31 July 2022: £10.7 million).

Notes to The Company Accounts

for the year ended 31 July 2023

29. Loans and advances to customers *continued*

e) Finance lease and hire purchase agreement receivables

	31 July 2023 £ million	31 July 2022 £ million
Net loans and advances to customers comprise		
Hire purchase agreement receivables	**3,363.4**	3,431.7
Finance lease receivables	**337.9**	285.2
Other loans and advances	**2,726.9**	2,477.9
At 31 July	**6,428.2**	6,194.8

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

	31 July 2023 £ million	31 July 2022 £ million
Gross investment in finance leases and hire purchase agreement receivables due:		
One year or within one year	**1,518.0**	1,444.5
>One to two years	**1,767.8**	1,721.5
>Two to three years	**774.7**	776.1
>Three to four years	**354.5**	381.3
>Four to five years	**93.7**	111.8
More than five years	**31.0**	29.9
	4,539.7	4,465.1
Unearned finance income	**(724.5)**	(659.2)
Present value of minimum lease and hire purchase agreement payments:	**3,815.2**	3,805.9
Of which due:		
One year or within one year	**1,272.1**	1,227.8
>One to two years	**1,482.2**	1,467.3
>Two to three years	**654.2**	663.1
>Three to four years	**300.5**	326.3
>Four to five years	**79.8**	95.8
More than five years	**26.4**	25.6
	3,815.2	3,805.9

The aggregate cost of assets acquired for the purpose of letting under finance leases and hire purchase agreements was £5,993.0 million (2022: £6,400.7 million). The average effective interest rate on finance leases approximates to 11.6% (2022: 10.4%). The present value of minimum lease and hire purchase agreement payments reflects the fair value of finance lease and hire purchase agreement receivables before deduction of impairment provisions.

Notes to The Company Accounts

for the year ended 31 July 2023

30. Debt securities

	Fair value through other comprehensive income	Amortised cost	Total
	£ million	£ million	£ million
At 31 July 2023			
Certificates of deposit	-	-	-
Sovereign and central bank debt	**186.1**	-	**186.1**
Covered bonds	**106.3**	-	**106.3**
	292.4	-	**292.4**
At 31 July 2022			
Certificates of deposit	-	185.0	185.0
Sovereign and central bank debt	415.4	-	415.4
Covered bonds	-	-	-
	415.4	185.0	600.4

31. Derivative financial instruments

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

	31 July 2023			31 July 2022		
	Notional value	Assets	Liabilities	Notional value	Assets	Liabilities
	£ million	£ million	£ million	£ million	£ million	£ million
Exchange rate contracts	**175.4**	**0.8**	**0.4**	65.3	0.6	0.2
Interest rate contracts	**3,205.6**	**76.6**	**195.5**	4,001.6	69.0	89.0
	3,381.0	**77.4**	**195.9**	4,066.9	69.6	89.2

Notional amounts of interest rate contracts totalling £2,395.1million (2022: £3,392.5 million), which are held for interest rate risk management and interest margin stabilisation purposes, 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 2023			31 July 2022		
	Notional value	Assets	Liabilities	Notional value	Assets	Liabilities
	£ million	£ million	£ million	£ million	£ million	£ million
Cash flow hedges						
Interest rate contracts	**297.7**	**8.5**	**2.9**	1,552.0	33.2	1.6
Fair value hedges						
Interest rate contracts	**1,614.7**	**42.2**	**173.3**	1,475.4	28.4	82.3

Notes to The Company Accounts

for the year ended 31 July 2023

31. Derivative financial instruments *continued*

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

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

Cash flow hedges seek to hedge the exposure to variability in future cash flows due to movements in the relevant benchmark interest rate with interest rate swaps. These future cash flows relate to future interest payments or receipts on recognised financial instruments and on forecast transactions for periods of up to seven (2022: six) years. The company applies portfolio cash flow hedging for interest rate risk exposures on a portfolio of actual and forecast variable interest rate cash flows arising from variable rate borrowings.

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

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

The main sources of hedge ineffectiveness can include, but are not limited to, basis mismatch, maturity mismatch, credit valuation adjustments and cash flow timing mismatch between the hedged item and the hedging instrument.

The maturity profile for the notional amounts of the company'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 2023	-	**51.0**	**0.6**	**190.6**	**690.0**	**682.5**	**1,614.7**
31 July 2022	-	0.7	0.4	141.3	680.3	652.7	1,475.4

Fair value hedges have an average fixed rate of 1.6% (31 July 2022: 1.9%).

Notes to The Company Accounts

for the year ended 31 July 2023

32. Investments in subsidiaries

	£ million
Cost	
at 1 August 2022	143.0
Additions	104.2
at 31 July 2023	**247.2**
Less: amounts written off	
at 1 August 2022	62.9
Movement during the year	105.8
at 31 July 2023	**168.7**
Carrying value	
At 31 July 2023	**78.5**
At 31 July 2022	80.1

Impairment of Investment in subsidiaries

During the year, the company made capital injections to its subsidiaries relating to Novitas Loans Limited £100.0 million, Corporate Asset Solutions Limited £3.4 million and Close Brothers Asset Finance GmbH £0.8 million.

The company recorded a total impairment charge of £105.8 million relating to the write down of Novitas Loans Limited £100.0 million, Corporate Asset Solutions Limited £3.4 million, CBM Holdings Limited £2.3 million and Capital Lease Solutions Limited £0.1 million.

Notes to The Company Accounts

for the year ended 31 July 2023

33. Intangible assets

	Goodwill £ million	Software £ million	Total £ million
Cost			
At 1 August 2022	4.3	257.2	261.5
Additions	0.9	47.5	48.4
Disposals	-	(15.9)	(15.9)
At 31 July 2023	**5.2**	**288.8**	**294.0**
Accumulated amortisation			
At 1 August 2022	-	120.3	120.3
Amortisation charge for the year	-	31.5	31.5
Disposals	-	(15.0)	(15.0)
At 31 July 2023	**-**	**136.8**	**136.8**
Net book value at 31 July 2023	**5.2**	**152.0**	**157.2**
Net book value at 31 July 2022	4.3	136.9	141.2

At 31 July 2023, 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 2023, the results of the review indicate there is no goodwill impairment.

	31 July 2023		31 July 2022	
Cash Generating Unit	**Goodwill £ million**	**Pre-tax discount rate %**	Goodwill £ million	Pre-tax discount rate %
Bank	**5.2**	**17.0**	4.3	15.4

Notes to The Company Accounts

for the year ended 31 July 2023

34. 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 1 August 2022	13.4	26.0	-	33.6	73.0
Additions	0.6	2.8	0.7	4.3	8.4
Disposals	-	(0.5)	-	(7.2)	(7.7)
At 31 July 2023	**14.0**	**28.3**	**0.7**	**30.7**	**73.7**
Accumulated depreciation					
At 1 August 2022	9.1	17.0	-	17.0	43.1
Depreciation and impairment charges for the year	1.9	3.5	-	6.0	11.4
Disposals	-	(0.4)	-	(4.9)	(5.3)
At 31 July 2023	**11.0**	**20.1**	**-**	**18.1**	**49.2**
Net book value at 31 July 2023	**3.0**	**8.2**	**0.7**	**12.6**	**24.5**
Net book value at 31 July 2022	4.3	9.0	-	16.6	29.9

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

Notes to The Company Accounts

for the year ended 31 July 2023

35. Other assets and liabilities

	31 July 2023 £ million	31 July 2022 £ million
Prepayments, accrued income and other assets		
Prepayments and accrued income	**106.7**	104.4
Trade and other receivables	**7.0**	5.9
	113.7	110.3
Accruals, deferred income and other liabilities		
Accruals and deferred income	**73.6**	80.5
Trade and other payables	**57.7**	67.1
Provisions	**8.9**	7.8
	140.2	155.4

Provisions movements in the year:

	Claims £ million	Property £ million	Other £ million	Total £ million
Movements during the year				
At 1 August 2022	3.1	3.1	1.6	7.8
Additions	0.8	0.5	3.1	4.4
Utilised	(1.4)	-	(0.4)	(1.8)
Released	(1.4)	(0.1)	-	(1.5)
At 31 July 2023	**1.1**	**3.5**	**4.3**	**8.9**

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

36. Financial liabilities

	On demand £ million	Within three months £ million	Between three months and one year £ million	Between one and two years £ million	Between two and five years £ million	After more than five years £ million	Total £ million
At 31 July 2023							
Deposits by banks	**10.3**	**43.6**	**88.0**	**-**	**-**	**-**	**141.9**
Deposits by customers	**118.7**	**1,836.5**	**3,745.8**	**1,305.0**	**662.1**	**-**	**7,668.1**
Loans and overdrafts from banks	**10.3**	**7.6**	**228.0**	**262.0**	**110.0**	**-**	**617.9**
Amounts due to group undertakings	**259.9**	**30.4**	**518.3**	**197.8**	**1,013.8**	**293.9**	**2,314.1**
	399.2	**1,918.1**	**4,580.1**	**1,764.8**	**1,785.9**	**293.9**	**10,742.0**

Notes to The Company Accounts

for the year ended 31 July 2023

36. Financial liabilities *continued*

	On *demand* £ million	Within three *months* £ million	Between three months and *one year* £ million	Between one and *two years* £ million	Between two and *five years* £ million	After more than five *years* £ million	*Total* £ million
At 31 July 2022							
Deposits by banks	6.1	52.0	102.4	-	-	-	160.5
Deposits by customers	67.4	1,645.2	3,615.6	1,058.8	329.9	-	6,716.9
Loans and overdrafts from banks	4.1	0.6	-	228.0	372.0	-	604.7
Amounts due to group undertakings	86.7	26.0	756.5	389.0	567.0	362.5	2,187.7
	164.3	1,723.8	4,474.5	1,675.8	1,268.9	362.5	9,669.8

As discussed in note 25(c) at 31 July 2023 the company accessed £600.0 million cash under the Bank of England's Term Funding Scheme with Additional Incentives for SMEs (31 July 2022: £600.0 million) and £5.0 million (31 July 2022: £nil) from the Indexed Long-Term Repo. Cash from the schemes and repurchase agreements is included within loans and overdrafts from banks. Residual maturities of the schemes and repurchase agreements are as follows:

	On demand **£ million**	**Within three months** **£ million**	**Between three months and one year** **£ million**	**Between one and two years** **£ million**	**Between two and five years** **£ million**	**After more than five years** **£ million**	**Total** **£ million**
31 July 2023	**-**	**7.6**	**228.0**	**262.0**	**110.0**	**-**	**607.6**
31 July 2022	-	0.6	-	228.0	372.0	-	600.6

37. Subordinated loan capital

	Prepayment date at company's option	Initial interest rate (%)	**31 July 2023** **£ million**	31 July 2022 £ million
Final maturity date				
2031	2026	2.0%	**174.9**	186.5
			174.9	186.5

Notes to The Company Accounts

for the year ended 31 July 2023

38. Guarantees and commitments

Guarantees

	31 July 2023 £ million	31 July 2022 £ million
Guarantees and irrevocable letters of credit	**3.3**	3.3

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

Commitments
Undrawn facilities, credit lines, other commitments to lend

	31 July 2023 £ million	31 July 2022 £ million
Within one year[1]	**1,202.6**	1,040.6
Total commitments	**1,202.6**	1,040.6

[1] Includes both recoverable and irrecoverable commitments.

Other commitments
The company had contracted capital commitments relating to capital expenditure of £3.2 million (2022: £4.5 million)

Contingent liabilities
Motor Finance commission arrangements
The company has received a number of complaints, some of which are with the Financial Ombudsman Service, and is subject to a number of claims through the courts regarding historic commission arrangements with intermediaries on its Motor Finance products. This follows the FCA's Motor Market Review in 2019. Depending on the outcome of the court's rulings and/or regulatory findings on the matter, these complaints and claims may give rise to a potential future obligation to compensate customers. It is not currently possible to estimate the financial impact, if any, or scope of these or any future related claims.

Notes to The Company Accounts

for the year ended 31 July 2023

39. Capital

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

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

The unaudited capital position for the group is disclosed in pages 25 to 28 of the Strategic Report. Further information on capital, risk exposures and the risk assessment process are disclosed in the Close Brothers Group plc's Pillar 3 disclosures which can be found on the Group's website.

40. Financial instruments

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

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

(a) Classification

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

	Derivatives designated as hedging instruments	Fair value through profit or loss	Fair value through other comprehensive *income*	Amortised *cost*	*Total*
	£ million	£ million	£ million	£ million	£ million
As at 31 July 2023					
Assets					
Cash and balances at central banks	-	-	-	1,937.0	1,937.0
Loans and advances to banks	-	-	-	166.8	166.8
Loans and advances to customers	-	-	-	6,428.2	6,428.2
Amounts due from group undertakings	-	-	-	3,315.5	3,315.5
Debt securities	-	-	292.4	-	292.4
Derivative financial instruments	50.7	26.7	-	-	77.4
Other financial assets	-	-	-	0.9	0.9
	50.7	26.7	292.4	11,848.4	12,218.2
Liabilities					
Deposits by banks	-	-	-	141.9	141.9
Deposits by customers	-	-	-	7,668.1	7,668.1
Loans and overdrafts from banks	-	-	-	617.9	617.9
Derivative financial instruments	176.2	19.7	-	-	195.9
Amounts due to group undertakings	-	-	-	2,314.1	2,314.1
Subordinated loan capital	-	-	-	174.9	174.9
Other financial liabilities	-	-	-	64.3	64.3
	176.2	19.7	-	10,981.2	11,177.1

Notes to The Company Accounts

for the year ended 31 July 2023

40. 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 2022					
Assets					
Cash and balances at central banks	-	-	-	1,254.7	1,254.7
Loans and advances to banks	-	-	-	45.7	45.7
Loans and advances to customers	-	-	-	6,194.8	6,194.8
Amounts due from group undertakings	-	-	-	2,895.7	2,895.7
Debt securities	-	-	415.4	185.0	600.4
Derivative financial instruments	61.6	8.0	-	-	69.6
Other financial assets	-	-	-	-	-
	61.6	8.0	415.4	10,575.9	11,060.9
Liabilities					
Deposits by banks	-	-	-	160.5	160.5
Deposits by customers	-	-	-	6,716.9	6,716.9
Loans and overdrafts from banks	-	-	-	604.7	604.7
Derivative financial instruments	83.9	5.3	-	-	89.2
Amounts due to group undertakings	-	-	-	2,187.7	2,187.7
Subordinated loan capital	-	-	-	186.5	186.5
Other financial liabilities	-	-	-	76.9	76.9
	83.9	5.3	-	9,933.2	10,022.4

Notes to The Company Accounts

for the year ended 31 July 2023

40. Financial instruments *continued*

(b) Valuation

The fair value of the company's subordinated loan capital is set out below.

	31 July 2023		31 July 2022	
	Fair Value	**Carrying Value**	Fair Value	Carrying Value
	£ million	**£ million**	£ million	£ million
Subordinated loan capital	**165.8**	**174.9**	180.0	186.5

The fair value of gross loans and advances to customers at 31 July 2023 is estimated to be £6,279.5 million (carrying value: £6,428.2 million). The fair value of deposits by customers is estimated to be £7,612.3 million (carrying value: £7,668.1 million). These estimates are based on highly simplified assumptions and inputs and may differ to actual amounts received or paid. The differences between fair value and carrying value are not considered to be significant, and are consistent with management's expectations given the nature of the business and the short average tenor of the instruments. However, the differences have increased in comparison to the prior year in line with market interest rates.

Note 25(b) to the consolidated accounts outlines the valuation hierarchy into which financial instruments measured at fair value are categorised.

During the year, £1.8 million of derivative financial liabilities were transferred from Level 2 to 3. There were no other significant transfers between Level 1, 2 and 3 in 2023 and 2022. The tables below show the classification of financial instruments held at fair value into the valuation hierarchy.

	Level 1	Level 2	Level 3	Total
	£ million	£ million	£ million	£ million
As at 31 July 2023				
Assets				
Sovereign and central bank debt	**186.1**	-	-	**186.1**
Covered bonds	**106.3**	-	-	**106.3**
Derivative financial instruments	-	**77.4**	-	**77.4**
	292.4	**77.4**	-	**369.8**
Liabilities				
Derivative financial instruments	-	**184.7**	**11.2**	**195.9**
Contingent Consideration	-	-	**0.4**	**0.4**
	-	**184.7**	**11.6**	**196.3**

	Level 1	Level 2	Level 3	Total
	£ million	£ million	£ million	£ million
As at 31 July 2022				
Assets				
Sovereign and central bank debt	415.4	-	-	415.4
Covered bonds	-	-	-	-
Derivative financial instruments	-	69.6	-	69.6
	415.4	69.6	-	485.0
Liabilities				
Derivative financial instruments	-	89.2	-	89.2
Contingent Consideration	-	-	0.4	0.4
	-	89.2	0.4	89.6

Notes to The Company Accounts

for the year ended 31 July 2023

40. Financial instruments *continued*

(b) Valuation *continued*

Movements in financial instruments categorised as Level 3 were:

	Derivative financial liabilities £ million	Contingent consideration £ million	Total £ million
At 1 August 2021	-	(0.6)	(0.6)
Total gains recognised in the consolidated income statement	-	0.1	0.1
Settlements	-	0.1	0.1
Transfers in	-	-	-
At 31 July 2022	-	(0.4)	(0.4)
Total gains recognised in the consolidated income statement	**(9.4)**	**-**	**(9.4)**
Settlements	**-**	**-**	**-**
Transfers in	**(1.8)**	**-**	**(1.8)**
At 31 July 2023	**(11.2)**	**(0.4)**	**(11.6)**

The losses recognised in the income statement relating to Level 3 instruments held at the year end amounted to £9.4 million (2022: £0.1 million gains).

Notes to The Company Accounts

for the year ended 31 July 2023

40. Financial instruments *continued*

(c) Credit risk

Credit risk is the risk of a reduction in earnings and/or value, as a result of the failure of a counterparty or associated party, with whom the group has contracted, to meet its obligations as they fall due. Credit risk across the group mainly arises through the lending and treasury activities of the Banking division.

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

	31 July 2023 £ million	31 July 2022 £ million
On balance sheet		
Cash and balances at central banks	**1,937.0**	1,254.7
Loans and advances to banks	**166.8**	45.7
Loans and advances to customers	**6,428.2**	6,194.8
Amounts due from group undertakings	**3,315.5**	2,895.7
Debt securities	**292.4**	600.4
Derivative financial instruments	**77.4**	69.6
Other financial assets	**0.9**	-
	12,218.2	11,060.9
Off balance sheet		
Irrevocable undrawn commitments	**277.4**	152.8
	277.4	152.8
Total maximum exposure to credit risk	**12,495.6**	11,213.7

Notes to The Company Accounts

for the year ended 31 July 2023

40. Financial instruments *continued*

(c) Credit risk *continued*

Financial assets: Loans and advances to customers
The company's approach to managing credit risk relating to loans and advances to customers is set out on pages 30 to 36 in the Strategic Report.

Information on the company's internal credit risk reporting can be found on page 41 in the Strategic Report, including an analysis of gross loans and advances to customers, trade receivables and undrawn facilities by the company's internal credit risk grading.

Information on the collateral held in relation to loans and advances to customers can be found on pages 43 to 44 in the Strategic Report, including an analyses of gross loans and advances to customers by LTV ratio.

Financial assets: Treasury assets
The credit risk presented by the company's treasury assets is low. Immaterial impairment provisions are recognised for cash and balances at central banks, sovereign and central bank debt and covered bonds. These financial assets are investment grade and in Stage 1.

The forbearance measures are disclosed in page 42 of the Strategic Report.

An analysis of forborne loans as at 31 July 2023 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
At 31 July 2023	**6,590.4**	**169.1**	**2.6%**	**51.6**	**6,865**
At 31 July 2022	**6,328.6**	156.4	2.5%	41.2	10,847

The following is a breakdown of forborne loans by segment split:

	31 July 2023 £ million	31 July 2022 £ million
Property	**114.1**	96.9
Commercial	**26.6**	37.1
Retail	**28.4**	22.4
Total	**169.1**	156.4

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

	31 July 2023 Number of customers supported	31 July 2022 Number of customers supported
Property	**18**	22
Commercial	**198**	427
Retail	**6,649**	10,398
Total	**6,865**	10,847

Notes to The Company Accounts

for the year ended 31 July 2023

40. Financial instruments *continued*

(c) Credit risk *continued*

The following is a breakdown of forborne loans by concession type:

	31 July 2023 £ million	31 July 2022 £ million
Extension outside terms	**92.6**	89.6
Refinancing	**8.4**	2.6
Moratorium	**60.7**	56.9
Other modifications	**7.4**	7.3
Total	**169.1**	156.4

The following table sets out loans and advances to customers, trade receivables and undrawn facilities by the company's internal credit risk grading and illustrates the allocation of these per IFRS 9 staging category for comparative purposes.

	Stage 1 £ million	Stage 2 £ million	Stage 3 £ million	Total £ million
31 July 2023				
Gross loans and advances to customers				
Low risk	**5,531.1**	**304.3**	**20.6**	**5,856.0**
Medium risk	**274.9**	**157.8**	**33.4**	**466.1**
High risk	**9.1**	**54.8**	**204.4**	**268.3**
	5,815.1	**516.9**	**258.4**	**6,590.4**
Undrawn facilities				
Low risk	**1,178.8**	**20.0**	**-**	**1,198.8**
Medium risk	**-**	**2.7**	**-**	**2.7**
High risk	**-**	**-**	**1.1**	**1.1**
	1,178.8	**22.7**	**1.1**	**1,202.6**
Trade receivables[1]				
Low risk	**0.9**	**-**	**-**	**0.9**
	0.9	**-**	**-**	**0.9**

[1] Lifetime expected credit losses are recognised for all trade receivables under the IFRS 9 simplified approach. The figures presented are on a net basis after deducting for expected credit losses of £0.1 million (31 July 2022: £0.2 million) relating to predominantly Stage 3 receivables.

Notes to The Company Accounts

for the year ended 31 July 2023

40. Financial instruments *continued*

(c) Credit risk *continued*

	Stage 1 £ million	Stage 2 £ million	Stage 3 £ million	Total £ million
31 July 2022				
Gross loans and advances to customers				
Low risk	5,567.9	178.6	20.3	5,766.8
Medium risk	161.4	166.9	17.0	345.3
High risk	11.0	38.7	166.8	216.5
Ungraded	-	-	-	-
	5,740.3	384.2	204.1	6,328.6
Undrawn facilities				
Low risk	1,027.5	7.5	-	1,035.0
Medium risk	-	3.6	-	3.6
High risk	-	2.0	-	2.0
	1,027.5	13.1	-	1,040.6
Trade receivables[1]				
Low risk	-	-	-	-
	-	-	-	-

[1] Lifetime expected credit losses are recognised for all trade receivables under the IFRS 9 simplified approach. The figures presented are on a net basis after deducting for expected credit losses of £0.2 million (31 July 2021: £0.2 million) relating to predominantly Stage 3 receivables.

Notes to The Company Accounts

for the year ended 31 July 2023

40. 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	**147.2**	**575.6**	**935.3**	**1,658.1**
>60% to 70%	**149.2**	**91.5**	**305.5**	**546.2**
>70% to 80%	**324.9**	**226.6**	**41.3**	**592.8**
>80% to 90%	**1,038.6**	**410.8**	**3.2**	**1,452.6**
>90% to 100%	**492.6**	**657.2**	**14.1**	**1,163.9**
Greater than 100%	**377.9**	**191.8**	**68.3**	**638.0**
Structurally protected[2]	**434.4**	**-**	**-**	**434.4**
Unsecured	**6.6**	**97.5**	**0.3**	**104.4**
At 31 July 2023	**2,971.4**	**2,251.0**	**1,368.0**	**6,590.4**

1 Government lending scheme facilities totalling £497.4 million (31 July 2022: £719.4 million), are allocated to a low LTV category reflecting the nature of the government guarantee and resultant level of lending risk.
2 Exposures are considered structurally protected when, in management's judgement, they have characteristics which mitigate the credit risk of the exposure to a significant extent, in spite of not representing tangible security.

	Retail £ million	Commercial £ million	Property[1] £ million	Total £ million
LTV[1]				
60% or lower	175.8	804.8	845.3	1,825.9
>60% to 70%	175.8	71.4	199.8	447.0
>70% to 80%	365.5	187.4	7.3	560.2
>80% to 90%	1,079.1	320.6	2.6	1,402.3
>90% to 100%	465.2	543.1	-	1,008.3
Greater than 100%	310.1	179.1	75.9	565.1
Structurally protected[2]	433.2	-	-	433.2
Unsecured	7.7	78.9	-	86.6
At 31 July 2022	3,012.4	2,185.3	1,130.9	6,328.6

1 Government lending scheme facilities are allocated to a low LTV category reflecting the nature of the government guarantee and resultant level of lending risk.
2 Exposures are considered structurally protected when, in management's judgement, they have characteristics which mitigate the credit risk of the exposure to a significant extent, in spite of not representing tangible security.

Notes to The Company Accounts

for the year ended 31 July 2023

40. Financial instruments *continued*

(c) Credit risk *continued*

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

	Retail £ million	**Commercial £ million**	**Property £ million**	**Total £ million**
LTV				
60% or lower	**1.7**	**38.3**	**21.6**	**61.6**
>60% to 70%	**2.3**	**3.9**	**3.1**	**9.3**
>70% to 80%	**6.9**	**3.2**	**7.7**	**17.8**
>80% to 90%	**19.2**	**7.4**	**-**	**26.6**
>90% to 100%	**22.1**	**12.6**	**13.6**	**48.3**
Greater than 100%	**15.7**	**4.5**	**68.3**	**88.5**
Structurally protected	**4.8**	**-**	**-**	**4.8**
Unsecured	**-**	**1.2**	**0.3**	**1.5**
At 31 July 2023	**72.7**	**71.1**	**114.6**	**258.4**

	Retail £ million	Commercial £ million	Property £ million	Total £ million
LTV				
60% or lower	1.7	32.7	2.3	36.7
>60% to 70%	2.3	0.7	1.5	4.5
>70% to 80%	7.0	2.7	-	9.7
>80% to 90%	17.9	7.9	2.6	28.4
>90% to 100%	18.9	8.3	-	27.2
Greater than 100%	11.9	4.6	75.9	92.4
Structurally protected	4.0	-	-	4.0
Unsecured	-	1.2	-	1.2
At 31 July 2022	63.7	58.1	82.3	204.1

Notes to The Company Accounts

for the year ended 31 July 2023

40. Financial instruments *continued*

(d) Market risk

The interest rate risk policy and foreign currency risk policy for the company is explained in note 25(d) to the consolidated accounts.

(e) Liquidity risk

The company's liquidity risk management policy is explained in note 25(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	Less than three months	More than three months but not more than six months	More than six months but not more than one year	More than one year but not more than five years	More than five years	Total
	£ million	£ million	£ million	£ million	£ million	£ million	£ million
At 31 July 2023							
Financial liabilities							
Deposits by banks	**10.3**	**43.7**	**89.7**	-	-	-	**143.7**
Deposits by customers	**118.5**	**1,838.4**	**1,973.0**	**1,869.7**	**2,140.5**	-	**7,940.1**
Loans and overdrafts from banks	**10.3**	**13.0**	**8.8**	**246.6**	**384.2**	-	**662.9**
Derivative financial instruments	**0.2**	**21.7**	**23.4**	**39.0**	**167.5**	**73.0**	**324.8**
Subordinated loan capital	-	**2.0**	-	**2.0**	**16.0**	**213.0**	**233.0**
Lease liabilities	**0.1**	**2.0**	**1.8**	**3.4**	**5.6**	**0.3**	**13.2**
Other financial liabilities	**9.1**	**39.5**	**0.2**	**1.7**	**1.1**	-	**51.6**
	148.5	**1,960.3**	**2,096.9**	**2,162.4**	**2,714.9**	**286.3**	**9,369.3**

	On demand	Less than three months	More than three months but not more than six months	More than six months but not more than one year	More than one year but not more than five years	More than five years	Total
	£ million	£ million	£ million	£ million	£ million	£ million	£ million
At 31 July 2022							
Financial liabilities							
Deposits by banks	6.0	51.9	98.8	4.1	-	-	160.8
Deposits by customers	67.3	1,645.1	2,046.6	1,600.2	1,427.3	-	6,786.5
Loans and overdrafts from banks	4.1	1.9	1.9	3.7	610.5	-	622.1
Derivative financial instruments	-	5.9	9.0	16.0	88.9	55.6	175.4
Subordinated loan capital	-	2.0	-	2.0	15.0	218.0	237.0
Lease liabilities	0.1	1.8	1.7	3.5	10.7	0.4	18.2
Other financial liabilities	7.9	48.5	0.1	1.6	1.2	-	59.3
	85.4	1,757.1	2,158.1	1,631.1	2,153.6	274.0	8,059.3

Notes to The Company Accounts

for the year ended 31 July 2023

40. Financial instruments *continued*

(f) Offsetting

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

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

	Gross amounts recognised	**Master netting arrangements**	**Financial Collateral**	**Net amounts after offsetting under IFRS 7**
	£ million	**£ million**	**£ million**	**£ million**
At 31 July 2023				
Derivative financial assets	**77.4**	**(77.1)**	**-**	**0.3**
Derivative financial liabilities	**195.9**	**(77.1)**	**(144.0)**	**(25.2)**

	Gross amounts recognised	Master netting arrangements	Financial Collateral	Net amounts after offsetting under IFRS 7
	£ million	£ million	£ million	£ million
At 31 July 2022				
Derivative financial assets	69.6	(69.1)	(0.5)	-
Derivative financial liabilities	89.2	(69.1)	(26.9)	(6.8)

Notes to The Company Accounts

for the year ended 31 July 2023

41. Post balance sheet events

On 22 August 2023, the company issued and allotted 65,000,000 ordinary shares of £1 each to its immediate parent company Close Brothers Holdings Limited.

On 20 September 2023, the group announced that it reached an agreement to acquire Bluestone Motor Finance (Ireland) DAC, a provider of motor finance in Ireland. The transaction is expected to complete in Q4 of the 2023 calendar year.

42. Investment in subsidiaries

In accordance with section 409 of the Companies Act 2006, the following is a list of the group's subsidiaries at 31 July 2023, which are all wholly owned and incorporated in the UK unless otherwise stated.

Air and General Finance Limited[2]
Arrow Audit Services Limited[1]
Brook Funding (No.1) Limited[7,14]
Capital Lease Solutions Limited[3]
Close Asset Finance Limited[2]
Close Brewery Rentals Limited[4]
Close Brothers Asset Finance GmbH[10] (Germany)
Close Brothers DAC [12] (Ireland)
Close Brothers Factoring GmbH[10] (Germany)
Close Brothers Finance plc[1]
Close Brothers Premium DAC[12] (Ireland)
Close Brothers Technology Services Limited[1]
Close Brothers Vehicle Hire Limited[9]
Close Business Finance Limited[2]
Close Credit Management (Holdings) Limited[1]
Close Finance (CI) Limited[11] (Jersey)
Close Invoice Finance Limited[1]
Close Leasing Limited[8]
Close PF Funding I Limited[6,14]
Commercial Acceptances Limited[5]
Commercial Finance Credit Limited[2]
Corporate Asset Solutions Limited[1]
Finance For Industry Limited[1]
Finance For Industry Services Limited[1]
Kingston Asset Finance Limited[2]
Kingston Asset Leasing Ltd.[2]
Novitas Loans Limited[2]
Novitas (Salisbury) Limited[2]
Orbita Funding 2017-1 plc[13,14]
Orbita Funding 2020-1 plc[7,14]
Orbita Funding 2022-1 plc[6,14]
Orbita Holdings Limited[7,14]
Orbita Holdings No.2 Limited[6,14]
Surrey Asset Finance Limited[2]

Registered office addresses:
1 10 Crown Place, London EC2A 4FT, United Kingdom.
2 Wimbledon Bridge House, Hartfield Road, Wimbledon, London SW19 3RU, United Kingdom.
3 30 Finsbury Square, London, EC2A 1AG, United Kingdom.
4 Unit 1, Kingfisher Park, Headlands Business Park, Ringwood, Hampshire BH24 3NX, United Kingdom.
5 101 Wigmore Street, London, W1U 1QU, United Kingdom.
6 10th Floor, 5 Churchill Place, London E14 5HU, United Kingdom.
7 1 Bartholomew Lane, London EC2N 2AX, United Kingdom.
8 Olympic Court Third Avenue, Trafford Park Village, Manchester M17 1AP, United Kingdom.
9 Lows Lane, Stanton-By-Dale, Ilkeston, Derbyshire DE7 4QU, United Kingdom.
10 Grosse Bleiche 35-39, 55116, Mainz, Germany.
11 Conway House, Conway Street, St Helier JE4 5SR, Jersey.
12 Swift Square, Building 1, Santry Demesne, Northwood, Dublin 9 DO9 AOE4, Ireland.
13 40a Station Road, Upminster, Essex RM14 2TR, United Kingdom.

Subsidiaries by virtue of control:
14 The related undertakings are included in the consolidated financial statements as they are controlled by the group.

Subsidiaries with audit exemptions

Under section 479A of the Companies Act 2006, the following subsidiaries have taken an audit exemption and therefore not obtained an audit of its accounts in accordance with section 476.

Company name	Company number
Finance For Industry Limited	05519277
Finance For Industry Services Limited	05518340
Close Brothers Technology Services Limited	09758793

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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