Close Brothers Group plc Annual Report 2023

Supporting our customers **when it matters**

Strategic Report

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1. Adjusted measures are presented on a basis consistent with prior periods and exclude amortisation of intangible assets on acquisition, to present the performance of the group's acquired businesses in a manner consistent with its other businesses, and also exclude any exceptional and other adjusting items which do not reflect underlying trading performance. Please refer to note 3 for further details on items excluded from the adjusted performance metrics.
2. Adjusted operating profit attributable to shareholders divided by opening equity, excluding non-controlling interests.
3. Represents the final dividend proposed for the respective years together with the interim dividend declared and paid in those years.
4. Customer satisfaction score ("CSAT").
5. Property Finance net promoter score ("NPS") excludes the Commercial Acceptances business.

Financial Highlights

for the year ended 31 July 2023

Adjusted[1] Operating Profit

£113.5m

2022: £234.8m

Adjusted[1] Basic Earnings Per Share

55.1p

2022: 111.5p

Return on Opening Equity[2]

5.0%

2022: 10.6%

Ordinary Dividend Per Share[3]

67.5p

2022: 66.0p

Employee Engagement

86%

2022: 86%

Total Scope 1 and 2 Emissions Market-Based (tCO_2e)

1,998

2022: 1,964

Customer Scores

92% Asset Finance CSAT[4]

+88 Property Finance NPS[5]

+75 Motor Finance dealer NPS

80% Savings online CSAT[4]

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

This means supporting our colleagues, customers and clients, and the communities and environment in which they operate.

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

Supporting our customers **when it matters**

Deep expertise

Pages 18 to 19

Long-term relationships

Pages 32 to 33

Consistent service

Pages 28 to 29

Deep expertise

Case study:
Incremental Engineering, industrial 3D printer

Incremental Engineering has seen its business double in size since taking possession of an HP Jet Fusion 5210 3D printer, funded through Finance For Industry with Close Brothers.

Consistent service

Case study:
Twenty20 Capital, investors in staffing and workplace solutions

Twenty20 Capital has seen rapid expansion in recent years following the completion of a number of deals supported by Close Brothers.

Long-term relationships

Case study:
Briahaze Village Homes, new residential homes

Briahaze Village Homes, a Yorkshire-based family business spanning seven generations, started using Close Brothers over 30 years ago.

At a Glance

Who we are

Close Brothers is a leading UK merchant banking group providing lending, deposit taking, wealth management services and securities trading.

c.4,000 employees

52 offices predominantly in the UK and Ireland

Constituent of the **FTSE 250**

Serving more than **three million** customers

Banking: 86% of Adjusted Operating Profit

Commercial

Commercial lends to small and medium-sized enterprises ("SMEs") through our direct sales force and third-party distribution channels.

Asset Finance provides commercial asset financing, hire purchase and leasing solutions for a diverse range of assets and sectors to over 28,000 customers. **Invoice and Speciality Finance** works with c.6,000 small businesses to provide debt factoring, invoice discounting and asset-based lending and includes some of our smaller specialist businesses.

Asset Finance
Loan book[1]: **£3.4 billion**
Average loan size: **c.£57,000**
Typical loan maturity[2]: **3 to 4 years**

Invoice and Speciality Finance
Loan book[1]: **£1.4 billion**
Average loan size: **c.£595,000**
Typical loan maturity[2,3]: **3 months**

Retail

Retail provides finance to individuals and businesses through a network of intermediaries.

Motor Finance provides several products at point of sale in a dealership, or online via a broker, which allow consumers to buy vehicles from over 4,200 retailers in the UK. **Premium Finance** helps make insurance payments more manageable for people and businesses, by allowing them to spread the cost over fixed instalments. It works with 1,400 insurance brokers in the UK and Ireland.

Motor Finance
Loan book: **£1.9 billion**
Average loan size: **c.£7,000**
Typical loan maturity: **4 years**

Premium Finance
Loan book: **£1.1 billion**
Average loan size: **c.£500**
Typical loan maturity[2]: **11 months**

Property

Property provides short-term residential development finance for experienced professionals through **Property Finance** and offers refurbishment and bridging loans through **Commercial Acceptances**. Lends to c.700 professional property developers with a focus on small to medium-sized residential developments.

Property
Loan book: **£1.7 billion**
Average loan size: **£1.5 million**
Typical loan maturity: **12 to 24 months development, 36 to 60 months investment**

Asset Management: 11% of Adjusted Operating Profit

Close Brothers Asset Management ("CBAM") is a vertically integrated top-20 UK wealth manager, providing financial advice and investment management services to private clients in the UK. CBAM operates out of 13 offices with more than 150 investment professionals and c.780 employees.

Managed assets: **£16.4 billion**
Total client assets: **£17.3 billion**
Clients: **c.27,000**

Securities: 3% of Adjusted Operating Profit

Winterflood is a leading market maker, delivering high-quality execution services to approximately 600 stockbrokers, wealth managers, institutional investors and other market counterparties. It also provides corporate advisory services to investment trusts and institutional sales trading. **Winterflood Business Services** ("WBS") provides outsourced dealing and custody solutions to over 60 corporate clients.

Winterflood
Average bargains per day: **c.60,000**
Investment trust corporate broking and advice clients: **50**
WBS assets under administration: **£12.9 billion**

1. Includes operating lease assets of £223.4 million (31 July 2022: £185.4 million) which relate to Asset Finance and £47.8 million (31 July 2022: £54.6 million) to Invoice and Speciality Finance.
2. Typical loan maturities for new business on a contractual basis, except core Invoice Finance which are on a behavioural basis.
3. Average loan size and typical loan maturity include the Invoice Finance business only.

The Foundations of our Success Enable us to Deliver on our Purpose

Our purpose

To help the people and businesses of Britain thrive over the long term.

Our culture

Combines expertise, service and relationships with teamwork, integrity and prudence.

See pages 30 to 31

Our strategy

To provide exceptional service to our customers and clients across lending, savings, trading and wealth management.

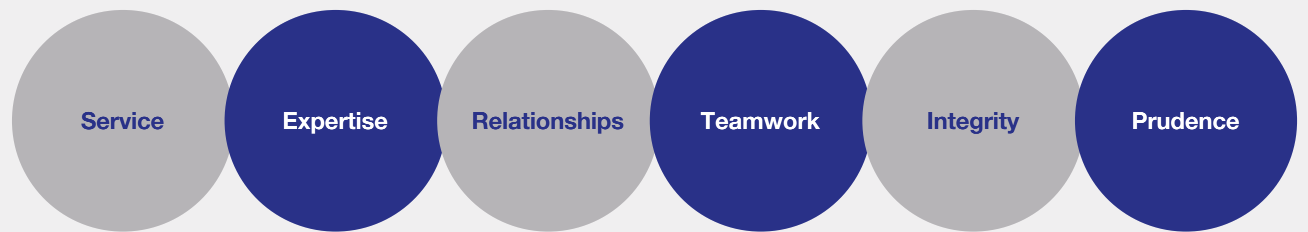
See pages 20 to 25

Our responsibility

To help address the social, economic and environmental challenges facing our business, employees and clients, now and into the future.

See page 38

Our Values Embody our Distinctive Culture and Customer-centric Approach



Our Strategy Focuses on Ensuring our Business Model Continues to Deliver in the Long Term

Enabling us to Create Value and Deliver Positive Outcomes for our Stakeholders

Colleagues

See page 35

Customers, clients, partners

See page 35

Suppliers

See page 36

Regulators and government

See page 36

Communities and environment

See page 37

Investors

See page 37

Chairman's Statement

The right model to navigate the uncertain environment and support our customers

Michael Biggs,
Chairman

As we reflect on the past year, it is undeniable that we faced substantial challenges. The group's financial performance was impacted by increased provisions in relation to Novitas, and our businesses and customers continued to navigate a difficult UK economic landscape. These have tested our model and demonstrated its remarkable resilience. This resilience is a testament to the strength of our culture, one that encompasses consistent service, deep expertise, long-term customer relationships, teamwork, integrity and prudence.

We were all very disappointed with the developments relating to Novitas and the deviation it represents from our business model and culture. The strategic review of that business and the actions taken to resolve the situation sought to protect the core strengths of our business and to support our existing customers to ensure good outcomes. The board and the management team are confident this was the right course of action, with no read-across to other books in the group's portfolio. Moving forward from Novitas, the group's financial strength leaves us well placed to continue delivering on our strategic priorities.

Excluding Novitas, our lending businesses have delivered good loan book growth, particularly in the second half of the year, with encouraging momentum in new business volumes. Close Brothers Asset Management achieved impressive net inflows of 9% which highlight the success of its growth strategy. Winterflood's performance continued to be impacted by reduced trading activity as retail investor sentiment remains impacted by heightened market volatility.

As a result, adjusted operating profit decreased to £113.5 million (2022: £234.8 million), with a return on average tangible equity of 5.9% (2022: 12.2%). In light of the group's underlying business performance this year and to reflect the board's continued confidence in the business model, we are pleased to recommend a final dividend of 45.0p per share. If approved at the Annual General Meeting, this will take the full-year dividend to 67.5p per share (2022: 66.0p per share).

The Right Model to Navigate the Uncertain Environment and Support Our Customers

We continued to support almost three million customers, including over 360,000 small and medium-sized enterprises ("SMEs"), as we focused on lending consistently and at responsible terms through this period of uncertainty. Maintaining the model's continuity remains a priority for the board. While the headwinds faced by the UK economy will continue to put pressure on our customers in the near future, we believe we have the right business model as well as the experience to navigate the current environment.

I am pleased to see the progress made on the delivery of our strategic growth initiatives and their significant contribution is reflected in the loan book growth achieved this year. We have previously set an initial green finance ambition to provide £1 billion of funding for battery electric vehicles by 2027 and have lent £164 million in the first year. The recently hired specialist teams in the Commercial business are also performing well. The impressive growth in assets under administration ("AuA") of 79% at Winterflood Business Services and the acceleration of our hiring strategy at Close Brothers Asset Management are other examples of the management team's strong focus on delivering disciplined growth. They also highlight the group's capability and track record in expanding our product offering into adjacent markets that fit with our business model.

The board is encouraged by such growth opportunities and is confident that the group's strong capital position gives us flexibility to deliver both growth and attractive capital distributions to our shareholders, including our commitment to paying a progressive dividend.

"While the headwinds faced by the UK economy will continue to put pressure on our customers in the near future, we believe we have the right business model as well as the experience to navigate the current environment."

Our Commitment: Preserving Our Strong Culture and Employee Engagement

Close Brothers' culture is the bedrock of our long-term success. The unwavering dedication and expertise of our team, coupled with strong relationships and unrelenting commitment to providing exceptional service, represent the essence of our model.

We remain focused on ensuring that our colleagues remain engaged, motivated and equipped with the necessary resources to excel. From training and development programmes to open lines of communication, we have worked tirelessly to ensure our people are supported and heard, especially in light of the impact that the pandemic continues to have on our colleagues, as well as the pressures arising from the cost of living crisis.

We recently conducted our latest employee opinion survey ("EOS") and I was delighted to see that the levels of employee engagement remained high at 86%. We are committed to fostering a culture that attracts and retains talent, whilst also growing and building the expertise of our people, with 97% of colleagues saying that they believe they have the skills and knowledge to do their job well. We also insist on trustworthy behaviour and always acting with integrity and "doing the right thing" internally and externally, with 97% of colleagues feeling that their colleagues act with integrity. These are really strong numbers and demonstrate that the group's culture and values remain deeply embedded in the organisation. You can read more about the EOS highlights on pages 30 and 31 of this report.

Board Changes

We were pleased to welcome Kari Hale to the board as a non-executive director on 28 June 2023. Kari brings considerable audit and commercial expertise and has a deep understanding of the audit and governance environment in which our group operates. His skills and expertise will be a strong complement to the existing board. On appointment to the board, Kari became a member of the board's Risk and Audit Committees.

At the conclusion of the AGM in November 2022 Tracey Graham became chair of the Remuneration Committee and Patricia Halliday became chair of the Risk Committee. Oliver Corbett will not be standing for re-election at the AGM in November 2023, having completed nine years' service on our board. On behalf of the board, I would like to express my sincere thanks to Oliver for his long and dutiful service to the group.

Supporting Our Customers in the Transition to a Low Carbon Economy

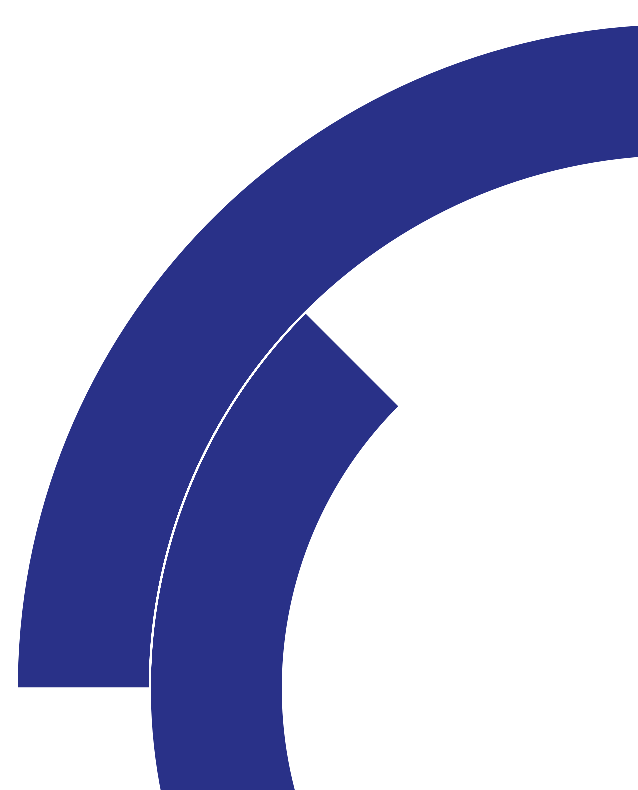
The group's sustainability agenda remains a key area of focus. Our ongoing work to identify the risks and opportunities of climate change to our business model remains a top priority for the board and the management team. As a signatory to the Net Zero Banking Alliance ("NZBA"), we have committed to lowering our operational and financed emissions by 2050 and will be publishing further details of our transition plan in due course.
As businesses in the UK develop and deliver their own transition plans to adopt cleaner technologies, we are ready to support them by providing financing solutions.

We have made improvements to the data quality of our financed emissions disclosures, which will support the setting of our initial wave of intermediate net zero targets as part of our commitment to NZBA. CBAM has also made strong progress, becoming a signatory to the Net Zero Asset Managers initiative ("NZAM"). You can read more about our climate disclosures on pages 40 to 54 of this report.

Finally, I want to express my deepest gratitude to our colleagues, shareholders and all stakeholders who have stood by us this year. Your trust and support are the cornerstones of our success. Thank you for your unwavering support. Together, I am confident that we will continue to deliver on our purpose.

Michael N. Biggs
Chairman

26 September 2023



Chief Executive's Statement

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

Adrian Sainsbury,
Chief Executive

We have performed well in the second half, with an acceleration of loan book growth, strong margins and a stable credit performance in our Banking business. We continued to attract new client assets in CBAM, with strong net inflows, although Winterflood's performance remains impacted by subdued trading activity. Despite the second half momentum, our financial results for the full year were significantly impacted by provisions in relation to Novitas announced in our Half Year 2023 results in March.

This year has been marked by a challenging market backdrop, where mixed economic conditions in the UK have created substantial uncertainty for our consumer and SME customers. Although demand levels have remained robust, the uncertain external environment led to higher forward-looking impairment provisions and difficult conditions for our market-facing businesses, CBAM and Winterflood.

Whilst headwinds facing SME firms have abated somewhat, uncertainty and challenges for these firms persist, with interest rates rises and cost of funds remaining a key concern for many business owners. We recently published the Close Brothers Asset Finance Business Sentiment Index, which provides insights about our core customers' plans for the future. The research shows that SME business confidence continues to recover, and we are reassured to see a reversal of 2022's downward trends, with a cautious optimism continuing to return. Overall, the appetite to invest remained stable, with three-quarters of the firms aiming to seek funding for investment in the next 12 months.

We are confident 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.

Our through-the-cycle business model and financial strength mean we can support customers even during these uncertain times. By leveraging our long-term relationships, the deep expertise of our people and our customer-centric approach we can deliver disciplined growth and are well positioned to resume our long-term track record of earnings growth and returns, building on the second half's momentum and a good start to the 2024 financial year.

Financial Performance

The financial results were impacted by a significant increase in provisions in relation to Novitas incurred in the first half, as we have taken measures to address the issues relating to that business. As a result, statutory operating profit before tax decreased to £112.0 million (2022: £232.8 million). While we are disappointed with these developments and the impact they have had on our performance this year, the financial strength of the group leaves us well placed to move forward on the delivery of our strategic priorities. We evaluate continuously our businesses and initiatives against a set of criteria, our "Model Fit Assessment Framework", to ensure they are aligned with the key attributes of our model that have and will continue to generate long-term value. We are confident that there is no read-across from Novitas to other books in our portfolio and our prudent underwriting continues to be reflected in the asset quality and performance of the rest of our loan book.

In Banking, excluding Novitas, profit performance primarily reflected good loan book growth of 6% and strong net interest margin of 7.6%, more than offset by higher impairment charges to take into account the uncertain macroeconomic outlook and increased costs related to our investment programmes and inflation, including wage awards. Our Asset Management division delivered strong net inflows of 9%, although profit reduced, reflecting wider market conditions and costs related to our successful hiring strategy, as we accelerated our efforts to grow CBAM. Although performance at Winterflood reflected the continuation of challenging trading conditions, we remain confident in the track record of our trading business and are well positioned to retain our market position and benefit when investor appetite returns. Winterflood has made good progress on the diversification of its revenue streams and is exploring growth opportunities to balance the cyclicality seen in the trading business.

Our capital, funding and liquidity positions remained strong. The events impacting the global banking sector earlier this year highlighted the benefits of our prudent approach to managing financial resources, with our diverse funding base enabling us to adapt our position, based on market conditions and demand. Our funding base was further strengthened by the successful issuance of a £250 million senior unsecured bond in June 2023, and we maintained our prudent liquidity position, with the 12-month average liquidity coverage ratio ("LCR") of 1,143% substantially above regulatory requirements. Our common equity tier 1 ("CET1") capital ratio was 13.3% at 31 July 2023 (31 July 2022: 14.6%), significantly above the applicable minimum

regulatory requirement of 9.5%. We remain committed to optimising further our capital structure, targeting a CET1 capital ratio range of 12% to 13% over the medium term. This will allow the group to maintain a buffer to minimum regulatory requirements while also retaining flexibility to grow the business. We remain encouraged by the available opportunities to deploy capital to deliver disciplined growth, which remains a key strategic priority. We will continue to assess the potential for further distributions to shareholders based on future opportunities.

We are pleased to propose a final dividend of 45.0p per share, resulting in a full-year dividend per share of 67.5p (2022: 66.0p). This reflects our underlying performance and the Board's confidence in the group's outlook. We remain committed to our dividend policy, which aims to provide sustainable dividend growth year-on-year, while maintaining a prudent level of dividend cover.

Well Placed to Resume Our Track Record of Earnings Growth and Returns

We have made good progress against our strategic priorities and remain committed to resuming our track record of earnings growth and returns.

Our investment programmes are progressing well and enable us to protect the key attributes of our business model, maintain regulatory compliance and enhance efficiency, as well as future-proof our income generation capabilities. We continue to see tangible benefits from these investments. We advanced our strategic cost management initiatives, including our technology transformation programme focused on the rationalisation of IT infrastructure, as well as making operational enhancements in Retail. These actions aim to create capacity to accommodate growth, inflation and investment to support our business. We continue to evaluate additional opportunities for efficiency with a view to achieving positive operating leverage over the medium term. Furthermore, we undertook work across our businesses to ensure readiness for the implementation of the FCA's Consumer Duty, which came into force on 31 July, completing product reviews and enhancing frameworks to incorporate the new requirements.

We remain focused on delivering disciplined growth and continue to review a range of opportunities in line with our model, with our growth initiatives delivering a significant contribution to loan book growth in the year. Our recently hired agricultural equipment and materials handling teams in Asset Finance have written healthy levels of new business and are building strong pipelines. In Invoice Finance, we participated in our first syndication deal and the newly hired team, providing bespoke term loan structures to SME clients, closed their first deal this year. We saw good demand for the new offerings in Property Finance, including our specialist buy-to-let proposition to existing bridging finance customers. We are delighted to have recently announced our agreement to acquire Bluestone Motor Finance (Ireland) DAC, which is aligned to our commitment to Ireland as a strategic market and provides a platform for us to build our Irish Motor Finance business. Following last year's announcement of our initial green growth ambition of providing funding for £1.0 billion of battery electric vehicles by 2027, we are pleased to have funded £164 million in the first year.

In CBAM, our hiring strategy is proving successful, with a strong pipeline of new hires and significant contribution from new portfolio managers to the inflows. We also continue to build our pipeline of in-fill acquisitions to support the long-term growth potential of the business. In addition, WBS exceeded the targeted £10 billion of total AuA and is well positioned for further growth, both organically and supported by a solid pipeline of clients. We expect WBS to grow AuA to over £20 billion by 2026.

We continued to make progress against the group's sustainability agenda. We set our group-wide climate commitment, becoming signatories to the Net Zero Banking Alliance and Net Zero Asset Managers initiatives in September 2022, and I look forward to sharing our initial intermediate 2030 targets for the most carbon-intensive sectors in our loan book over the coming months. We remain focused on improving the quality of our emissions reporting, including our financed emissions.

Our People

We consistently focus on employee engagement to support the wellbeing and needs of our colleagues. I am delighted with the positive scores achieved in our most recent employee opinion survey, reflecting our teams' strong sense of belonging and our distinctive culture. I am particularly impressed that we have retained our high engagement score of 86%. Our colleagues play a key role in driving our organisation towards lasting success, and I would like to extend my gratitude to all our people for their dedication and resilience, especially in the face of the financial pressures brought about by higher inflation and the cost of living. Together, I am confident that we will continue to deliver on our purpose to help the people and businesses of Britain thrive over the long term.

Outlook

We are making the most of opportunities and are encouraged by the momentum generated in Banking in the second half. We have seen a good start to the 2024 financial year and our underlying business is well positioned to maintain stable returns this year, as we sustain growth momentum and pricing discipline, with a resilient credit performance, despite the near-term cost pressure.

Our proven model and financial strength leave us well placed to resume our track record of earnings growth and returns by focusing on disciplined growth, cost efficiency and capital optimisation.

Adrian Sainsbury
Chief Executive

26 September 2023

Investment Case

Specialism, expertise and discipline, with a strong historical track record

Key points of difference at Close Brothers are our specialism and expertise, long-term approach and the discipline behind our proven and resilient model. These ensure we are well positioned to deliver growth, profitability and returns to our shareholders, building on our strong historical track record.

A diversified portfolio (Adjusted operating profit, £ million)

Banking: Commercial | Banking: Retail | Banking: Property | Asset Management | Securities

Specialism, service and expertise

92% Asset Finance CSAT

+88 Property Finance NPS

80% Savings online CSAT

Prudent Management of Financial Resources with a Strong Balance Sheet

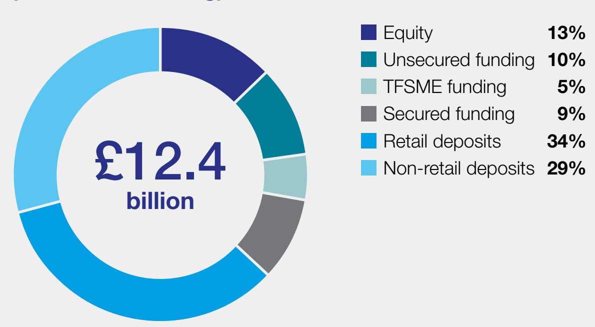
We have a strong balance sheet to support the delivery of our strategy and take a prudent approach to managing our financial resources.

Our disciplined underwriting criteria and the expertise of our people give us confidence in the quality of our loan book, which is diverse and over 90% secured or structurally protected. Our funding base is well diversified, sourced from both wholesale sectors and customer deposits, and has a prudent maturity profile.

We follow the "borrow long, lend short" principle and take a conservative approach to liquidity management, with liquidity levels comfortably ahead of both internal risk appetite and regulatory requirements.

A fundamental part of our business model is ensuring we have a strong capital position which allows us to grow, invest and meet all regulatory requirements. Our primary objective is to deploy capital to support disciplined loan book growth in Banking and to make the most of strategic opportunities.

Diverse funding base (% of total funding)



Strong capital, with CET1 capital ratio of 13.3%
c.380bps headroom over minimum requirement

Prudent liquidity position
Liquidity coverage ratio over 1,000%

Borrow long, lend short
Average maturity of funding exceeds the average loan book maturity by five months

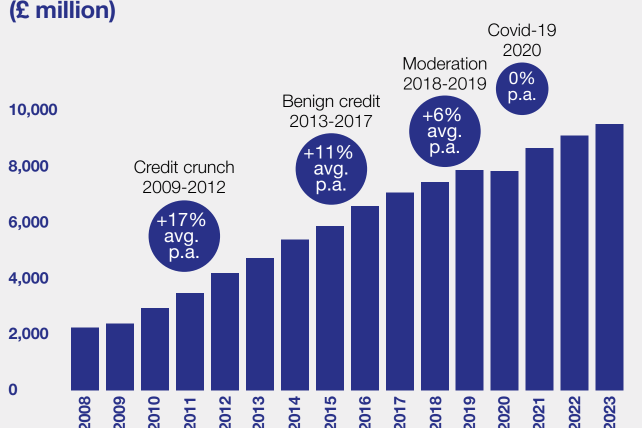
Focused on Delivering Disciplined Growth, Building on our Long History of Loan Book Growth Through the Cycle

Delivering disciplined growth is important to us and is a key strategic priority. We do not manage our business to a growth target but instead prioritise consistency of our lending criteria in Banking and maintaining strong returns across the businesses.

Historically, we have capitalised on this consistent application of our business model through the cycle, reflecting the differing market and competitive dynamics across our portfolio of businesses. We are there for our clients, lending responsibly even when others may pull back.

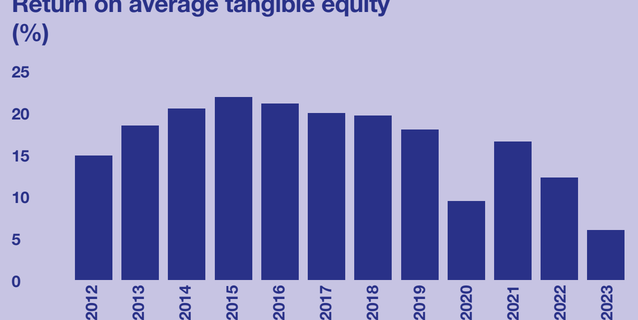
We have a strong track record of delivering disciplined growth both through our existing book and in new markets. We are constantly looking for new opportunities which fit with our business model.

Net loan book trend (£ million)

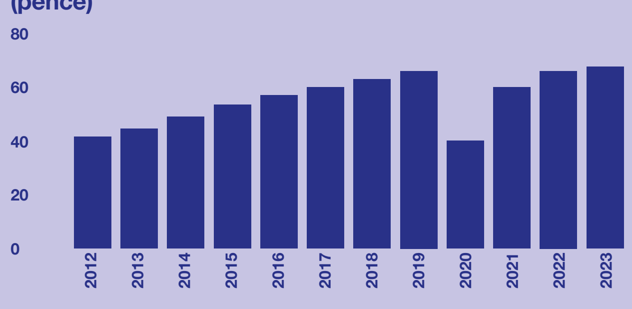


Generating shareholder value

Return on average tangible equity (%)



Dividend per share (pence)



Our Business Model

How we generate value

What we do

We are a leading UK merchant banking group providing lending, deposit taking, wealth management services and securities trading. We deliver excellent service in niche sectors we know and understand.

Banking

Specialist lending and deposits for small businesses and individuals

Banking offering includes:

- Hire purchase, leases and loans for capital assets
- Debt factoring
- Invoice discounting
- Asset-based lending
- Other specialist financing for SMEs
- Used car, motorcycle and light commercial vehicle financing
- Insurance premium financing
- Development finance for residential housing
- Refurbishment and bridging finance
- Savings products for individuals and corporates

Close Brothers Asset Management

A vertically integrated top-20 UK wealth manager

CBAM offering includes:

- Bespoke investment management
- Socially responsible investment service
- Inheritance tax service
- Financial planning
- Investment solutions for both CBAM clients and distributed through third-party IFAs
- Platform and custody services

Securities

A leading market maker providing continuous liquidity in all market conditions

Securities offering includes:

- Market making
- Investment trusts advisory and broking
- Winterflood Business Services
- Institutional sales trading

How we do it

We maintain a long-term approach, applying this consistently through the cycle

Disciplined underwriting and pricing

Prudent management of financial resources

Customer-centric approach

Conservative approach to risk

Diversified portfolio

Our distinctive culture

The value we create

We apply our lending criteria and pricing discipline consistently at all stages of the cycle, with the net interest margin we generate reflecting the specialist expertise of our teams. Our lending is predominantly secured or structurally protected, with conservative loan to value ratios, small loan sizes and short maturities.

A fundamental part of our model is having a strong capital position and taking a conservative approach to liquidity management and funding, as we focus on diversity of funding and a prudent maturity profile.

We listen to our customers, putting their needs at the heart of our business. We are there for our customers across all market conditions and seek to build long-lasting relationships with them.

Our prudent and conservative appetite to risk remains unchanged throughout the cycle. We adhere to all applicable regulations and are committed to sustaining high standards of business conduct.

We lend in a variety of sectors and locations to a diverse range of assets including transport, industrial equipment, renewable energy, wholesale finance, broker finance, used cars, light commercial vehicles and residential property.

Our distinctive culture and long-term approach are embodied by our values of service, expertise, relationships, teamwork, integrity and prudence.

Colleagues

86%

Employee engagement

Customers, clients and partners

Strong customer satisfaction scores

92%
Asset Finance CSAT

+88
Property Finance NPS

Suppliers

63%

of suppliers described our relationship as strategic and collaborative

Regulators and government

13.3%

CET1 capital ratio

Communities

£120,000

donated to charities aligned to our ESG goals

Environment

54.7%

reduction in Scope 1 and 2 emissions (market-based) since 2019

Investors

67.5p

dividend per share

Operating Environment

Adapting to changes in our operating environment

Climate agenda

What we are seeing

Sustainability, and in particular the climate agenda, continues to grow in importance. It is an area that impacts all of our stakeholders and the decisions they make, and it guides our activities and operations as a business. The landscape is also rapidly evolving, whether that be through expectations of our business strategy, enhanced disclosure requirements or the need to incorporate climate factors into our stress testing.

The expectations on us as a business are increasing alongside this. We recognise that we have an important role to play in helping people and businesses transition to a lower carbon future, supporting them to invest in green assets including electric vehicles, renewables, grid infrastructure and energy efficiency. We also need to support our stakeholders in making decisions by providing sufficient information on our climate strategy.

Investors are increasingly taking ESG factors into consideration as part of their investment decisions and reporting standards require us to align our climate reporting to the recommendations of the Task Force on Climate-related Financial Disclosures ("TCFD").

How we are responding

We have made significant progress in developing our group climate strategy, considering both our operational impacts and the implications across our financed activities. As part of our group-wide climate commitment, we have become signatories to the Net Zero Banking Alliance ("NZBA") and Net Zero Asset Managers ("NZAM") initiatives, and will be outlining our interim targets for reducing emissions over the coming months.

As part of our role in helping people and businesses transition to a lower carbon future, we have set an initial green growth ambition in our transport businesses – to provide funding of at least £1 billion for electric vehicles over five years. We have financed £164 million in the first year of this period.

Our lending spans a diverse array of green assets including wind and solar generation and grid infrastructure, with new battery electric storage systems and sustainable house construction financed during the year. We continue to invest in building further our expertise in green and transition assets, reinforcing our reputation for specialist knowledge and finance.

We are also working hard at reducing our operating emissions. Our third-party management team has been engaging with key suppliers on ways we can work together to reduce our environmental impact. We have established an employee climate committee and we engage our colleagues in monthly spotlights on sustainability, featuring guest speakers.

Read more about our climate commitments in our TCFD report on pages 40 to 54.

Regulatory environment

What we are seeing

The UK regulatory environment continues to evolve, with a focus on ensuring the stability of the UK banking system and achieving positive outcomes for customers. Operational and financial resilience continue to be important to UK regulators and monitoring of regulated firms takes place on an ongoing basis through stress testing, capital and liquidity requirements including recovery planning, increasing regulatory data reporting requirements and regular supervisory meetings.

The FCA's Consumer Duty has recently taken effect, with the objective of driving better customer outcomes. The PRA also published its consultation paper on Basel 3.1 standards in November 2022, with a final policy statement expected in late 2023, and proposed reforms of the UK's audit and corporate governance regime are expected to come into effect relevant to the group from its financial year starting 1 August 2025.

How we are responding

We continually monitor the landscape for regulatory change. We maintain a cooperative relationship with our regulatory bodies, including the FCA and PRA, who conduct regular monitoring of our position, including reviewing our stress testing of our liquidity and capital requirements.

We have conducted in-depth reviews across our businesses and updated our processes and documentation where needed to align with the FCA's recently implemented Consumer Duty. Our focus is now on continuing to embed our compliance with Consumer Duty requirements and implementing Consumer Duty changes for books of business not open to new customers.

We have assessed the expected impact of the Basel 3.1 standards, which, if implemented in their current form, would add up to 10% to our capital requirements. We have engaged with the consultation process to understand the impacts as proposed and to express our views on possible improvements.

Customer behaviour

What we are seeing

The expectations of customers when dealing with their financial services providers continue to evolve, with a customer's overall experience across the end-to-end journey key for building loyalty. Customer service, clarity of communication, price and value of products, the ease of doing business and, critically, how customers feel about their overall experience, are highly valued by customers.

Over recent years, we have seen a continued shift in behaviour as customers trend towards an increasing use of online channels and digital offerings, including self-service products. However, in spite of this digital shift, customers perceive experiences that combine physical and digital channels as better than single-channel experiences. Hybrid customer experience tends to create the most emotionally positive experience and as such, strong human relationships combined with high-quality customer service continue to be key drivers for delivering great customer experience and earning brand loyalty.

In light of the pressures on customers and businesses from the rising cost of living and higher interest rate environment, customers are increasingly seeking out better value for money with their choices, with switching between providers becoming more commonplace across many financial services products.

How we are responding

We have created our Customer Commitment to provide a framework for further embedding customer-centricity into our culture and daily decision-making. This framework outlines how we want our customers, clients and partners to feel when doing business with us – valued, happy, understood, confident and that it is easy.

Across the organisation, we have different products, routes to market and customer segments. Nevertheless, our Customer Commitment helps ensure that customer-centricity continues to be at the heart of our business and aligned with our purpose. We focus on providing excellent service and building long-term relationships with our customers, who benefit from the deep expertise of our people, with technology supporting our relationship-based model.

We have invested significantly in our digital capabilities across the organisation. In Savings, our deposit platform has enabled us to broaden our product offering with the launch of easy access accounts and cash ISAs, whilst achieving excellent customer satisfaction scores. In Motor Finance, we have introduced new channels for our customers who fall behind with their vehicle finance payments to catch up and pay. Our Property business has more widely rolled out the use of electronic signing, and our EkegPlus offering in Brewery Rentals gives customers greater visibility over usage and costs.

We used regularly captured feedback and insights from our customers, clients and partners across the end-to-end journey to evolve our proposition and meet their changing needs, and we are looking at how to enhance further our "voice of customer" capability. We consistently achieve good net promoter and customer satisfaction scores across our businesses, and are also working to improve further our complaints management process to complement this.

We value the long-term relationships we have with our customers and look for ways to reward their loyalty, for example by raising the interest rates offered to our Savings customers. Given the cost of living pressures facing our customers, we continue to work with them closely and look to provide additional support where needed.

Operating Environment continued

Technology and digital adoption

What we are seeing	How we are responding
As technology advances, we have seen a shift in customer behaviour towards an increasing use of digital channels and self-service models. Technology is also being used to drive improvements to customer experiences, for example through providing richer data insights, better monitoring of customer journeys and automating non-value-adding processes. The pace of technology change continues to increase, with digital disruption a key theme across the markets we operate in, albeit most industry activity to date has been targeted towards the more mainstream areas of retail banking. This increasing adoption of technology also poses a threat of cyber attacks and the need for continued investment in operational resilience.	As a customer-centric organisation, we are focused on enhancing technology to support our relationship-based model and make our experts more valuable. We are continually looking at technology propositions to service our customer journeys and respond to the wants of our customers based on the feedback we receive, ultimately enabling us to improve customer satisfaction. Investment in our Customer Deposit transformation programme in Savings has enabled us to diversify our product offering and grow customer numbers as we adapt to changing customer preferences to utilise digital channels. In Premium Finance, we are using technology to reduce the time taken to make credit underwriting decisions for large business applications. We are also increasing our use of cloud-based services, which provide more flexibility and adaptability for delivering change and further enable our agile ways of working. We benefit from a degree of protection given our niche focus and relationship-based approach and have not yet seen the same level of digital disruption in our more specialist markets as other areas of the banking landscape has. Nevertheless, we continue to invest in enhancing our digital infrastructure and proposition, as well as our operational and cyber resilience, with a multi-year strategic cyber resilience programme covering our people, systems and processes.

Economic outlook

What we are seeing	How we are responding
The last year has seen a heightened level of uncertainty in the economic environment 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%, at 31 July 2023. As a result, individuals have faced rising cost of living pressures and SMEs have experienced increased operating costs. Furthermore, the long-term effects of the pandemic and the cessation of government support schemes could have an impact on both individuals and businesses. Volatility in the economic environment also impacted debt markets, with few wholesale issuances completed during periods of the year given the heightened uncertainty. Although current economic forecasts reflect improvements in variables including higher GDP growth, less pronounced house price reductions and less risk of further increases to the Bank of England base rate, economic uncertainty and cost of living pressures are expected to persist.	We recognise the challenging economic conditions and continue to monitor closely the potential impact on our customers, offering additional support where needed. Notwithstanding the economic uncertainty, we continue to support our customers and lend throughout the cycle on responsible terms, consistently applying our prudent underwriting and pricing discipline. The secured nature of our lending continues to offer some protection to the group's profitability. Our diverse funding sources enable us to adapt our position through the cycle, based on market conditions and demand. Although our average cost of funding rose during the year due to rapidly rising interest rates, we took actions to optimise our liability mix. Whilst wholesale debt markets were disrupted, we actively grew our retail deposit base, and subsequently successfully issued a £250 million unsecured bond when market conditions were more conducive. Our IFRS 9 models are regularly updated to reflect current economic scenarios and forecasts from Moody's and we have overlaid adjustments to recognise additional risk from the heightened uncertainty that persists.

Competitive landscape

What we are seeing	How we are responding
Given the highly diversified nature of our business, the competitive landscape is playing out differently across the group. In Banking, the significant changes in the interest rate environment are impacting lenders differently, with current account banks benefiting from improved net interest margins while small, specialist and non-bank lenders reliant on wholesale funding are facing a more challenging outlook. The conditions may also drive consolidation in the sector, particularly at the smaller end as conditions for larger transformational M&A remain difficult. In the Republic of Ireland, while the economic outlook remains strong, the landscape is not as competitive as the UK following the decision by some established lenders to exit the market over recent years. The savings market remains highly competitive, with savings rates having risen from record lows to their highest levels since the financial crisis in 2008. We have seen a number of new entrants to the savings market in recent years, with high street banks, specialist lenders and fintechs all competing across the UK savings market. In the wealth management industry, consolidation remains a key theme, with private equity backed consolidators looking to acquire IFAs and a number of large wealth management transactions driven by a need for scale. For Winterflood, difficult market conditions have led to challenges for market makers and brokers, with a focus on managing costs and diversifying revenue streams while awaiting a sustained improvement in retail and institutional investor activity.	In Banking, we anticipate the changes in the interest rate environment may result in a reduction in credit supply, similar to what we have seen in previous cycles. Given our through-the-cycle model and strong balance sheet, the challenging outlook could provide opportunities for us as we retain our pricing and underwriting appetite and seek to maximise opportunities for loan book growth. We continually assess existing and new markets for growth opportunities that fit with our model. We continue to believe that Ireland represents an attractive long-term market for Close Brothers. In September 2023, we announced our agreement to acquire Bluestone Motor Finance (Ireland) DAC, providing a platform for us to build our Motor Finance business in Ireland. Our Savings business has become increasingly agile in its pricing to take advantage of market opportunities arising from increasing market rates and frequent competitor repricing. We are continually assessing the market to ensure our rates are priced fairly for our customers. In CBAM, we continue to look for opportunities for small infill acquisitions in line with our growth strategy. Furthermore, we are seeing a number of wealth managers moving to a more centralised investment proposition, which presents opportunities for us to attract talented individuals to CBAM by offering portfolio managers the flexibility to service their clients' needs in a more decentralised model. In Winterflood, we continue to diversify our revenue streams and explore growth opportunities, such as through WBS, balancing the cyclicality seen in the trading business. The diversification of our trading desk has also enabled us to take advantage of the increased retail investor interest in fixed income markets.

Deep expertise

Case study: Incremental Engineering, industrial 3D printer

How we Helped

Incremental Engineering has seen its business double in size since taking possession of an HP Jet Fusion 5210 3D printer, funded through Finance For Industry ("FFI") with Close Brothers.

The machine allows the manufacture of multi-jet fusion parts to SMEs who do not have the technological manufacturing capability in-house.

Having started the business in 2018 with a few small printers, Incremental Engineering quickly outgrew the demand placed on it by customers and needed to increase output. The flexibility of FFI has been a real eye-opener for the business and allowed it to double capacity in a very short space of time.

Our deep knowledge of the industry sectors and asset classes we cover enables informed lending decisions to be made by our experts, allowing faster access to funds when businesses need it most. We completed the deal with Incremental Engineering in three days.

By empowering our specialists to make fast, firm lending decisions, we give the businesses we serve, such as Incremental Engineering, the opportunity to take the next step, exactly when they need to.

"Having a funder that prefers to work in partnership with its customers really suits us because we can draw on their expert knowledge, and know that they will advise and challenge, when necessary."

Jerry Sutton
Managing Director and Founder, Incremental Engineering

Deep expertise

Our Strategy

Protect

Keeping it safe

Maintaining and enhancing the key strengths of our business model

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

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

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

We ensure that we are operating efficiently and are using technology that appropriately supports our relationship-based model, enabling us to deliver for each of our stakeholders.

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

Our strategic objectives

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

Progress during 2023

- Strengthened our funding base with growth in customer deposits and the issuance of a five-year senior unsecured £250 million note.
- Continued to support our customers and lend through the cycle on responsible terms, adhering to our disciplined approach to underwriting and pricing, whilst maintaining a strong margin.
- Advanced our ongoing investment programmes, whilst intensifying our focus on cost discipline and efficiency and progressing strategic cost management initiatives.
- Accelerated our efforts to resolve the issues relating to Novitas, following our decision to withdraw from the legal services financing market in July 2021.
- Undertook work across the business to prepare for the implementation of the Financial Conduct Authority's ("FCA") Consumer Duty, for example by enhancing frameworks to incorporate new requirements and completing enhanced product reviews.
- Submitted additional documentation to the Prudential Regulation Authority ("PRA") as part of our Internal Ratings Based ("IRB") application, with positive engagement continuing.
- Further enhanced our operational and cyber resilience, whilst undertaking a continuous cycle of improvements.

Future priorities

- Retaining our strong capital, funding and liquidity position.
- Continuing 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.

Protecting our business: Accelerating our efforts to resolve the issues surrounding 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. This concluded that the overall risk profile of the business was no longer compatible with our long-term strategy and risk appetite. 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, had proven not to be evident in Novitas. We also seek to act in the best interests of our customers, with a focus on ensuring good outcomes where it is within Novitas' ability to do so.

During 2023, we have recognised a charge in relation to Novitas of £116.8 million, with £114.6 million recognised in the first half of 2023, which we believe adequately reflects the remaining risk of credit losses for the Novitas loan book. We have accelerated our efforts to resolve the issues surrounding this business, including the initiation of formal legal action against one of the After the Event ("ATE") insurers. Novitas has also entered into a settlement with another smaller ATE insurer.

Our actions taken to accelerate the resolution of issues surrounding Novitas seek to protect the core strengths of our business and support our existing customers to ensure good outcomes.

Further disclosure on the impact of Novitas can be found in note 10.

Our Strategy

Grow

Delivering disciplined growth

Maximising opportunities in existing and new markets

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

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

Our strategic objectives

- Maximising opportunities available to us in the current environment and capitalising on cyclical opportunities in each business.
- Extending our product offering and launching initiatives in line with our business model in new and existing markets.

Progress during 2023

- Delivered over £400 million of loan book growth and a strong net interest margin, as we made the most of good demand in our Banking business.
- Execution of deals by our recently hired agricultural equipment and materials handling teams, with a strong pipeline built.
- Hired a new team providing bespoke term loan structures to SMEs requiring growth and investment capital.
- Taken advantage of opportunities in the asset-based lending space, with participation in our first syndication deal and offering larger loan facilities.
- Provided £164 million of funding for battery electric vehicles, towards our £1 billion aim.
- Continued to enhance our proposition for dealers, partners and customers in Motor Finance.
- Made progress expanding our new business capabilities in Premium Finance, including through the use of a customer relationship management platform.
- Successfully piloted a specialist buy-to-let extension to our existing bridging finance customers, which is continuing into 2024.
- Expanded our Savings proposition with the launch of an easy access account and successfully grew our retail customer base.
- Accelerated our growth strategy in CBAM, as we recruited 15 portfolio managers during the year and delivered strong net inflows of 9%, with a significant contribution from new hires.
- Accelerated growth of Winterflood Business Services, with assets under administration of £12.9 billion, exceeding our £10 billion target.

Future priorities

- Continue to capitalise on cyclical and structural growth opportunities in each of our businesses.
- Assess opportunities in new and existing markets, in line with the "Model Fit Assessment Framework".
- Expand further our presence in Ireland, which remains a strategic growth market for the group.
- Provide further funding for battery electric vehicles, as we progress towards our aim of £1 billion by 2027.
- Broaden our sustainability offering to capture demand within the green lending space.
- Grow CBAM further through new hires and selective acquisitions.
- Continue to grow Winterflood Business Services, supported by our solid pipeline of clients.

Growing our business: Taking advantage of opportunities in Invoice and Speciality Finance

Delivering disciplined growth by extending our product offering and participating in our first syndication deal

We have achieved significant growth in our Invoice and Speciality Finance business in recent years, with the loan book exceeding £1 billion for the first time in 2023.

One growth area that we have focused on is the asset-based lending ("ABL") space. During the year, we completed our first syndication deal, participating alongside other banks as part of an ABL facility of £230 million to support a sponsor-backed financial services firm. Syndication deals offer us the potential to partner with other lenders on deals that would ordinarily exceed our maximum lending appetite for both new and existing customers.

We have also expanded our Invoice Finance offering with the hiring of a new team providing bespoke term loan structures to SMEs requiring growth and investment capital. This team closed its first deal earlier this year and has built a healthy pipeline.

Growing our business: Funding battery storage as we support green lending opportunities

Delivering disciplined growth by maximising commercial opportunities as the UK aligns towards a net zero economy

We recently provided an £85 million facility to Conrad Energy to fund 10 battery storage projects.

One of these battery storage projects is already operational, with the remaining units being built in various locations over the coming two years in the North West, South West and South East of the United Kingdom. These projects will vary in size from 7MW to 40MW, with the batteries storing the oversupply of energy generated during windy and sunny weather, and releasing capacity when required.

Our specialist energy team has provided finance for over 1,000MW of installed generation capacity to date and we continue to build our expertise in green and transition assets, cementing our reputation for specialist knowledge and financing.

Our Strategy

Sustain

Doing it responsibly

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

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

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

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

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

Our strategic objectives

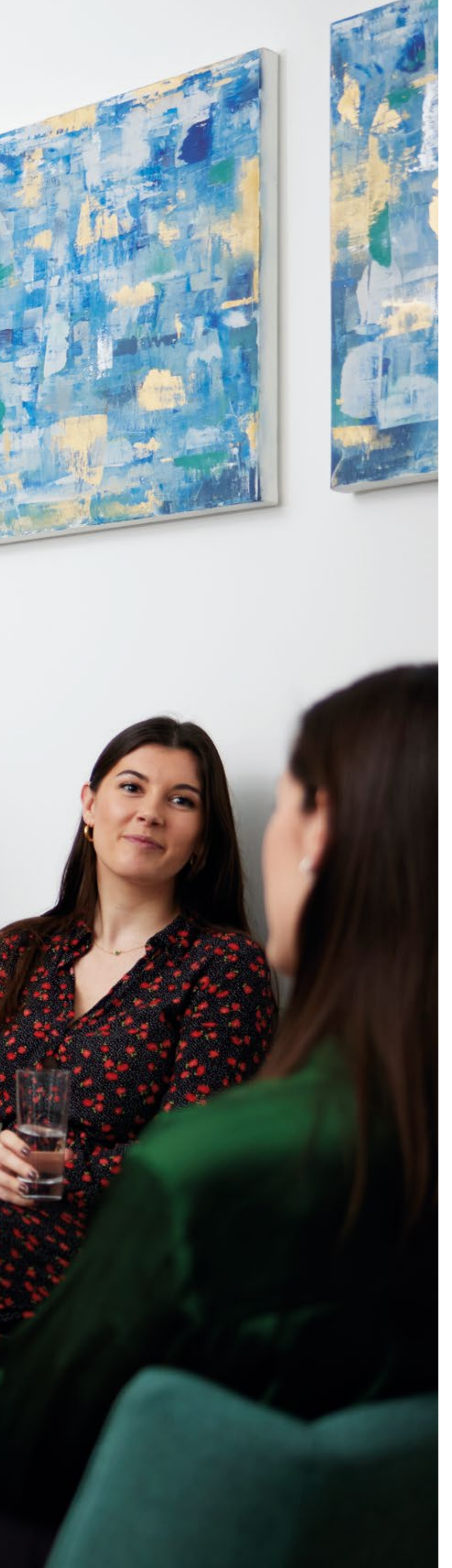
- Promoting an inclusive culture and supporting new ways of working and social mobility.
- Ensuring our business model is sustainable for the long term.
- Reducing our impact on the environment and responding to the threats and opportunities of climate change.
- Promoting financial inclusion, helping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

Progress during 2023

- Positive scores in our employee opinion survey reflect a strong sense of belonging felt by colleagues.
- Invested in our digital capabilities to support changing customer behaviour, for example through new payment channels in Motor Finance and the use of electronic signing in our Property business.
- Evolved our Savings product offering, with the launch of easy access savings accounts.
- Supported the wellbeing of our employees in the hybrid working environment, with flexible working arrangements and events and initiatives from internal networks, virtual workshops and online fitness classes.
- Continued to support social mobility programmes, hosting 37 interns across the group in partnership with 10,000 Black Interns and upReach.
- Extended our partnership with the University of Sheffield AMRC Training Centre to fund up to a further 20 apprenticeships through the Close Brothers SME Apprentice Programme.
- Had six ASPIRE school leaver trainees on placements in 2023.
- Offered employees access to our financial education website, provided by CBAM.
- Reduced our Scope 1 and 2 emissions by 55% since 2019.
- Set our group-wide climate commitment, becoming signatories to the NZBA and NZAM initiative.

Future priorities

- Retain and attract talent and maximise productivity by engaging, training and developing our people, nurturing an inclusive and diverse culture.
- Expand our expertise in green and transition assets and broaden our sustainability offering as we support the transition to a net zero carbon economy.
- Achieve a net zero company car fleet by 2025 and become operationally net zero through our Scope 1 and 2 emissions by 2030.
- Set intermediate 2030 targets for the most carbon-intensive sectors of our loan book in line with our NZBA commitment.
- Continue to adapt our offering based on horizon scanning and trends in the marketplace, as well as the evolving needs of our customers and clients, while taking into account the feedback they provide.



Sustaining our business: Implementing the FCA's Consumer Duty

Securing the long-term future of our business and driving good customer outcomes in line with the FCA's Consumer Duty

The FCA's Consumer Duty requires firms to act to deliver good outcomes for retail customers, setting a higher standard of consumer protection and further equipping customers to make effective decisions. As an FCA-regulated business, the new Duty covers retail customers across our Asset Finance, Motor Finance and Premium Finance businesses, our Savings business, Close Brothers Asset Management and Winterflood.

The consumer principle incorporates cross-cutting rules, requiring firms to act in good faith towards retail customers; avoid causing foreseeable harm to retail customers; and enable and support retail customers to pursue financial objectives.

These rules are supported by four outcomes, which are focused on key areas of the customer journey – products and services, price and value, consumer understanding, and consumer support.

In response to the new rules, we have implemented a programme with objectives and key deliverables directly aligned to the Consumer Duty requirements. Examples of workstreams include completing fair value assessments and enhanced product reviews, developing enhanced training, enhancing customer communications where necessary, and enhancing our data to ensure we can effectively monitor outcomes. Our focus is now on continuing to embed our compliance with Consumer Duty requirements and implementing Consumer Duty changes for books of business not open to new customers.

Key Performance Indicators

Tracking our progress

Protect

Grow

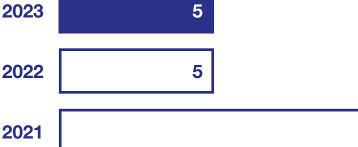
Common equity tier 1 capital ratio (%)

Our CET1 capital ratio is significantly above the minimum regulatory requirements, whilst allowing us flexibility for growth. Maintaining a strong capital position is a fundamental component of our model.

Net interest margin (%)

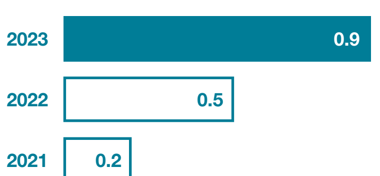
Net interest margin is a key measure of profitability and reflects both our pricing discipline on new lending and our funding costs. Prioritising margin over volumes is a key facet of our lending approach.

Loan book growth (%)[2]



Loan book growth remains an output of our business model, as we prioritise our margins and credit quality. Nevertheless, we have a strong track record of delivering disciplined growth by maximising incremental and new opportunities in existing and adjacent markets.

Bad debt ratio, excluding Novitas (%)[1]

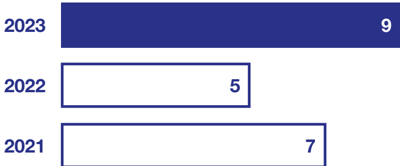


Our bad debt ratio (excluding Novitas) remains slightly below our long-term average of 1.2%. The consistent application of our underwriting and responsible lending criteria at all stages of the economic cycle is fundamental to our long-term approach.

Total funding as a percentage of loan book (%)[2]

We adopt a conservative approach to funding based on the principle of "borrow long, lend short", with a prudent maturity profile. Our funding base is diverse, enabling us to adapt our position through the cycle, based on market conditions and demand.

Net inflows (% of opening AuM)



CBAM has a long track record of generating healthy net inflows, with a target range of 6% to 10%.

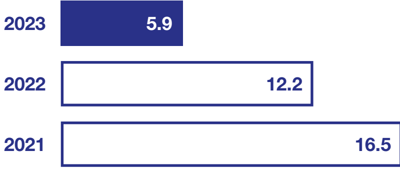
Banking expense/income ratio (%)

We are focused on achieving positive operating leverage over the medium term and have intensified our focus on cost discipline and efficiency, whilst delivering disciplined growth.

Liquidity coverage ratio, 12-month average (%)

Our liquidity coverage ratio is substantially above regulatory requirements, as we continue to adopt a conservative liquidity position and prudently manage our financial resources.

Return on average tangible equity (%)

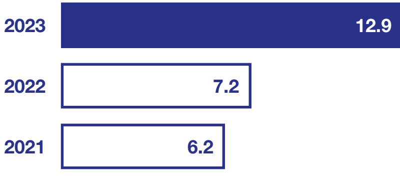


We are focused on delivering for our shareholders and resuming our track record of earnings growth and returns remains a key priority.

1. 2023 bad debt ratio including Novitas of 2.2% (2022: 1.2%).
2. 2021 metrics have been re-presented to include operating lease assets.

Sustain

WBS assets under administration (£ billion)

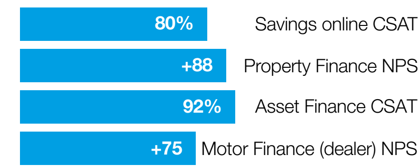


Winterflood Business Services ("WBS") has seen strong growth in recent years, supported by a solid pipeline of clients. The growth of WBS supports the diversification of income streams in Winterflood.

Employee engagement (%)

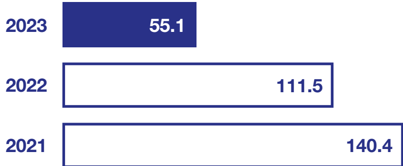
We are committed to fostering a culture that attracts and retains engaged and motivated employees.

Customer scores



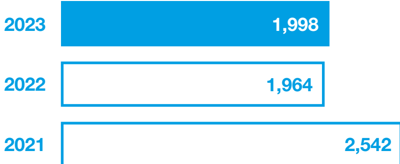
Customers are at the heart of our model, as we focus on delivering high levels of service and sharing our deep industry expertise to meet their needs.

Adjusted basic earnings per share (pence)



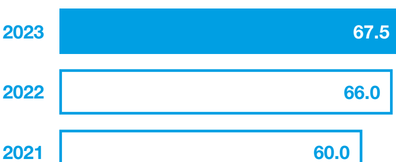
Whilst adjusted basic earnings per share has been adversely impacted by provisions taken in relation to Novitas in the year, we remain focused on resuming our track record of earnings growth.

Total Scope 1 and 2 emissions (market-based) (tonnes CO_2e)



We are committed to supporting the transition to a low carbon economy and have set ambitious short-term net zero targets for our Scope 1 and 2 operational emissions.

Dividend per share (pence)



We are committed to our dividend policy, which aims to provide sustainable dividend growth year-on-year, while maintaining a prudent level of dividend cover.

Resuming our track record of earnings growth and returns

We remain dedicated to resuming our track record of earnings growth and returns with a focus on:

Disciplined growth

We are focused on delivering disciplined growth, actively evaluating potential growth opportunities that are aligned with our Model Fit Assessment Framework.

Cost efficiency

We have intensified our focus on cost discipline and efficiency, particularly in light of inflationary pressures. We continue to evaluate additional opportunities for efficiency with a view to achieving positive operating leverage over the medium term.

Capital optimisation

We are committed to optimising further our capital structure, including the issuance of debt capital market securities if appropriate. We are targeting a CET1 capital ratio range of 12% to 13% over the medium term.

The full definitions of these key performance indicators can be found on pages 253 to 257.

● Non-financial metrics forming part of balanced scorecard

Consistent service

Case study: Twenty20 Capital, investors in staffing and workplace solutions

How we Helped

Twenty20 Capital has seen rapid expansion in recent years following the completion of a number of deals supported by Close Brothers.

Initially founded in 2017, it is now the largest investor in staffing solutions within the UK, operating globally.

Close Brothers' most recent partnership with Twenty20 Capital supported their acquisition of six of the UK's best-known staffing and workforce solutions, by providing an asset-based lending facility.

Our focus on service and personal approach gave us a deep understanding of the needs of Twenty20 Capital. It allowed us to offer high service levels and flexible solutions to support their ambitions for growth and innovation in their expanding business.

We believe in putting our customers and clients first and our long-term strategic approach places exceptional service at the heart of everything we do.

"Close Brothers has been very professional. The level of service, communication and support has been outstanding. We are genuinely delighted in the unique partnership we have formed together."

Tristan Ramus
Founder, Investment Principal, Twenty20 Capital

Consistent **service**

Our Culture

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

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

Value	Description	Measure
Service	We pride ourselves on our excellent level of service and on encouraging thinking that is both entrepreneurial and disciplined.	**92%** of colleagues believe Close Brothers puts customers and clients at the centre of business decisions (2022: 92% see colleagues go the extra mile to meet the needs of customers and clients)
Expertise	We are committed to fostering a culture that attracts and retains talent, whilst also growing and building the expertise of our people.	**97%** of colleagues believe they have the skills and knowledge to do their job well (2022: 97%)
Relationships	We take the time to understand our customers and clients, and build strong long-term relationships with them.	**High** customer satisfaction and strong levels of repeat business across the group
Teamwork	We promote teamwork in a fair and open environment, where individuals and their contributions are valued and respected.	**97%** of colleagues feel their immediate team supports each other to get the job done (2022: 97%)
Integrity	We insist on trustworthy behaviour and always acting with integrity – "doing the right thing", internally and externally.	**97%** feel their colleagues act with integrity (2022: 96% believe our culture encourages us to treat customers and clients fairly)
Prudence	We always take a prudent, robust and transparent approach to risk management.	**93%** of colleagues feel confident in the ability of people in their area to identify risks (2022: 95% of colleagues believe we are committed to prudent risk management)

Long-term relationships

Long-term relationships

Case study: Briahaze Village Homes, new residential housing

How we Helped

Briahaze Village Homes, a Yorkshire-based family business spanning seven generations, started using Close Brothers over 30 years ago.

Having experienced difficulties with a previous lender during the recession in the early 1990s, Briahaze Village Homes was referred to Close Brothers and has borrowed from us ever since to fund the building of new residential houses.

During this time they have built 130 family homes, helping the local community and creating jobs for local workers.

In today's increasingly impersonal world, we recognise the value of building strong long-term relationships with our customers and clients, many of which span decades and generations, just like Briahaze Village Homes.

Our commitment to lend through the economic cycle has enabled our customers and clients to make the right decisions, and build plans for the future, knowing they have a partner to stand by them.

> "We have been through three recessions with Close Brothers and they have always been there for us. It is a great working relationship, and they understand the property market and how it fluctuates."

Jonathan Kitching
Owner, Briahaze Village Homes

Stakeholder Engagement

Delivering for our stakeholders

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

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

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

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

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

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

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

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

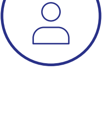
Whilst the board acknowledges that, sometimes, it may have to take decisions that affect one or more stakeholder groups differently, it seeks to treat impacted groups fairly and with regard to its duty to act in a way that it considers will be most likely to promote the success of the company for the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

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

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

Detail on the board's engagement with, and consideration of, the company's stakeholders can be found on pages 152 to 153 of the Corporate Governance Report.

Colleagues



With approximately 4,000 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.

Key priorities of our colleagues

- A safe working environment.
- A fair, supportive, diverse and inclusive culture where employee feedback is valued.
- Being appropriately rewarded for their contributions.
- Opportunities for training and development.

Our engagement during the year

- 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 across all market conditions. We engage with our customers throughout their end-to-end journey and actively seek their feedback.

Key priorities of our customers, clients and partners

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

Our engagement during the year

- 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 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.

Stakeholder Engagement continued

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.

Key priorities of our suppliers

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

Our engagement during the year

- 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.
- 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.

Key priorities of our regulators and government

- Customer outcomes.
- Operational and financial resilience.
- Financial crime prevention.
- Environmental, social and governance.
- Digitisation and analytics.

Our engagement during the year

- 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 the 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 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.

Key priorities of our communities and the environment

- A suitable strategy for approaching sustainability 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.

Our engagement during the year

- Colleagues completed numerous volunteering activities to positively impact local communities, including volunteering at food banks and supporting youth groups such as Guides, Scouts 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 up to 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.

Key priorities of our investors

- Strong returns and financial resilience through the cycle.
- Capital generation and distributions.
- Sustainable and consistent business model.
- Appropriate governance practices and regard for environmental and social responsibility.

Our engagement during the year

- 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.
- As part of the senior bond issuance in June 2023, we held several meetings with existing bond holders and prospective investors.
- Retail investors had the opportunity to engage with board members at our AGM and ask questions.
- Following our update announcement on Novitas in January 2023, we engaged with approximately 50% of our shareholders and all of our sell-side analyst followers, as 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.

Sustainability Report

Our responsibility

“We are supporting the transition to a low carbon economy and will work with our customers and wider stakeholders on the journey to a net zero future.”

Adrian Sainsbury
Group Chief Executive

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.

In the following pages, we provide updates on our progress during the year across all aspects of our sustainability strategy. We see responsibility as a core part of our business and central to our success. It encourages us to look at how we operate our business, as we focus on achieving the best outcomes for our stakeholders whilst making a positive impact on society and the environment we operate in. We believe this will enable us to make a difference for our people, customers and clients, both now and in the future.

Our climate strategy includes our ambitions for net zero operations, reducing our financed emissions and supporting the transition.

We recognise the important role we play in supporting UK SMEs and other businesses to deliver their own climate transition plans and adopt clean technologies. Some of our existing lending sectors, such as surface transport, are already experiencing change through new, cleaner technologies.

Our Asset Management division has recently announced the initial percentage of its assets under management (“AuM”) that will be managed in line with net zero, following its commitment to the Net Zero Asset Managers initiative. They expect to publish their own inaugural TCFD report in 2024.

Creating an inclusive culture where all of our people are supported to thrive is fundamental to the continued success of our business. As an inclusive employer, we strongly support social mobility, creating a sense of belonging for everyone, irrespective of their background.

It is crucial we continue to keep the customer at the heart of all we do. In the past year, we have developed our Customer Commitment Framework which sets out how we want our customers to feel: valued, happy, understood, confident and easy when doing business with us.

Our Sustainability Objectives

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

Promoting an inclusive culture in everything we do

Reducing our impact on the environment and responding to the threats and opportunities of climate change

Promoting financial inclusion, helping borrowers that might be overlooked by larger finance providers and enabling savers and investors to access financial markets and advice to plan for their future

What sustainability means at Close Brothers

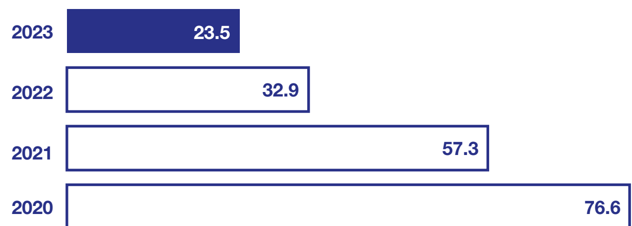
At Close Brothers, we are here to help the people and businesses of Britain thrive now and in the future working together to embrace change and capitalise on the opportunities it presents. This means supporting our colleagues, customers and clients, and the communities and environment in which we operate.

Our car fleet (E)

Our car fleet is now

46.1%

battery electric with average emissions now down to 23.5 gCO_2/km



Our green lending (E)

£1 billion

lending ambition for zero emissions battery electric vehicles over the five years to 2027

2023: £164m

achieved in this financial year

Our emissions (E)

Scope 1 and 2 emissions (market based)

54.7%

reduction since 2019

54.8%

renewable energy as a proportion of our energy use across our offices and Brewery Rentals business

Our communities (S)

200

employees used their volunteering day

Our inclusivity (S) (G)

96%

of our colleagues feel included

Our social mobility (S)

Last summer, we welcomed 37 students to complete six-week internships with Close Brothers. Thirty-one students joined us as part of the 10,000 Black Interns programme and six university students from lower socioeconomic backgrounds joined us through our partnership with upReach.

Our alliances (G)

As a signatory to the NZBA, we commit to transition our lending and investment portfolios to align with net zero pathways by 2050. We work closely with the Partnership for Carbon Accounting Financials and its local members in developing accounting principles for financial carbon emissions.

Our customer service awards (S)

Environmental Social Governance

Sustainability Report continued
Task Force on Climate-related Financial Disclosures Report

We present our second Task Force on Climate-related Financial Disclosures ("TCFD") report. Our disclosures comply with the FCA's Listing Rule 9.8.6R (8) and are consistent with the 2017 Recommendations of the Task Force on Climate-related Financial Disclosures. We have also considered the additional 2021 Annexes where practical to do so.

TCFD recommendations	Our progress	Future focus
Governance Describe the board's oversight of climate related risks and opportunities. Describe management's role in assessing and managing climate-related risks and opportunities. See pages 52 to 54	• Board monitoring of climate-related risks and opportunities enabled through clear roles and responsibilities for the board and board committees. • Ongoing ESG and climate-specific training delivered to board and all group employees. • Group chief risk officer accountable under the Senior Managers and Certification Regime for identifying and managing the financial risks associated with climate change. • Further review of climate risk governance recommended a revision to supporting working groups now all largely chaired by executive management sponsors (see page 53). • Climate risk now actively embedded within management decision making.	• Board to oversee the ongoing development of transition pathway. • Continue to build climate knowledge at board and senior management level. • Continue to address key challenges on data, models and tooling. • Build climate skills and competencies across our staff and stakeholders. • Fully implement revised governance model and operationalise the supporting working groups.
Strategy Describe the climate-related risks and opportunities the organisation has identified over the short, medium and long term. Describe the impact of climate risks and opportunities on the organisation's business strategy and planning. Describe the resilience of the organisation's strategy taking into consideration different climate-related scenarios, including a 2°C or lower scenario. See pages 42 to 43	• Net zero roadmap developed with our main facilities management partner for our office estate to support our 2030 Scope 1 and 2 net zero ambition. • Growth in climate engagement with key suppliers across the group. • Continued development of climate-related scenario analysis to inform commercial development and strengthen risk management. • Progress in developing our green growth plans. • Enhanced data capabilities across our carbon-intensive sectors to support future intermediate net zero targets and transition plans. • New product development to support five year ambition for funding battery electric vehicles. • Climate risks and opportunities considered within financial and strategic planning processes, using the firm's standard one to three-year time horizon.	• Development of our transition plan for our financed emissions. • Continue to address key challenges related to the availability of climate data. • Build on our climate supplier engagement strategy to address our operational emissions. • Respond to evolving regulatory requirements and developments in the broader industry, including the emergence of best practice. • Continue to develop capabilities to assess resilience of our business model.

TCFD recommendations	Our progress	Future focus
Risk Management Describe the organisation's processes for identifying and assessing climate-related risks. Describe the organisation's processes for managing climate-related risks. Describe how processes for identifying, assessing and managing climate-related risks are integrated into the organisation's overall risk management. See pages 44 to 47	• Enhancements to data capabilities to deliver oversight, visibility and measurement of climate risk exposures. • Embedded processes to continually assess and monitor climate risk as a cross cutting risk to our principal risks. • Transitional risk impacts monitored regularly within our emerging risk management and reporting processes. • Evolving reporting capabilities of credit exposure relative to climate-related risk impacts. • Other climate risk impacts embedded in the group wide Enterprise Risk Management Framework. • Continued tailoring of climate risk within risk appetite statements. • Enhancement of standards and policies documents. • Maturing climate risk culture and acknowledgement of corporate responsibility.	• Invest to further develop data to support quantitative risk measurement and commercial strategic development. • Explore expanded scenario analysis to align and support our ICAAP processes. • Broaden our work with customers, partners and suppliers, assessing climate-related impacts. • Continued assessment of climate impacts within our resilience framework. • Ongoing review of the analysis of internal and external risks and opportunities. • Continued horizon scanning to monitor for changes within the regulatory landscape.
Metrics and Targets Disclose the metrics used by the organisation to assess climate-related risk and opportunities in line with its strategy and risk management process. Disclose Scope 1 and 2 and, if appropriate, Scope 3 greenhouse gas emissions and the related risks. Describe the targets used by the organisation to manage climate related risks and opportunities and performance against targets. See pages 48 to 51	• Broadening of our climate strategy and targets to cover both net zero Scope 1 and 2 operational targets, as well as specific targets relating to our financed emissions. • Enhanced capabilities to measure the carbon footprint for our operations, including measurement across Scope 3 operational emission categories. • Further enhanced assessment of Scope 3 financed emissions (primarily our loan book) using evolving PCAF methodologies. • Developing transition plans as part of our commitment to net zero through the Net Zero Banking Alliance. • Continued collaboration with industry body forums including active engagement in Partnership for Carbon Accounting Financials ("PCAF") specialist working groups.	• Setting of intermediate 2030 net zero targets for the most carbon-intensive sectors within our loan book. • Improved customer climate data capabilities across our portfolios to improve accuracy of financed emissions reporting, risk assessment and business strategy. • Progress viability of further targets across our lending and investment activities to support our transition pathway.

Sustainability Report continued
Task Force on Climate-related Financial Disclosures Report

Climate Strategy

As a financial services provider we recognise the important role we will play in enabling the transition to a low carbon economy. We provide expert financing solutions for UK SMEs, and will need to align our lending with the transition pathways of our customers. As businesses in the UK develop and deliver their own transition plans to adopt clean technologies, greener assets and new business models, we are ready to support them by providing appropriate financing solutions; in doing so, facilitating change and supporting the wider transition of the economy.

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

Our ongoing work to identify the risks and opportunities of climate change to our business model remains a key area of strategic focus for the board and senior management.

We are committed to working with all of our stakeholder groups to meet the goals of the Paris Agreement. Last year, we became a signatory to NZBA, committing to transition all operational and attributable greenhouse gas ("GHG") emissions from our lending and investment portfolios to align with pathways to net zero by 2050 or sooner.

The Three Pillars of our Climate Strategy

1 Achieving net zero operations

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

Addressing the impact our emissions have on the environment remains a key focus for us, demonstrating our commitment to our wider net zero ambition.

We have previously set ourselves challenging net zero aligned targets for our buildings and fleet (setting a net zero target for our Scope 1 and 2 emissions by 2030 and a net zero fleet by 2025), and we have continued this year in delivering initiatives across our own operations to ensure we have a plan to meet these.

Further to meeting all of the mandatory reporting requirements under the Streamlined Energy and Carbon Reporting ("SECR") standards, we provide enhanced disclosure across our operational impacts. As set out in our emissions reporting on pages 49 and 51, we have assessed our full operational footprint, covering Scope 1 and 2 as well as all relevant Scope 3 categories.

As we enhance our carbon accounting across all of our direct and indirect operational carbon emissions, we will be able to expand our emissions reduction plans, including work with our suppliers and partners in areas such as facilities management and IT services.

This year, we have continued to broaden our engagement with our supply chain on environmental matters, while working with those who share our ambitions to efficiently use resources and combat the adverse effects of climate change. We have commenced direct engagement with our largest suppliers, to explore ways in which we can incorporate carbon impact criteria into our choice of suppliers, enhance our emissions data and develop our roadmaps to minimise the impacts in our supply chain.

Our facilities team commenced a project with our main UK facilities management contractor to develop a net zero strategy for all of our properties (covering offices as well as our industrial site operated by our beer keg business). Initially assessing further energy and carbon saving initiatives across our largest energy consuming sites, this project has included an energy metering workstream, new technology feasibility studies, and site energy audits. As it concludes, it will set out a net zero carbon strategy for the full estate.

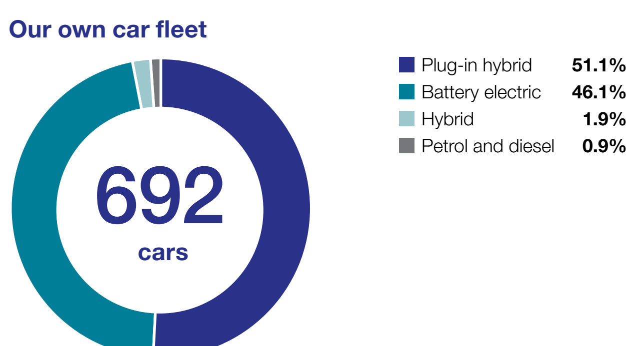
Our drive towards having a net zero emission car fleet has continued this year. We are proud of our leading strategy, allowing us to demonstrate to our customers how progress in decarbonising fleets can be achieved – a growing area of support we offer our customers across the bank.

Since January 2022 we have only offered fully electric, battery electric vehicles ("BEVs") options on our car scheme (other than in exceptional circumstances). Our fleet of 692 cars is now almost wholly battery electric or plug-in hybrid (as can be seen in the diagram on the next page) and we have now reached 46.1% of the fleet being fully electric vehicles.

One of the barriers for greater adoption of electric car fleets is the challenges in providing employees with fully reimbursable electricity payments for business miles (when they are charging at home or charging stations) – specifically when HMRC's cap price (per mile) falls short of actual electricity prices. During the year, we had our re-charging processes approved by HMRC, enabling us to fully reimburse our drivers for electricity costs incurred and hence removing this barrier to wider adoption of electric cars on our fleet.

Our efforts to transition our fleet (and to progress towards our net zero target by 2025) have driven our fleet average emissions down further this year. The average CO_2 emissions for our car fleet is now 23.5 gCO_2/km (2022: 32.9 gCO_2/km).

Our own car fleet



2 Reducing our financed emissions

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

Understanding the climate impacts across all of our lending and investments, alongside developing new green growth opportunities in our current and future markets, are crucial steps in us developing our climate transition plan and aligning our financing to our net zero commitments.

Having carried out our initial assessment of our financed emissions across our loan book last year, we made some significant progress in the data quality and coverage of this area during the current year (as set out on pages 50 to 51).

We have adopted the PCAF methodologies to calculate our financed emissions and work closely with their working groups. As signatories to PCAF, we have engaged with our peers across other banks to share best practice frameworks to advance accounting for financed emissions and improve the resolution of our analysis.

We have also carried out a review of our Scope 3 accounting approaches (including our supply chain and our financed emissions) with an external consultancy. This engagement considered the latest best practice financed emissions accounting in the industry and reviewed our loan book products and portfolios to validate our current footprinting methodologies based on available data. This project has supported our year end approach.

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

In the next few months, as one of our commitments under NZBA, we will be setting out our initial intermediate 2030 targets across our most impactful sectors in our loan book, likely including transport sectors and power generation.

Following commitment to the Net Zero Asset Managers initiative, in September 2023, our Asset Management division has disclosed details on the portfolio to be managed in line with net zero.

3 Financing the transition

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

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

One of our largest lending sectors is surface transport. We already see deployment of BEVs in passenger and goods vehicles, as our fleet customers seek to reduce their emissions. In testament to our leadership in providing support for the deployment of zero emission vehicles, in the past year 42% of new cars financed by our Banking division have been BEVs. This compares favourably to the UK market as a whole in the same period where 17.6% of new cars were BEVs.

Last year, building on our early success in supporting the electrification of surface transport, we set ourselves our first green growth ambition, which was to provide funding for at least £1.0 billion of BEVs in the five years from 2023. In this first year, we have funded £164 million of BEVs, putting us close to target to meet this ambition.

During 2023, we established a green growth working group with representatives from across our lending teams and our credit risk function. Its aims are to further develop our existing green lending, and find new, green growth pipelines including in the energy, transport, energy efficiency and energy infrastructure categories.

Sustainability Report continued
Task Force on Climate-related Financial Disclosures Report

Risk Management

How we Identify, Assess and Manage Climate-related Risks

Our group Enterprise Risk Management Framework, as outlined in pages 83 to 89 of the Risk Report facilitates a consistent application of all features of the group's risk management approach to the risks associated with climate change. This extends to both the physical risks, which are considered a cross-cutting risk impacting across our suite of principal risks, as well as transitional risks, which are additionally measured and monitored in line with our emerging risks.

	Description	Timeline	Potential impacts
Physical Climate Impacts			
Extreme weather events (including persistent heat and severe flooding events) as well as long-term shifts in climatic conditions. Increased frequency and magnitude of weather events.	Physical damage to customers' assets. Disruption to sector productivity (such as labour impacts in our construction sector customers, crop yields in our agriculture customer base).	Medium to long term	Credit risk – counterparty and collateral
	Disruption or damage to our own properties or those of our suppliers/ partners (such as data centres and call centres).	Long term	Supply chain risk. Business continuity impacts and disruption to customers.
Transitional Climate Impacts			
Changing markets through the transition to a low carbon economy – driven by new regulation, policy, technologies and customer appetites	Significant shift in a sector's technology – such as the current impacts on some of our existing transport activities.	Medium to long term	Credit risk – counterparty and collateral. Uncertainty around new and legacy asset values.
	Uncertainty and change in many sectors in the UK where our SME customer base operates. Changing demands and expectations from their customers. A growing focus on energy efficiency and environmental performance.	Medium to long term	Credit risk – counterparty and collateral. Uncertainty in markets could lead to reduced investment activity by customers in the short term.
	Changing operating models for customers and higher capital investments in clean assets – such as growing opportunity for businesses to adopt onsite renewable generation, energy storage and electric vehicle charging assets. Leading to the need for new products and underwriting approaches.	Medium term	New business models. Need for new skills and capabilities across the bank.
Changing stakeholder climate expectations	Our stakeholders (including our investors, customers, staff) scrutinising our climate transition plan and delivery against targets. Evolving market appetites towards lending to high carbon sectors (including fossil fuel extraction, carbon intensive transport).	Medium to long term	Reputational risk – ability to attract or retain talent. Impact on attractiveness to investors and savers.

Alignment of Group-wide Framework to Climate-related Risks and Opportunities

The alignment of our risk management framework with climate-related risks and opportunities remains a priority as we continue to develop ongoing risk assessment and monitoring of our banking book and impacts across other principal risks. Continual enhancement of standards and policies supports the increasing maturity of climate risk within our end-to-end risk processes.

We recognise that this is a multi-year journey with the impacts of physical and transitional risks, and supporting frameworks to assess these, still evolving across the industry. The impact of climate change across time horizons and our proportional response will continue to be considered within our wider risk assessment financial planning and strategy development.

Our business planning time horizons

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

Risk culture and awareness

A risk culture with strong foundations runs throughout the group, consistent with the group's purpose, strategy, cultural attributes and values. The management of climate risk and opportunities is enveloped within this.

Specialist role-specific training on climate change impacts is undertaken and all colleagues are offered training and webinars to ensure they are kept abreast of regulatory developments, expectations of corporate responsibility and wider market sentiment.

Internal controls

To support ongoing embedding of climate risk in our control environment, in-year enhancements have focused on reinforcing climate risk within our policy documentation and on ensuring that internal process is complemented by the activities of our key suppliers and partners.

Governance

A key component of embedding climate risk into our group-wide framework is a coherent three lines of defence model. As our climate risk framework has matured, it has afforded the opportunity to further refine our governance structure to manage an integrated approach to both climate risks and opportunities. The structure in the course of implementation is set out on page 52.

Stress testing

Furthering our previous work on long horizon scenario analysis. Recognising the short tenor of our loan book (16 months), our focus is to further integrate climate exercises into wider group stress testing exercises, e.g. ICAAP and resilience scenarios. Specific concentration focus expected to be on transport, energy and property sectors.

Risk appetite

Consideration of climate risk is integrated into the group's risk appetite statements, which align risk management with group strategy. While quantitative measures are, in the main, currently included for monitoring purposes, we are continuing to develop more tailored, formal risk appetites, particularly for credit risk where measurement of quantifiable metrics against limits specific to business considerations is more readily achievable. We expect these to be based on sectoral transition risk assessments, aligned to our ambition to meet the goal of the Paris Agreement to reach net zero by 2050.

Addressing Data and Future Enhancements

Data quality remains a key challenge and we are committed to developing enriched climate credit risk data that will support more accurate measurement and monitoring. In turn, this will support effective risk mitigation and strategic alignment.

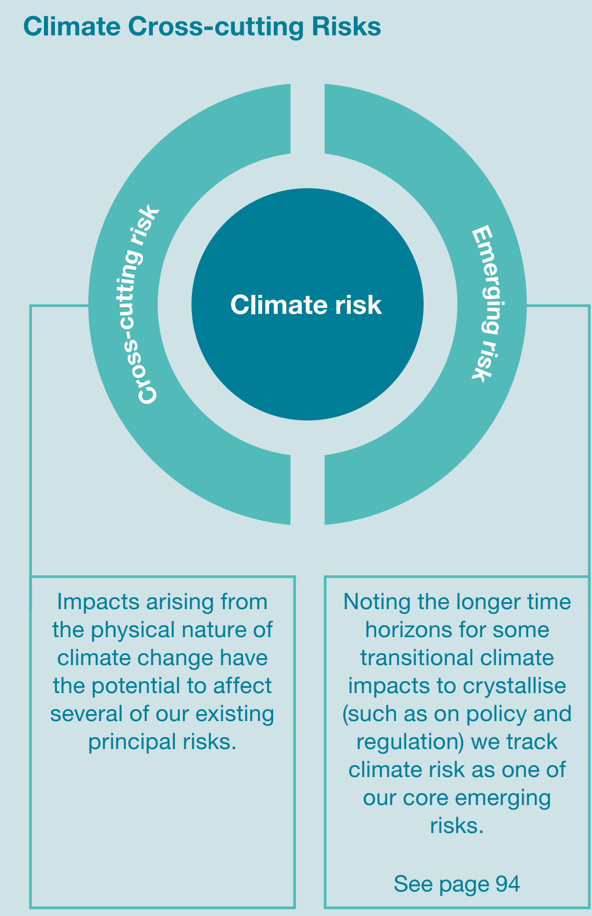
Enhancement to our climate data provision across the group is being led by our climate data working group – a key element within our revised climate governance structure under implementation (see page 52).

Addressing climate data quality will support the development of a second-generation climate assessment methodology which will incorporate a more sophisticated approach utilising both qualitative and quantitative inputs. This will:

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

Progress reporting and management information capabilities will facilitate more decision-useful insights, supporting the evolution of the group's strategy for managing risks and opportunities and the development of more tailored risk appetites.

Sustainability Report continued
Task Force on Climate-related Financial Disclosures Report



Risks identified across the group with potential climate-related impacts

Credit
Counterparty and collateral impacts

Operational
Premises, people and third-party partners

Traded market

Regulatory

Conduct

Business/strategic

Reputational

Funding/liquidity

Climate-related data
(enhancement in progress)

A Cross-cutting Risk Impacting Across Multiple Principal Risks

In assessing both the risks and opportunities of climate impacts and in preparing our TCFD disclosures, we have sought to provide sufficient granularity, proportionate to the materiality of the climate-risks identified across the group. An extensive analysis of risks has been completed across our risk universe which indicates we are not materially exposed to loss or disruption over the short to medium term. Over the long term, increased risk has been identified, primarily driven by potential transitional impacts. In respect of physical risk, we consider severe impacts are only likely to present in the long term, albeit we recognise acute physical events are already happening. Risks identified are largely mitigated through our resilient business model, benefiting from an average tenor of 16 months, and a customer base that is predominantly in the UK and Republic of Ireland, with strategic management actions to support our customers and strategic partners on their own transition pathways.

Our focus remains primarily centred on credit and operational risk impacts consistent with our view that these represent greatest potential impact. We acknowledge that developments which may have a transitional impact over the medium to longer term could carry additional exposure should appropriate, timely management actions not be taken to maintain the resilience of our business operating model. For more details of our management of emerging risks please see page 90 of the Risk Report.

Complementary to our data strategy outlined on page 45 we anticipate incremental enhancements to assessment, monitoring and reporting to support a greater quantitative lens, augmenting the qualitative assessment already established.

Credit risk

The focus remains largely on credit risk, given its materiality to the banking division and wider group, and importantly its sensitivity to potential climate impacts, noting that both physical and transitional drivers have the potential to impact both counterparty and collateral risk.

Our current methodology deployed across £8.3 billion (86%) of the Banking division loan book continues to identify exposures deemed to have the most sensitivity to climate change, noting it does not account for time horizons over which climate impacts are expected to crystallise. It does, however, prove useful in identifying those exposures deemed as having the most potential sensitivity to climate change, including energy-consuming assets such as motor vehicles in our Motor Finance and Asset Finance businesses, non-renewable energy generation assets, and general business lending in high-impact sectors.

Work continues to develop a second-generation reporting capability based on a more data-led quantitative approach replacing the current qualitative, expert-judgement driven assessment.

Sensitivity dashboards continue to be presented at regular risk committees, ensuring engagement in the climate risk agenda occurs vertically throughout the organisation. For an overview of risk committees see page 85.

Operational risk

Recognising the potential for climate change to impact buildings and service provision capabilities, the group has conducted a review of its existing business continuity plans as well as its broader approach to crisis management to ensure potential impacts on our people, customers and infrastructure have been assessed and that the group is adequately prepared.

Relevant operational risk standards consider the causal impacts presented by climate change, while work continues to incorporate climate impact considerations within our assessment of operational resilience for critical services and change management risk assessments.

The group also recognises the potential for key third parties and suppliers to be impacted by climate change (due either to physical or transitional factors), causing disruption to day-to-day business operations. To maintain pace with the evolving regulatory landscape, the group's third party management framework has been strengthened to include enhanced supplier due diligence questionnaires to gather climate and ESG data for all of our tier 1 and tier 2 suppliers, while our tendering process has been updated to consider environmental and climate considerations alongside sustainability innovation and performance.

Other risks

Work to integrate consideration of climate risk across other identified risk areas continues to progress. Climate change, and the group's response to it, forms an integral part of our business strategy. This includes continued assessment of the resilience of our model, to ensure we are sufficiently prepared to manage the risks posed by it. As outlined in the Governance section (pages 52 to 54) strong oversight of strategic delivery is maintained through our committee framework, with consideration of climate risks now embedded within our strategic planning.

The rapidly evolving regulatory landscape also presents risk and we recognise our responsibility to comply with new and emerging requirements. Horizon scanning capabilities have been enhanced in response, to ensure new requirements are identified and assigned to the relevant functions.

Climate impacts are considered part of our overall commitment and conduct responsibilities to deliver good customer outcomes.

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

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

Meanwhile, our Asset Management division has integrated responsible investment practices into our investment process to aid us in creating long-term value for clients and beneficiaries. The practices include explicitly considering and integrating the impact of material environmental, social and governance factors on the long-term financial risk and return of our investments. Our Asset Management division is a signatory to the Principles for Responsible Investment and has been accepted as a signatory to the Financial Reporting Council's Stewardship Code for the second year running, illustrating our commitment to strong stewardship of our clients' capital.

The product offering for clients who wish to further align their investments to their values continues to grow; we offer ethical screening, Sustainable Funds and our Socially Responsible Investment Service. Following its commitment to NZAM last year, our Asset Management division will be setting out its climate strategy and ESG risk management in 2024 when it publishes its inaugural TCFD disclosures.

Over the longer term, increased reputational risk could crystallise, primarily driven by failure to address transitional impacts such as changes to regulation, technological advancement and the evolution of customer preferences. We will continue to assess the climate impacts across the whole spectrum of principal risks to ensure we meet the expectations of our people, customers, investors, shareholders, regulators and other key stakeholder partners.

Sustainability Report continued
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Metrics and Targets

Our climate strategy, led by our commitment through the NZBA, spans both our operational emissions as well as the emissions related to our lending and investment portfolios. Set out in this section are our targets, measurement and reduction of our operational emissions on pages 48 to 50, followed by our assessment and ambitions for our financed emissions in our loan book on pages 50 to 51.

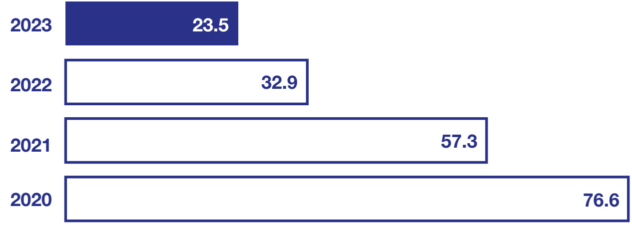
Operational Emissions

Our approach to developing our carbon reduction plan to achieve these net zero targets is set out in our strategy section on pages 42 to 43.

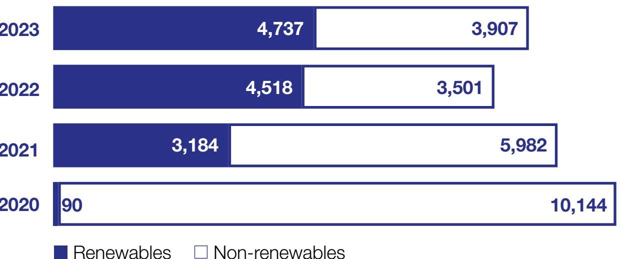
Our methodology for calculating and disclosing our GHG emissions and energy use is in accordance with the requirements of the World Resources Institute GHG Protocol Corporate Standard, GHG Protocol Corporate Value Chain Accounting and the SECR standards. We report on all material Scope 1 and 2 emissions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

For our building emissions (including our industrial processes in our Brewery Rentals sites) we have continued to develop our energy efficiency plans for our sites, working with our facilities management partner. These plans consider our 2030 net zero ambition, ensuring we make investment choices for each of our sites that lead us towards that ambitious goal. Important considerations include energy-efficient equipment, control and monitoring infrastructure, electrification solutions and renewable energy options.

Company car fleet (gCO_2/km)



Proportion of renewable energy used in our offices and Brewery Rentals sites (MWh)



We have continued to electrify our company car fleet (total of 692 cars). Of these, 46.1% are now battery electric cars, with 97.3% either fully electric or plug-in hybrid. With the aim to only introduce battery electric vehicles to our car fleet, we have continued to see the average emissions across our fleet falling each year.

Through the last year, we have greatly enhanced our in-house climate data capability, allowing us to enhance our operational footprinting across all Scope 1 and 2 as well as relevant Scope 3 categories. Our climate data working group is working closely with all relevant departments internally to fully operationalise these carbon accounting processes and providing more frequent management information across the group and the other working groups to support the delivery of carbon reduction strategies.

Our operational impacts

Greenhouse gas emissions[1,2,4]	Emissions source	Market-based 2023 tCO$_2$e	Market-based 2022 tCO$_2$e	Location-based 2023 tCO$_2$e	Location-based 2022 tCO$_2$e
Scope 1	Buildings – fuel[3]	**331**	344	**349**	368
	Owned vehicles – fuel	**964**	1,058	**964**	1,058
Total Scope 1		**1,295**	**1,402**	**1,313**	**1,426**
Of which UK total Scope 1		**1,217**	1,324	**1,235**	1,348
Scope 2	Buildings – electricity[3]	**442**	400	**1,152**	1,051
	Owned vehicles – electricity	**261**	162	**261**	162
Total Scope 2		**703**	**562**	**1,413**	**1,213**
Of which UK total Scope 2		**669**	530	**1,374**	1,182
Total Scope 1 and 2 (Operational)		**1,998**	**1,964**	**2,726**	**2,639**
Of which UK total Scope 1 and 2		**1,886**	1,854	**2,609**	2,530
Scope 3 (Operational)	Category 1 – Purchased goods and services			**41,934**	44,219
	Category 2 – Capital goods			**13,762**	19,291
	Category 3 – Fuel and energy-related emissions			**846**	693
	Category 4 – Upstream transportation and distribution			**36**	86
	Category 5 – Waste generated in operations			**190**	206
	Category 6 – Business travel			**750**	1,110
	Category 7 – Employee commuting			**4,500**	4,212
	Category 9 – Downstream transport and distribution			**388**	408
Total Scope 3 (Operational)				**62,406**	**70,225**
Total Scope 1, 2 and 3 (Operational)				**65,132**	**72,864**

Energy use	2023 GWh	2022 GWh
Total energy use	**14.79**	14.01
Of which UK total energy use	**14.24**	13.47

Emissions intensity	Market-based tCO$_2$e per employee 2023	Market-based tCO$_2$e per employee 2022	Location-based tCO$_2$e per employee 2023	Location-based tCO$_2$e per employee 2022
Operational Scope 1 and 2 emissions intensity	**0.49**	0.52	**0.67**	0.69
Operational Scope 1, 2 and 3 emissions intensity			**16.04**	19.12
Calculated using: Average number of employees in year	**4,060**	3,810	**4,060**	3,810

1. We have reported on all emission sources required under the Companies (Directors' Report) and Limited Liability Partnerships (Energy and Carbon Report) Regulations 2018. Our reporting year runs from August 2022 to July 2023. The emissions reporting boundary is defined as all entities and facilities either owned or under our operational control.
2. Emissions have been calculated using the Greenhouse Gas Protocol Corporate Standard and covers all greenhouse gases (converted to tCO$_2$e). We have used emissions factors published by the UK government's Department for Business, Energy & Industrial Strategy, and the International Energy Agency.
3. During the year-end carbon accounting process we identified some adjustments needed to our 2022 comparable Scope 1 and 2 emissions. The 2022 Scope 1 and 2 emissions above have been restated to ensure consistency with this year's disclosed emissions.
4. These reported emissions have not been audited by a third party.

Sustainability Report continued

Task Force on Climate-related Financial Disclosures Report

Our ongoing approach across our operations of energy efficiency and sourcing of renewable energy continues to drive down our Scope 1 and 2 emissions. We have now achieved a reduction of 54.7% in our Scope 1 and 2 emissions since 2019 under a market-based approach, which demonstrates good progress towards becoming operationally net zero by 2030.

In the 2023 financial year, our total Scope 1 and 2 location-based GHG emissions were 2,726 tonnes of carbon dioxide equivalent (tCO_2e), equating to 0.67 tCO_2e per employee, up 3.3% overall but down by 3.1% per employee from 2022.

Throughout the year, our premises have continued to source renewable energy wherever under our control. This has helped our market-based building emissions to track 49% lower than our location-based building emissions at just 773 tCO_2e.

The continued challenge of rising energy prices and our strategic journey towards a net zero portfolio of premises has increased the focus on responsibly reducing our energy consumption. Across the year, energy audits have been completed within larger premises and are being used to develop our carbon reduction roadmap out to 2030. During the past year, our energy efficiency programme has implemented a number of energy-saving initiatives across our office estate, including:

- Full modernisation of our Burton office, including LED lighting with controls, efficient HVAC systems and smart sensor energy monitoring.
- LED lighting upgrade in our Southampton office.
- Reduction of plant operational time zones to match staff hours across all our offices.
- Following ASHRAE standards we have been able to increase our temperature set points for all our IT/communications rooms up to 22.5°C.
- Improvements to the plant controls at one of our newer offices in Birmingham.

Financed Emissions

The greatest opportunity we have to support reductions in greenhouse gas emissions is by working with our customers on their transition to a low carbon economy – helping them to adopt energy-efficient and low carbon technologies. To measure our progress requires us to measure the attributable emissions of the assets and businesses in our loan book, enabling us to meet our targets and ambitions within our climate strategy.

In 2022 we made our initial assessment of financed emissions across our loan book. Our Asset Management business is conducting analysis on investment portfolio emissions to be published in its standalone TCFD report in the first half of 2024.

In the past year, we have significantly improved our methodologies in assessing our financed emissions – combining our own loan book data with a number of external data sources, providing a more accurate assessment of these emissions, especially across our carbon-intensive sector of transport.

We have worked closely with PCAF – meeting regularly with the UK chapter as well as the specialist group focused on developing the business loans methodology.

PCAF is a collaboration of 405 financial institutions (with financial assets totalling $92 trillion) that aims to harmonise the assessment and disclosure of GHG emissions associated with their lending and investments.

Our ambitions

To reach net zero emissions

by 2050

across attributable GHG emissions from our lending and investment portfolios

Provide over

£1 billion

of lending for zero emission battery electric vehicles over the next five years (2023 to 2027)

In our assessment of our loan book this year, we have used the PCAF approaches, applying their latest guidance from their Financed Emissions Standard 2nd edition, and drawing on three of their developed methodologies: business loans, project financing and motor vehicle loans. On review, 99.4% of our loan book is in scope of GHG assessment under the current PCAF standard. Of this, 59.8% has been assessed under the business loans methodology, and we have apportioned an amount of emissions from these businesses which is in line with the value we finance. A further 4.9% of our total loan book has been assessed under the project finance methodology. Here, we have accounted for the apportioned emissions of the project due to our contribution. The final 34.7% of our loan book has been assessed using the motor vehicle loans methodology, and covers the annual in-use emissions of the vehicles that we finance.

During the year under review, we made significant progress on the availability, granularity and accuracy of the data underpinning our financed emissions reporting. As an example, we have built regular data processes for all our motor vehicle lending, utilising not just our own data (which covers over 340,000 vehicles) but also by harnessing API keys, publicly available vehicle registration details and MOT data from UK government agencies including the DVLA and DVSA. This has enabled our overall data quality score (as defined by the PCAF scoring system, where 1 is the highest ranking and 5 the lowest) for financed emissions of motor vehicles to improve to 2.4 this year.

In the table on this page, we have set out our financed emissions calculations for our loan book against each category, as well as the emissions relating to our operating lease business, which we have also included under Scope 3 category 13 – downstream leased assets.

Our financed impacts[2,4]

Financed emissions in loan book – bank	PCAF methodology	Proportion of loan book	Financed emissions[1,2] tCO_2e	PCAF data quality score (1-high, 5-low)	Economic emissions intensity $ktCO_2e$/£m
Scope 3 (category 15 – loan book only)	Motor vehicle loans	34.7%	648,755	2.4	0.20
	Business loans	59.8%	589,463	5.0	0.11
	Project finance	4.9%	241,149	5.0	0.53
	Not assessed/out of scope[3]	0.6%	n/a	n/a	n/a
	Total emissions		**1,479,367**	**4.1**[2]	**0.16**
Other emissions related to financing activities – bank					
Scope 3 (category 13 – downstream leased assets)	Vehicle hire fleet – in use		252,602	**1.0**	
Total financed emissions (tCO_2e)			**1,731,969**		

1. Currently, our financed emissions calculations only include the customer or asset's Scope 1 and 2 emissions. In the future, we will consider the wider emissions related to financed assets and businesses. Initial sectors are likely to include (i) motor vehicles (upstream embedded emissions of manufacture) and (ii) property construction finance (embedded emissions from materials and in-use emissions of housing).
2. PCAF data quality score in our first assessment in 2022 was around 5. We have made significant improvements to our data sourcing from both internal systems and third-party sources. In particular, for motor vehicles, we have sourced vehicle-specific emissions and actual mileage from UK government agencies.
3. A small proportion of our loan book has not been assessed this year (or is out of scope) due to lack of market agreed carbon accounting methodologies. We continue to work with PCAF and other banks to consider these areas.
4. These reported emissions have not been audited by a third-party.

Sustainability Report continued
Task Force on Climate-related Financial Disclosures Report

Sustainability and Climate Governance

The Integration of Climate into our Governance Structure

The group has an established governance framework into which climate has been integrated. This ensures effective oversight and delivery of our sustainability and climate strategy, as well as climate risk.

As our climate risk framework has matured we have further refined our governance structure to manage an integrated approach to both climate risks and opportunities and are in the course of implementing the structure set out below.

Oversight of climate-related risks and opportunities has been supported by the establishment of clear roles and responsibilities, extending across board and executive committees, and the three lines of defence more generally.

Integral to this has been the provision of regular framework status updates to appropriate committees and forums.

Reporting and management information are provided to relevant committees, providing important insights to enable climate considerations to be embedded within both strategic planning and the setting of group-level risk appetites. An established link exists between the delivery of the group's climate strategy and executive remuneration through the inclusion of climate/ESG objectives within both the Executive Committee's scorecard and Long-Term Incentive Plan.

Further details of the roles and responsibilities of the board and management with regard to climate risk are outlined from page 53.

Sustainability and Climate Governance

Board Oversight

Board

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

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

Board Risk Committee

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

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

Audit Committee

Operating on authority delegated by the board, the Audit Committee oversees the management of financial and regulatory reporting across the group, as well as the firm's internal financial controls. The committee is responsible for ensuring the clarity and completeness of environmental and sustainability disclosures and climate commitments included within the group's Annual Report.

Nomination and Governance Committee

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

The role of management

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

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

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

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

Executive Committee

The Executive Committee evaluates and implements initiatives to ensure a sustainable business model that considers all risks and opportunities, including ESG and climate.

Group Climate Committee

The Group Climate Committee sits alongside the Group Sustainability Committee and oversees the development of the group's climate strategy, including the advancement of climate ambitions, and associated operational and financing activities, targets and metrics. It supports the group chief executive and Executive Committee in their recommendations to the board for approval.

The Group Climate Committee is supported by five working groups focused on the different aspects of the group's climate strategy, each with its own Executive Committee sponsor.

Working group	Executive Committee sponsor
Commercial green growth	Divisional chief executive officer
Operational climate impacts (including supply chain emissions)	Group chief operating officer
Climate strategy of the group's Asset Management business	Asset Management chief executive
Climate risk	Group chief risk officer
Climate targets and reporting	Group finance director

Sustainability Report continued
Task Force on Climate-related Financial Disclosures Report

Group Sustainability Committee

The Group Sustainability Committee sits alongside the Group Climate Committee and oversees all aspects of the group's ESG ambitions excluding climate. The committee reports at least twice a year to the board's Nomination and Governance Committee.

Group Risk and Compliance Committee

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

Credit Risk Management Committee

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

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

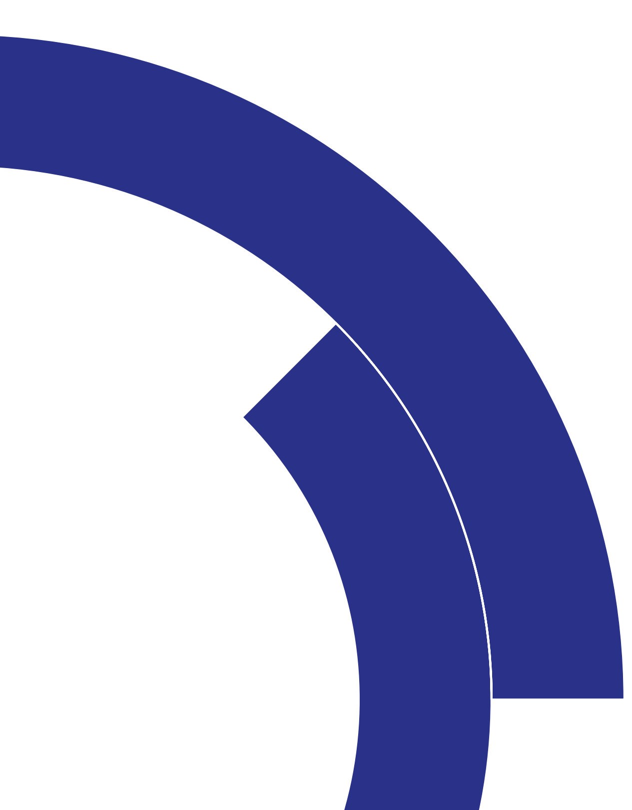
The committee has also reviewed and approved the integration of climate considerations within credit risk policies and standards, most notably to reflect new requirements introduced to support the management of associated credit risk impacts.

Training and competency

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

To support awareness more broadly across the organisation, a new mandatory training module was issued to all UK-based staff across the group during the year to support the development of a core level of understanding of climate risk considerations. Tailored updates on the group's sustainability and climate strategies were delivered to relevant business and function-specific forums.

Going forward, additional capability and expertise will be enabled through further training of our people, including the undertaking of accredited climate qualifications where relevant, as well as the augmentation of new capabilities via recruitment and/or the use of external specialist expertise.



Sustainability Report continued
Our policies

We are committed to acting responsibly through all our ways of working, and have a number of group-wide policies and procedures in place to ensure we continue to operate in a socially responsible and compliant manner.

Dignity at Work Policy

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

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

Additionally, our people with disabilities are encouraged to share their impairment with us, to ensure any reasonable adjustments can be made. We are also members of the Business Disability Forum to support our inclusive approach to hiring, retention, training, career development and promotion of employees with disabilities.

Whistleblowing Policy

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

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

Employee Health and Safety Policy

Our Health and Safety Policy demonstrates our commitment to ensuring our employees and visitors are safe and sets the framework for our safety culture. We continue to provide a safe and healthy working environment for our employees and visitors in accordance with the Health and Safety at Work etc. Act 1974 and the Management of Health and Safety at Work Regulations 1999.

The Health and Safety Committee continues to meet on a quarterly basis and we are proud of the ongoing progress in successfully raising the profile of health and safety across the business. This year we recorded 83 incidents across all of our sites. Of these, none were reportable under the Reporting of Injuries, Diseases and Dangerous Occurrences Regulations 2013. We continue to use an online risk assessment tool to manage site-specific risks as appropriate and our Display Screen Equipment risk assessment programme. We also carry out annual audits of all premises and monitor findings through a live dashboard.

Privacy Policy

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

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

Financial Crime Policy

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

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

Human Rights and Modern Slavery Act

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

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

Tax Strategy

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

Sustainability Report continued

Our people

Valuing our Colleagues

We pride ourselves on building a culture where everyone feels as though they belong and are able to thrive. Our colleagues are passionate about what they do, using their expertise to provide the highest levels of service to our customers, partners and clients. We take the time to build long-standing relationships and insist on trustworthy behaviour where our people can be relied on to "do the right thing". We encourage teamwork and believe in the value of diversity of thought where all individuals and their contributions are respected.

We celebrate diversity and are committed to creating an inclusive culture where all colleagues can feel proud to work for us, regardless of their gender, age, ethnicity, disability, sexual orientation or background. 91% (2022: 90%) of colleagues feel we treat all employees fairly, regardless of their characteristics or how they identify, and we are proud that 96% (2022: 94%) of colleagues feel included.

We are signatories to a wide range of charters and commitments across a broad spectrum of inclusion themes and social enterprises, including the Race at Work Charter, the Social Mobility Pledge, the Women in Finance Charter and the Valuable 500. We partner with leading diversity organisations, including Stonewall, the Business Disability Forum and the charity Stop Hate UK, to help inform our thinking and subsequent actions.

Our inclusive culture is portrayed by our senior leadership teams, setting the tone from the top by which we operate. We continue to run inclusive leadership training sessions for our managers, senior managers and group executives, highlighting how actions and behaviours can shape our inclusive culture.

Our "Licence to Recruit" programme has been developed for all managers, senior managers and group executives, to provide consistency and best practice in talent acquisition. The modules provide a focus on inclusion and unconscious bias, and ensure our managers have the skills and knowledge to make fair recruitment decisions.

We continue to champion inclusive recruitment practices including using gender decoders to avoid gender bias wording in adverts and job descriptions, and seeking balanced shortlists and diverse interview panels to alleviate bias in the hiring process. We also make use of bespoke job boards to target a broader talent pool of candidates, such as advertising roles to military veterans. We aim to promote flexibility through offering positions as full time, part time or job share opportunities where possible.

Overall diversity has increased across the group this year, specifically with greater representation of females and colleagues from an ethnic minority background. Disappointingly, we have moved backwards against both our senior level gender and ethnicity representation targets. However, by improving representation at more junior levels, we have achieved greater diversity of our talent pipeline. This supports our strategy to develop our own talent, enabling a more sustainable approach which is likely to bring meaningful change in senior level representation.

We strive to achieve a 50:50 gender split for our entry-level and formal development programmes including our Aspire school leaver programme, our graduate schemes and our summer internships.

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 86% was retained and we received an excellent response rate of 90% (2022: 86%), giving us the confidence that our results are reflective of all colleagues. This year's 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.

86%
Engagement rate

90%
Response rate

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% (2022: 94%) of colleagues feeling included and 94% (2022: 94%) feeling they are treated with respect.

Developing our People

We provide a full range of training and development for our people irrespective of where they are in their careers. We work with our colleagues from induction and technical training to management, leadership and talent development programmes.

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 20 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 our Banking division, 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, this year's **emerging leaders' programme** saw 20 individuals across the 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.

Sustainability Report continued
Our people

Our executive-sponsored inclusion networks

Gender balance	Unity (LGBTQ+)	Working parents and carers	Mental wellbeing	R.E.A.C.H (Race, Ethnicity and Cultural Heritage)	Social mobility	Accessibility
Bradley Dyer	Rebekah Etherington	Robert Sack	Eddy Reynolds	Naz Kazi	Matt Roper	Angela Yotov

Gender Diversity

At Close Brothers, we are passionate about creating an inclusive culture where everyone feels as though they belong and are supported to reach their full potential. As part of building this culture, we are committed to reducing our gender pay gap. The gender pay gap shows the difference in average pay between women and men.

It is important to note the gender pay gap is different from equal pay, which ensures equivalent pay for genders performing at similar levels in similar roles. We remain confident that men and women are paid equally for performing equivalent roles across our business.

At April 2022, our mean group-wide gender pay gap was 34.0% (April 2021: 38.7%). At Close Brothers, the gap is mainly driven by a higher proportion of male incumbents in both senior and front office roles, and a higher number of females who work part-time. Further details of our gender pay gap can be found on our website.

At Close Brothers, we understand that gender identity is broader than male and female and we want to affirm that we welcome colleagues of all gender identities. In recognition of this, we support all colleagues to be able to openly make their identity known, through adding their pronouns to email signatures and personal profiles on our internal intranet. Our Unity network has been instrumental in raising awareness of challenges faced by the LGBTQ+ community and reinforcing the importance of allyship.

As signatories of the Women in Finance Charter, we continue to work towards our target to achieve 36% of senior manager roles being held by a female by 2025. At 31 July 2023, 31% (31 July 2022: 33%) of our senior manager roles were held by females. At the end of the financial year, 36% (2022: 50%) of our board members were female, remaining broadly in line with FTSE Women Leaders' gender targets for executives and their direct reports.

As well as celebrating both International Women's Day and International Men's Day in this financial year, our gender balance network coordinated a successful speed networking event and releases a quarterly newsletter with an increasing number of subscribers across the group.

As part of our gender balance network, we have a very active forum focused specifically on the menopause. This group actively promotes awareness of the menopause, creating a community of employees to share and discuss experiences. This year, we launched our Menopause Policy to help colleagues and line managers understand how they can support each other in relation to the menopause. We also have a membership with Henpicked which provides menopause-related resources for the workplace and provides routes to becoming accredited as menopause-friendly.

We continue to partner with the 30% Club through which we provide cross-company mentoring for our talented females. We also have a close relationship with the UK Automotive 30% Club, with which we have collaborated to conduct virtual panel discussions and school presentations, talking to female students about careers in the motor industry. We are proud that two colleagues from our Motor Finance business won awards at the latest "Inspiring Automotive Women Awards", including our senior HR business partner being named "HR game-changer".

Our workforce remains diverse, with 45% (2022: 44%) female employees, and we have a broad age range of employees, with 22% (2022: 22%) of our employees being under 30 years old and 21% (2022: 20%) over 50.

Gender diversity

	31 July 2023	
	Male	Female
Number of board directors[1]	7	4
Number of directors of subsidiaries[2]	44	7
Number of senior managers, other than board directors[3]	226	115
Number of employees, other than board directors and senior employees	1,962	1,715
Total	**2,239**	**1,841**

1. Includes non-executive directors, excluded from group headcount calculations.
2. Includes subsidiary directors who are excluded from group headcount calculations.
3. Senior managers defined as those managers with line management responsibility for a line manager, in accordance with the representation identified in our gender pay gap report. They are generally heads of departments, functions or larger teams. This figure excludes 43 male and seven female employees who are reported under directors or subsidiary directors.

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 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.

We have over 75 trained mental health first aiders across the group as well as an active mental wellbeing network. Maintaining the positive wellbeing of our colleagues is of the upmost importance to us and we are proud that, in our last employee opinion survey, 89% of colleagues stated they believe we are genuinely concerned for employee wellbeing, which is higher than the external benchmark of 83%.

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 to ensure our benefit package remains fit for purpose and satisfies the expectations of our colleagues.

Sustainability Report continued
Our people

We understand that many of our colleagues have additional neurological or physical accessibility needs. Our accessibility network, sponsored by our group legal counsel, actively supports colleagues with disabilities through sharing stories and holding events to raise awareness. This year, we invited Kelly Grainger, a neurodiversity advocate, to talk to us about reducing the stigma and improving education surrounding neurodiverse diagnoses such as autism.

The group continues to pay all staff at or above the national living wage. For members of the group's pension plans, we contribute between 6% and 10% towards colleagues' pensions, which is above required levels. We offer both a Save As You Earn scheme as well as a Buy As You Earn share incentive plan, which allow employees to acquire shares on a monthly basis out of pre-tax earnings. Participation rates in our long-term ownership schemes remain strong at 44% of all permanent and fixed term employees who are eligible.

Racial Equality

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

Our target to have at least 14% of our managers to identify from an ethnic minority background by 2025 forms part of our Long-Term Incentive Plan objectives and demonstrates our commitment towards improving representation of all colleagues 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 roles with us following their placements and are still working for the firm. Two former interns also re-joined Close Brothers for a secondary internship in summer 2023.

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.

Supporting Social Mobility

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 summer 2022, 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.

Over the past eight years we have worked in partnership with the University of Sheffield's Advanced Manufacturers Research Centre to support 55 apprentices working in local SMEs. We anticipate up to a further 20 apprenticeships being funded on the programme from September 2023.

Simi Uddin is a previous **upReach intern** who joined Close Brothers as a permanent employee in Treasury. This year, she has joined our **Social Mobility Network** to share her story with others.

Employees in the Community

Creating long-term, lasting value in the communities where we operate remains a key priority for the group. We understand that volunteers are often the driving force behind many community and charity activities and we are committed to supporting our employees to get involved in these wherever possible.

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

Our partnership with the children's literacy charity, Bookmark, continues and we are proud to be confirmed as their biggest corporate volunteering partner. As well as delivering over 300 reading sessions during this academic year, we have also had teams of colleagues giving their time to help build a new school library and take part in Bookmark's "Box for Ukraine" initiative, packing boxes of literacy and language resources as well as tools to support children's wellbeing, personal and social development, to give to Ukrainian children who had to flee their homes and move to the UK.

Our colleagues have also volunteered with our other corporate charities, including helping at wardrobe days and clothing sales with Smart Works and carrying out "Wild at Work" days with The Wildlife Trusts.

A team from our Motor Finance business supported the Yorkshire Wildlife Trust in **planting reed beds at their North Cave Wetland Reserve**, and a team from our Invoice Finance business supported the Sussex Wildlife Trust in carrying out a beach clean. **They collected 552 items of rubbish weighing nearly 5kg.**

Almost 200 colleagues have made use of their volunteering day to support with a wide range of charitable activities, including helping at food banks, running charity events and volunteering at homeless shelters.

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 £200,000** for Make-A-Wish Foundation, enabling them to grant over 80 magical wishes for critically ill children and their families.

This year, a number of our teams have been volunteering in Cancer Research shops through the UK. Colleagues from our Company Secretarial team volunteered for a day in the Marylebone shop. The team's contribution made a huge difference, with sales on the day totalling £800 more than the shop's nearest rival. They also processed 179 items, which created the opportunity to raise a further £4,000 for Cancer Research UK.

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

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

This year we have continued to support additional charities that align with our ESG goals, donating a total of £120,000 to Stop Hate UK, The Wildlife Trusts, Smart Works and Bookmark. In response to the earthquake that struck Turkey and Syria, we have donated over £25,000 to date, including matching 100% of colleague donations to the British Red Cross in support of their Earthquake Appeal.

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 13th consecutive year of the Payroll Giving Quality Mark Gold Award and ensuring that we have met our target of maintaining this standard.

Sustainability Report continued
Our Customer Commitment

We do the right thing for customers, clients and partners.

We are flexible, responsive and execute with speed.

We make decisions informed by our specialist expertise.

We build relationships based on quality and trust.

The needs and expectations of our customers (and partners) are accelerating. At Close Brothers we continue to evolve and innovate to meet and exceed these needs and expectations.

Continuing to keep the customer at the heart of all we do and building on our foundations, in 2022 we took our customer principles: we do the right thing for customers, clients and partners; we are flexible, responsive and execute with speed; we make decisions informed by our specialist expertise; and we build relationships based on quality and trust, and developed our Customer Commitment Framework which sets out how we want our customers and our colleagues to feel: valued, happy, understood, confident, and that it is easy to do business with us.

This commitment embeds our customer-centric approach across the Close Brothers Group and helps us to "walk in the shoes of customers", designing and delivering products, services and experiences for our customers, gaining their loyalty.

There are four key pillars to our Customer Commitment:

Rewards and Recognition

Embedding delivering good customer experience as part of colleagues' objectives.

Metrics

Evolving our customer metrics to continue to identify where we can further enhance the customer experience and earn their loyalty.

Communication and Learning

Developing and enhancing customer experience skills for colleagues across a range of roles and communicating how the Customer Commitment supports our purpose to help the people and businesses of Britain thrive over the long term.

Governance

Maturing the structures to ensure the voice of the customer is anchored and embedded in critical decisions and forums to listen, act, learn, to continue to deliver for our customers.

Our Customer, Partner and Client Summit

In February 2023, we held our annual summit, bringing our colleagues together to reflect, celebrate and accelerate on delivering on our Customer Commitment.

Colleagues heard from Adrian Sainsbury on how our customer ambition and Customer Commitment supports our vision for 2027. Setting the tone from the top, there was a Q&A with some of our Executive Committee members on the importance of the Customer Commitment. At the event we heard from external speakers on why earning loyalty matters and the importance of customer centricity. It was also a chance for us to celebrate our achievements in demonstrating the emotional outcomes we want to achieve for our customers, with a focus on how we progress our Customer Commitment and embed the framework into our everyday activities.

Customer Sentiment

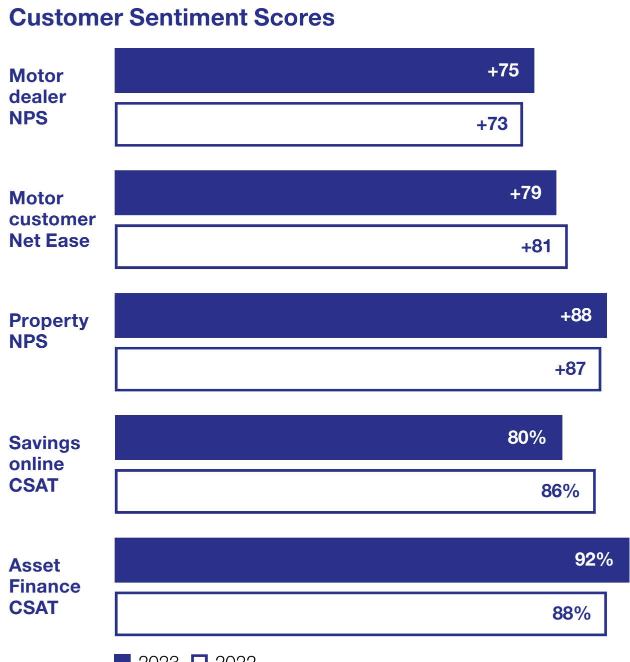
In 2023 we have continued to see sustained positive customer sentiment, against a backdrop of market uncertainty and the broader cost of living crisis. Close Brothers continues to provide continuity of positive customer experiences in a time of uncertainty.

Delivering for Our Customers

Invoice Finance: Invoice discounting enables recruitment firm to continue to grow.

Invoice Finance helped Twenty20 Capital achieve growth by providing them with an invoice discounting facility and a term loan, enabling the company to fund the acquisition of a large recruitment business and to fund working capital to achieve their goals. "They have been very professional. The level of service, communication and support has been outstanding. We are genuinely delighted in the unique partnership we have formed together." Tristan Ramus, Founder, Investment Principal, Twenty20 Capital.

Customer Sentiment Scores



Voice of the Customer

Close Brothers continues to invest in strengthening its capability around customer experience.

We have established regular tracking and reporting on how we are delivering for our customers through our customer governance bodies and forums at a business unit level and through our established Bank Customer Forum.

We continue to listen, learn, and act. We have been running our customer forums for over nine years and in that time we have been developing our capabilities and governance to bring the voice of the customer into our day-to-day decision-making processes, which remains a key priority for Close Brothers.

We continue to embed our Customer Experience Operating Framework across Close Brothers Group, setting out our customer journeys and vision, with clear accountability and engagement to act on the insights to deliver for our customers.

At Close Brothers, we have dedicated local and group level forums for complaints and vulnerable customers. We acknowledge there is always more that we can do to support and learn from these customers. At a group-level, we use these forums to share best practice, collaborate and innovate on opportunities to enhance the customer experience.

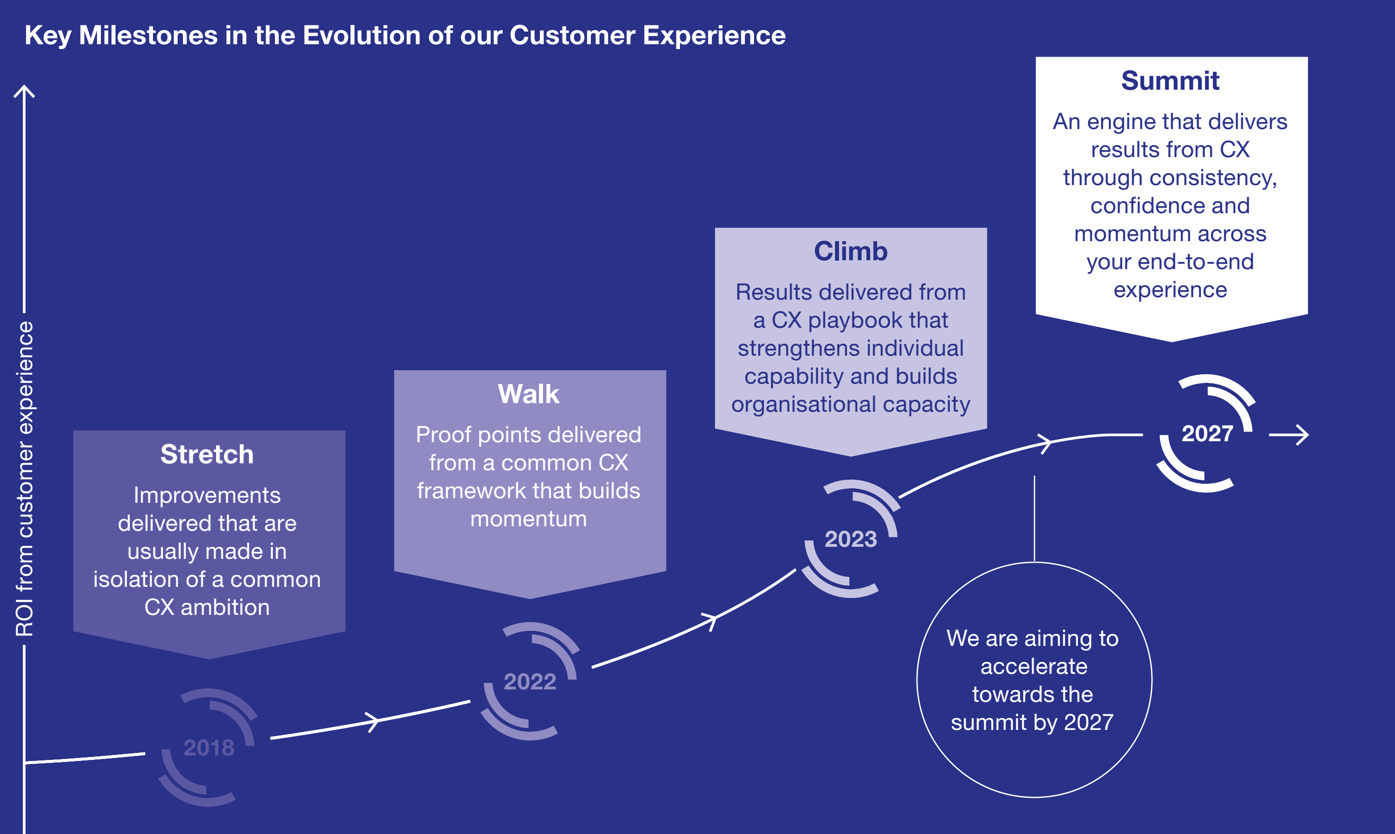
Close Brothers has been consistently recognised over many years by several external bodies for our continued customer focus and customer excellence.

Sustainability Report continued
Our Customer Commitment

Evolving our Customer Experience

In 2022 we undertook an independent customer experience ("CX") assessment with TribeCX, benchmarking our maturity versus other organisations and sectors. Whilst Close Brothers stood up well versus other companies in the financial services sector, and indeed versus other industries, we also identified opportunities for further enhancing and differentiating the experience we deliver to our customers. Research tells us that building strong emotional connections with customers is key for earning and retaining customer loyalty and driving future customer growth.

Key Milestones in the Evolution of our Customer Experience



Note: Developed with TribeCX.

The Way Ahead

- Looking forward, we are committed to continuously improving our ability to capture, consolidate and act upon customer, client and partner sentiment across all end-to-end journeys that will helps us to deliver a differentiated experience and earn customer loyalty.
- To achieve our ambition of earning customer loyalty, continued high levels of employee engagement are critical. We will therefore actively engage, enable and empower our employees, so they are equipped to bring the Customer Commitment to life in their daily work, and act as our brand ambassadors.
- We also recognise the challenging macroeconomic environment facing our customers; we have conducted an independent assessment of how we are currently supporting vulnerable customers to enable us to identify opportunities where we can provide further support. As a result, we are already sharing good practice via our Vulnerable Customer Forum, are in the process of building a charter that articulates our future commitment and approach to customers and colleagues, and have developed a new Group Quality Assurance Forum to share and drive best practice.
- We are open to change and continuous improvement, having conducted a bank-wide external complaint review across seven of our businesses, to establish best practice comparison to industry peers, with a focus on customer experience and regulatory requirements.
- We regularly measure and track customer performance via several key customer metrics: Net Promoter, Customer Satisfaction or Net Ease scores. We are continuing to enhance our customer metrics to enable us to track customer performance across the end-to-end customer journey so that we deliver good customer outcomes.

Non-Financial and Sustainability Information Statement

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

Reporting requirement	Policies and standards	Information necessary to understand our impact and outcomes
Environmental Matters	• Bank Credit Policy Underwriting Standards • Environmental Policy	• Operating Environment, page 14 • Stakeholder Engagement, pages 34 to 37 • Our Strategy, pages 20 to 25 • Our Responsibility, page 38 • Sustainability Report, pages 38 to 64 • Climate-related Disclosures, pages 40 to 54
Employees	• Health and Safety Policy • Whistleblowing Policy • Key Customer Principles • Equal Opportunity and Dignity at Work Policy	• Business Model, pages 12 and 13 • Our Culture, pages 30 and 31 • Stakeholder Engagement, pages 34 to 37 • Our Strategy, pages 20 to 25 • Our Responsibility, page 38 • Sustainability Report, pages 38 to 64 • Corporate Governance Report, pages 134 and 135
Social Matters	• Key Customer Principles • Bank Credit Policy Underwriting Standards	• Stakeholder Engagement, pages 34 to 37 • Our Strategy, pages 20 to 25 • Our Responsibility, page 38 • Sustainability Report, pages 38 to 64
Respect for Human Rights	• Human Rights and Modern Slavery Act • Privacy and Data Protection Policy • Cyber Security Policy	• Sustainability Report, page 55
Anti-Corruption and Anti-Bribery	• Anti-Money Laundering Policy • Anti-Bribery and Corruption Policy • Cyber Security Policy	• Sustainability Report, page 55
Description of the Business Model		• Investment Case, pages 10 and 11 • Business Model, pages 12 and 13 • Our Culture, pages 30 and 31 • Our Strategy, pages 20 to 25
Description of Principal Risks and Impact of Business Activity		• Principal Risks, pages 90 to 93 • Emerging Risks and Uncertainties, pages 94 to 95 • Risk Committee Report, pages 164 to 166
Non-Financial Key Performance Indicators		• Our Strategy, pages 20 to 25 • Key Performance Indicators, pages 26 and 27 • Sustainability Report, pages 38 to 64
Climate-related Disclosures		• TCFD – Climate-related disclosures, pages 40 to 54

Financial Overview

Summary Group Income Statement[1]

	2023 £ million	2022 £ million	Change %
Operating income	**932.6**	936.1	–
Operating expenses	**(615.0)**	(598.0)	3
Impairment losses on financial assets	**(204.1)**	(103.3)	98
Adjusted operating profit	**113.5**	234.8	(52)
Banking	**120.1**	227.2	(47)
Commercial	**15.9**	91.0	(83)
Of which: Novitas	***(106.6)***	*(39.3)*	*171*
Retail	**34.7**	61.0	(43)
Property	**69.5**	75.2	(8)
Asset Management	**15.9**	21.7	(27)
Winterflood	**3.5**	14.1	(75)
Group	**(26.0)**	(28.2)	(8)
Amortisation and impairment of intangible assets on acquisition	**(1.5)**	(2.0)	(25)
Statutory operating profit before tax	**112.0**	232.8	(52)
Tax	**(30.9)**	(67.6)	(54)
Profit after tax	**81.1**	165.2	(51)
Profit attributable to shareholders	**81.1**	165.2	(51)
Adjusted basic earnings per share[2]	**55.1p**	111.5p	(51)
Basic earnings per share[2]	**54.3p**	110.4p	(51)
Ordinary dividend per share	**67.5p**	66.0p	(2)
Return on opening equity	**5.0%**	10.6%	
Return on average tangible equity	**5.9%**	12.2%	

1. Adjusted measures are presented on a basis consistent with prior periods and exclude amortisation of intangible assets on acquisition, to present the performance of the group's acquired businesses consistent with its other businesses; and any exceptional and other adjusting items which do not reflect underlying trading performance. Further detail on the reconciliation between operating and adjusted measures can be found in note 3.
2. Refer to note 7 for the calculation of basic and adjusted earnings per share.

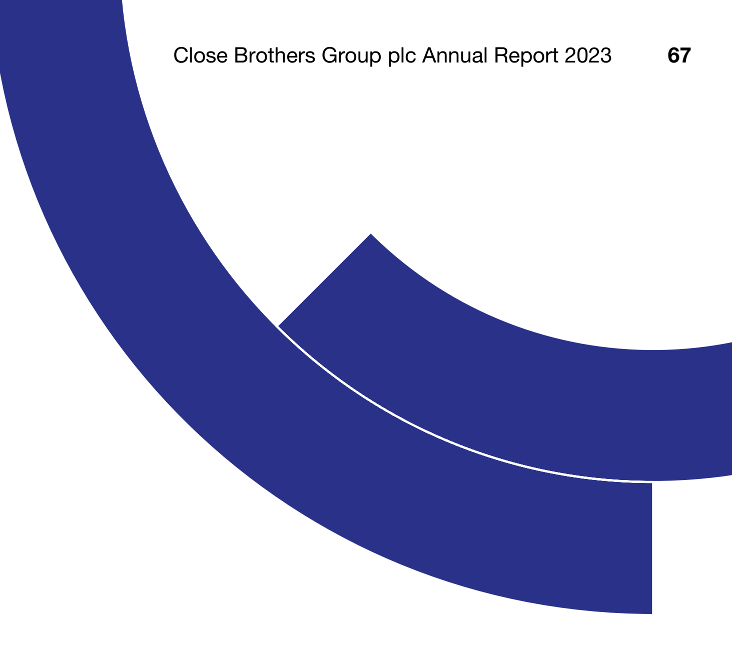
Basis of Presentation

Results are presented both on a statutory and an adjusted basis to aid comparability between periods. Adjusted measures are presented on a basis consistent with prior periods and exclude amortisation of intangible assets on acquisition, to present the performance of the group's acquired businesses consistent with its other businesses; and any exceptional and other adjusting items which do not reflect underlying trading performance. Please refer to note 3 for further details on items excluded from the adjusted performance metrics.

Adjusted Operating Profit and Returns

Statutory operating profit before tax decreased to £112.0 million (2022: £232.8 million), primarily driven by higher impairment charges in relation to Novitas, with adjusted operating profit down 52% to £113.5 million (2022: £234.8 million). Excluding Novitas, adjusted operating profit reduced 20% to £220.1 million (2022: £274.1 million), mainly reflecting an increase in impairment charges and a reduction in income in Winterflood.

Return on average tangible equity ("RoTE") reduced to 5.9% (2022: 12.2%) with the loss after tax recorded by Novitas reducing the group's RoTE by 6.1%.



Adjusted operating profit in the Banking division reduced 47% to £120.1 million (2022: £227.2 million), primarily reflecting higher impairment charges related to Novitas. Growth in income, driven by good loan book growth and a strong net interest margin, was offset by higher costs as we continue to invest in the business and to reflect the inflationary environment. In the Asset Management division, we delivered strong net inflows, although adjusted operating profit reduced 27% to £15.9 million (2022: £21.7 million), driven by a modest decline in income, reflecting lower income from advice and other services, and higher costs, as we accelerated our new hiring strategy. Operating profit in Winterflood decreased by 75% to £3.5 million (2022: £14.1 million), with performance adversely impacted by the continued market-wide slowdown in trading activity, particularly in higher margin sectors and difficult market conditions. Group net expenses, which include interest expense from debt issued by the holding company, as well as costs related to the central functions such as finance, legal and compliance, risk and human resources, reduced to £26.0 million (2022: £28.2 million), mainly reflecting lower charges from share-based awards and a reduction in variable compensation.

Operating Income

Operating income was broadly stable at £932.6 million (2022: £936.1 million), with growth in Banking offset by lower income in Asset Management and Winterflood. Income in the Banking division increased by 3%, reflecting good loan book growth and a strong net interest margin of 7.7% (2022: 7.8%), partly offset by the run-off of Novitas and the Irish Motor Finance business. In the Asset Management division, we saw an increase in investment management income resulting from growth in AuM delivered by our bespoke investment manager hires. This was more than offset by a decrease in income from advice and other services, which reflected the impact of difficult market conditions on client assets, and managements' strategic shift to focus on higher value clients. As a result, income in the Asset Management division decreased by 2%. Income in Winterflood reduced 21%, driven by lower trading revenues reflecting the continued market-wide slowdown in activity.

Operating Expenses

Operating expenses increased 3% to £615.0 million (2022: £598.0 million) with higher staff costs and investment in Banking and CBAM more than offsetting lower variable costs in Winterflood. In the Banking division, whilst we remained focused on cost control, expenses rose 7%, mainly driven by salary increases and continued investment in strategic programmes. Costs increased 2% in Asset Management as lower variable compensation was more than offset by higher fixed staff costs in the inflationary environment, as well as reflecting the onboarding of new hires and technology spend, driven by the success of the hiring strategy and investment for future growth.

Winterflood's costs fell 11% as the slowdown in trading activity led to lower staff compensation and settlement fees. Overall, the group's expense/income ratio increased to 66% (2022: 64%), while the group's compensation ratio remained stable at 37% (2022: 37%) as the reduction in variable compensation across the group was offset by inflation-related wage increases and new hires.

Impairment Charges and IFRS 9 Provisioning

Impairment charges increased significantly to £204.1 million (2022: £103.3 million), corresponding to a bad debt ratio of 2.2% (2022: 1.2%). This increase was driven primarily by impairment charges of £116.8 million taken in relation to Novitas (2022: £60.7 million), of which £114.6 million was 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%).

Excluding Novitas, the increase in impairment charges was primarily driven by higher provisions as a result of weaker macroeconomic variables and outlook, as well as an ongoing review of provisions and coverage across our loan portfolios and an increase in Motor Finance arrears, which have stabilised since the first half. The bad debt ratio, excluding Novitas, increased to 0.9% (2022: 0.5%) and the coverage ratio increased marginally to 2.1% (31 July 2022: 1.9%).

Since the previous financial year end, we have updated the macroeconomic scenarios to reflect the latest available information regarding the macroeconomic environment and outlook, although the weightings assigned to them remain unchanged. At 31 July 2023, there was a 30% weighting to the strong upside, 32.5% weighting to the baseline, 20% weighting to the mild downside, 10.5% weighting to the moderate downside and 7% weighting to the severe downside.

Whilst we have not seen a significant impact on credit performance at this stage, 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 or structurally protected, prudently underwritten, diverse, and supported by the deep expertise of our people.

Financial Overview continued

Tax Expense

The tax expense was £30.9 million (2022: £67.6 million), which corresponds to an effective tax rate of 27.6% (2022: 29.0%).

The standard UK corporation tax rate for the financial year is 21.0% (2022: 19.0%). However, an additional headline banking surcharge of 6.3% (2022: 8.0%) applies to banking company profits as defined in legislation (and only above a threshold amount), resulting in a c.5.5% surcharge impact. The effective tax rate is above the UK corporation tax rate primarily due to the surcharge applying to most of the group's profits.

Earnings per Share

Profit attributable to shareholders reduced 51% to £81.1 million (2022: £165.2 million). As a result, adjusted basic earnings per share ("EPS") reduced to 55.1p (2022: 111.5p) and basic EPS reduced to 54.3p (2022: 110.4p). The loss after tax recorded by Novitas reduced the group's adjusted basic EPS by 56.4p.

Dividend

The board is proposing a final dividend of 45.0p per share, resulting in a full-year dividend per share of 67.5p (2022: 66.0p). Although the proposed level of dividend cover for 2023 is below our historical range, driven primarily by the adverse impact of increased provisions in relation to Novitas on our profitability, the proposed dividend reflects our underlying performance and the board's confidence in the group's outlook.

We remain committed to our dividend policy, which aims to provide sustainable dividend growth year-on-year, while maintaining a prudent level of dividend cover.

Subject to approval at the Annual General Meeting, the final dividend will be paid on 24 November 2023 to shareholders on the register at 20 October 2023.

Summary Group Balance Sheet

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

Total assets increased 7% to £13.6 billion (31 July 2022: £12.7 billion), reflecting growth in the loan book, higher treasury assets due to an increased cash balance, an increase in other assets as higher collateral was held due to swap movements, and a reduction in market-making assets. Total liabilities were also 8% higher at £11.9 billion (31 July 2022: £11.0 billion), driven primarily by higher customer deposits, partly offset by a reduction in market-making liabilities.

Total equity reduced 1% to £1.6 billion (31 July 2022: £1.7 billion), with profit in the year more than offset by dividend payments of £99.1 million (31 July 2022: £95.5 million). The group's return on assets decreased to 0.6% (2022: 1.3%).

Summary Group Balance Sheet

	31 July 2023 £ million	31 July 2022 £ million
Loans and advances to customers and operating lease assets[1]	**9,526.2**	9,098.9
Treasury assets[2]	**2,229.4**	1,855.1
Market-making assets[3]	**787.6**	887.2
Other assets	**1,007.1**	837.1
Total assets	**13,550.3**	12,678.3
Deposits by customers	**7,724.5**	6,770.4
Borrowings[4]	**2,839.4**	2,870.1
Market-making liabilities[3]	**700.7**	796.1
Other liabilities	**640.8**	584.2
Total liabilities	**11,905.4**	11,020.8
Equity	**1,644.9**	1,657.5
Total liabilities and equity	**13,550.3**	12,678.3

1. 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.
2. Treasury assets comprise cash and balances at central banks and debt securities held to support the Banking division.
3. Market-making assets and liabilities comprise settlement balances, long and short trading positions and loans to or from money brokers.
4. Borrowings comprise debt securities in issue, loans and overdrafts from banks and subordinated loan capital.

Group Capital

	31 July 2023 £ million	31 July 2022 £ million
Common equity tier 1 capital	**1,310.8**	1,396.7
Total capital	**1,510.8**	1,596.7
Risk weighted assets	**9,847.6**	9,591.3
Common equity tier 1 capital ratio (transitional)[1]	**13.3%**	14.6%
Tier 1 capital ratio (transitional)	**13.3%**	14.6%
Total capital ratio (transitional)	**15.3%**	16.6%
Leverage ratio[2]	**11.4%**	12.0%

1. The impact of Novitas on the CET1 capital ratio at 31 July 2023 was -c.115bps, of which -c.85bps relates to retained earnings, -c.40bps relates to the IFRS 9 transitional arrangements and c.10bps relates to RWAs.
2. The leverage ratio is calculated as tier 1 capital as a percentage of total balance sheet assets excluding central bank claims, adjusting for certain capital deductions, including intangible assets, and off-balance sheet exposures, in line with the UK leverage framework under the UK Capital Requirements Regulation.

Movements in Capital and Other Regulatory Metrics

The CET1 capital ratio reduced from 14.6% to 13.3%, mainly driven by loan book growth in the year (–c.80bps), a decrease in IFRS 9 transitional arrangements (–c.45bps) and deduction of dividends paid and foreseen (–c.105bps), partly offset by capital generation through profit (c.85bps) and a decrease in risk weighted assets (“RWAs”) associated with derivatives and credit valuation adjustment (“CVA”) (c.30bps). The impact of Novitas on the CET1 capital ratio was –c.115bps and consists of impact on retained earnings (c.85bps) and IFRS 9 transitional arrangements (c.40bps), offset by a reduction in loan book RWAs (c.10bps).

CET1 capital decreased 6% to £1,310.8 million (31 July 2022: £1,396.7 million), reflecting a decrease in the transitional IFRS 9 add-back to capital of £51.1 million, the regulatory deduction of dividends paid and foreseen of £100.5 million and an increase in the intangible assets deducted from capital of £12.1 million. This was partially offset by the capital generation through profit of £81.1 million. Total capital decreased 5% to £1,510.8 million (31 July 2022: £1,596.7 million).

RWAs increased by 3% to £9.8 billion (31 July 2022: £9.6 billion), mainly driven by growth in the Commercial and Property loan books, 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 13.3% (31 July 2022: 14.6%), 13.3% (31 July 2022: 14.6%) and 15.3% (31 July 2022: 16.6%), respectively.

During the 2023 financial year higher countercyclical buffer rates for our UK and Irish exposures have come into force, increasing the group’s applicable countercyclical buffer by c.190bps to 1.9%. At 31 July 2023, the applicable minimum CET1, tier 1 and total capital ratio requirements, excluding any applicable Prudential Regulation Authority (“PRA”) buffer, were 9.5%, 11.2% and 13.4%, respectively. Accordingly, we continue to have headroom significantly above the applicable minimum regulatory requirements of c.380bps in the CET1 capital ratio, c.210bps in the tier 1 capital ratio and c.190bps in the total capital ratio.

The group applies IFRS 9 regulatory transitional arrangements which allow banks to add back to their capital base a proportion of the IFRS 9 impairment charges during the transitional period. Our capital ratios are presented on a transitional basis after the application of these arrangements. On a fully loaded basis, without their application, the CET1, tier 1 and total capital ratios would be 13.0%, 13.0% and 15.1%, respectively.

The leverage ratio, which is a transparent measure of capital strength not affected by risk weightings, remained strong at 11.4% (31 July 2022: 12.0%).

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 at the half year 2023 results, 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.

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.

Financial Overview continued

Capital Management Framework

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

The board remains committed to the group's dividend policy, which aims to provide sustainable dividend growth year-on-year, while maintaining a prudent level of dividend cover.

We remain committed to optimising further our capital structure, including the issuance of debt capital market securities if appropriate, targeting a CET1 capital ratio range of 12% to 13% over the medium term. This will allow the group to maintain a buffer to minimum regulatory requirements while also retaining the flexibility to grow the business. We remain encouraged by the available opportunities to deploy capital to deliver disciplined growth, which remains one of our key strategic priorities. The board will assess the potential for further distributions to shareholders based on future opportunities.

Group 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, whilst being committed to providing the highest level of customer service.

The volatile backdrop over the year, resulting in the failure of several domestic US banks and the sale of Credit Suisse, with a consequential impact on the availability of wholesale funding markets for significant periods, did not adversely affect the group due to our diverse funding sources, enabling us to adapt our position to changing 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. Our funding draws 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 7% to £12.4 billion (31 July 2022: £11.6 billion) which accounted for 130% (31 July 2022: 127%) of the loan book at the balance sheet date. Although the average cost of funding in Banking 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 further increase in the next financial year as a result of higher interest rates and customer deposit pricing pressure, particularly in notice accounts.

Customer deposits increased 14% 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 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, with approximately 85% 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, with our focus now on continuing to embed our compliance.

We continue to realise benefits from the investment made in the customer deposit platform. In May 2023, we expanded our product offering with the introduction of easy access accounts, complementing our fixed rate cash ISA and notice

Group Funding[1]

	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[2]	**1,308.6**	1,544.3
Equity	**1,644.9**	1,657.5
Total available funding[3]	**12,354.6**	11,570.9
Total funding as % of loan book[4]	**130%**	127%
Average maturity of funding allocated to loan book[5]	**21 months**	21 months

1. Numbers relate to core funding and exclude working capital facilities at the business level.
2. Unsecured funding excludes £44.3 million (31 July 2022: £22.1 million) of non-facility overdrafts included in borrowings and includes £190.0 million (31 July 2022: £295.0 million) of undrawn facilities.
3. Includes £250 million of funds raised via a senior unsecured bond with a five-year tenor by Close Brothers Group plc, the group's holding company, in June 2023, with proceeds currently held for general corporate purposes.
4. Total funding as a % of loan book includes £271.2 million (31 July 2022: £240.0 million) of operating lease assets in the loan book figure, as per the definition of "total funding as a % of loan book including operating lease assets" revised in the 2022 financial year.
5. Average maturity of total available funding, excluding equity and funding held for liquidity purposes.

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 5% to £1.7 billion (31 July 2022: £1.6 billion) as we renewed and extended our Premium Finance warehouse securitisation to £650 million (31 July 2022: £500 million). We maintained our current drawings under the Term Funding Scheme for Small and Medium-sized Enterprises ("TFSME") at £600 million (31 July 2022: £600 million). Over the next 12 months, £228 million of TFSME will mature, which we expect to replace in line with our diverse funding profile, dependent on market conditions and demand.

Unsecured funding, which includes senior unsecured and subordinated bonds and undrawn committed revolving facilities, reduced to £1.3 billion (31 July 2022: £1.5 billion) as we adapted our funding mix in light of market conditions. In June 2023, Close Brothers Group plc successfully issued a £250 million senior unsecured bond at an interest rate of 7.75% with the net proceeds to be used for general corporate purposes.

We have maintained a prudent maturity profile. The average maturity of funding allocated to the loan book was 21 months (31 July 2022: 21 months), ahead of the average loan book maturity at 16 months (31 July 2022: 17 months). This is in line with our "borrow long, lend short" principle, reflecting the timing and mix of funding raised over the year.

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 Group as "A2/P1" and Close Brothers Limited as "Aa3/P1", whilst upgrading the outlook from "negative" to "stable" for both in November 2022. Fitch Ratings ("Fitch") reaffirmed their rating for both Close Brothers Group and Close Brothers Limited as ''A-/F2'', whilst downgrading the outlook from ''stable'' to "negative" in March 2023.

Group Liquidity

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

We continued to maintain higher liquidity relative to the pre-Covid-19 position to provide additional flexibility given the uncertain UK economic outlook, whilst enabling us to maximise any opportunities available. Over the year, treasury assets increased 20% 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 regulatory requirements, with a 12-month average LCR to 31 July 2023 of 1,143% (31 July 2022: 924%). In addition to internal measures, we monitor funding risk based on the UK Capital Requirements Regulation ("CRR") rules for the net stable funding ratio ("NSFR") which became effective on 1 January 2022. The four-quarter average NSFR to 31 July 2023 was 126.0% (point in time at 31 July 2022: 118.3%).

Group Liquidity

	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[1]	**186.1**	415.4
Covered bonds[1]	**106.3**	–
Certificates of deposit	**–**	185.0
Treasury assets	**2,229.4**	1,855.1

1. There was £nil encumbered sovereign debt, central bank debt and covered bonds at 31 July 2023 (31 July 2022: £216.9 million).

Financial Overview continued

Banking

Key Financials[1]

	2023 £ million	2022 £ million	Change %
Operating income	**713.8**	693.1	3
Adjusted operating expenses	**(389.7)**	(362.6)	7
Impairment losses on financial assets	**(204.0)**	(103.3)	97
Adjusted operating profit	**120.1**	227.2	(47)
Adjusted operating profit, pre provisions	**324.1**	330.5	(2)
Net interest margin	**7.7%**	7.8%	
Expense/income ratio	**54.6%**	52.3%	
Bad debt ratio	**2.2%**	1.2%	
Return on net loan book	**1.3%**	2.6%	
Return on opening equity	**6.6%**	12.5%	
Closing loan book and operating lease assets	**9,526.2**	9,098.9	5

Key Financials (Excluding Novitas)

	2023 £ million	2022 £ million	Change %
Operating income	**694.9**	657.1	6
Adjusted operating expenses	**(381.0)**	(348.0)	9
Impairment losses on financial assets	**(87.2)**	(42.6)	105
Adjusted operating profit	**226.7**	266.5	(15)
Adjusted operating profit, pre provisions	**313.9**	309.1	2
Net interest margin	**7.6%**	7.5%	
Expense/income ratio	**54.8%**	53.0%	
Bad debt ratio	**0.9%**	0.5%	
Closing loan book and operating lease assets	**9,466.3**	8,939.5	6

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

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 are confident 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.

Banking adjusted operating profit reduced 47% to £120.1 million (2022: £227.2 million), primarily reflecting higher impairment charges related to Novitas. On a pre-provision basis, adjusted operating profit reduced 2% to £324.1 million (2022: £330.5 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 £120.1 million (2022: £227.1 million).

Excluding Novitas, Banking adjusted operating profit decreased 15% to £226.7 million (2022: £266.5 million), primarily driven by higher impairment charges to reflect the uncertain macroeconomic outlook and increased costs, which more than offset income 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 and high drawdowns in Property, partly offset by the reduction in the Novitas net loan book. Growth in our Premium Finance 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 3% to £713.8 million (2022: £693.1 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 6%.

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: 7.5%), 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 pass on increases in cost of funds as we remain focused on asset pricing.

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 lower performance-linked compensation due to the reduction in profit for the year. The expense/income ratio increased to 55% (2022: 52%) and the compensation ratio increased marginally to 30% (2022: 29%).

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

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 cost 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 will introduce 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 through 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 payment link for customers in arrears. Our previous investment in our Customer Deposit platform has enabled us to grow our Savings proposition, introduce 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.

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.

Financial Overview continued

Banking

In the 2025 financial year, we expect cost growth to more closely align with income growth, 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. Investment spend is expected to stabilise, with depreciation costs related to our existing investment programmes peaking in 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 was incurred in the first half of the year.

Additionally, a further £87.2 million of impairment charges were recognised to take into account weaker macroeconomic variables and outlook, as well as higher arrears in the Motor Finance business 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%, and the coverage ratio increased marginally to 2.1% (31 July 2022: 1.9%). There was also an increase in overall provision coverage to 3.9% (31 July 2022: 3.1%).

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 or structurally protected, prudently underwritten, diverse, and supported by the deep expertise of our people. We expect the bad debt ratio in the 2024 financial year to remain below our long-term average, based on current market conditions.

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 relating to 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 we are 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 (£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 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 £18.9 million in 2023 to c.£9 million in 2024. Further disclosure on the impact of Novitas can be found in note 10.

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 are confident 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 has now concluded, 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.

Continued Demand Across our Banking Businesses with Good Loan Book Growth

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 over the pandemic period (covering lending under the CBILS, Coronavirus Large Business Interruption Loan Scheme and Bounce Back Loan Scheme) stood at £456 million at 31 July 2023 (31 July 2022: £748 million).

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[1]	**3,387.1**	3,217.4	5
Invoice and Speciality Finance[1]	**1,434.2**	1,344.0	7
Invoice and Speciality Finance – Excluding Novitas[1]	**1,374.3**	1,184.6	16
Retail	**3,001.8**	3,064.0	(2)
Motor Finance[2]	**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[3]	**9,526.2**	9,098.9	5
Closing loan book and operating lease assets – Excluding Novitas	**9,466.3**	8,939.5	6

1. The Asset Finance and Invoice and Speciality Finance loan books have been re-presented for 31 July 2022 to reflect the recategorisation of Close Brothers Vehicle Hire ("CBVH") from Invoice and Speciality Finance to Asset Finance.
2. 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.
3. 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.

Financial Overview continued

Banking

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, 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.

Banking: Commercial[1]

	2023 £ million	2022 £ million	Change %
Operating income	**347.8**	343.4	1
Adjusted operating expenses	**(194.4)**	(180.0)	8
Impairment losses on financial assets	**(137.5)**	(72.4)	90
Adjusted operating profit	**15.9**	91.0	(83)
Adjusted operating profit, pre provisions	**153.4**	163.4	(6)
Net interest margin	**7.4%**	7.8%	
Expense/income ratio	**56%**	52%	
Bad debt ratio	**2.9%**	1.7%	
Closing loan book and operating lease assets[2]	**4,821.3**	4,561.4	6

Commercial Key Metrics Excluding Novitas[1]

	2023 £ million	2022 £ million	Change %
Operating income	**328.9**	307.4	7
Adjusted operating expenses	**(185.7)**	(165.4)	12
Impairment losses on financial assets	**(20.7)**	(11.7)	77
Adjusted operating profit	**122.5**	130.3	(6)
Adjusted operating profit, pre provisions	**143.2**	142.0	1
Net interest margin	**7.2%**	7.3%	
Expense/income ratio	**56%**	54%	
Bad debt ratio	**0.5%**	0.3%	
Closing loan book and operating lease assets[2]	**4,761.4**	4,402.0	8

1. Adjusted measures are presented on a basis consistent with prior periods and exclude amortisation of intangible assets on acquisition, to present the performance of the group's acquired businesses consistent with its other businesses; and any exceptional and other adjusting items which do not reflect underlying trading performance. Further detail on the reconciliation between operating and adjusted measures can be found in note 3.
2. Operating lease assets of £223.4 million (31 July 2022: £185.4 million) relate to Asset Finance and £47.8 million (31 July 2022: £54.6 million) to Invoice and Speciality Finance.

Strong Demand in Commercial as we Continue to Support our SME Customers

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 two of our specialist businesses, 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 £15.9 million (2022: £91.0 million), driven primarily by a significant increase in impairment charges related to Novitas. Statutory operating profit reduced to £15.8 million (2022: £90.9 million).

On a pre-provision basis, adjusted operating profit decreased 6% to £153.4 million (2022: £163.4 million) as an increase in costs more than offset income growth.

Excluding Novitas, adjusted operating profit decreased 6% to £122.5 million (2022: £130.3 million) as income growth was more than offset by higher costs.

Operating income increased 1% to £347.8 million (2022: £343.4 million), reflecting good loan book growth and higher average volumes in Invoice and Speciality Finance. The net interest margin decreased to 7.4% (2022: 7.8%), 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%).

Banking: Retail

	2023 £ million	2022 £ million	Change %
Operating income	**248.1**	237.0	5
Operating expenses	**(164.4)**	(151.6)	8
Impairment losses on financial assets	**(49.0)**	(24.4)	101
Operating profit	**34.7**	61.0	(43)
Operating profit, pre provisions	**83.7**	85.4	(2)
Net interest margin	**8.2%**	7.8%	
Expense/income ratio	**66%**	64%	
Bad debt ratio	**1.6%**	0.8%	
Closing loan book[1]	**3,001.8**	3,064.0	(2)

1. 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.

Financial Overview continued

Banking

Expanding Our Presence in Ireland

In September 2023, we announced that we had reached an agreement to acquire Bluestone Motor Finance (Ireland) DAC ("Bluestone Motor Finance"), with the acquisition expected to complete in the fourth quarter of calendar year 2023. Close Brothers is already a well-known and trusted brand in Ireland, having helped over 130,000 customers finance vehicles. We are confident that the acquisition presents the right opportunity to re-enter the Irish motor finance market and provide a platform for delivering disciplined growth.

Bluestone Motor Finance is an award-winning business with a specialist lending approach that aligns with the Close Brothers Motor Finance offering. It has an established distribution network of over 650 dealer partners and an experienced sales and underwriting team, focusing on the prime and specialist segments of the Irish motor finance market. Customers score the offering "Excellent" on Trustpilot. Bluestone Motor Finance has invested in its digital capabilities and its online application offering is industry-leading in Ireland.

The acquisition will enable us to share our specialist knowledge with Bluestone Motor Finance customers and dealer partners and offer an expanded product offering.

The acquisition is aligned to our commitment to Ireland as a strategic, long-term market.

Remained Focused on Prioritising our Margins and Underwriting Discipline

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 then stabilise at a higher level in our Motor Finance loan book, reflecting cost of living pressures on our customers. 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, benefiting from premium inflation in the second half of the year, with growth in average loan sizes.

Operating profit for Retail reduced to £34.7 million (2022: £61.0 million), as income growth was more than offset by higher costs and increased impairment charges.

Operating income rose 5% to £248.1 million (2022: £237.0 million), driven by growth in the UK Motor Finance loan book and an increase in the net interest margin to 8.2% (2022: 7.8%) 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 historical 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, 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 (c.11% at 31 July 2022). The Premium Finance loan book benefits from various forms of structural protection including premium refundability and, in most cases, broker recourse for the personal lines product.

Banking: Property

	2023 £ million	2022 £ million	Change %
Operating income	**117.9**	112.7	5
Operating expenses	**(30.9)**	(31.0)	0
Impairment losses on financial assets	**(17.5)**	(6.5)	169
Operating profit	**69.5**	75.2	(8)
Operating profit, pre provisions	**87.0**	81.7	6
Net interest margin	**7.4%**	7.6%	
Expense/income ratio	**26%**	28%	
Bad debt ratio	**1.1%**	0.4%	
Closing loan book	**1,703.1**	1,473.5	16

Strong Loan Book Growth Driven by Drawdowns from our Healthy Pipeline

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 £69.5 million (2022: £75.2 million), as an increase in impairment charges more than offset income growth. On a pre-provision basis, operating profit grew 6% to £87.0 million (2022: £81.7 million) as we achieved positive operating leverage in the business.

Operating income increased 5% to £117.9 million (2022: £112.7 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: 28%).

Impairment charges increased to £17.5 million (2022: £6.5 million), resulting in a bad debt ratio of 1.1% (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.

Financial Overview continued

Asset Management

Key Financials[1]

	2023 £ million	2022 £ million	Change %
Investment management	**113.3**	110.4	3
Advice and other services[2]	**29.9**	36.1	(17)
Other income[3]	**1.6**	1.5	7
Operating income	**144.8**	148.0	(2)
Adjusted operating expenses	**(128.8)**	(126.3)	2
Impairment losses on financial assets	**(0.1)**	–	n/a
Adjusted operating profit	**15.9**	21.7	(27)
Revenue margin (bps)	**84**	87	
Operating margin	**11%**	15%	
Return on opening equity	**15.5%**	28.6%	

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

Acceleration of Growth Strategy, Building on Long-term Track Record and Driving Strong Net Inflows

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

Adjusted operating profit in CBAM reduced 27% to £15.9 million (2022: £21.7 million), driven by a modest decline in income, reflecting lower income from advice and other services, and higher costs as we accelerated our hiring strategy. The operating margin reduced to 11% (2022: 15%). Statutory operating profit before tax was £14.4 million (2022: £19.8 million).

We saw an increase in investment management income resulting from growth in AuM delivered by our bespoke investment manager hires. This was more than offset by a decrease in income from advice and other services, which reflected the impact of difficult market conditions on client assets, and managements' strategic shift to focus on more higher value clients. As a result, income in the Asset Management division decreased by 2%. The revenue margin reduced to 84bps (2022: 87bps) due primarily to flows into lower margin investment management and non-advised products.

Adjusted operating expenses rose 2% as we exercised disciplined cost control whilst accelerating our growth strategy. We increased our rate of hiring, recruiting 15 bespoke investment managers during the year (2022: 10) and opened offices in Birmingham and Cheltenham to support new teams, whilst also implementing inflationary-driven salary increases and incurring spend on technology, which was partly offset by lower variable compensation. The expense/income ratio increased to 89% (2022: 85%), with the compensation ratio also increasing to 59% (2022: 56%). The acceleration of our hiring strategy will continue to be reflected in the cost trajectory going forward.

CBAM has achieved substantive compliance with the FCA's Consumer Duty requirements. In preparation for the implementation of the FCA's Consumer Duty, we completed a number of workstreams focused on mapping client journeys and enhancing our data collection and client communications, with Consumer Duty embedded into the CBAM strategy.

Strong Net Inflows Notwithstanding Market Uncertainty

Continued uncertainty over the economic outlook has led to volatility in returns from equity markets over the year, negatively impacting investor sentiment. Nevertheless, we saw strong net inflows of £1.3 billion (2022: £844 million) and delivered a net inflow rate of 9% (2022: 5%). Our hiring strategy is proving successful, with a strong pipeline and the new bespoke investment managers contributing significantly to the overall inflow rate. We continue to invest in supporting the long-term growth potential of CBAM through both new hires and building our acquisition pipeline.

Total managed assets grew 7% to £16.4 billion (31 July 2022: £15.3 billion), driven by strong net inflows, partly offset by negative market performance. Total client assets, which includes both advised and managed assets, increased 5% to £17.3 billion (31 July 2022: £16.6 billion).

The integration of PMN Financial Management into CBAM has outperformed initial expectations, with the business having now been fully integrated and the migration of assets expected to be completed by July 2024.

Movement in Client Assets

	31 July 2023 £ million	31 July 2022 £ million
Opening managed assets	**15,302**	15,588
Inflows	**2,729**	2,330
Outflows	**(1,411)**	(1,486)
Net inflows	**1,318**	844
Market movements	**(201)**	(1,130)
Total managed assets	**16,419**	15,302
Advised only assets	**907**	1,272
Total client assets[1]	**17,326**	16,574
Net flows as % of opening managed assets	**9%**	5%

1. Total client assets include £4.9 billion of assets (31 July 2022: £5.1 billion) that are both advised and managed.

Fund Performance

Our funds and segregated bespoke portfolios are designed to provide attractive risk-adjusted returns for our clients, consistent with their long-term goals and investment objectives. Fund performance has been mixed, reflecting volatile markets across asset classes which has been the case throughout the year. As a result, we have seen some of our funds outperform their peer group, with others underperforming, mainly reflecting their exposure to exchange rate movements.

Our Sustainable Funds and Net Zero Commitment

In March 2023, we created the Sustainable Select Fixed Income fund through merging our existing Select Fixed Income fund and Sustainable Bond fund. This new fund utilises an updated sustainable investment methodology, making use of CBAM's experience and understanding of sustainable investment strategies gained over recent years to target a reduction in CO_2 emissions intensity versus its benchmark.

Our Sustainable Select Fixed Income fund has seen good traction so far and we are exploring options for enhancing further our sustainable offering.

In line with our commitment to actively contribute towards the UK government's net zero climate goals, CBAM is a signatory of the Net Zero Asset Managers initiative and is on track to disclose its net zero targets by the end of September 2023.

Well Positioned for Future Growth

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

Our focus remains on providing excellent service, building on the strength of our client relationships, whilst investing in new hires and building our pipeline of acquisitions to support the long-term growth potential of our business. While CBAM is sensitive to financial market conditions, we remain committed to driving growth both organically and through in-fill acquisitions.

Financial Overview continued

Winterflood

Key Financials

	2023 £ million	2022 £ million	Change %
Operating income	**75.3**	95.2	(21)
Operating expenses	**(71.8)**	(81.1)	(11)
Operating profit	**3.5**	14.1	(75)
Average bargains per day ('000)	**60**	81	
Operating margin	**5%**	15%	
Return on opening equity	**2.6%**	10.5%	
Loss days	**1**	8	

Performance Impacted by Continued Slowdown in Trading Activity but Well Positioned to Benefit When Market Conditions Improve

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

We have seen significant macroeconomic uncertainty over the year, with geopolitical and economic events, particularly the ongoing war in Ukraine and continual rises in the cost of debt, causing substantial market challenges. Interest rates are at their highest since the 2008 financial crisis and, collectively, this has negatively impacted investor confidence and appetite. Against this backdrop, the domestically focused UK indices have suffered sustained market declines, with the FTSE 250 and AIM All-Share index declining 5% and 17% respectively this year.

This year has seen subdued retail trading activity, particularly in higher margin sectors (AIM and Smaller Companies) as investors turned to safer and better performing sectors such as Fixed Income and Exchange-Traded Funds or withdrew from the market as they await more certainty in the macroeconomic environment. This sentiment inevitably led to reduced retail-driven trading situations and our volumes have fallen as a result. Average daily bargains reduced 26% to 60k (2022: 81k), although trading volumes remain marginally above pre-pandemic levels (2019: 56k) and we have maintained our market-leading position, trading over 280 billion shares in the year[1].

Trading income reduced to £58.6 million (2022: £80.7 million) as diversification in trading sectors and the expertise of our traders, evidenced by only one loss day (2022: eight loss days), helped mitigate the difficult market environment.

Operating income decreased to £75.3 million (2022: £95.2 million), primarily driven by lower trading revenues. All trading sectors reported a decline on the prior year except Fixed Income, which benefited from volatility in bond markets following the fallout from the UK mini-budget and changes in investor risk appetite. We also saw a reduction in fee income generated by our Investment Trusts Corporate team as corporate activity slowed market-wide as the risk-off market sentiment impacted issuance and transaction volumes, with just one IPO launched this year. Our Investment Trusts Corporate business, which is corporate broker to over 50 investment trusts, delivered revenue of £2.5 million (2022: £3.9 million), largely representing retainer fee income.

We are at the forefront of initiatives to simplify participation in equity, debt and private markets for UK retail investors through our collaborations with PrimaryBid and JP Jenkins, and our proprietary solution, Winterflood Retail Access Platform ("WRAP").

WBS has continued its positive trajectory, growing AuA to £12.9 billion (2022: £7.2 billion) despite sustained equity market declines. Net inflows were £5.5 billion (2022: £1.3 billion) following the successful completion of the planned migration of custody assets of Fidelity International in the first quarter of 2023. WBS grew income 45% to £14.8 million (2022: £10.2 million), with recurring income up 38% to £14.1 million. We are confident that WBS is well positioned for further growth, both organically and supported by a solid pipeline of clients, and expect WBS to grow AuA to over £20 billion by 2026.

Operating expenses reduced 11% to £71.8 million (2022: £81.1 million) due to decreased variable costs as the slowdown in activity led to lower staff compensation and settlement fees. The reduction in income was not fully offset by lower expenses, reflecting operational gearing in the business. Looking ahead, Winterflood's variable cost base is expected to reflect a recovery in income as investor confidence returns.

Operating profit decreased 75% to £3.5 million (2022: £14.1 million) against a backdrop of difficult conditions and sustained market declines.

Winterflood has a long track record of trading profitably through a range of conditions and we remain well positioned to retain our market position and benefit when investor appetite returns. We continue to diversify our revenue streams and explore growth opportunities to balance the cyclicality in the trading business.

1. Bloomberg data covering 1 August 2022 to 31 July 2023.

Risk Report

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

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

- adhering to our established and proven business model, as outlined on pages 12 to 13;
- implementing an integrated risk management approach based on the concept of three lines of defence; and
- setting and operating within clearly defined risk appetites, monitored with defined metrics and limits.

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

All disclosures in the Risk Report are unaudited unless otherwise stated.

Enterprise Risk Management

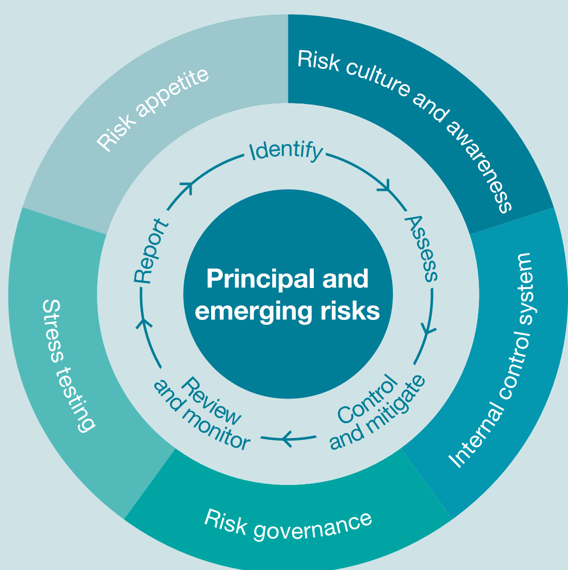
An enterprise-wide framework designed to provide the board and senior management with oversight of the group's financial position as well as the risks that might adversely affect it.

The framework details the core risk management components and structures used across the group, and defines a consistent and measurable approach to identifying, assessing, controlling and mitigating, reviewing and monitoring, and reporting risk – the risk process life cycle.

This sets out the activities, tools, techniques and organisational arrangements that ensure all principal risks facing the group are identified and understood; and that appropriate responses are in place to protect the group and prevent detriment to its customers and colleagues. This enables the group to meet its goals and enhances its ability to respond to new opportunities.

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

Enterprise Risk Management Framework



Risk Report continued

Risk Culture and Awareness

An effective risk culture is embedded throughout the group

Maintenance of an effective risk management culture is integral to the group in meeting its regulatory conduct requirements and assisting the accomplishment of key strategic goals.

The risk culture:

- supports the group and its directors in meeting their legal and regulatory obligations, particularly with respect to the identification and management of risks and the need for a robust control environment;
- underpins the group's purpose, strategy, cultural attributes and divisional values;
- provides enhanced awareness of risk in business operations by highlighting strengths and weaknesses and their materiality to the business and, in turn, facilitating informed decision-making;
- optimises business performance by facilitating challenge of ineffective controls and improving the allocation of resources;
- improves the group's control environment; and
- assists in the planning and prioritisation of key projects and initiatives.

While risk management is led centrally, it is embedded locally within our businesses. Managers actively promote a culture in which risks are identified, assessed, managed and reported in an open, transparent and objective manner, and staff conduct is viewed as critical.

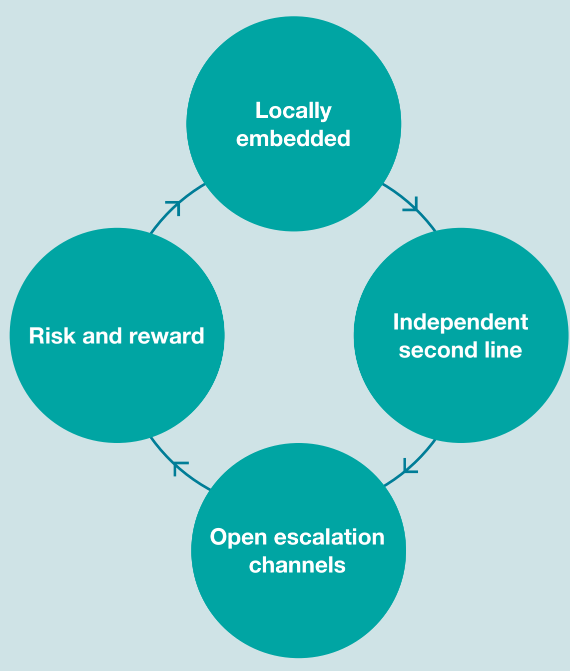
All members of staff are responsible for risk identification and reporting within their area of responsibility and are encouraged to escalate risks and concerns where necessary, either through line or business management or by following the provisions of the group Whistleblowing Policy.

The group risk management function operates independently of the business, providing oversight and advice on the operation of the risk framework, assurance that agreed processes operate effectively and that a risk and conduct culture is embedded within the business.

The relationship between risk and reward is also a key priority with all staff evaluated against both agreed objectives (the "what") and desired behaviours (the "how"). This encourages long-term, stewardship behaviours together with a strong and appropriate risk and conduct culture.

For further information on our approach to remuneration for the group's directors see pages 167 to 189.

Risk Culture



Locally embedded
Risks managed in an open, transparent and objective manner.

Independent second line
Providing oversight, advice and assurance.

Open escalation channels
Escalation of risks and concerns encouraged; driving individual accountability.

Risk and reward
Regular evaluations encourage long-term stewardship behaviours.

Risk Governance

Role of the board

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

Risk management across the group is overseen by the Risk Committee. The committee is responsible for reviewing risk appetite, monitoring the group's risk profile against this and reviewing the day-to-day effectiveness of the risk management framework. In addition, the committee is responsible for overseeing the maintenance and development of an appropriate and supportive risk culture and for providing risk input into the alignment of remuneration with performance against risk appetite.

The committee's key areas of focus over the last financial year are set out on pages 164 to 166.

The group closely monitors its risk profile to ensure that it continues to align with its strategic objectives as documented on pages 20 to 25. The board considers that the group's current risk profile remains consistent with its strategic objectives.

Risk Committee Structure

Group board

Risk Committee

Executive committees

Group Risk and Compliance Committee, Model Governance Committee, Capital Adequacy Committee, Bank Asset and Liability Committee and Group Asset and Liability Committee

Risk-specific committees

Credit Risk Management Committee, Group Credit Committee, Impairment Adequacy Committee and Operations and Technology Risk Committee

Divisional committees

Divisional risk and compliance committees

Together, these committees facilitate an effective flow of key risk information, as well as functioning to support appropriate risk management at each stage of the risk process life cycle. They also provide an escalation channel for any risks or concerns, supporting the maintenance of an effective risk culture. During the year the effectiveness of these committees was reviewed and all committees continue to work efficiently and effectively.

Over the past 12 months the group has further enhanced its risk governance framework and specifically the organisation's risk and compliance committees, at both group and divisional level. This has included the continued refinement of committee terms of reference and the evolution of reporting packs and management information suites.

Risk Report continued

Risk Committee overview

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

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

Three lines of defence

The group's risk management approach is underpinned by a strong governance framework founded on a three lines of defence model.

The governance framework is considered appropriate to both the size and strategic intentions of the group. The key principles underlying this approach are that:

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

Three Lines of Defence

		Key features
First line of defence		
The businesses **Group Risk and Compliance Committee (reports to the Risk Committee)** The chief executive delegates to divisional and operating business chief executives the day-to-day responsibility for risk management, regulatory compliance, internal control and conduct in running their divisions or businesses.	Business management has day-to-day ownership, responsibility and accountability for: • identifying and assessing risks; • managing and controlling risks; • measuring risk (key risk indicators/ early warning indicators); • mitigating risks, including controls framework and effectiveness; • reporting risks; • committee structure and reporting; and • management and self-assessment of operational resilience capabilities.	• Promotes a strong risk culture and focus on sustainable risk-adjusted returns. • Implements the risk framework. • Promotes a culture of adhering to limits and managing risk exposures and ongoing self-assessment. • Promotes a culture of customer focus and appropriate behaviours. • Promotes responsibility for ongoing monitoring of positions and management and control of risks and controls effectiveness, including testing, alongside portfolio optimisation.
Second line of defence		
Risk and compliance **Risk Committee (reports to the board)** The Risk Committee delegates day-to-day responsibility for oversight and challenge on risk-related issues to the group chief risk officer.	Risk functions (including compliance) provide support, assurance and independent challenge on: • the design and operation of the risk framework and methodologies; • risk assessment; • risk appetite and strategy; • performance management; • risk reporting; • adequacy of mitigation plans and effectiveness of risk decisions taken by business management; • group risk profile; and • committee governance and challenge.	• Oversees embedding of the risk framework and supporting methodologies, taking an integrated approach to risk and compliance (qualitative and quantitative). • Promotes a strong and effective risk and control culture across the group. • Undertakes compliance monitoring and risk assurance activities. • Supports through developing and advising on risk and compliance strategies. • Facilitates constructive check and challenge. • Oversight of business conduct.
Third line of defence		
Internal audit **Audit Committee (reports to the board)** The Audit Committee mandates the head of group internal audit with day-to-day responsibility for independent assurance.	Internal audit provides independent assurance on: • first and second lines of defence; • appropriateness/effectiveness of internal controls; and • effectiveness of policy implementation.	• Draws on deep knowledge of the group and its businesses. • Provides independent assurance on the activities of the group, including the risk management framework. • Assesses the appropriateness and effectiveness of internal controls. • Incorporates review of culture and conduct.

Risk Report continued

Internal Control System

Supporting the foundation of a strong risk management structure

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

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

The group policy framework, overseen by the board, is a key component of the group's Enterprise Risk Management Framework, supporting the foundation of a strong risk management structure. Group policies are supported by group standards, and by divisional/business-level policies and procedures which, together, outline the way in which policy is implemented and detail the process controls in place to ensure compliance. The accounting policies form part of this broader policy framework. Policies and standards relating to the group's principal risks are fully covered within the framework, and include specific documents relating to financial crime compliance (e.g. anti-money laundering, anti-bribery and corruption) and whistleblowing.

This structure establishes a link between group strategy and day-to-day operations in a manner consistent with agreed risk appetite. Simultaneously they facilitate board and executive-level oversight and assurance as to the application of the strategy via conformance with underlying policy and standard requirements.

Review of effectiveness of risk management and internal control systems

Throughout the year, the board, assisted by the Risk Committee and the Audit Committee, monitors the group's risk management and internal control systems and reviews their effectiveness. This covers all material controls, including financial, operational and compliance controls. Monitoring and effectiveness occurs via regular risk management information and commentary; reviews of group-wide risk and control self-assessments and associated mitigation activities; and review of audit reports which focus upon risk management capabilities and the control framework. The board also reviews the effectiveness of both committees on an annual basis. The board has reviewed the group's risk management and internal control framework and the committees' effectiveness, and considers that, overall, the group has in place adequate systems and controls with regard to its profile and strategy.

Group Policy Framework

Enterprise Risk Management Framework
↓
Group policies
↓
Group standards
↓
Divisional and business policies
↓
Procedures

Risk Appetite

Enabling key risk decisions in delivering the group's strategic objectives

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

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

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

Stress Testing

Assessing and understanding future levels of risk

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

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

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

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

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

Risk Report continued

Principal and Emerging Risks

Principal Risks

At the core of the Enterprise Risk Management Framework and risk process life cycle sits the group's 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 92 and 93 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 96 to 130 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 group Sustainability Report on pages 38 to 65.

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

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 14 to 17 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 models 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.

Principal and Emerging Risks

Emerging risks

E1: Economic uncertainty
E2: Geopolitical uncertainty
E3: Legal and regulatory change
E4: Supply chain risk
E5: Medium to long-term transitional climate risks
E6: Strategic disruption
E7: Change execution risk

Risk emergence time frame

- Short term
- Medium term
- Long term

Emerging risks key

- Internal
- External

Risk Report continued
Principal risks

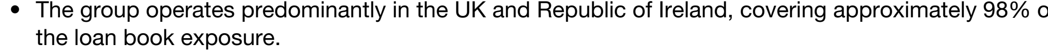
Principal risk	Outlook
Business and Strategic Risk The risk of realising lower than anticipated profits or experiencing a loss rather than a profit due to changing market conditions, pursuing an ineffective strategy or ineffective implementation of strategy. See page 96	 • Notwithstanding the continued 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 97	 • Although the continuing macroeconomic uncertainty may impact capital in the short to medium term, the group's capital position is expected to remain well 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 100	 • 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 102	 • 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.
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 119	 • 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.

Principal risk	Outlook
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 121	• 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 122	• 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 assets ("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 125	• Established group-wide operational risk framework and methodology continues to mature, with expectation on best practice increasing. • A changing internal and external environment raises 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 127	• 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.
Traded Market Risk The risk that a change in the value of an underlying market variable will give rise to an adverse movement in the value of the group's assets. See page 129	• The impacts of inflation, rising interest rates, supply chain issues and industrial action, coupled with geopolitical uncertainty, are expected to continue to be themes over the next 12 months, and have the potential to keep market liquidity low and suppress market valuations.

Protect Grow Sustain Risk increase Stable Risk decrease

Risk Report continued

Emerging risks



Emerging risk/ uncertainty	Mitigating actions and key developments
Cross-cutting Risks	
Geopolitical uncertainty	• 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	• 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	• 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.

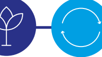
S Short-term emergence M Medium-term emergence L Long-term emergence

Emerging risk/ uncertainty	Mitigating actions and key developments
Operational Risks	
Legal and regulatory change	• 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 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	• 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	• 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	• 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 marketplace 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.

Risk Report continued

Principal risks

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 Banking division's ability to write loans as it seeks to maintain its desired risk and reward criteria, result in lower new business levels in Close Brothers Asset Management ("CBAM"), impact levels of trading activity at Winterflood, 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 (including those set out on pages 26 and 27) 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 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 ICAAP and 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, as outlined on pages 12 to 13, 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.

For further details on emerging risks and uncertainties see pages 94 to 95. In addition, further commentary on the market environment and its impact on each division is outlined on pages 66 to 82.

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 the group on a consolidated basis and receives information on the capital adequacy of, and sets capital requirements for, the group as a whole. In addition, a number of subsidiaries are regulated for prudential purposes by either the PRA or the FCA. The aim of the capital adequacy regime is to promote safety and soundness in the financial system. It is structured around three "pillars": Pillar 1 on minimum capital requirements; Pillar 2 on the supervisory review process; and Pillar 3 on market discipline. The group's Pillar 1 information is presented in the first table of the "measurement" section. Under Pillar 2, the group completes an annual self-assessment of risks known as the ICAAP. The ICAAP is reviewed by the PRA, which culminates in the PRA setting a Total Capital Requirement ("TCR") that the group and its regulated subsidiaries are required to hold at all times. The TCR is currently set at 9.0%, of which 5.1% needs to be met with CET1 capital. This includes the Pillar 1

Risk Report continued
Principal risks

requirements (4.5% and 8% respectively for CET1 and total capital) and a Pillar 2a component of 1.0%, of which 0.6% needs to be met with CET1 capital. Pillar 3 requires firms to publish a set of disclosures which allow market participants to assess information on the firm's capital, risk exposures and risk assessment process. The group's Pillar 3 disclosures, which are unaudited, can be found on the group's website at www.closebrothers.com/investor-relations/investor-information/results-reports-and-presentations.

Risk Appetite

The group maintains 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.

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

The group has set a management target for the CET1 capital ratio to operate in a range between 12.0% and 13.0% in the medium term, which provides for a significant surplus amount of capital to support the group's strategic objectives whilst respecting the board's risk appetite and ensuring shareholders' equity is commercially deployed.

Measurement

The group maintains a strong capital base to support the development of the business and to ensure the group meets the TCR and additional regulatory buffers at all times. As a result, the group maintains capital adequacy ratios above minimum regulatory requirements, which are currently set at a minimum CET1 capital ratio of 9.5% and a minimum total capital ratio of 13.4%. The minimum capital requirements are inclusive of the capital conservation buffer (currently 2.5% for both CET1 capital and total capital) and the countercyclical buffer (currently 1.9% effective rate for the group, for both CET1 capital and total capital) and exclusive of any applicable PRA buffer.

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. A comprehensive analysis of the composition of regulatory capital and RWAs is provided in the group's Pillar 3 disclosures.

The CET1 capital ratio reduced from 14.6% to 13.3%, mainly driven by loan book growth in the year, a decrease in 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.115bps, and consists of impact on retained earnings (c.85bps) and IFRS 9 transitional arrangements (c.40bps), offset by a reduction in loan book RWAs (c.10bps).

CET1 capital decreased to £1,310.8 million (31 July 2022: £1,396.7 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 £9,847.6 million (31 July 2022: £9,591.3 million) driven mainly by growth in the Commercial and Property business loan book, 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 RWAs

	31 July 2023 £ million	31 July 2022 £ million
CET1 capital		
Shareholders' equity per balance sheet	**1,644.9**	1,657.5
Regulatory adjustments to equity		
Intangible assets, net of associated deferred tax liabilities	**(262.8)**	(250.7)
Foreseeable dividend[1]	**(67.0)**	(65.6)
Cash flow hedging reserve	**(34.4)**	(21.7)
Pension asset, net of associated deferred tax liabilities	**(1.0)**	(5.3)
Prudent valuation adjustment	**(0.4)**	(0.5)
Insufficient coverage for non-performing exposures[2]	**(0.4)**	–
IFRS 9 transitional arrangements[3]	**31.9**	83.0
CET1 capital[4]	**1,310.8**	1,396.7
Tier 2 capital – subordinated debt	**200.0**	200.0
Total regulatory capital[4] – audited	**1,510.8**	1,596.7
RWAs		
Credit and counterparty credit risk	**8,655.4**	8,389.0
Operational risk[5]	**1,084.0**	1,085.8
Market risk[5]	**108.2**	116.5
	9,847.6	9,591.3
CET1 capital ratio[4]	**13.3%**	14.6%
Total capital ratio[4]	**15.3%**	16.6%

1. Under CRR Article 26, a deduction has been recognised at 31 July 2023 and 31 July 2022 for a foreseeable dividend, being the proposed final dividend as set out in note 8 to the financial statements.
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 13.0% and total capital ratio 15.1% (31 July 2022: CET1 capital ratio 13.8% and total capital ratio 15.9%).
5. Operational and market risk include an adjustment at 8% in order to determine notional RWAs.

Movement in CET1 capital during the year

	2023 £ million	2022 £ million
CET1 capital at 1 August	**1,396.7**	1,439.3
Profit in the period attributable to shareholders	**81.1**	165.2
Dividends paid and foreseen	**(100.5)**	(98.4)
IFRS 9 transitional arrangements	**(51.1)**	(34.8)
Change in software assets treatment[1]	**–**	(50.2)
Increase in intangible assets, net of associated deferred tax liabilities	**(12.1)**	(19.7)
Other movements in reserves recognised for CET1 capital	**(7.3)**	0.1
Other movements in adjustments from CET1 capital	**4.0**	(4.8)
CET1 capital at 31 July	**1,310.8**	1,396.7

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 requirements for intangible assets from CET1.

Risk Report continued

Principal risks

Mitigation (audited)

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 instrument.

Monitoring

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

The 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. On a monthly basis, the group's latest and forecast capital positions are reported to the CAC, whose membership consists of finance, business and risk executives and senior management. The CAC also monitors actual, forecast and stressed capital metrics using an IRB approach in order to prepare for anticipated future transition to this approach.

Outlook

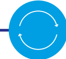
Although the continuing macroeconomic uncertainty may impact capital in the short to medium term, the group's capital position is expected to remain well above risk appetite.

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. As highlighted in the Half Year 2023 results, 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.

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 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.

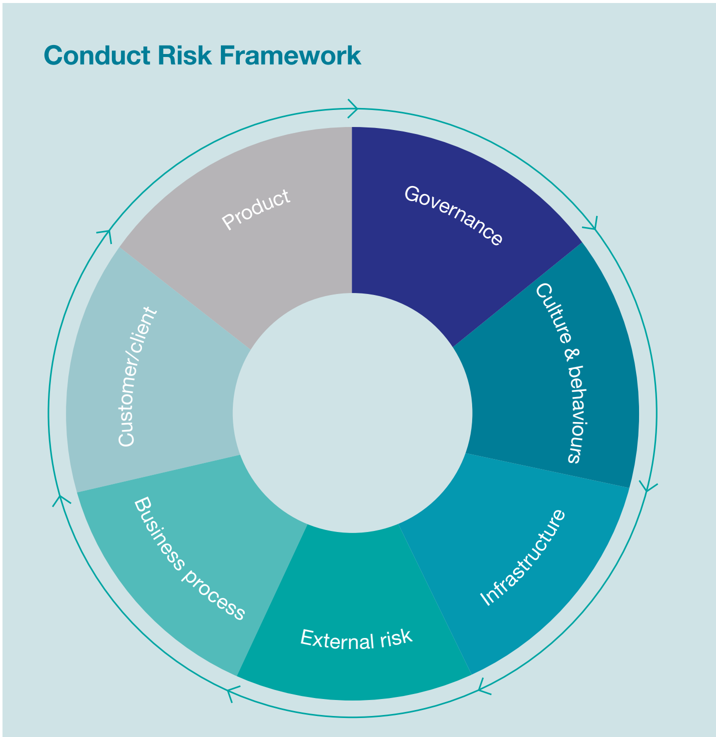
Monitoring

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.



Risk Report continued

Principal risks

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 and implementing Consumer Duty changes for books of business not open to new customers. Further details on Consumer Duty can be found on page 25.

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 Banking division.

The Banking division applies consistent and prudent lending criteria to mitigate credit risk. Its lending activities are predominantly secured across a diverse range of asset classes. Details of average tenor and loan size by business can be found on page 4 of the Strategic Report. This ensures concentration risk is controlled in both the loan book and associated collateral. Credit risk appetites are set around unsecured and structurally protected lending to ensure 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 exposures framework.

The group's principal credit risk exposure is to the loan book, which is the focus of the credit risk part of the risk report.

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 224 to 229 of the financial statements. Further commentary on the credit quality of the loan book is outlined on pages 106 to 118.

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.

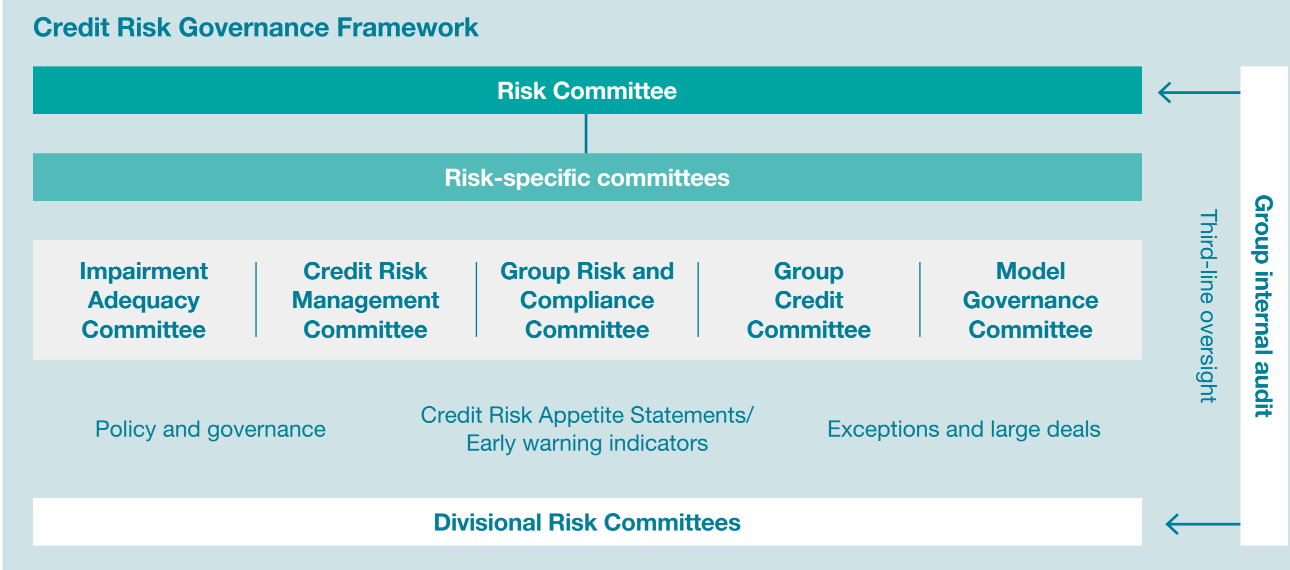
The measures supporting the group CRAS are based on the following key principles:

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 Banking division'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.

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 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.



Risk Report continued

Principal risks

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 (audited)

Credit assessment and lending criteria

The Banking division'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 bank 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' delegated sanctioning authority level via a quality assurance programme. This programme samples new business underwritten, with a particular focus on lending hotspots: for example, long-tenor agreements, new asset classes or high LTVs. Outputs are reported 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

Banking 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 bank, who report to the chief credit officer, are responsible for setting and communicating credit risk strategy, identifying exceptions and ensuring local compliance. Similarly, the risk heads in the Asset Management and Securities divisions, and the asset and liability management risk lead, ensure that their respective operations are performed in line with the group financial institution and non-banking financial institution credit risk standards and also report up through their divisional RCCs. The 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.

Banking 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.

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.

Risk Report continued

Principal risks

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 Banking division'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 to the financial statements on pages 224 to 229.

Credit Risk Highlights (audited)

	31 July 2023 £ million	31 July 2022 £ million
Gross loans and advances to customers		
Property business	**1,744.8**	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	**9,635.6**	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 213 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 Banking division 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 the uncertain macroeconomic outlook and increased arrears and forbearance levels in Motor Finance business as a result of continued cost of living pressures on customers.

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 note 10 to the financial statements for full staging tables and analysis, and pages 110 to 113 for additional detail on changes to macroeconomic forecasts that have impacted provisions during this financial year.

Measuring Credit Risk Across Our Businesses

In order to effectively assess credit risk across the Banking division, 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 the Banking division 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 (audited)

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;

Risk Report continued

Principal risks

- 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 (audited)

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 recover 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 cash flows. Recoveries are adjusted to account for the impact of discounting using the effective interest rate.

Novitas loans

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 recover 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 on page 109, 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 recover 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 recovery period. In line with IFRS 9, a proportion of the expected credit loss is expected to unwind, over the estimated time to recover 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 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

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 pages 110 to 113. 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.

Risk Report continued

Principal risks

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 than those 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 2022.

Scenario Forecasts and Weights

	Baseline		Upside (strong)		Downside (mild)		Downside (moderate)		Downside (protracted)	
	2023	2024	2023	2024	2023	2024	2023	2024	2023	2024
At 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 to 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%**

	Five-year average (calendar years 2022 to 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 pages 110 to 111 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 112 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 113 provide a summary for the five-year period (calendar years 2023 to 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.

Risk Report continued

Principal risks

Unemployment Rate (%)

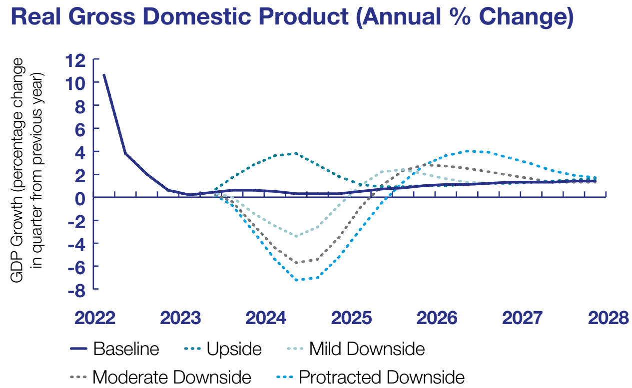
Unemployment Rate (end of quarter percentage values)

10
8
6
4
2
0

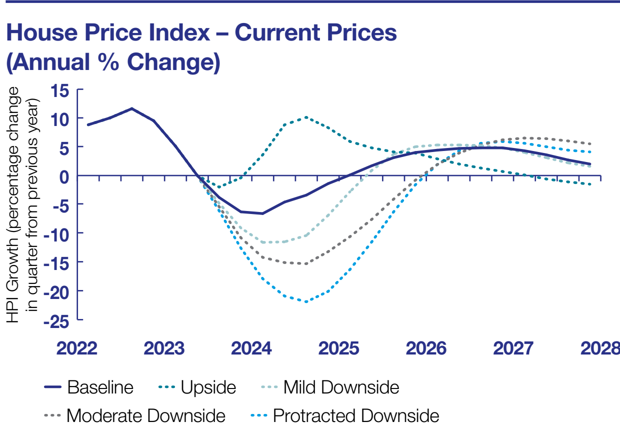
2022 2023 2024 2025 2026 2027 2028

Baseline Upside Mild Downside
Moderate Downside Protracted Downside

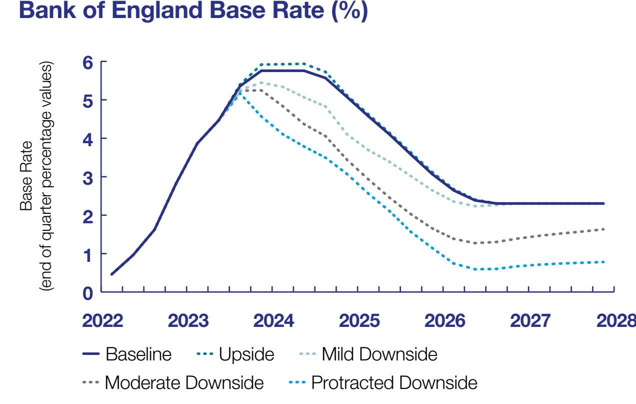
Real Gross Domestic Product (Annual % Change)



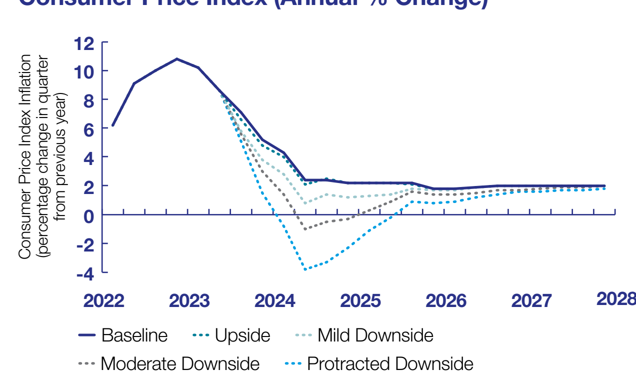
House Price Index – Current Prices (Annual % Change)



Bank of England Base Rate (%)



Consumer Price Index (Annual % Change)



	Five-year period (calendar year 2023 to 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 period (calendar year 2022 to 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 (%).

Scenario sensitivity analysis

The expected credit loss provision is sensitive to judgements 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 aforementioned changes in risk metrics and stage allocation of the portfolios.

When performing sensitivity analysis there is a high degree of estimation uncertainty. On this basis, 100% weighted expected credit loss provisions presented for the upside and downside scenarios should not be taken to represent the lower or upper range of possible and actual expected credit loss outcomes. The recalculated expected credit loss provision for each of the scenarios should be read in the context of the sensitivity analysis as a whole and in

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conjunction with the 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 (audited)

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.

Other Credit Risk Tables (audited)

Segmental credit risk

The table on page 115 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 a 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**
Total	**7,990.2**	**1,062.0**	**583.4**	**9,635.6**
Undrawn commitments				
Low risk	**1,202.3**	**21.5**	**0.1**	**1,223.9**
Medium risk	**–**	**2.7**	**–**	**2.7**
High risk	**–**	**–**	**1.9**	**1.9**
Total	**1,202.3**	**24.2**	**2.0**	**1,228.5**
Trade receivables[1]				
Low risk	**10.0**	**–**	**–**	**10.0**
Medium risk	**–**	**0.6**	**–**	**0.6**
High risk	**–**	**–**	**0.7**	**0.7**
Total	**10.0**	**0.6**	**0.7**	**11.3**

	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
Total	7,627.0	1,158.9	358.6	9,144.5
Undrawn commitments				
Low risk	1,205.9	10.7	–	1,216.6
Medium risk	0.4	3.8	–	4.2
High risk	–	2.4	0.2	2.6
Total	1,206.3	16.9	0.2	1,223.4
Trade receivables[1]				
Low risk	8.6	–	–	8.6
Medium risk	–	0.4	–	0.4
High risk	–	–	0.8	0.8
Total	8.6	0.4	0.8	9.8

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 £2.0 million (31 July 2022: £3.2 million) relating to predominantly Stage 3 receivables.

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Forbearance

Forbearance occurs when a customer is experiencing difficulty in meeting their financial commitments and a concession is granted, by changing the terms of the financial arrangement, which would not otherwise be considered. This arrangement can be temporary or permanent, depending on the customer's circumstances. The Banking division reports on forborne exposures as either performing or non-performing in line with regulatory requirements. A forbearance policy is maintained to ensure the necessary processes are in place to enable consistently fair treatment of 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 Banking division 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 tables on pages 116 to 117.

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
At 31 July 2023	**9,635.6**	**214.6**	**2.2%**	**56.1**	**6,996**
At 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 the number of customers supported 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 £ million	31 July 2022 £ million
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

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 Banking division to maximise its support to small businesses. At 31 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 & Leasing and Invoice & Speciality Finance businesses.

The Banking division 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 £276.2 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 Banking division 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

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 Banking division's collateral policies have not materially changed during the reporting 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 on page 118. 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.

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

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

	Commercial £ million	Retail £ million	Property £ million	Total £ million
LTV				
60% or lower	**48.7**	**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%	**4.7**	**15.7**	**74.7**	**95.1**
Structurally protected[2]	**229.5**	**5.0**	**–**	**234.5**
Unsecured	**19.6**	**1.5**	**0.5**	**21.6**
At 31 July 2023	**339.4**	**74.6**	**169.4**	**583.4**

	Commercial £ million	Retail £ million	Property £ million	Total £ million
LTV				
60% or lower	42.5	1.7	9.2	53.4
>60% to 70%	0.7	2.4	14.2	17.3
>70% to 80%	2.7	7.0	19.1	28.8
>80% to 90%	16.4	17.9	4.4	38.7
>90% to 100%	10.1	19.1	–	29.2
Greater than 100%	4.8	11.9	77.1	93.8
Structurally protected[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 which are detailed on pages 108 to 109.

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 company has relatively few cash requirements and all requirements are known in advance, for example external dividends. It meets its cash requirements through deposits placed with the Banking division and its committed borrowing facilities.

The Banking division's funding profile comprises a broad range of channels. Its diversified approach to funding includes secured funding, unsecured funding, retail deposits and non-retail deposits. Funding risk exposure primarily arises if the Banking division 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 Banking division'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. The Banking division's ILAAP is combined with Internal Capital Adequacy and Risk Assessments ("ICARA") from Winterflood and CBAM, alongside the company considerations, to form the group ILAAP.

Funding and liquidity risk in Winterflood is driven by four primary sources: long trading book risk positions; overnight and intraday settlements; margin requirements; and multi-day client orders. Winterflood maintains risk appetites sufficient to ensure continued compliance with the rules under the Investment Firm Prudential Regulation ("IFPR").

For CBAM, funding and liquidity risks are managed through the division's cash flow forecasting, ensuring that sufficient liquidity is maintained to cover the next three months of outflows. CBAM also has specific requirements under ICARA in relation to liquidity which are monitored against.

Further detail on the group's funding and liquidity exposure is provided on pages 70 and 71 of the Financial Overview and page 250 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. Given the materiality of the Banking division, this is primarily focused on the levels of risk assumed within the bank.

Measurement

A variety of metrics are used to measure the Banking division's funding and liquidity position to ensure compliance with both external regulatory requirements and internal risk appetite. These 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") and Group Asset and Liability Committee ("GALCO"). 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 Banking division's funding plan, which seeks to ensure that the bank maintains a balanced and prudent approach to its funding risk that is in line with risk appetite. The funding plan is supplemented by metrics that highlight any funding concentration risks, funding ratios and levels of encumbrance. The NSFR was implemented by the PRA on 1 January 2022. The four-quarter average ratio to 31 July 2023 was 126.0% (point in time ratio at 31 July 2022: 118.3%), comfortably in excess of the binding minimum requirement of 100%.

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Liquidity is managed in accordance with regulatory requirements and the ILAAP which is approved by the board. The group's LCR is significantly above the regulatory requirement. This is because the nature of the funding model means that it holds higher inflows compared to outflows within the 30-day period and significantly more HQLA than is required under regulatory metrics. The group's 12-month average LCR to 31 July 2023 was 1,143% (31 July 2022: 924%).

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

Mitigation (audited)

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 Banking division, retail and corporate customer funding is supported by wholesale funding programmes including unsecured medium-term notes and securitisation programmes. The bank has also drawn against the Bank of England's 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 tables analyse the contractual maturities of the group's on-balance sheet financial liabilities on an undiscounted cash flow basis.

	On demand £ million	**In less than three months £ million**	**In more than three months but not more than six months £ million**	**In more than six months but not more than one year £ million**	**In more than one year but not more than five years £ million**	**In more than five years £ million**	**Total £ million**
At 31 July 2023							
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	**31.8**	**25.2**	**7.6**	**243.8**	**383.2**	**–**	**691.6**
Debt securities in issue	**–**	**46.7**	**132.3**	**168.1**	**1,705.1**	**416.3**	**2,468.5**
Subordinated loan capital	**–**	**2.0**	**–**	**2.0**	**16.0**	**213.0**	**233.0**
Total	**217.2**	**1,955.9**	**2,202.5**	**2,283.5**	**4,244.9**	**629.3**	**11,533.3**

	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							
Deposits by banks	6.0	51.9	98.9	4.1	–	–	160.9
Deposits by customers	120.9	1,645.1	2,046.5	1,600.1	1,427.2	–	6,839.8
Loans and overdrafts from banks	12.0	12.0	1.9	3.7	610.5	–	640.1
Debt securities in issue	–	30.3	256.2	619.5	890.7	444.2	2,240.9
Subordinated loan capital	–	2.0	–	2.0	15.0	218.0	237.0
Total	138.9	1,741.3	2,403.5	2,229.4	2,943.4	662.2	10,118.7

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".

Monitoring

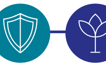
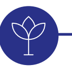
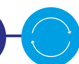
Funding and liquidity are measured and monitored on a daily basis with monthly reports forming standing items for discussion at both the ALCO, GALCO and GRCC, with the Risk Committee maintaining overall oversight. Any liquidity and funding issues are escalated as required to the ALCO, or GALCO as appropriate,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

The Banking division operates a three lines of defence model with the treasury function responsible for the measurement and management of the bank'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 Banking division's ability to fund the loan book has been largely unaffected and it continues to retain access to a wide range of funding sources and products. Similarly, elevated levels of liquidity have continued to be maintained because of 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.

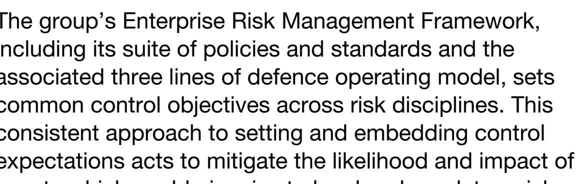
The group seeks to avoid knowingly operating in a manner which is contrary to the provisions of the regulatory system and has no tolerance for knowingly transacting business outside the scope of its regulatory permissions or relevant legislation.

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.

Risk Report continued

Principal risks

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 group'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 courts' 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"), CSRBB and FX risk.

IRRBB is predominantly incurred in the Banking division as a result of its lending and funding activities and from funding activities for the group holding company. Interest rate risk in the other divisions is immaterial.

CSRBB arises from the HQLA portfolio held in the Banking division.

FX risk is incurred across the group and arises from:

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

Risk Appetite

The group has a 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.

No material exposure exists in the other parts of the group, and accordingly the analysis below relates to the Banking division and company.

EaR impact (audited)

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 at 31 July 2023:

	31 July 2023 £ million	31 July 2022 £ million
0.5% increase	**4.5**	4.3
2.5% increase	**22.6**	22.3
0.5% decrease	**(4.5)**	(1.0)
2.5% decrease	**(22.8)**	16.7

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 changes, this has been excluded from the EaR numbers disclosed for the current year and the prior year comparatives. The prior year comparatives have also been restated to include EaR risk within the company as compared to Bank only in prior years.

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 at 31 July 2023:

	31 July 2023 £ million	31 July 2022 £ million
0.5% increase	**4.4**	1.5
2.5% increase	**21.5**	8.4
0.5% decrease	**(4.4)**	(1.2)
2.5% decrease	**(21.9)**	3.3

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. In a rising rate environment, the distance to the interest rate floors increases and so the benefit of the floors on the group's lending decreases. This explains the movement seen for the parallel rate up and down 2.5% scenarios. The EV measure is a combination of our repricing profile, which is positively correlated to rising rates, offset partially by embedded optionality to cover interest rate floors within the bank's lending and borrowing activities. The prior year comparatives have been restated to include EV risk within the company as compared to Bank only in prior years.

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 Banking division'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 Banking division'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**	–
Supranational bonds (LCR Level 1)	**–**	–
Certificates of deposit	**–**	185.0
Total treasury liquid asset holdings	**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 Banking division did not hold any encumbered assets in its liquidity portfolio at 31 July 2023.

Risk Report continued

Principal risks

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 bank 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 13.

The group also has exposures which arise from share trading settled in foreign currency in Winterflood and foreign currency equity investments. The group has policies and processes in place to manage foreign currency risk, and as such the impact of any reasonably expected exchange rate fluctuations would not be material.

Mitigation (audited)

The group maintains a limited appetite for interest rate risk with simple hedging strategies in place to mitigate risk. The Banking division's treasury is responsible for hedging the non-traded interest rate risk. Any residual risk which cannot be naturally matched is hedged utilising vanilla derivative transactions to remain within prescribed risk limits. The Group Asset and Liability Committee ("GALCO") and ALCO are respectively responsible for approving any changes to hedging strategies before implementation for the company and Bank.

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 GALCO monitors the non-traded market risk exposure across the group's balance sheet. ALCO monitors the non-traded market risk exposure for the Banking division. 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 and GALCO.

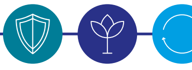
Banking businesses have operational processes and controls in place to monitor their exposure to IRRBB and ensure it remains within approved local risk appetites. Any exceptions are reported to ALM Risk on the same working day. Residual IRRBB that is not transferred into treasury for central management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

ALM Risk is responsible for maintaining processes and controls to monitor the divisional position and report exposures to ALCO and GALCO, 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 CSRBB 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 operational responses to severe but plausible stress scenarios.

Key Operational Risks

Risk Report continued

Principal risks

Operational risk areas of focus

Model Risk Focus

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

The group uses models for a range of different purposes, including provisioning, stress testing, credit approval, risk management and financial reporting. In doing so, it seeks to minimise the occurrence of financial loss, lost income or reputational damage 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 framework 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 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.

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.

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").

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.

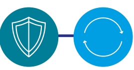
The risk function has a dedicated operational risk team which is responsible for maintaining the framework, tool sets and reporting necessary for effective operational risk management. Operational risk managers are aligned to businesses, with an additional technical second line of defence team providing 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 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 it, 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.

Risk Report continued

Principal risks

Core Drivers of Reputational Risk

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. A communications plan also forms part of the group's Recovery Plan, which sets out core principles to ensure fair and transparent communication, to control the risk of misinformation and minimise any negative reaction to the 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 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

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.

Traded market risk

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

Exposure

Traded market risk in the group only arises in Winterflood, whose core business is to provide liquidity and interact with the market on a principal basis, holding positions in financial instruments as a result of its client facilitation activity.

Winterflood operates as a market maker in equities, exchange-traded products, investment trusts and sovereign and corporate bonds, operating across three primary markets: the United Kingdom, North America and Europe. For hedging purposes, a number of derivatives are also traded, although these are limited to listed futures in UK equity and fixed income markets and FX forwards.

Risk Appetite

Winterflood's strategic objectives and business plan are centred on its ability to continue transacting in the markets in which it operates, in the manner it has historically. The group sets its risk appetite accordingly, acknowledging that an acceptable level of traded market risk must be incurred for the business to operate effectively.

Winterflood seeks to always ensure sufficient levels of capital and liquidity are maintained to cover its traded market risk exposure.

Measurement

Traded market risk is measured against a set of defined risk limits set at global, desk and individual stock levels, on both an intraday and end-of-day basis. These limits are monitored via a combination of internally developed and external, industry-leading systems on an intraday and overnight basis against a limit framework aligned to the group's risk appetite. The framework incorporates:

- market risk appetite being managed via trading book exposure limits. These are set using gross cash positions and the sterling value of a basis point ("SV01") for products with interest rate exposure;
- adoption of a real-time limit monitoring system, along with end-of-day summary reports to track equity, fixed income and FX exposures against agreed limits; and
- minimal exposure to derivatives (limited to hedging of interest rate exposures and FX positions resulting from positions in foreign securities).

Mitigation (audited)

The management of traded market risk is fully embedded within Winterflood's training and governance framework. Key attributes include:

- an established training programme for junior dealers, requiring their supervision by a senior dealer until deemed competent to trade on their own;
- the provision of training to all new joiners and newly certified staff by the front office controls team. This training includes market risk considerations as well as details on order entry controls;
- the maintenance of risk mandates for all traders, detailing the group's market-making strategy, controls frameworks and policies and procedures;
- oversight of all risk issues, including traded market risk, via the Winterflood Risk and Compliance Committee. Management information and key risk indicators are reported to the committee on a monthly basis with escalation to the GRCC and Risk Committee where needed;
- the maintenance of a group Market Risk Policy and a specific Traded Market Risk Standard at Winterflood, outlining minimum governance requirements and escalation. Implementation of these requirements is achieved through documented front office procedures;
- order entry controls in place across the trading floor limiting, amongst other trading variables, the executable value per order (these are documented in a front office procedure); and
- daily total value traded caps to limit the amount the business can trade through a single broker.

Monitoring

Building on the use of real-time limit monitoring, the monitoring of traded market risk is embedded across all three lines of defence. Top-down visibility is exercised via the Winterflood Risk and Compliance Committee, which retains regular oversight of core traded market risk management information and key risk indicators, as well as stress testing outputs and policies and standards.

The Winterflood risk team works in conjunction with the front office controls team to ensure the management of traded market risk is correctly aligned to documented controls. To support this, management information dashboards are utilised alongside daily reporting to help manage market risk on a daily and intraday basis.

Risk Report continued

Principal risks

Outlook

Several themes have driven markets over the past 12 months: inflation, rising interest rates, supply chain issues, industrial action and the knock-on impacts these factors have had on the economy. These factors, coupled with ongoing geopolitical uncertainty, will continue to be themes over the next 12 months, with the potential to keep market liquidity low and suppress market valuations if recessionary fears play out further.

In a rising interest rate environment seeking to combat high inflation, following an extended period of low interest rates, and where the government, institutions and households may be servicing increased levels of debt, the probability of another credit event impacting financial markets is elevated. It is therefore important to ensure disciplined allocation of capital within the trading book in line with our prudent approach, and that robust reporting and control frameworks are embedded to help manage exposures and the potential for losses.

Trading Financial Instruments: Equity Shares and Debt Securities (Audited)

The group's trading activities relate to Winterflood. The following table shows the group's trading book exposure to market risk:

	Highest exposure £ million	**Lowest exposure £ million**	**Average exposure £ million**	**Exposure at 31 July 2023 £ million**
For the year ended 31 July 2023				
Equity shares				
Long	**68.3**	**21.8**	**28.3**	**27.8**
Short	**20.1**	**4.7**	**7.7**	**6.4**
Net position			**20.6**	**21.4**
Debt securities				
Long	**37.4**	**10.6**	**15.8**	**15.2**
Short	**11.8**	**3.6**	**6.4**	**3.5**
Net position			**9.4**	**11.7**

	Highest exposure £ million	Lowest exposure £ million	Average exposure £ million	Exposure at 31 July 2022 £ million
For the year ended 31 July 2022				
Equity shares				
Long	54.0	25.3	32.6	27.1
Short	28.9	5.3	10.0	7.9
Net position			22.6	19.2
Debt securities				
Long	23.8	14.2	19.5	12.4
Short	16.1	7.2	11.5	7.5
Net position			8.0	4.9

With respect to the long and short positions on debt securities, £11.0 million and £0.3 million (2022: £8.0 million and £1.7 million) were due to mature within one year respectively.

The average exposure has been calculated on a daily basis. The highest and lowest exposure columns reflect the absolute maximum and minimum long and short debt and equity exposures across the relevant period (rather than the maximum and minimum net position).

Based upon the 31 July 2023 trading book exposure given above, a hypothetical fall of 10% in equity prices would result in a £2.1 million decrease (31 July 2022: £1.9 million decrease) in the group's income and net assets. A hypothetical 10% fall across the fixed income desk would result in a £1.2 million decrease (31 July 2022: £0.5 million decrease) in the group's income and net assets. However, the group's trading activity is mainly market-making, in which positions are managed throughout the day on a continuous basis. Accordingly, the sensitivity referred to above is purely hypothetical.

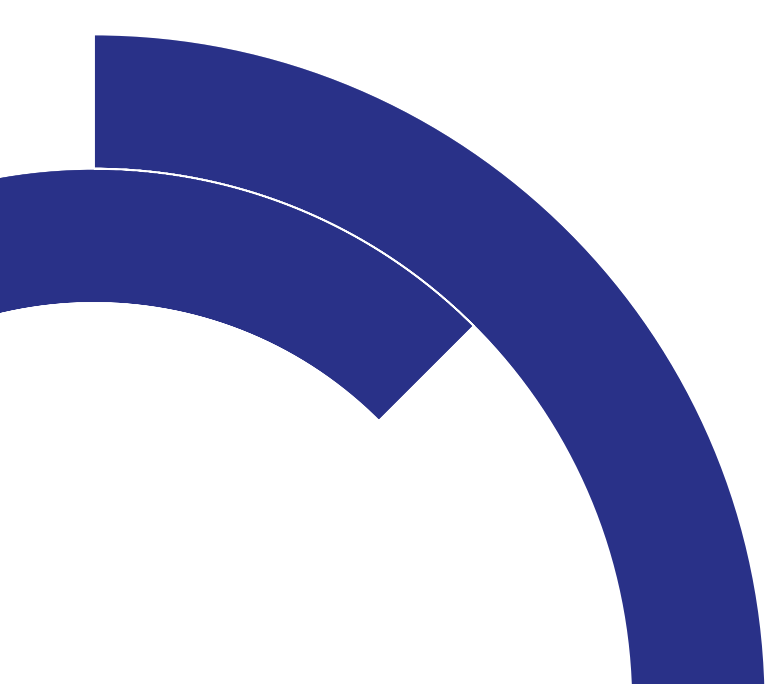
Going Concern

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 and the Risk Report.

The group continues to have a strong, proven and conservative business model supported by a diverse portfolio of businesses, maintaining its consistent track record of delivering profits. The group remains well positioned in each of its core businesses, is strongly 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 acknowledge that the risk landscape is constantly evolving and as such continually review the group's 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 Risk Report under the heading Principal risks and uncertainties: funding and liquidity on pages 119 to 121 and capital position on page 97 to 100.



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 of the divisions, the directors have also considered the impact of the central and downside scenarios on financial performance over the next 12 months. For Banking, these include expected customer demand, which underpins loan book growth, as well as the impact of rising interest rates and inflationary pressures on the group's customers and the effect this will have on the bad debt ratio and net interest margin. For Asset Management, the strength of financial markets in the UK and volume of net flows as a percentage of opening managed assets was considered. For Winterflood, the volume of trading activity within its markets and expected trading revenue was assessed. Across all the divisions, the limited impact of the selected downside scenario demonstrated the resilience of the group business model.

In addition, two stress testing scenarios are 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. Further details of these scenarios are set out in the Viability Statement.

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 comfortably 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.

Viability Statement

Consideration

In accordance with provision 31 of the UK Corporate Governance Code, the board has assessed the prospects of the group and confirms that it has a reasonable expectation that the company and group will continue to operate and meet their liabilities, as they fall due, for the three-year period up to 31 July 2026.

Strategic and Financial Outlook

The board has considered the longer-term viability of the group and considers three years to be an appropriate period for the assessment to be made. A period of three years has been chosen given the group's proven and resilient business model over the medium term and prudent maturity profile and this matches the group strategic planning cycle. A three-year period aligns with the group regulatory and internal stress testing processes, including: (i) group-wide internal forecasting and stress testing, which have undergone significant review and challenge, to confirm the viability of the group; (ii) the ICAAP, which assesses capital requirements; and (iii) ILAAP, which identifies liquidity requirements.

Risk Management and Risk Profile

In making its assessment, the board has identified and assessed the principal and emerging risks facing the group and these are highlighted on pages 90 to 130. The group's approach to monitoring and managing the principal risks faced by the group's business, including financial, business, market and operational risks, has remained consistent given the group's activities, business model and strategy are unchanged.

The group utilises an established risk management framework to monitor its portfolio of emerging risks incorporating the group's "bottom up" and "top down" approach. These approaches are monitored by the local and group risk and compliance committees with agreed actions regularly tracked. Key emerging risks can be found in the Risk Report on pages 94 to 95.

Assessment

The group will continue to monitor and assess these risks, by: adhering to its established and proven business model as outlined on pages 12 and 13; implementing an integrated risk management approach based on the concept of "three lines of defence"; and setting and operating within clearly defined and monitored risk appetites.

The group's business model, supported by a solid track record and sustained profitability, has worked well through a range of economic, social and environmental conditions over multiple economic cycles and this is projected to continue over the medium term. Taking into account the diversified portfolio of the businesses across the group, the board considers medium-term economic, social, environmental and technological trends at the individual business unit level as part of the strategic planning cycle. This includes focusing on the long-term strategic approach to protect, grow and sustain the group business model, with key priorities outlined on pages 20 to 25.

The board has also assessed the group's viability by considering regular forecasting and stress testing undertaken to reflect uncertainties in the economic environment. A range of forward-looking scenarios has been considered, with distinct social and economic assumptions. Various macroeconomic assumptions have been assessed across the scenarios including GDP growth, inflation, interest rates, unemployment, residential house prices and equity prices (refer to the Risk Report on pages 109 to 114). The modelling considers the group's future projections of profitability, cash flows, capital requirements and resources, and other key financial and regulatory ratios over the period. In the modelled scenarios, it has been assumed that no significant structural changes to the company or group will be required.

These scenarios have been built using the same principles as those in the going concern assessment, extended out over the three-year period:

- the central scenario presents our base case assuming inflation levels remain elevated, reflecting the latest economic outlook, with minimal GDP growth whilst unemployment remains low; and
- the downside scenario modelled assumes severe recession as UK GDP contracts by 5%, driving significant uptick in impairment losses combined with materially impacted market-facing businesses.

Across the divisions, the limited financial impact of each scenario demonstrates the resilience of the group business model. In addition, the directors have reviewed the key management actions which would be taken in the event of a downside scenario, in order to mitigate the stress, and the viability of these actions.

The group maintains capital ratios significantly above regulatory minima, which are currently set at a minimum common equity tier 1 ratio of 9.5% and a minimum total capital ratio of 13.4%, excluding any applicable Prudential Regulation Authority buffer. In all scenarios, the company and group continue to operate with sufficient levels of capital, with the group's capital ratios and funding and liquidity positions well within internal risk appetite and comfortably in excess of regulatory requirements.

The group continues to participate in government lending schemes such as the Term Funding Scheme ("TFSME"), albeit this only represents around 5% of total funding. The TFSME will be replaced as it comes to maturity via unsecured and secured issuance. Please refer to note 26 for further details.

In making this assessment, the directors have considered a wide range of information, including:

- the board's risk appetite and robust assessment of the principal and emerging risks which could impact the performance of the group, and how these are managed – please refer to the Risk Report on pages 83 to 130;
- the group's current financial position and prospects – please refer to the Financial Overview section on pages 66 to 82; and
- the group's business model and strategy – please refer to the Business Model section on pages 12 to 13, and the Strategy and Key Performance Indicators sections on pages 26 to 27.

The directors have also considered the results of the most recent iterations of the following reviews:

- the annual review of the Recovery Plan, which included employing a number of scenarios to test the group Recovery Plan, the wide range of risk indicators and the recovery options available to the group;
- the 2022 group ICAAP, which included both stress testing and scenario analysis. At a group level, two severe stress test scenarios were assessed representing protracted downside scenarios. These took account of the scope and likely effectiveness of mitigating actions that could be taken by management to avoid or reduce the impact or occurrence of underlying risks. As part of the ICAAP, reverse stress testing was also undertaken to support the identification of potential adverse circumstances and events; and
- the 2022 ILAAP, which was reviewed to assess the group's liquidity across a range of market-wide and idiosyncratic scenarios, confirming the ongoing strength of the group's funding and liquidity model. Please refer to note 26 on financial risk management for further details.

This forward-looking Viability Statement made by the board is based on information and knowledge of the group at 26 September 2023. Unexpected risks and uncertainties may arise from future events or conditions, such as economic changes and business conditions, which are beyond the group's control and could cause the group's actual performance and results to differ from those anticipated.

In conclusion, the directors have determined that they have a reasonable expectation that the group and company will be able to continue its operations and meet its liabilities as they fall due over the three-year period of the assessment.

This Strategic Report was approved by the board and signed on its behalf by:

Adrian Sainsbury
Chief Executive

26 September 2023

Chairman's Introduction to Governance

Focused on delivering stakeholder value

Michael N. Biggs
Chairman

Dear Shareholder

On behalf of the board, I am pleased to introduce the Corporate Governance Report for the year ended 31 July 2023.

The following pages explain the group's governance structure and key activities undertaken by the board and its committees during the year in order to ensure effective decision making and oversight of the group's strategy, business model and performance. The report describes how we have complied with the UK Corporate Governance Code 2018 (the "Code") during the year.

At Close Brothers, we firmly believe in the importance of effective board oversight and high standards of corporate governance and the role that they play in underpinning the group's performance, the delivery of its strategy and the achievement of long-term sustainable success for the company's shareholders and other stakeholders. It continues to be a focus of the board to maintain a robust and effective governance, control and risk management framework.

Strategy, Purpose and Culture

The board plays an important role in setting the group's strategy, purpose, business model and culture and the board spends time on each of these areas throughout the year. The directors recognise the important role that they play in setting the tone from the top and in monitoring how the group's culture and values are formed, communicated and embedded. As a board, we also acknowledge the crucial link between culture, governance and leadership and the role that clear and effective decision-making plays as a key driver of culture.

Once again, during the financial year under review, in my own engagement with employees I have been pleased to see the group's strong and distinctive culture in action, as shown by the continuing commitment on the part of our employees to support our customers, clients and partners.

As a board, we have been mindful throughout the year of the wider macroeconomic climate within which we are operating and the impact that this has had on our customers, clients, partners and employees. We regularly consider these external factors when reviewing the group's strategy, discussing opportunities for growth and seeking to identify ways in which we can maximise shareholder value.

Changes to the Board

We were pleased to welcome Kari Hale to the board as a non-executive director on 28 June 2023. More details on the robust and formal search process leading to Kari's appointment can be found on page 156 together with an overview of his induction process. We are confident that his skills complement those of the rest of the board.

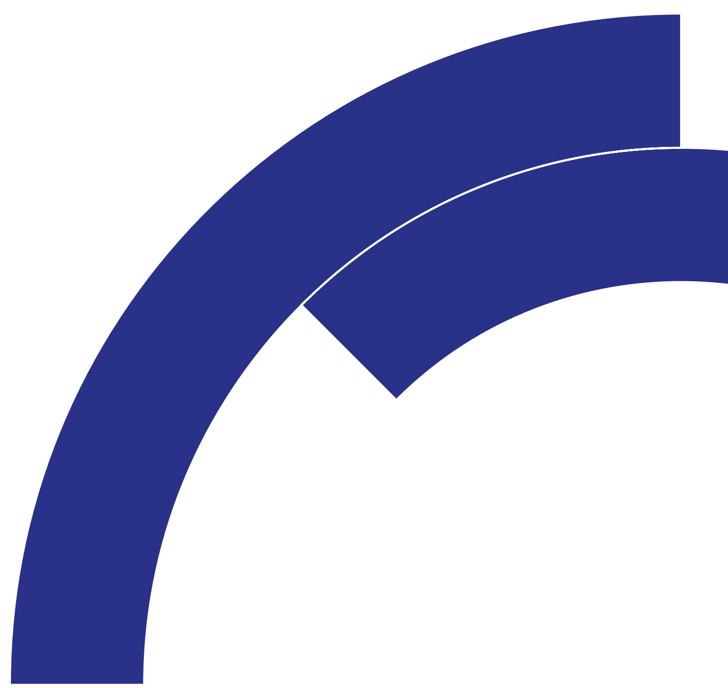
At the conclusion of the AGM in November 2022, Tracey Graham became chair of the Remuneration Committee and Patricia Halliday became chair of the Risk Committee. Oliver Corbett will not be standing for re-election at the AGM in November 2023, having completed nine years' service on our board. On behalf of the board and everyone at Close Brothers, I would like to express my sincere thanks to Oliver for his long and dedicated service to the group.

Board Effectiveness

This year, as required by the Code, the board undertook a formal and rigorous internal evaluation to review the effectiveness and performance of the board and its committees. The findings are set out on page 151 and the board will develop an action plan to identify opportunities to implement these findings during the year ahead.

Stakeholder Engagement

Stakeholder engagement continues to be a priority for the board. During the year, the board used formal meetings and other opportunities to discuss the group's performance and delivery of its strategy with group and divisional executives. These discussions included consideration of a wide range of stakeholders and their interests, as well as consideration of the relevant regulatory, economic and political factors which are inherent within the environment in which we operate. During the board's regular meetings and in sessions specifically focusing on strategy, the directors spent considerable time assessing and having regard to the impact of individual decisions and the group's operations on different stakeholder groups. This included extensive discussion of matters arising from engagement with shareholders, customers, employees, regulators and other stakeholder groups.



You can find our formal statement in relation to section 172 of the Companies Act 2006, together with further detail about how the directors have engaged with, and had regard to the interests of, stakeholders in the Strategic Report on pages 1 to 133 and in the Corporate Governance Report on pages 134 to 166.

Sustainability and ESG

The board and its committees also spent time considering a broad range of sustainability matters, including during regular discussions about the group's strategy and through frequent environmental, social and governance ("ESG") updates at both board and committee level. The board and the Nomination and Governance Committee have also reviewed our climate risk reporting framework at board and management level.

I have been pleased to discuss the board's approach to ESG during my regular meetings with shareholders. In considering our wider responsibilities with respect to sustainability, the board has continued to focus on external and internal developments in relation to climate change and climate risk. This has included discussion of the group's climate strategy and goals, together with oversight of our progress towards meeting the disclosure requirements arising out of the Task Force on Climate-related Financial Disclosures ("TCFD").

Diversity and Inclusion

The board and the Nomination and Governance Committee have continued to monitor diversity and inclusion, both as part of our ongoing board and executive management succession planning and in relation to activities aimed at developing a diverse and inclusive talent pipeline below board level.

The board's composition continues to be diverse, comprising directors from a range of backgrounds. Following the appointment of Kari Hale to the board in June 2023, board gender diversity has reduced in the short term to 36%. We expect that we will once again meet our target of 40% female directors from November 2023, when Oliver Corbett steps down from the board at the conclusion of the 2023 AGM.

We aim to comply at all times with the recommendations of the FTSE Women Leaders and Parker Reviews in terms of the composition of the board. The composition of the board does not currently meet the new FCA Listing Rule requirement to have one of the senior board positions occupied by a female and the board recognises that this will be an important consideration for all future board appointments.

Further information on the board's approach to diversity and inclusion can be found on pages 156 to 158.

Engagement with Shareholders

Engagement and dialogue with shareholders continues to be a key focus for the board and I have enjoyed meeting with a number of our shareholders during the year to discuss a range of topics in order to ensure that the board is aware of, and can take into account, our shareholders' views.

We are delighted to welcome shareholders to this year's AGM. Further details will be set out in the Notice of AGM sent to shareholders in due course.

On behalf of the board, I would like to thank shareholders for their continued support. My fellow directors and I look forward to continuing to engage with you in the year ahead, including at the AGM.

Michael N. Biggs
Chairman

26 September 2023

Governance at a Glance

Our Governance Framework

The board

The board's purpose is to promote the long-term success of the group and to deliver value to shareholders and other stakeholders. The board sets the governance framework and has responsibility for the leadership, performance and culture of the group.

Nomination and Governance Committee

Monitors board composition, diversity, and the balance of skills in the context of the group's strategic objectives.

Leads the process for new board appointments, oversees succession planning and ensures the development of a diverse pipeline of talent.

Oversees the board's governance arrangements including the annual board evaluation and the group's ESG strategy.

See page 154

Audit Committee

Oversees the group's financial reporting and monitors the integrity and quality of the group's financial statements to ensure the group's financial reporting is fair, balanced and understandable.

Monitors the robustness of the group's internal financial controls and the efficacy of the group's internal audit function.

Oversees the group's relationship and plans with the external auditors.

Oversight of going concern and viability statement reporting.

See page 159

Risk Committee

Reviews and monitors the group's principal and emerging risks.

Reviews the effectiveness of the group's risk management systems.

Oversees compliance across the group with the relevant statutory and regulatory requirements.

See page 164

Remuneration Committee

Determines the remuneration policy for the executive directors, taking into account strategic factors, culture and values, and the long-term success of the group.

Sets performance targets and reviews remuneration outcomes, applying discretion where appropriate.

Reviews wider workforce remuneration policies and practices and their alignment to executive remuneration.

See page 167

Executive Directors and Executive Committee

The board delegates the execution of the group's strategy and the day-to-day management of the business to the Executive Committee, which is led by the Chief Executive and supported by management committees.

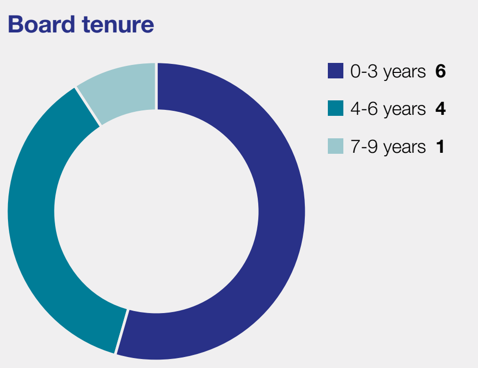
Operating Committees

A number of committees at management level provide key business and risk management oversight across day-to-day operations.

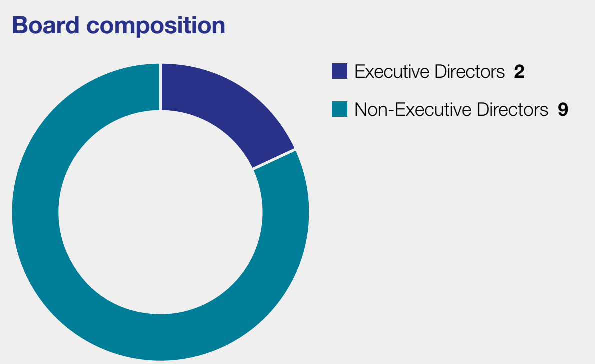
Board Statistics

Gender diversity

Board tenure



Board composition



Find our diversity tables on page 157

Non-executive directors' skills/experience

Skill	Directors
Broad financial services	**8 out of 9**
Finance, audit & accounting	**9 out of 9**
People & culture	**9 out of 9**
Risk	**9 out of 9**
Regulatory framework	**9 out of 9**
ESG	**8 out of 9**
Technology, digital and operations	**8 out of 9**
Strategy	**9 out of 9**
Leadership	**8 out of 9**
Listed company governance	**9 out of 9**

Board Highlights this Year

- Completed a successful bond issuance
- Orderly committee chair succession, with Patricia Halliday and Tracey Graham becoming chairs of the Risk and Remuneration Committees respectively at the conclusion of the 2022 AGM
- Oversaw the successful implementation of Consumer Duty
- Approved enhanced Pillar 3 disclosures
- Completed an internal board evaluation which concluded that the board and its committees continue to operate effectively
- Appointed an additional non-executive director, Kari Hale, in June 2023
- Initiated a review of ESG and climate risk reporting

Board Priorities for the Next Year

- Continuing to explore new growth opportunities
- Focusing on strategic objectives and investing in transformation programmes
- Identifying opportunities to maximise shareholder value
- Focusing on further growing and nurturing the executive talent pipeline, supporting the identification of high performing employees and championing their progression through the organisation
- Further enhancing the group's strategy on managing climate risk and the wider ESG agenda
- Receiving updates, relevant management information and training to support the board in ensuring its continued effectiveness in the evolving technological, macroeconomic and regulatory landscape

Board of Directors

Directors' appointments

- 2014: Oliver Corbett
- 2017: Mike Biggs
- 2018: Mike Morgan
- 2019: Peter Duffy
- 2020: Adrian Sainsbury, Sally Williams
- 2021: Mark Pain, Patricia Halliday, Tesula Mohindra
- 2022: Tracey Graham
- 2023: Kari Hale

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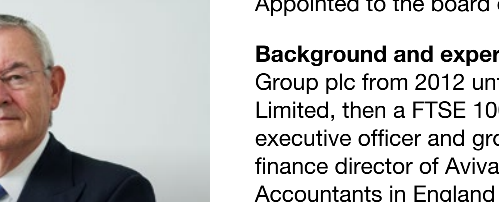

Mike Biggs
Chairman

Appointed to the board on 14 March 2017, and as chairman on 1 May 2017

Background and experience: Mike was the chairman of Direct Line Insurance Group plc from 2012 until August 2020. He was previously chairman of Resolution Limited, then a FTSE 100 UK life assurance business, and has acted as both chief executive officer and group finance director of Resolution plc. Mike was group finance director of Aviva plc and is an Associate of the Institute of Chartered Accountants in England and Wales ("ICAEW").

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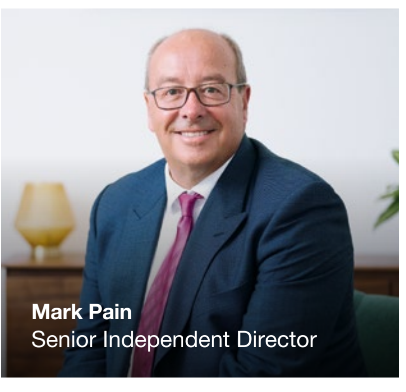


Mark Pain
Senior Independent Director

Appointed on 1 January 2021

Current external appointments: Mark serves as the chairman of AXA UK plc where he chairs the nomination committee and he serves on the risk, remuneration and investment committees, and serves as the non-executive chairman of London Square Limited and Empiric Student Property plc.

Background and experience: Mark has extensive finance, risk management and commercial experience, having held board positions at Barratt Developments plc and Abbey National Group. Mark has previously been a non-executive director of Yorkshire Building Society (where he served as senior independent director), Ladbrokes Coral Group plc, Punch Taverns plc, Spirit Pub Company plc, Johnston Press plc, and Aviva Insurance Limited, among others.

Adrian Sainsbury
Chief Executive

Appointed on 21 September 2020

Background and experience: From 2016 until September 2020, Adrian was managing director of Close Brothers' Banking division. Since August 2013 he has been a director of Close Brothers Limited, the group's banking subsidiary. Adrian has previously held executive roles at Barclays, RBS and Bank of Ireland and was chief executive of ANZ Bank in Europe. Adrian has also served as chairman of the Asset Based Finance Association, the UK and Ireland industry body.

Committee chair

N Nomination and Governance Committee member

A Audit Committee member

Ri Risk Committee member

R Remuneration Committee member

Mike Morgan
Group Finance Director

Appointed on 15 November 2018

Background and experience: From 2010 to 2018 Mike was chief financial officer of Close Brothers' Banking division, and since 2010 he has been a director of Close Brothers Limited, the group's banking subsidiary. Mike is a chartered accountant and from June 2013 to June 2019 was a member of the ICAEW Financial Services Faculty Board, and appointed the Board chair and an ICAEW Council member from June 2019 to June 2021. Prior to joining Close Brothers, Mike held a number of senior roles at Scottish Provident and RBS, most recently as finance director of the Wealth Management Division of RBS.

Oliver Corbett
Independent
Non-executive Director

Appointed on 3 June 2014

Current external appointments: Consultant to McGill and Partners Group Limited.

Background and experience: Oliver was formerly chief financial officer of McGill and Partners Group, Hyperion Insurance Group Limited and finance director of LCH. Clearnet Group Limited and of Novae Group plc. Oliver is a chartered accountant and previously worked for KPMG, SG Warburg, Phoenix Securities (later Donaldson Lufkin Jenrette) and Dresdner Kleinwort Wasserstein, where he was managing director of investment banking. Oliver was also a non-executive director of Rathbone Brothers plc.

Patricia Halliday
Independent
Non-executive Director

Appointed on 1 August 2021

Background and experience: Patricia has over 30 years' experience in risk management across the investment, corporate and retail banking sectors. Patricia was chief risk officer ("CRO") of Santander UK with responsibility for risk management and oversight across retail and commercial banking. Prior to Santander, Patricia was CRO of GE Capital International Holdings Limited. She began her career at NatWest, followed by senior credit risk roles at Barclays Capital and then Deutsche Bank, including as Head of Leveraged and Structured Finance and Commercial Real Estate, and chair of the Underwriting Committee, covering the UK, European and US markets.

Tracey Graham
Independent
Non-executive Director

Appointed on 22 March 2022

Current external appointments: Non-executive director of DiscoverIE Group plc, LINK Scheme Limited and Nationwide Building Society.

Background and experience: Tracey has broad executive experience from companies operating in the financial and business services sectors, both in the UK and internationally. She has extensive experience as a remuneration committee chair and also serving as a senior independent director. Tracey began her career at HSBC and subsequently held the role of director of customer services at AXA Insurance plc. She was chief executive officer of Talaris Limited, an international cash management business. Before that, she held a number of senior roles in De La Rue plc, including as managing director—Identity Systems, president—Sequoia Voting Systems and managing director—Cash Systems. Tracey served as a non-executive director of Royal London Mutual Insurance Society Limited for nine years until March 2022, as well as Ibstock plc for seven years until April 2023.

Board of Directors continued

- Committee chair
- N Nomination and Governance Committee member
- A Audit Committee member
- Ri Risk Committee member
- R Remuneration Committee member

Peter Duffy
Independent
Non-executive Director

Appointed on 1 January 2019

Current external appointments: Chief executive officer of Moneysupermarket.com Group plc.

Background and experience: Peter previously served as chief executive officer of Just Eat Limited, having been interim chief executive officer and chief customer officer of Just Eat plc before that. Between 2011 and 2018, Peter held a number of senior roles at easyJet plc, including as chief commercial officer and group commercial director. Prior to that, Peter held roles at Audi UK Ltd and Barclays Bank plc over a period of more than 15 years. Peter was also president of the Incorporated Society of British Advertisers.

Sally Williams
Independent
Non-executive Director

Appointed on 1 January 2020

Current external appointments: Non-executive director of Lancashire Holdings Limited and of Family Assurance Friendly Society Limited (OneFamily) and chair of the audit committee at both companies.

Background and experience: Sally is a member of the ICAEW. She has extensive risk, compliance and governance experience, having held senior executive positions at Marsh, National Australia Bank and Aviva. Prior to that, Sally held roles at PricewaterhouseCoopers LLP in both their risk management and audit teams over a period of 15 years.

Tesula Mohindra
Independent
Non-executive Director

Appointed on 15 July 2021

Current external appointments: Non-executive director and chair of risk and audit committee of RAC Group, non-executive director and chair of consumer committee at NHBC (National House-Building Council) and trustee of Variety, the Children's Charity.

Background and experience: Tesula qualified as a chartered accountant with PricewaterhouseCoopers LLP, and held managing director roles at JP Morgan and at UBS, specialising in corporate finance for financial institutions and pension fund risk management. She was a founding member of the management team of Paternoster, the specialist bulk annuity insurer, where she was a member of the executive committee. Tesula has also worked as an independent corporate finance consultant on business plans and capital raising.

Kari Hale
Independent
Non-executive Director

Appointed on 28 June 2023

Current external appointments: Non-executive director and audit committee chair at AXA UK plc and currently a senior adviser to the Financial Reporting Council.

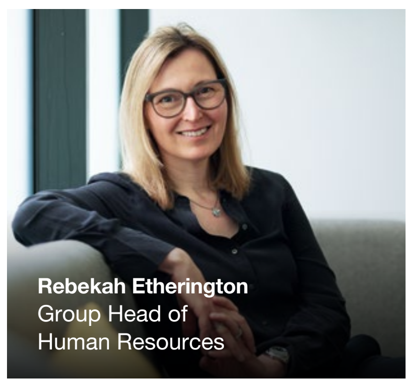
Background and experience: Kari held a range of senior roles at Deloitte including serving on its UK Financial Services Industry Board as head of strategy for the financial services practice. Previously Kari was an executive director at the Financial Services Authority.

Executive Committee

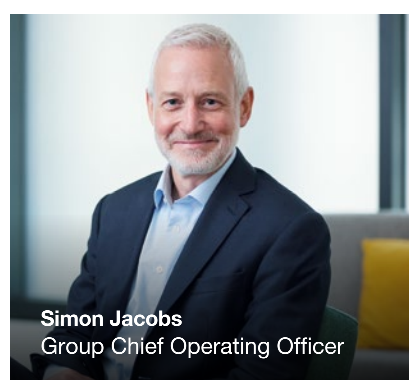
Adrian Sainsbury
Chief Executive

Mike Morgan
Group Finance Director

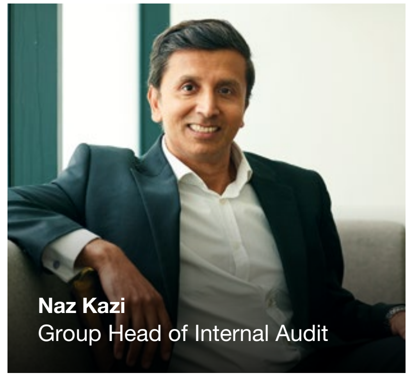
Bradley Dyer
Winterflood Chief Executive



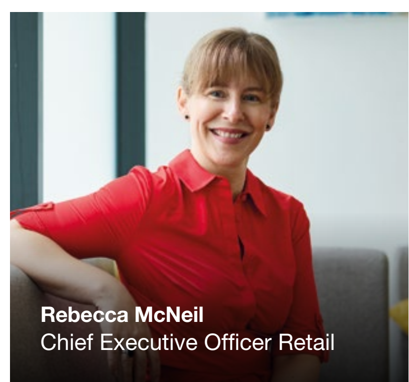
Rebekah Etherington
Group Head of Human Resources



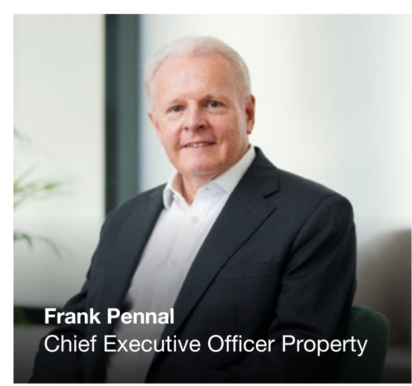
Simon Jacobs
Group Chief Operating Officer



Naz Kazi
Group Head of Internal Audit

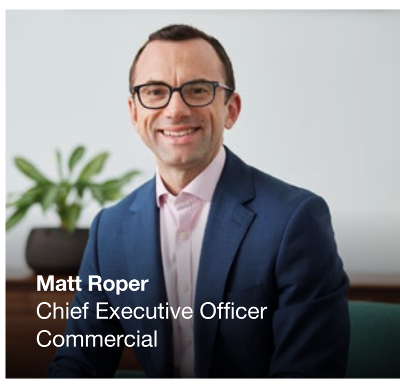


Rebecca McNeil
Chief Executive Officer Retail

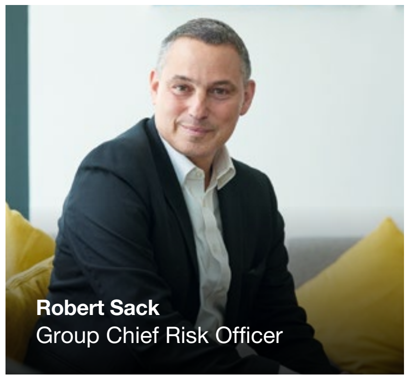


Frank Pennal
Chief Executive Officer Property

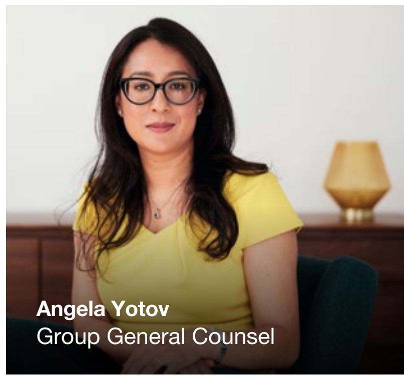
Eddy Reynolds
Asset Management Chief Executive



Matt Roper
Chief Executive Officer Commercial



Robert Sack
Group Chief Risk Officer



Angela Yotov
Group General Counsel

Corporate Governance Report

Board operations and compliance

Compliance with the UK Corporate Governance Code

The Code, published by the Financial Reporting Council ("FRC"), applied to the company throughout the financial year. A copy of the Code can be found on the FRC's website: www.frc.org.uk.

It is the board's view that, throughout the year, the company has applied the principles and complied with the provisions set out in the Code. The table below sets out the relevant sections of our Annual Report, where shareholders can read in more detail how we have embedded governance principles and specific provisions of the Code across our organisation.

Board leadership	Page 142
Division of responsibilities	Page 144
Composition, succession and evaluation	Page 154
Audit, risk and internal control	Page 159
Remuneration	Page 167

Governance Framework

Our governance framework supports good governance across the group and facilitates delivery of the strategy through effective decision-making.

Certain matters are reserved for the board, primarily in relation to:

- Setting and monitoring strategy for the group
- Corporate structure, capital, and ensuring adequate financial resources
- Financial reporting and controls
- Oversight of risk management, regulatory compliance, internal controls and whistleblowing
- Significant financial matters including acquisitions, disposals and investments
- Shareholder, market and regulatory communication
- Board and committee membership
- Remuneration of the board and executive management
- Delegation of authority
- Corporate governance matters

When carrying out its duties, the board acts in accordance with relevant legislative and regulatory requirements and, in particular, takes into account the directors' duties set out in the Companies Act 2006, including s.172, the interests of the company's stakeholders, and any other relevant factors.

The board has delegated responsibility for certain matters to its committees. Each committee has written terms of reference, which are available at www.closebrothers.com. The chair of each committee reports at each subsequent board meeting to the board on matters discussed at committee meetings. All non-executive directors have access to the papers of committees and have a standing invitation to attend any committee meeting. Reports from the board's committees are set out later in this Annual Report and they include further detail on each committee's role and responsibilities, and the activities undertaken during the year.

Board Leadership

The board's primary role is to provide effective leadership and stewardship for the group as a whole and to ensure that the company is effectively managed, delivers long-term shareholder value and contributes to wider society.

The board sets the group's purpose and strategic objectives and monitors management's performance against those objectives, ensuring alignment with the group's culture and stakeholder expectations. The board also supervises the group's operations, with the aim of ensuring that it maintains a framework of prudent and effective controls, enabling risks to be properly assessed and appropriately managed.

The board considers strategic issues, the group's business model and receives regular group and divisional executive updates on performance against strategic goals and relevant developments in the wider market, including from a regulatory perspective. During the year, a range of activities enabled the board to focus on these areas, including a strategy session in May 2023 and regular deep dives, more information about both of which can be found in the box below.

May 2023 Strategy Session

- Considered group strategic issues and opportunities
- Facilitated by external strategic experts
- Topics of discussion included the group's budget, funding and growth plans, and investor feedback
- Various strategic opportunities across the business were presented for consideration, challenge and debate
- Follow-up actions agreed and tracked

Deep Dives

- A number of "deep-dive" sessions were held during the year
- Each focused on an individual business area or topic relevant to the legal and regulatory landscape within which our businesses operate
- The board aims to cover each of the group's businesses at such a session on a rolling two-year basis

Meetings of the Board

The board's role in assessing the basis on which the group generates and preserves value over the long term is supported by continuous focus on consumer outcomes and other stakeholder considerations. It spends time during the year, in scheduled board meetings, during its annual strategy discussions and in other sessions with senior management and stakeholders, considering how opportunities and risks to the future success of the group's business should be addressed. These discussions include extensive consideration of the sustainability of the group's business model. Further information on these considerations can be found in the Strategic Report on pages 38 to 64 of this Annual Report.

Each scheduled board meeting also includes time for discussion between the chairman and the non-executive directors, without the executive directors present.

Another key function of the board is to define, promote and monitor the group's culture and values, setting the tone from the top. More on our culture and values can be found on pages 30 to 31 of this Annual Report. When making decisions, the board has regard to the interests of a range of stakeholders, including employees, customers, clients and shareholders, as well as its broader duties under section 172 of the Companies Act 2006. The company's section 172 statement can be found on page 34 of this Annual Report. Case studies illustrating key decisions of the board while having regard to section 172 can be found on page 152.

In addition, the board appoints one of the directors to act as the group's whistleblowing champion and this is currently Oliver Corbett. As part of this role, Oliver engages with the group head of operational risk and compliance regularly in relation to whistleblowing matters during the course of the year. For more details about the company's whistleblowing procedure, see page 55.

The board also appoints one of its directors to act as the group's consumer duty champion and this is currently Sally Williams. For more details about the company's compliance with the new consumer duty regulation, see page 25.

The annual schedule of board meetings is decided a significant length of time in advance in order to ensure, so far as possible, the availability of all directors. In the event that, in exceptional circumstances, directors are unable to attend a meeting, they receive papers as usual and have the opportunity to relay their comments and questions in advance, as well as follow up with the chairman if necessary. The same process applies in respect of the board committees.

In addition to these meetings, a number of ad hoc meetings were held to consider specific items of business. All directors attended a strategy session with senior management in May 2023, more details of which can be found on page 142.

Attendance at Board and Committee Meetings

	Board	Nomination and Governance Committee	Risk Committee	Audit Committee	Remuneration Committee
Executive Directors					
Adrian Sainsbury	**7/7**	–	**–**	–	**–**
Mike Morgan	**7/7**	–	**–**	–	**–**
Non-executive Directors					
Mike Biggs	**7/7**	5/5	**–**	–	**6/6**
Mark Pain	**7/7**	5/5	**6/6**	–	**6/6**
Oliver Corbett	**7/7**	5/5	**6/6**	4/5	**–**
Patricia Halliday	**7/7**	–	**6/6**	5/5	**–**
Tracey Graham[1]	**7/7**	2/2	**6/6**	–	**6/6**
Peter Duffy[1]	**7/7**	2/2	**6/6**	–	**6/6**
Sally Williams	**7/7**	–	**5/6**	4/5	**–**
Tesula Mohindra	**7/7**	–	**6/6**	5/5	**–**
Kari Hale[2]	**2/2**	–	**–**	–	**–**
Former Non-executive Directors					
Lesley Jones[3]	**2/2**	1/2	**1/2**	1/2	**0/1**
Bridget Macaskill[3]	**2/2**	2/2	**2/2**	–	**1/1**

1. Tracey Graham and Peter Duffy were appointed as members of the Nomination and Governance Committee with effect from 26 January 2023.
2. Kari Hale was appointed as a director and as a member of the Audit and Risk Committees with effect from 28 June 2023.
3. Lesley Jones and Bridget Macaskill retired as non-executive directors at the conclusion of the company's AGM on 17 November 2022.

Corporate Governance Report continued

Board operations and compliance

Roles and Responsibilities

In line with the Code, the role of the chairman is distinct and separate from that of the chief executive and there is a clear division of responsibilities between the two roles. The roles of the chairman, chief executive and senior independent director, as approved by the board in July 2019, can be found on the company's website at www.closebrothers.com. The roles of certain members of the board are summarised below.

In addition, the chairman and chief executive have various prescribed responsibilities under the Senior Managers Regime overseen by the PRA. Some board members also take on additional responsibilities required by legislation such as whistleblowing champion or Consumer Duty champion. More information about these specific roles can be found on page 143.

Powers of Directors

The directors are responsible for the management of the company. They may exercise all powers of the company, subject to any directions given by special resolution and the articles of association. The directors have been authorised to allot and issue ordinary shares and to make market purchases of the company's ordinary shares by virtue of resolutions passed at the company's 2022 AGM.

Further detail regarding these authorisations is set out on page 191.

Division of Responsibilities

Role	Responsibilities
Mike Biggs Chairman	• Responsible for leading the board and ensuring that it operates effectively • Sets the agenda for meetings and promotes balanced and effective decision-making and challenge of executive management with sufficient time for constructive debate and discussion • Ensures that the board as a whole develops and monitors the group's strategy • Ensures that the culture in the boardroom promotes effective debate and good governance • Supports the development of the group's culture and sets the tone from the top • Promotes effective engagement between the board, its shareholders and other stakeholders • Leads the annual board evaluation process • Chairs the Nomination and Governance Committee and monitors the board's composition and non-executive succession planning
Mark Pain Senior Independent Director	• Provides a sounding board for the chairman • Provides an alternative channel of communication for shareholders and other stakeholders • Meets with non-executive directors annually without the chairman present to appraise the chairman's performance
Non-executive Directors	• Provide constructive challenge and scrutiny of the performance of management • Bring external perspective, knowledge and experience to the board • Assist in the development of strategy and the decision-making process • Promote the highest standards of integrity and governance • Through membership of the group's committees, determine appropriate levels of remuneration, review the integrity of the financial statements, review succession plans for the board and the Executive Committee and monitor the risk profile of the group • Gather the views of the workforce through attendance at key business events and through employee engagement
Adrian Sainsbury Chief Executive	• Executes the group's strategy as agreed with the board • Leads the Executive Committee in the day-to-day management of the group • Ensures that the group's business is conducted with the highest standards of integrity aligned with the group's culture • Manages the group's risk exposure in line with board policies and risk appetite • Leads the group's investor relations activities
Sarah Peazer-Davies Company Secretary	• Advises the directors on governance and legal matters, and the discharge of their duties • Ensures the board receives high-quality information and in sufficient time • Supports relationship-building and the flow of information between the board and the Executive Committee • Facilitates board induction and training • Available to provide advice and services to support all directors • Organises all board and committee meetings as well as the Annual General Meeting ("AGM")

Non-executive Directors' Independence and Time Commitment

The board has assessed the independence of each of the non-executive directors. It is of the opinion that each non-executive director acts in an independent and objective manner under provision 10 of the Code, free from any relationship that could affect their judgement. The board considers, for each non-executive director, among other things:

- whether they are independent in character and judgement;
- how they conduct themselves in board and committee meetings;
- whether they have any interests which may give rise to an actual or perceived conflict of interest; and
- whether they act in the best interests of the company, its shareholders and other stakeholders at all times.

Each non-executive director is required to confirm at least annually whether any circumstances exist which could impair their independence. At the start of each board meeting, all directors are reminded of their obligations relating to conflicts of interest and are asked to declare any changes since the last meeting. The company secretary maintains a register of conflicts authorised by the board.

As part of its consideration of non-executive independence, the board has given particularly rigorous consideration to the overlapping directorships held by Kari Hale and Mark Pain on the boards of the company and AXA UK plc. It has considered the nature of those directorships, and the character, behaviour, contribution and judgement of Kari and Mark during the proportion of the year for which they have each been directors of the company. It has concluded that both directors continue to demonstrate independence as evidenced by, among other things, their contribution to board meetings and their challenge of senior management.

The board has also given particular consideration to the independence of Oliver Corbett who has been a non-executive director for more than nine years, having been appointed in June 2014. The board has determined that, notwithstanding his term of office, Oliver is independent in character, judgement and in his valuable contributions to the board and its committees, including in his challenge of management.

The chairman, Mike Biggs, was considered to be independent on appointment in line with the provisions of the Code.

The board is satisfied that each non-executive director is able to dedicate the necessary amount of time to the company's affairs, following consideration of each non-executive director's other time commitments. The letters of appointment for each of the company's non-executive directors set out a minimum time commitment in discharging their duties as a director and require them to seek prior board approval before they take on additional commitments.

As required by the Code, the board assesses whether external appointments should be approved, with significant consideration being given in advance of proposed additional appointments being taken on by any of our directors.

In September 2022, Tesula Mohindra and Tracey Graham were appointed as non-executive directors of the RAC group and Nationwide Building Society respectively, with Tesula also being appointed as a non-executive director of several subsidiaries within the RAC group. These appointments were considered and approved by the board in July 2022, sufficiently far in advance of the appointments taking effect.

In January 2023, Sally Williams was appointed a trustee of Ovarian Cancer Action and chair of the audit and risk committees. This appointment was considered and approved by the board in November 2022.

As part of its assessment in each case, the board considered whether the external appointment was likely to give rise to any actual or potential conflicts of interest, how any such conflicts could be managed or mitigated, and whether the proposed external appointment would be likely to compromise the director's ability to dedicate appropriate time and diligence to their existing responsibilities to the group. Following review and discussion, the board was satisfied that none of the proposed external appointments would restrict or prevent any of the directors above from carrying out their duties and responsibilities as directors of the company and accordingly, the appointments were approved.

Corporate Governance Report continued

Board operations and compliance

Conflicts of Interest

The articles of association include provisions giving the directors authority to approve conflicts of interest and potential conflicts of interest, as permitted under the Companies Act 2006.

Directors are responsible for notifying the chairman and the company secretary of any actual or potential conflicts as soon as they become aware of them. A procedure has been established whereby actual and potential conflicts of interest are regularly reviewed and appropriate authorisation sought. This procedure includes mechanisms for the identification of conflicts prior to the appointment of any new director or if a new conflict arises during the year. The decision to authorise a conflict of interest can only be made by non-conflicted directors and in making such a decision the directors must act in a way they consider, in good faith, will be most likely to promote the success of the company. The company secretary maintains a register of conflicts authorised by the board. The board believes that this procedure operated effectively throughout the year.

Election and Re-election of Directors at the 2023 AGM

In accordance with the Code, all directors retire and submit themselves for re-election at each AGM. The board will only recommend to shareholders that executive and non-executive directors be proposed for election or re-election at an AGM after evaluating the performance of the individual directors and considering their suitability, time commitment and ability to continue to contribute to the board.

Kari Hale joined the board on 28 June 2023 and will be proposed for election at the AGM in November 2023.

Following individual performance evaluations undertaken during the year of both the executive and non-executive directors, an assessment of the board's skills, knowledge and experience, and completion of the annual evaluation of the board and its committees, the board has determined that all directors continue to be effective and demonstrate sufficient commitment to their role. At the recommendation of the Nomination and Governance Committee, the board will therefore be recommending that all serving directors be elected or re-elected by shareholders at the 2023 AGM, with the exception of Oliver Corbett, who will step down from the board at the conclusion of the AGM, having completed nine years' service on the board.

Risk Management and Internal Controls

The board considers a range of routine and one-off matters in relation to risk management and internal controls, and the group chief risk officer attends all scheduled board meetings to report to the board on risk management activities across the group. For example, in 2023 the board approved the group risk appetite statements, core risk management policies, and the group's enhanced Pillar 3 disclosures.

In addition, throughout the year under review, the board paid particular attention to liquidity risk across the group. As a result of broader macroeconomic and geopolitical factors across Europe and market shocks within the UK economy which resulted in capital market volatility, the decision was made to delay a bond issuance which had been built into the group's funding plans. The board considered and monitored, over a period of time, a range of liquidity scenarios in the context of the group's risk appetite triggers and limits and the bond issuance successfully went ahead in June 2023.

Further information on the bond issuance can be found on page 152.

The board confirms that throughout the year ended 31 July 2023 and up to the date of approval of this Annual Report, there have been rigorous processes in place to identify, evaluate and manage the principal risks faced by the group. These principal risks include those that would threaten the group's business model, future performance, solvency or liquidity. The board has also assessed the likelihood of a risk occurring and the costs of control in accordance with the Guidance on Risk Management, Internal Control and Related Financial and Business Reporting published by the FRC.

Whistleblowing

The board has responsibility for oversight of the group's whistleblowing arrangements. It monitors the operation and effectiveness of these arrangements, ensuring that processes are in place for the proportionate and independent investigation of matters raised through the mechanisms available to the workforce and for follow-up action.

During the year, the board received half-yearly updates from the group head of operational risk and compliance. These updates covered:

- an overview of the group's whistleblowing arrangements across all jurisdictions in which the group operates and an assessment of the effectiveness of those arrangements;
- information on steps taken by the group to ensure the protection of those using the group's whistleblowing arrangements; and
- a summary of whistleblowing events, outcomes and any follow-up actions.

Corporate Governance Report continued
Board activities

The board and its committees engaged in a range of activities during the year under review, including in relation to the following:

Strategy

- Reviewed the strategic aims and the performance of businesses across the Banking, Winterflood and the Asset Management divisions, as well as for the group as a whole
- Supported the implementation of transformational projects
- Reviewed the competitive landscape
- Reviewed and approved the group's budget and three-year strategic plan
- Held a strategy session in conjunction with the Executive Committee
- Reviewed the investment programme strategy and updates
- Reviewed the group's sustainability strategy
- Received regular business unit updates
- Received deep-dive reviews of selected business areas
- Received regular updates on climate and sustainability activities
- Approved the group's annual tax strategy

Financial and Corporate Reporting

- Received regular reports from the group finance director on financial performance
- Reviewed rolling forecasts and approved the 2024 budget
- Approved full-year and half-year results
- Received reports from the group's internal audit function
- Reviewed the new disclosure framework to ensure compliance with TCFD reporting

Structure, Capital and Liquidity

- Reviewed the group's stress testing policy
- Reviewed the group's treasury policy
- Considered the group's capital strategy
- Approved a senior bond issuance of £250 million in June 2023, following a period of market volatility and adverse market conditions

Stakeholders

- Received regular updates on customers and clients
- Received and discussed the annual Employee Opinion Survey results
- Reviewed periodic updates on the culture dashboard
- Received regular feedback on investor relations activities including meetings with shareholders and post-results roadshows
- Approved the annual Modern Slavery Statement
- Held the 2022 Annual General Meeting

Risk and Control

- Received reports from the chief risk officer
- Approved the group's Enterprise Risk Management Framework
- Approved the annual review of the Group and Bank ICAAP and ILAAP
- Reviewed and considered the group's risk appetite statements
- Reviewed and approved enhanced Pillar 3 disclosures
- Reviewed and discussed the group's principal risks and considered emerging risks
- Reviewed the group's annual compliance plan
- Reviewed the group's Whistleblowing Policy and received an update on activity
- Approved the annual renewal of the group's insurances
- Approved the group Credit Risk Policy, Financial Management Policy, Reporting and Control Policy, Disclosure Policy and ICAAP Policy
- Approved the implementation of the actions set out within the Period Summary Meeting letter from the Prudential Regulation Authority

Site visit to Close Brothers' businesses in Doncaster and Derby

Site visits are designed to provide non-executive directors with first-hand insights into the operational activities of the group and with opportunities to enhance their understanding of colleagues' experiences by engaging with them directly within their working environment.

As more travel became possible in the financial year, following the relaxation of the Covid-19 restrictions, directors visited some Close Brothers' business sites over the course of two days in February 2023. Three non-executive directors were joined by the then company secretary and general counsel on a visit to South Yorkshire and the East Midlands which focused on the retail and commercial businesses. The activities included shadowing colleagues, informal roundtables and networking with management, and touring a vehicle dealership.

The site visit gave the non-executive directors a better understanding of the group's customer and colleague experiences, as it supplemented the reports that the board had received on culture during the year. It was an opportunity to interact with a diverse group of colleagues and learn about their experiences, the challenges they face and their opportunities for career development. The site visit also provided a good opportunity for board members to get to know each other better.

Corporate Governance Report continued

Board activities

Governance

- Appointed Kari Hale as an independent non-executive director
- Appointed Tracey Graham as the chair of the Remuneration Committee and Patricia Halliday as the chair of the Risk Committee
- Conducted and reviewed the outcome of the board and committee performance evaluation and supported the review of the chairman's performance by the senior independent director
- Monitored progress on actions from previous years' board and committee performance evaluations
- Reviewed the terms of reference of the Audit, Remuneration, Risk, and Nomination and Governance Committees
- Reviewed and approved minor amendments to the matters reserved for the board
- Approved the updated board Diversity and Inclusion Policy
- Received regular training and updates
- Undertook a review of, and approved an appropriate increase in, non-executive director fees to align with the market
- Approved the arrangements for the Annual General Meeting in 2022
- Recommended the reappointment of directors by shareholders

Customers

- Oversaw the use of new segmental data modelling to deepen and refine the group's understanding of customer needs and financial behaviours, and to allow the group to tailor its products to meet the expectations and needs of its customers
- Considered customer vulnerability
- Consideration of the Customer Commitment Framework
- Discussed the impact of inflationary pressures on its customer base, in light of macroeconomic factors

Regulatory and Compliance

- Received updates from management on meetings held with the PRA and FCA during the year to discuss, amongst other topics, securities issuances and liquidity
- Received updates on Consumer Duty implementation
- Approved the group Recovery Plan, designed to maintain the viability and the financial position of the group through an effective and robust set of recovery options in the event of a broad range of stress scenarios and in accordance with the recommendations of the PRA
- Received detailed reports on progress made against the Annual Compliance Plan
- Received updates from the Money Laundering Reporting Officers

2022

September

- Full-year results and roadshow
- Review of risk appetite and certain policies

November

- Annual General Meeting 2022
- Committee chair changes
- Trading update

2023

January

- Trading update
- Whistleblowing update
- Project updates
- Approval of Modern Slavery Statement

February

- Doncaster and Derby site visit

March

- Half-year results and roadshow
- Money laundering update
- Various policy approvals

May

- Trading update
- Strategy day

June

- Appointments and resignations
- Chairman's governance roadshow
- Bond announcement

July

- Trading update
- Roadshows

Corporate Governance Report continued

Board induction, training and evaluation

Induction

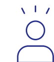
On appointment, and in accordance with the director induction policy which was approved by the Nomination and Governance Committee and is reviewed periodically, all new directors receive a comprehensive and personalised induction programme. The programme is developed and overseen by the company secretary to familiarise new directors with the group and the regulatory, market, risk and governance framework within which it operates. The company also offers additional support and information to directors when they are appointed as a committee chair or member.

Induction programmes are tailored to a director's particular requirements, but typically include site visits, one-to-one meetings with executive directors, the company secretary and senior management, and a confidential meeting with the external auditor. Directors also receive guidance on their statutory and regulatory responsibilities, together with a range of relevant current and historical information about the group and its business. A key aim of the induction is to ensure that new board members are equipped to contribute to the group and the work of the board as quickly as possible.

Directors provide input on how their individual inductions should be tailored in terms of both content and structure. The company secretary engages regularly with individual directors as their inductions progress and, once they have served on the board for a period, seeks their input on any further induction or development requirements they may have. The chairman also discusses induction plans, and training and development more broadly, with new joiners as part of regular one-to-one meetings.

Training and Professional Development

A central training programme is in place for members of the board, which is reviewed at least annually by the Nomination and Governance Committee. The directors attend sessions focusing on specific topics of interest or regulatory and operational relevance. During the year, these sessions included detailed guidance on cyber security, Consumer Duty and directors' duties. Annual training is also provided on the Senior Managers and Certification Regime. In addition, the chairman discusses and agrees any specific requirements as part of each non-executive director's regular review.



Induction Programme for Kari Hale

Kari Hale's induction programme commenced in June 2023 and has included the following elements:

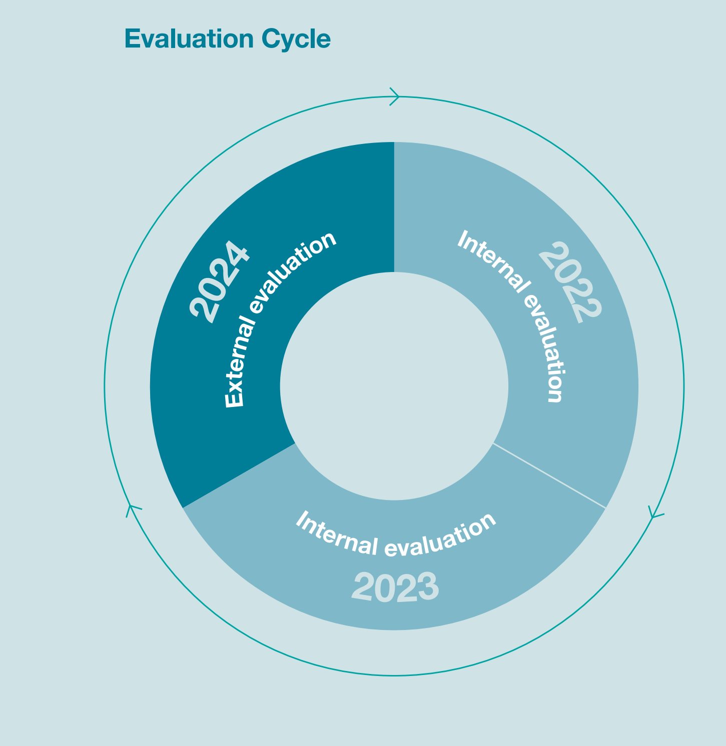
- one-to-one meetings with executive directors covering strategy, operational and financial matters, people, the regulatory framework, and culture and values;
- briefings from executive committee members and senior managers, including the company secretary, about their respective business areas and central functions including legal, risk and compliance, internal audit, investor relations and corporate development, IT and cyber security, and various financial functions;
- a private meeting with the external audit partner;
- access to reference materials including relevant current and historical information about the group and its business such as financial data;
- access to board papers through the online board materials portal; and
- future planned site visits to the group's offices with the relevant senior management.

Regular touchpoints with the chairman and company secretary were established to monitor progress and ensure that Kari Hale was receiving all the information required to fulfil his role.

In the coming year, Kari Hale is expected to meet individually with the committee chairs to understand the role of, and interaction between, each committee. He will also visit our regional sites to see the businesses in action and engage with our workforce.

Corporate Governance Report continued

Board induction, training and evaluation



Evaluation

In accordance with the Code, the board undertakes a formal and rigorous evaluation annually to assess the effectiveness of its individual directors, its committees and the board as a whole, with the evaluation process being externally facilitated every three years.

The evaluation process during the year under review was conducted internally by the company secretary and led by the chairman. Each of the directors completed a questionnaire which considered a range of different areas relevant to board effectiveness and corporate governance including:

- the role and composition of the board and its committees;
- culture, strategy, purpose and values;
- stakeholder engagement;
- the business of the board, board behaviours, and the information and resources available to the board; and
- progress against the recommendations of prior years' evaluations.

The results of the evaluation were presented to the Nomination and Governance Committee and the board in July 2023 and will be considered and discussed further in the coming months. The overall conclusion of the evaluation was that the board and its committees remain strong and continue to operate effectively, with clarity as to their role and purpose. In terms of the operation of the board, the evaluation found that the board is chaired well, with all board members given sufficient opportunity to contribute to board discussions, which involve an appropriate level of constructive challenge as well as clear and collective focus on the link between strategy, the group's business model and the customer proposition.

A detailed review of the findings from the evaluation will be undertaken and a programme scheduled to continue to implement the matters raised throughout the course of the following year.

Implementation of the Findings of the 2022 Evaluation

Key recommendations	Actions taken
Reduction in length and density of board papers and review of board meeting frequency to enhance the flow of information from senior management to the board	Additional board paper guidance and templates were provided to authors. The frequency of board meetings was reviewed and some minor adjustments were made as a result
Increased reporting on stakeholder considerations and stakeholder engagement, particularly for less visible stakeholders	The revised board paper guidance includes greater focus on stakeholders. Additional deep dives and site visits have been scheduled, focusing on less visible areas of the business
Recognition of the strategic focus of the board and the success of the dedicated strategy session, which should be repeated on an annual basis with the Executive Committee	The dedicated strategy session was repeated in May 2023, and actions agreed at the session were tracked
Additional topical areas for board training and development identified for inclusion in the annual training programme	Specific training sessions and materials were provided in response

Directors' Performance

In addition to the formal evaluation, the chairman holds regular meetings with individual directors at which, among other things, their individual performance is discussed. Informed by the chairman's continuing observation of individual directors during the year, these discussions form part of the basis for recommending the election and re-election of directors at the company's AGM, and include consideration of the director's performance and contribution to the board and its committees, their time commitment and the board's overall composition.

Chairman's Performance

As in previous years, Mark Pain, in his role as the senior independent director, led the annual assessment of the chairman's performance. This involved discussions with the other non-executive directors individually, without the chairman being present, and consultation with the chief executive and group finance director. The senior independent director subsequently provided feedback to the chairman.

Directors' Fitness and Propriety

In line with its regulatory obligations, the group undertakes annual reviews of the fitness and propriety of all those in senior manager functions, including all of the company's directors and a number of other senior executives. This process comprises assessments of individuals' honesty, integrity and reputation, financial soundness, competence and capability, and continuing professional development. This year's reviews have confirmed the fitness and propriety of all of the company's directors and other senior executives who perform senior management functions. Consideration of matters relating to fitness and propriety also form an important part of the board's recruitment process for non-executive directors.

Corporate Governance Report continued

Stakeholder engagement

The board recognises that, for the company to be successful over the long term, it is important to build and maintain successful relationships with a wide range of stakeholders and for the board to understand the views of the group's key stakeholders. When taking decisions, the board considers the interests of, and the group's impact on, its relationships with shareholders, customers, partners, suppliers, regulators, employees and local communities.

During the year, as part of the group's responsibility to contribute to wider society, the board discussed the group's charitable efforts and community activities during the year, which included donations totalling £120,000 to Stop Hate UK, The Wildlife Trusts, Smart Works and Bookmark.

Board Decision Making

The board makes decisions and provides oversight with the aim of promoting the Company's success for the long-term sustainable benefit of its shareholders, while having due regard for the interests of all stakeholders and the likely consequences of a particular decision. Further information about the Company's key stakeholder groups can be found in the Strategic Report on pages 35 to 37.

The board recognises that different stakeholders have different values and priorities, even within the same stakeholder group. The board diligently weighs up these differences and takes them into account when making decisions. Feedback from stakeholders, both before and after decisions have been made by the board, represents an important input into the decision-making process.

Further detail of the company's stakeholder groups, as well as the company's section 172 statement, can be found in the Strategic Report on pages 34 to 37.

The two case studies at right provide practical examples of how the board takes into account the Company's different stakeholders as an integral part of its decision-making process.

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, and 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, while 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 explored the need to balance thorough planning with the ability to react and adapt. It discussed the impact of various investment options on different stakeholder groups, including the Retail Finance business, its colleagues and customers. 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. The board continues to monitor the progress of the investment programme and any further proposals that may be made in the future.

Bond Issuance

The company issues bonds from time to time as part of its funding strategy. In May 2023, a committee of the board considered a proposal to issue fixed rate senior notes of up to a principal amount of £250 million to the market. The issuance was part of the group's funding strategy including replacing a £250 million 2.75% bond which matured in April 2023. The company was monitoring market conditions over the preceding months and had kept the board updated on market developments.

The committee considered the proposal in light of the best interests of the company, its members and other stakeholders. It considered factors including likely demand for the bond, the company's immediate and longer term funding requirements, and market sentiment. The bond issuance went ahead, being a £250 million 7.75% 5-year Senior fixed rate bond with strong demand and a successful uptake. The board will continue to monitor the company's funding strategy and consider future financing proposals.

Workforce Engagement

Culture and values

The board recognises the importance that culture and values play in the long-term success and sustainability of the group, and the role of the board in establishing, monitoring and assessing culture. The board also acknowledges the importance of individual directors, and the board as a whole, acting with integrity, leading by example and promoting the desired culture. The board spends time monitoring, and satisfying itself as to, the alignment of the group's purpose, values and strategy with its culture.

During the year, the board monitored, assessed and promoted the group's culture in the following ways:

- The chief executive's updates to the board included dedicated reporting on people and culture within each division to allow the board to consider cultural issues with appropriate granularity.
- Site visits and non-executive directors' attendance at various employee events and meetings such as that of the group Asset and Liability Committee, the group Risk and Compliance Committee, and various business risk and compliance committees as well as business sites such as the trip to Doncaster and Derby, more information about which can be found on page 147.
- The board received updates on the Employee Opinion Survey, which tracks against our own and sector-wide cultural markers; the quarterly culture dashboard which includes external stakeholder considerations; and external guidance and insight on culture, including from regulators and industry bodies. All of these are used by the board to benchmark the group's approach and plans, and other initiatives across the group to embed the desired behaviours and the "Close Brothers Way".
- The Remuneration Committee considered culture, behaviour and conduct issues and the inclusion of culture-related objectives as part of the executive directors' performance assessment (further detail on which can be found in the Directors' Remuneration Report on pages 177 to 179).
- The board reviewed the group's whistleblowing arrangements by which employees can raise concerns in confidence and, if they wish, anonymously, and the Risk Committee reviewed a conduct risk dashboard covering an assessment of relevant issues and developments for each of the group's divisions.

Engagement with Employees

As permitted by the Code, the board has put in place its own arrangements to engage with employees across the group and, following discussion by the Nomination and Governance Committee, a framework for board engagement with employees is managed by the company secretary, in conjunction with the group head of human resources. This framework presents a range of different opportunities for board members to engage directly with employees and also to receive feedback on relevant issues from management. The framework takes account of guidance and suggestions published by the FRC in this area.

The board acknowledges the benefits of meaningful two-way engagement between the directors and senior management and the group's employees. To this end, the board and senior management provide employees with regular information on matters of interest or concern to them and consult with them or relevant representatives when making relevant decisions which are likely to affect their interests.

Examples of engagement and consultation in the year included:

- non-executive directors' participation at town hall events in a number of functions such as finance, risk and human resources, attended by significant numbers of employees. These events typically include Q&A sessions, with employees having the opportunity to submit questions and topics in advance;
- non-executive director site visits to Doncaster, Derby and Brighton to meet employees at different levels of the group's operations across the UK and to understand employee-related issues and priorities, as well as more informal meet and greet events attended by the directors;
- participation by directors in focused initiatives operated for different groups of employees such as the 10,000 Black Interns programme, the upReach internship programme which focuses on social mobility, the Emerging Leaders Programme for high potential employees, our ASPIRE programme for school leavers, and graduate networking sessions; and
- regular communications from executive directors to employees on the performance and operations of the group, in relation to the half-year and full-year results.

The board considers that its employee engagement activities during the year have been effective and have allowed a number of directors to engage widely with employees across a broad manner of settings and engagement styles. The board considers that the activities above have helped to achieve a common awareness on the part of employees and contributed to a better understanding of the group's activities, purpose, strategic aims, and the long-term success of the company.

Corporate Governance Report continued

Nomination and Governance Committee Report

Mike Biggs
Chairman

Membership

Mike Biggs (Chair), Oliver Corbett, Tracey Graham, Peter Duffy and Mark Pain.

Other regular attendees by invitation

- Group chief executive
- Group head of human resources

Meetings

- Number of scheduled meetings: five
- For details of attendance, see page 143

Interaction with other committees

The Nomination and Governance Committee makes recommendations to all other committees regarding the appointment and removal of their members and chair.

How time was spent

Dear Shareholder

On behalf of the board, I am pleased to present the report of the Nomination and Governance Committee for 2023. The report sets out an overview of the Committee's role and responsibilities and its key activities during the year.

Non-executive director succession remained an important focus for the Committee. Following a detailed review of the board's composition, it was agreed that an additional non-executive director would be a valuable addition to the board. Following an extensive recruitment process, Kari Hale was appointed to the board in June 2023 and is recommended for election as a director at the 2023 AGM.

The Committee reviewed the skills and experience of the non-executive directors to ensure that the board continues to be able to perform its role effectively, following which it recommended to the board that all serving directors be re-elected at the 2023 AGM, with the exception of Oliver Corbett, who will not stand for re-election having completed nine years of service.

The Committee also spent time considering succession planning and talent management for roles below board level, monitoring activities and initiatives to develop the group's talent pipeline and improve gender balance and other types of diversity among senior management.

The Committee has received and considered updates on sustainability and environmental, social and governance ("ESG") developments relevant to the group, including consideration of matters arising from engagement with shareholders and other stakeholders, diversity and inclusion, and the impact of climate change on the group. These will continue to be key areas for the Committee and the board as a whole in the coming years.

Michael N. Biggs
Chairman

26 September 2023

2023 Highlights

- Considered board composition and succession, including successfully concluding the search for an additional non-executive director and appointing two new members to the Committee.
- Reviewed talent and executive management succession planning, including oversight of activities to support and encourage the development of a diverse and inclusive talent pipeline.
- Recommended the approval of a number of changes to the board diversity and inclusion policy.
- Oversaw the board and committee evaluation process undertaken during the year.
- Monitored sustainability and ESG developments and considered their implications for the group.
- Reviewed the TCFD framework and proposed disclosures.

Key Responsibilities and Activities of the Committee

- regularly reviewing the structure, size and composition of the board and its committees, and making recommendations to the board with regard to any changes;
- considering the leadership needs of the group and succession planning for directors and senior executives;
- considering the appointment or retirement of directors;
- reviewing the continued independence of the non-executive directors;
- assessing the board's balance of skills, knowledge and experience;
- evaluating the skills, knowledge and experience required for a particular appointment, where appropriate with the assistance of external advisers to facilitate the search for suitable candidates;
- assessing the contribution and time commitment of the non-executive directors; and
- monitoring ESG and sustainability developments relevant to the group (including diversity and inclusion and developments relating to climate change and associated reporting requirements).

Appointments to the Committee

During the year, each of Tracey Graham and Peter Duffy were appointed to the Committee. This followed a review of the Committee's composition and a recognition of the additional skills and perspectives it would benefit from.

Non-executive Directors' Skill Sets

The Committee has considered and reaffirmed the skill sets and experience of the company's non-executive directors, including their extensive experience within financial services and in regulated or listed companies. The Committee also assessed the contribution and time commitment of the non-executive directors.

The chart on page 137 indicates the number of non-executive directors who bring the broad cross-section of skills expected of the board, as well as highlighting the particularly strong skills and experiences of non-executive directors and where there are opportunities to further enhance the board's collective knowledge.

Further information on the background and experience of each of the non-executive directors can be found in their biographies on pages 138 to 140.

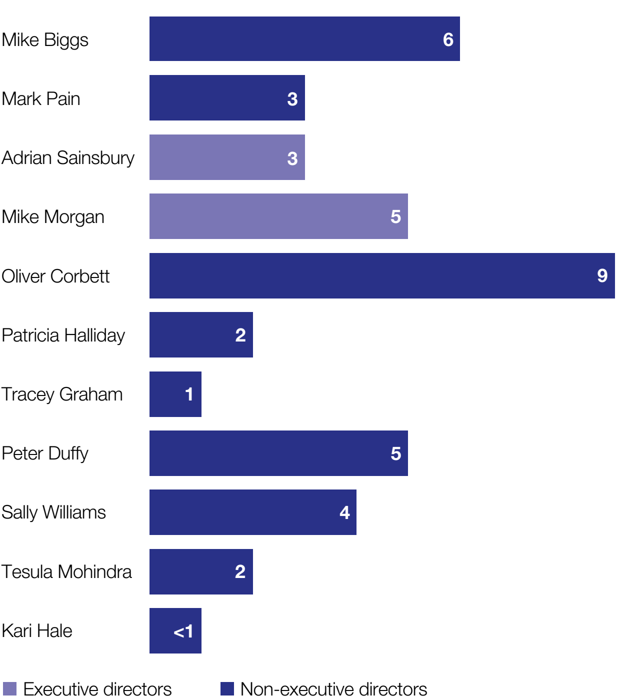
Given the regulated environment within which the group operates, directors are required to undertake the annual PRA fitness and propriety assessment.

Committee Memberships

The Committee monitors the composition of each of the board's committees, which is as follows:

	Nomination and Governance Committee	Audit Committee	Risk Committee	Remuneration Committee
Mike Biggs	Chair			•
Mark Pain	•		•	•
Oliver Corbett	•	Chair	•	
Patricia Halliday		•	Chair	
Tracey Graham	•		•	Chair
Peter Duffy	•		•	•
Sally Williams		•	•	
Tesula Mohindra		•	•	
Kari Hale		•	•	

Director tenure (in years)



Corporate Governance Report continued

Nomination and Governance Committee Report

Non-executive Director Succession

As part of the Committee's considered and orderly approach to succession planning, it oversaw the formal and robust search process in relation to the appointment of Kari Hale as an independent non-executive director.

The Committee reviewed and approved a detailed description for the role having considered the particular skills, experience and background required. As part of the board recruitment search, the Committee assessed the balance of knowledge and expertise needed to ensure the continued effective leadership of the group, and the development and oversight of its strategy, purpose and culture. In identifying and recommending candidates for appointment to the board, the Committee considered candidates from a wide range of backgrounds, assessing them on merit against objective criteria and with due regard to the benefits of diversity on the board.

The search for Kari Hale followed the usual detailed and considered approach and was conducted in conjunction with an external search firm, Russell Reynolds. The firm was instructed to consider candidates with a diversity of backgrounds and experiences. The firm is not connected to the company in any way and is a signatory to the Voluntary Code of Conduct for Executive Search Firms.

Following the preparation of a long-list of candidates, a shortlist was selected by the Committee and interviews were held with the involvement of both non-executive and executive directors. The Committee considered the other commitments of candidates to ensure that they would have sufficient time to devote to their duties to the group. Following completion of the processes to the Committee's satisfaction and receipt of all necessary regulatory approvals, it recommended Kari's appointment to the board, and his appointment to the Audit and Risk Committees.

Kari brings significant experience from audit and financial services and is a strong addition to the existing range of skills and expertise on the board.

Further details on Kari's experience can be found in his biography on page 140.

The Committee adopts a proactive and structured approach to succession planning and remains mindful of board changes that will occur in the future as directors reach the end of their terms, and of the need to ensure continuity of knowledge and experience within the board as a whole. The Committee notes the Chairman's tenure, which is now at six years, and is aware of the eventual need to ensure the orderly succession of his role in the future.

Following the retirement of Lesley Jones and Bridget Macaskill from the board, during the year each of Patricia Halliday and Tracey Graham were appointed as chair of the Risk and Remuneration Committees, respectively.

In addition, the Committee determined that it would benefit from an extended membership and so each of Tracey Graham and Peter Duffy were appointed to the Committee on 26 January, following the approval of the board.

Election and Re-election of Directors at the 2023 AGM

The Committee is responsible for considering and making recommendations to the board concerning the election and re-election of directors, having regard to their performance, suitability, time commitment and ability to continue to contribute to the board. Following this year's review in advance of the 2023 AGM, the Committee has recommended to the board that all serving directors, with the exception of Oliver Corbett, be elected or re-elected at the AGM. Oliver has served nine years on the board of the company and will retire at the conclusion of the AGM.

You can read more about the board's recommendation that all directors be elected or re-elected at the 2023 AGM on page 146.

Senior Management Talent Development and Succession Planning

The Committee spent considerable time during the year reviewing talent and considering the group's succession planning at board and senior management level. Activities included a formal review by the Committee of senior management succession planning, assessing the capability and potential of incumbents in key roles and the succession pipeline across the group. The Committee also considered specific appointments to senior management roles at both group and divisional level. The Committee recognises the importance of talent development and ensuring that the group continues to attract, retain and develop skilled, high-potential individuals, and this will remain an important focus in the year ahead. All non-executive directors are invited to attend Committee meetings which consider talent and development to give them full visibility of the succession pipeline.

Further information on talent and succession planning can be found in the Sustainability Report on page 57.

Diversity and Inclusion

Diversity and inclusion remains a key focus of the Committee, at board level, across senior management and within our wider workforce. The Committee recognises the importance of ensuring that the board and its committees collectively possess the appropriate range and balance of skills, knowledge and expertise, and embrace the advantages to be derived from having a diversity of gender, social and ethnic backgrounds represented on the board, bringing different perspectives and the challenge needed to ensure effective decision-making. It is recognised that the group's

stakeholders are diverse and they have a variety of needs. These needs are met by the diversity of thought, culture, background and perspectives that are reflected within our board through an inclusive environment which allows different perspectives to be given due consideration in strategic matters, and enables the board to consider the needs and expectations of all stakeholders. The Committee considers that the board remains diverse, drawing on the knowledge, skills and experience of directors from a range of backgrounds, but will seek to take opportunities to further improve the diversity of the board, where this is consistent with the skills, experience and expertise required at a particular point in time. Diversity and inclusion at board level will continue to be an area of focus for the Committee.

During the year, the Committee undertook its annual review of the board diversity and inclusion policy, and recommended a number of enhancements in line with the FTSE Women Leaders Review (previously the Hampton-Alexander Review) and the Parker Review. The updated policy was subsequently approved by the board and is available at www.closebrothers.com. The policy sets out specific objectives with regard to diversity and inclusion in the boardroom, the recruitment of new directors, and longer-term targets, as well as corresponding governance responsibilities.

The Committee also considered the group's diversity in the context of the new Listing Rule requirements on diversity metrics and reporting which apply to the company for the first time this year. As at 31 July 2023, being the reference date for the purposes of Listing Rule 9.8.6R(9)(a), which requires the disclosure of certain diversity statistics, and as shown in the tables below:

- women represented 36% of our board following the appointment of Kari Hale as a director; however, we expect to once again meet our target of having 40% female directors from November 2023 when Oliver Corbett steps down from the board at the conclusion of the 2023 AGM;
- the board met its target of having one director from a minority ethnic background; and
- the board does not currently meet the requirement to have one of the senior board positions (chair, senior independent director, chief executive or chief financial officer) occupied by a female director. The directors who hold these roles were appointed following formal, rigorous and transparent nomination procedures and are the most suitable and experienced individuals for their roles and the group's needs. The board recognises that this will be a consideration for future appointments to these roles.

Diversity in the group's senior manager population continues to improve, and the board expects this trajectory to continue in the years ahead. The tables below illustrate the gender and ethnic diversity of the executive management population, which comprises the executive committee and includes the company secretary, but excludes administrative or support staff, pursuant to Listing Rule (LR) 9.8.6R(10).

The Committee continues to monitor the approach to diversity and inclusion across the group, which is described in detail on pages 156 to 158.

Gender identity reporting[1] under LR9.8.6R(10)

	Number of board members	Percentage of the board	Number of senior positions on the board (CEO, CFO, SID and Chair)	Number in executive management	Percentage of executive management
Men	7	64%	4	8	67%
Women	4	36%	–	4	33%
Not specified/prefer not to say	–	–	–	–	–

Ethnic background reporting[1] under LR9.8.6R(10)

	Number of board members	Percentage of the board	Number of senior positions on the board (CEO, CFO, SID and Chair)	Number in executive management	Percentage of executive management
White British or other White (including minority-white groups)	10	91%	4	9	75%
Mixed/Multiple Ethnic Groups	–	–	–	1	8%
Asian/Asian British	1	9%	–	2	17%
Black/African/Caribbean/Black British	–	–	–	–	–
Other ethnic group, including Arab	–	–	–	–	–
Not specified/prefer not to say	–	–	–	–	–

1. The numerical data detailing gender identity and ethnic background is as disclosed by the relevant individuals as at 31 July 2023, being the chosen reference date for the purposes of LR9.8.6R(9)(a), and reflects the composition of the board and executive management as at that date.

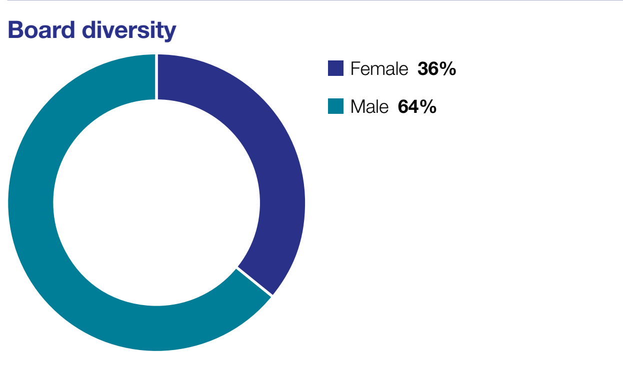
Corporate Governance Report continued

Nomination and Governance Committee Report

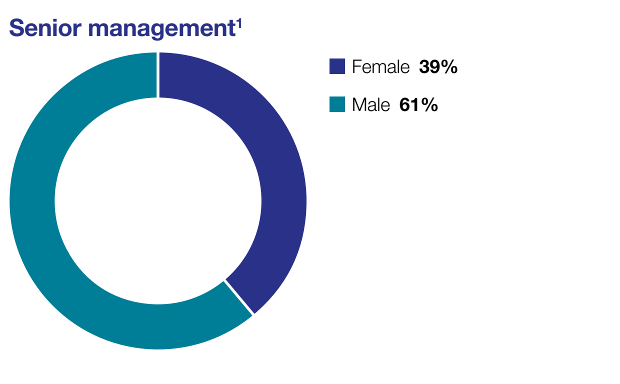
The Committee takes seriously its role in overseeing the development of a diverse pipeline for senior management positions and the link between diversity and inclusion and delivery of the company's purpose and strategic aims. To that end, it considered updates during the year in relation to diversity and inclusion initiatives across the group. Among other things, the Committee discussed the group's approach to recruitment, training and development programmes for employees, management's work with diversity and inclusion campaign groups, and activities of discrete employee networks including in the areas of gender, ethnic diversity, accessibility, LGBTQ+, working parents and carers, mental wellbeing and social mobility. The group is a member of Moving Ahead, Mission Include and is a signatory to the Women in Finance Charter, the Race at Work Charter and the Business Disability Forum. The group also participates in the 10,000 Black Interns Initiative.

Please see the charts on this page for a breakdown of the group's gender diversity. More detail on the group's approach to diversity and inclusion can be found in the Sustainability Report on pages 38 to 64.

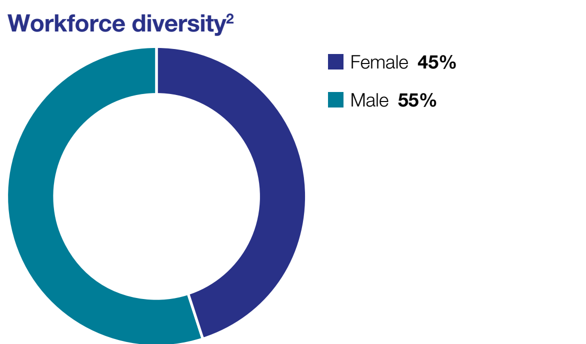
Board diversity



Senior management[1]



Workforce diversity[2]



1. Comprises all members of the executive committee as shown on page 141 and the company secretary, as well as their direct reports.
2. Comprises all employees of the group including senior management.

Environmental, Social and Governance Matters

Throughout the year, the Committee received and considered dedicated updates on ESG matters relevant to the group. The group's head of sustainability attends relevant sections of the Committee's meetings to provide updates on the group's activities in this area. The Committee's consideration of ESG matters throughout the year covered a wide range of topics and was informed by, among other things, engagement with shareholders and other stakeholders, legislative and regulatory initiatives and wider market developments. Areas of focus this year included the group's sustainability strategy and targets (including progress in the year and future plans), wider market themes and trends, and the group's progress towards disclosure requirements relating to the TCFD. The Committee will continue to consider ESG, climate change and broader sustainability matters in the year ahead and make such recommendations to the board as it considers necessary.

Sustainability

The Committee recognises and welcomes the continuing and increasing focus on sustainability and the contribution that the group makes to the wider community. On behalf of the board, during the year, the Committee regularly discussed sustainability considerations across a broad range topics, in particular in relation to customer and client expectations of the group and the increasing focus on sustainable business operations.

Further information on the group's approach to sustainability can be found in the Sustainability Report on pages 38 to 64 of this Annual Report.

Committee Effectiveness

As described in more detail on pages 150 to 151, an internal evaluation of the effectiveness of the board and its committees was undertaken during the year in line with the requirements of the UK Corporate Governance Code. During the year, the Committee reviewed and updated its terms of reference to ensure that they remain appropriate.

The Committee considers that it has access to sufficient resources to enable it to carry out its duties and it has continued to perform effectively.

Corporate Governance Report continued

Audit Committee Report

Oliver Corbett
Chair of the Audit Committee

Membership

Oliver Corbett (Chair), Kari Hale, Patricia Halliday, Tesula Mohindra and Sally Williams.

Other regular attendees by invitation

- Chairman of the board
- Executive directors
- Group head of internal audit
- Group chief risk officer
- Group financial controller
- Group financial planning and analysis director
- Group head of operational risk and compliance
- External auditor

Meetings

- Number of scheduled meetings: five
- For details of attendance, see page 143

The chair of the Audit Committee must be a member of the Risk Committee. The Audit Committee jointly oversees, along with the Risk Committee, the recommendations of the Group's internal and external auditors and the effectiveness of the Group's internal control and risk management systems.

How time was spent

Financial reporting	32%
Business and accounting updates	27%
External audit	17%
Internal audit	24%

Dear Shareholder

On behalf of the board, I am pleased to present the report of the Audit Committee for 2023, outlining how the Committee discharged its responsibilities and met its objectives.

The Committee oversees and challenges the group's financial reporting and maintenance of an effective internal control environment.

We have remained focused on challenging the key accounting judgements, assessing the integrity and fair presentation of the group's financial reporting and reviewing the maintenance and effectiveness of the group's internal controls. The Committee also monitored and reviewed the activities and performance of internal and external audit.

Looking ahead to 2024, along with the core responsibilities, the Committee will continue to monitor opportunities for improvement across financial reporting and internal control.

Finally, I would like to extend my thanks to my fellow members of the Committee for their contribution and engagement. After nine years, at the AGM, I will be stepping down from both the board and as chair of the Audit Committee.

Oliver Corbett
Chair of the Audit Committee

26 September 2023

2023 Highlights

- Discussing and challenging key accounting judgements with a particular focus on provisioning, goodwill and revenue recognition.
- Assessing the impact of a wide range of macroeconomic factors on the group.
- Reviewing the integrity of the group's financial reporting, including climate-related disclosures.
- Assisting with the determination of the appropriateness of adopting the going concern basis of accounting and in performing the assessment of the viability of the group.
- Monitoring the impact of corporate governance and audit reforms on the group.
- Reviewing, challenging and approving the annual internal audit plan and internal audit reports.
- Overseeing the effectiveness and continuous improvement of internal control.

Corporate Governance Report continued

Audit Committee Report

Key Responsibilities

The Committee's key responsibilities, on behalf of the board, are to:

- monitor significant accounting judgements;
- monitor the integrity of financial reporting including recommending to the board whether it is fair, balanced and understandable;
- oversee the effectiveness of the group's internal controls;
- review the activities and effectiveness of the group internal audit function;
- review the effectiveness and quality of the external audit process and the independence of the external auditor;
- recommend the external auditor of the group and their fees; and
- review the findings of the audit with the external auditor.

The Committee reports to the board on how it discharges its responsibilities and makes recommendations to the board, all of which have been accepted during the year.

Committee Composition, Operation and Effectiveness

The Committee acts independently of management to ensure the interests of shareholders are properly protected in relation to financial reporting and internal control.

The Committee members bring a diverse range of experience in finance, risk, control and business, with particular experience in the financial services sector. The board has confirmed that the members of the Committee have the necessary expertise to provide effective challenge to management; this includes the chair.

The qualification for each of the members is outlined on pages 138 to 140.

In addition to the standing invitations set out on page 159, invitations are also extended to other members of management as necessary. The chair meets with management ahead of meetings to discuss specific items of focus.

During the course of the year, the Committee held separate sessions with the internal and external audit teams, without management present.

An internal evaluation of the board and its committees was undertaken this year in line with the requirements of the UK Corporate Governance Code. The results of this review confirmed that the Committee is operating effectively. The Committee considers that during the financial year it had access to sufficient resources to enable it to carry out its duties.

External Audit

The Committee oversees the relationship with PricewaterhouseCoopers LLP ("PwC"), its external auditor, covering engagement terms, fees and independence. Both the Committee and the external auditor have policies and procedures designed to protect independence and objectivity.

PwC has been auditor to the group since August 2017. Heather Varley has been the group's lead audit partner since March 2022. Heather attended all meetings of the Committee.

During the year the Committee reviewed the external audit plan and the resulting findings, which included control observations and areas of focus.

Principal matters discussed with PwC are set out in its report on pages 194 to 203.

External Auditor Effectiveness and Appointment

The Committee assesses the independence and objectivity, qualifications and effectiveness of the external auditor on an annual basis as well as making a recommendation on the reappointment of the auditor to the board. This year the evaluation focused on the following key areas:

- the quality of audit expertise, judgement and dialogue with the Committee and senior management;
- the independence and objectivity demonstrated by the audit team;
- the senior leadership of the audit team; and
- the quality of the service including consistency of approach and responsiveness.

The process was facilitated by a group-wide survey, a survey of the PwC senior audit team and a review of audit and non-audit fees. Overall, the Committee has concluded that PwC remains independent, and it was satisfied with the auditor's performance and recommended to the board a proposal for reappointment at the AGM.

Looking ahead, subject to shareholder approval, PwC will undertake the audit of the company and the group for the year ended 31 July 2024.

In conformance with the required rules, provisions and good corporate governance in respect of audit tendering and rotation, the group will be required to tender for the external audit in the 2027 financial year end. The Committee will consider in due course its plan for the tender.

Financial Reporting and Key Accounting Judgement

The Committee spent considerable time reviewing the Interim Report and Annual Report. The Committee discussed and challenged the key accounting judgements made by management in preparing the financial statements. This also included consideration of the internal controls over financial reporting. The Committee noted that there were no new material standards, or amendments to standards, relevant to the group that became effective for the reporting period.

The key judgement areas were largely unchanged from the prior year, reflecting the group's adherence to its business model and the consistency of its approach to financial reporting. The main areas of focus are outlined below. Each of these matters were discussed with the external auditor and, where appropriate, has been addressed in the external auditors' report.

Key issue	Committee review and conclusion
Expected credit loss ("ECL") provision **31 July 2023: £380.6 million** 31 July 2022: £285.6 million The group's ECL provision is dependent on management's judgements. Given the materiality of the group's loan book, ensuring that the group's ECL models and related IFRS 9 judgements and disclosures are appropriate remains a key priority for the Committee.	Regular IFRS 9 updates were provided to the Committee throughout the year. The Committee challenged the level of provisions held by the group, and the judgements and estimates used to calculate these provisions. Particular focus was given to: • the latest macroeconomic backdrop and the extent to which models are able to capture these risks; • the ongoing use and approval of model adjustments; • the high level of estimation uncertainty in setting forward-looking macroeconomic assumptions, and their associated weights; • management's model enhancement plans; and • provisioning for Novitas and the related assumptions. Credit risk and provisions disclosures were discussed to ensure they were clear and gave a transparent articulation of the group's credit risk profile, and key drivers of the ECL charge. This included considering the changes in presentation to the Risk Report and audited credit risk disclosures. In the next financial year, the Committee will monitor provisions and disclosures to ensure they continue to reflect the economic risks for customers and the credit risk in the loan book. **Conclusion: the Committee was satisfied that the impairment provision and the disclosures provided in the financial statements were appropriate.**
Goodwill **31 July 2023: £94.6 million** 31 July 2022: £94.7 million Goodwill is allocated to eight cash generating units ("CGUs"), all of which must be tested annually for impairment. This assessment is based on management judgement.	The Committee was presented with the goodwill impairment assessment through the course of the year. These updates included enhancements to the impairment assessment methodology for discount rates, cash flow assumptions and sensitivity analysis. The Committee challenged the appropriateness of the assessment, including discussing the outcome with the group's auditor. Particular focus was given to the cash flow assumptions for Winterflood Securities, which recorded lower profits in the year driven by difficult market conditions. The Committee noted the long track record of the business balanced against future market conditions remaining uncertain. **Conclusion: the Committee was satisfied that there was no impairment and the disclosures provided in the financial statements were appropriate.**

Corporate Governance Report continued

Audit Committee Report

Key issue	Committee review and conclusion
Revenue recognition The group offers a range of products and services for which revenue is recognised under IFRS 9, IFRS 15 and IFRS 16. Appropriate recognition is a key focus of the Committee.	The Committee reviewed management's approach to revenue recognition, highlighting the key areas where judgement is required across interest, fee and commission income. The Committee noted the consistency of approach with prior years and the detailed assessment that is performed by management and challenged by PwC. **Conclusion: the Committee was satisfied that revenue recognition for each of the group's key businesses is appropriate.**
Going concern and Viability Statement The directors are required to confirm whether they have a reasonable expectation that the company and the group will be able to continue to operate and meet their liabilities as they fall due for a specified period. The Viability Statement must also disclose the basis for the directors' conclusions and explain why the period chosen is appropriate.	The Committee assisted the board in determining the appropriateness of adopting the going concern basis of accounting and in performing the assessment of the viability of the group. The Committee reviewed papers from management in support of the going concern basis and the longer-term viability of the group. The Committee assessed the proven stability of the group's business model, which is supported by: • a diverse portfolio of businesses; • resilience when subjected to internal stress testing; • a strong capital base; and • adequate access to liquidity. The Committee discussed the group's principal risks which may affect future development, performance and financial position. The Committee considered projected profitability and capital ratios along with funding and liquidity forecasts, over a period of three years; in addition, it considered changes in the economic, technological and regulatory environment. Particular focus was given to the macroeconomic backdrop, including funding markets and macroeconomic uncertainty and volatility. **Conclusion: the Committee concluded that it remained appropriate to prepare the accounts on a going concern basis, advised the board that three years was a suitable period of review for the Viability Statement, and recommended the Viability Statement to the board for approval, as set out on pages 132 and 133.**
Fair, balanced and understandable Under the UK Corporate Governance Code, the board is required to perform an assessment of fair, balanced and understandable reporting.	On behalf of the board, the Committee reviewed the financial statements as a whole to assess whether they were fair, balanced and understandable. Ahead of presentation to the Committee, a robust review process of the Annual Report from across the business was conducted to ensure disclosures were balanced and accurate. The Committee reviewed the group's performance in light of the principal and emerging risks. The Committee discussed and challenged the balance and fairness of the overall report with the management and considered the views of the external auditor. **Conclusion: the Committee was satisfied that the Annual Report, taken as a whole, could be regarded as fair, balanced and understandable and proposed that the board approved the Annual Report in that respect.**

Financial reporting controls

Risk management and internal controls

In conjunction with the Risk Committee, we have satisfied ourselves that the group's internal financial control framework is effective and adequately aligned with the group's risk profile. We are satisfied that internal financial controls are appropriately designed and effective in identifying risks faced by the group.

Full details of the internal control framework are given within the Risk management section on pages 83 to 89.

At each meeting the Committee is presented with a report from the head of internal audit, and reviews major findings relating to control weaknesses and management's response. In addition, a year-end update was provided to the Committee covering the Group Financial Control Framework.

Restoring trust in audit and corporate governance

The Committee has evaluated, and will continue to evaluate, the impact on the group of the proposals for restoring trust in audit and corporate governance.

During the year, the Committee discussed a number of the proposed reforms including the effectiveness of internal controls and the potential for an Audit and Assurance Policy ("AAP"). This has extended to discussions with the external auditor, considering specifically IT controls. Impact assessments are under way based on the latest consultation released in May 2023.

Group Internal Audit

A new group head of internal audit was recruited and joined the group in September 2022.

The Committee reviewed, challenged and approved the six-monthly internal audit plan and amendments made during the year. It also approved an updated internal audit charter, which sets out the mandate and remit of the function.

It received regular reports on internal audit activities across the group detailing areas identified during audits for strengthening across the group's risk management and internal control framework and management's progress on remediation of issues.

The Annual Internal Audit Assessment, which found the governance and risk and control framework of the group to be generally effective, was received by the Committee in accordance with the Chartered Institute of Internal Auditors' guidance.

The Committee completed its annual review of the effectiveness of the internal audit function and its level of independence. The evaluation for the year under review was completed internally and supported by feedback from the Committee and management. The internal audit function was found to be working well with a good culture of engagement between management and internal audit.

In addition to reviewing the internal audit function's effectiveness, the Committee assessed the level of internal audit resource and the appropriateness of the skills and experience of the internal audit function. It concluded the function was adequately resourced with additional co-source available for specialist skills.

Whistleblowing Champion

The chair of the Audit Committee is the group's whistleblowing champion. The group continues to place a high priority on employees' understanding of the process to enable them to speak out with confidence when appropriate.

Further information on the board's activities in this area can be found on page 146 of the Corporate Governance Report.

Non-audit Services

The Committee oversees the group's policy on the provision of non-audit services by the external auditor, which incorporates the Financial Reporting Council's Revised Ethical Standard from March 2020.

The group's policy is that permission to engage the external auditor will always be refused where there is an actual or potential threat to independence. However, the Committee will give permission where the service complies with the group policy and where:

- work is closely related to the audit;
- a detailed understanding of the group is required; and
- the external auditor can provide a higher quality and/or better value service.

The group follows the mandatory regulatory cap requirement of 70% which compares the annual value of non-audit services compared to the average of three years' audit fees.

During the year, total audit fees amounted to £3.9 million (2022: £2.9 million) while total non-audit fees including those relating to services required by legislation amounted to £0.8 million (2022: £0.8 million), representing 21% (2022: 28%) of the current year audit fee. This includes non-audit services not required by legislation of £0.2 million (2022: £0.3 million), 5% (2022: 10%) of the audit fee, predominantly relating to the review of the group's interim financial statements and funding assurance work.

The Committee was satisfied that these fees, individually and in aggregate, were consistent with the non-audit services policy and did not believe that they posed a threat to the external auditors' independence.

Statutory Audit Services Order Compliance

The company confirms compliance with the provisions of the Statutory Audit Services for Large Companies Market Investigation (Mandatory Use of Competitive Tender Processes and Audit Committee Responsibilities) Order 2014 for the year to 31 July 2023.

Corporate Governance Report continued

Risk Committee Report

Membership

Patricia Halliday (Chair), Oliver Corbett, Peter Duffy, Tracey Graham, Kari Hale, Tesula Mohindra, Mark Pain and Sally Williams.

Other regular attendees by invitation

- Chairman of the board
- Executive directors
- Group head of internal audit
- Group chief risk officer
- General counsel
- Group head of operational risk and compliance
- External auditor

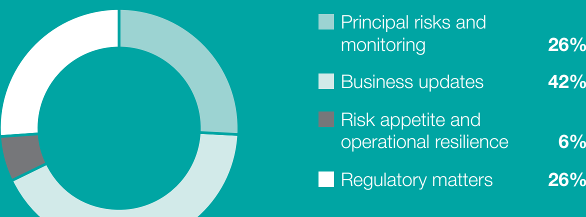
Meetings

- Number of scheduled meetings: six
- For details of attendance, see page 143

Interaction with other committees

The Risk Committee must include, as one of its members, the chair of the Audit Committee. It jointly oversees, along with the Audit Committee, the recommendations of the Group's internal and external auditors and the effectiveness of the Group's internal control and risk management systems. It also provides advice and input to the Remuneration Committee on remuneration policies and performance objectives.

How time was spent



Principal risks and monitoring	26%
Business updates	42%
Risk appetite and operational resilience	6%
Regulatory matters	26%

Dear Shareholder

On behalf of the board, I am pleased to introduce the Risk Committee report for the year ended 31 July 2023. The report sets out an overview of the Risk Committee's key responsibilities and the principal areas of risk we have focused on during the year.

Over the last 12 months, the group has continued to manage risk effectively notwithstanding the challenges presented by a dynamic and volatile external environment, and maintained strong capital and liquidity levels.

The backdrop of ongoing economic uncertainty and the potential impact on our customers continues to be a priority area of focus for the group. Agenda items at the Risk Committee this year have reflected this, including the considerable work undertaken to meet Consumer Duty requirements and monitoring our operational risk indicators and operational resilience.

The rise in cost of living from higher inflation and interest rates has yet to have a material impact on our lending book, but we maintained strong bad debt coverage levels to capture lagging factors. We have also maintained our prudent lending criteria, and appropriately set our risk appetite. As previously announced, we also recognised increased provisions in relation to Novitas in the first half, which based on our current assessment, adequately reflects the remaining risk of credit losses for the Novitas loan book. Further details on our risk management approach and the internal controls are provided in the Risk Report on pages 83 to 95.

Looking back on my first year as chair of the Risk Committee, an embedded, strong risk culture and risk management framework are evident. The year ahead is likely to remain challenging and we will continue to focus on credit risk and operational risk, and continue to progress against the regulatory agenda, particularly in the areas of operational resilience, conduct risk and climate risk.

Patricia Halliday
Chair of the Risk Committee
26 September 2023

2023 Highlights

- Delivery of substantive improvements to meet Consumer Duty requirements by the regulatory deadline.
- Continued oversight and challenge of our operational resilience plans, including investment in our cyber maturity, oversight of third-party service providers, regular review of risk management of the IT change portfolio and enhancements to controls to manage financial sanctions risk.
- Review and challenge of stress event planning activities to ensure the group remains well-equipped to adapt operationally to macroeconomic conditions and associated effects, supplemented by credit portfolio deep dives and model reviews.
- Continuation of embedding the management of risks and opportunities associated with climate change around the group (see page 38).

Key Responsibilities

The Risk Committee's principal roles and responsibilities are to support the board in its oversight of risk management across the group. The identification, management and mitigation of risk is fundamental to the success of the group. The Risk Committee also plays an important role in setting the tone and culture that promotes effective risk management across the group. The Risk Committee's key responsibilities are to:

- oversee the maintenance and development of a supportive culture and "tone from the top" in relation to the management of risk;
- review and recommend to the board for approval the group's risk appetite, which is the level of risk the group is willing to take in pursuit of its strategic objectives;
- monitor the group's risk profile against the prescribed risk appetite;
- review the effectiveness of the risk management framework to ensure that key risks are identified and appropriately managed;
- provide input from a risk perspective into the alignment of remuneration with performance against risk appetite (through the Remuneration Committee); and
- undertake a robust assessment of both the principal and emerging risks facing the group over the course of the year, and review reports from the risk and compliance functions on the effectiveness of the processes that support the management and mitigation of those risks.

Overview of Main Activities During the Year

As consumers and borrowing businesses have faced increased borrowing costs and supply chain pressures, we remain vigilant and are focused on identification of signs of stress. In addition to our usual schedule of client monitoring, we maintain a rolling programme of credit portfolio reviews. Oversight of key lending portfolios including motor, property, energy and invoice finance have been regular features on the Risk Committee agenda this year.

During this financial year we have continued to revisit our stress event planning activities; our annual stress testing exercises continue to demonstrate our resilience and sufficient resources of both capital and liquidity. In addition, we have implemented enhancements to our monitoring of credit spread risk in the banking book to further strengthen our funding and liquidity framework.

Our risk management framework underpins our operational culture to enable a responsive and forward-looking approach to the risks we face as a group. During this financial year we conducted our regular review of principal and emerging risks, with changes reflected in our Risk Report on pages 90 to 95. This year has also seen a further evolution and expansion of our conduct risk reporting to the entire group to enable further focus on good customer outcomes and this is presented quarterly to the Risk Committee.

As ever, the risks posed by the external environment are multi-faceted and work on our operational resilience agenda to manage these has continued apace throughout the year, with updates to the Committee a regular agenda item. Fraud risk and identification remain high on our radar and during the year we have also implemented enhancements to our controls to manage financial sanctions risk. In addition, we have benefited from frequent updates on progress in our cyber maturity plan.

We have maintained robust and healthy liquidity levels throughout the year consistent with our borrow long, lend short approach. The Risk Committee maintains good visibility and oversight of ALCO.

The linkage between culture, risk and compensation remains an important one and the Risk Committee and the group chief risk officer have provided input to the Remuneration Committee again this year to ensure that risk behaviours and the management of operational risk incidents over the course of the financial year are appropriately reflected in decisions taken about performance and reward.

Corporate Governance Report continued

Risk Committee Report

Looking Ahead to 2024

We expect the macroeconomic environment to remain challenging and we will continue to focus on the regulatory agenda, with enhanced monitoring in place to comply with Consumer Duty requirements and delivery of our operational resilience plans. As the organisation continues to evolve and enhance its operational capabilities, a level of risk exists in relation to the execution of that change; accordingly, the Risk Committee recognises change as a key risk and the importance of effective oversight to monitor this. Change execution risk was therefore reflected as an emerging risk during this financial year and we will monitor and manage in line with our risk mitigation measures and controls.

The 2024 financial year will see a continued focus on further embedding our approach to operational resilience in line with the policy and framework that has been established. We will expand our next round of scenario testing of important business services and associated impact tolerances in line with regulatory expectations. The risk posed by cyber crime continues to increase in severity and the Committee has received regular updates on latest initiatives and progress which will continue apace into the new financial year and beyond.

The measures taken in this financial year in response to the macroeconomic environment and its impact on our borrowers stand us in good stead for any ongoing uncertainty as we move forward. In particular, we remain vigilant for early signs of credit stress and are focused on ensuring we retain an appropriate control framework with an ability to react as required. At the centre of this will be a focus on identifying vulnerable customers and delivering good customer outcomes. The Risk Committee will continue to receive and review regular updates and management information to facilitate visibility on this.

Identification of emerging risks and possible emergence periods form part of the regular monthly reporting suite to our risk committees. This, along with our business-as-usual horizon scanning activities, should ensure that we are able to anticipate and take appropriate management actions. Central to our ability to do this is our established risk measurement, monitoring and reporting framework. Our focus on products and markets we know and understand aligns with a consistent risk appetite against which we measure ourselves. Our model risk landscape will continue to evolve in 2024 financial year as we progress through the process of our IRB application.

Having continued our positive trajectory in this financial year to embed climate-related financial risk into our group risk management framework, as we define our transition pathways we will tailor risk appetites in line with our strategic ambitions and alignment with our net zero aspirations by 2050. The actions already taken to accelerate the resolution of issues surrounding Novitas will protect the core strengths of our business moving forward and enable support to our existing customers to ensure good outcomes.

Directors' Remuneration Report

Tracey Graham
Chair of the Remuneration Committee

Membership

Tracey Graham (Chair), Mike Biggs, Peter Duffy and Mark Pain.

Other regular attendees by invitation

- Group chief executive
- Group head of human resources
- Head of reward and HR operations

Meetings

- Number of scheduled meetings: five
- For details of attendance, see page 143

Interaction with other committees

The Remuneration Committee works with the Audit and Risk Committee chairs on the design and implementation of remuneration policies and the determination of remuneration outcomes.

How time was spent

Remuneration Policy and disclosure	30%
Risk and reward	16%
Annual Remuneration discussions	54%

This report sets out our approach to remuneration for the group's employees and directors for the 2023 financial year.

The Directors' Remuneration Report is divided into three sections:

- Annual Statement from the Remuneration Committee Chair – pages 167 to 170
- Annual Report on Remuneration – pages 171 to 186
- Summary of the Directors' Remuneration Report – pages 186 to 189

Dear Shareholder

Following my appointment as the chair of the Remuneration Committee at the AGM in November 2022, I am pleased to present the Directors' Remuneration Report for the 2023 financial year. I would like to place on record my sincere thanks to my predecessor, Bridget Macaskill, for her service to the Remuneration Committee and for her support in ensuring a smooth handover. I would also like to thank my fellow Remuneration Committee members for their support and contribution to the work of the Remuneration Committee throughout the year. This report sets out our pay decisions for the year, including how we implemented the Remuneration Policy approved by shareholders at the 2021 AGM. The report also provides the proposed 2024 executive directors' bonus and group LTIP measures, where we have made a limited number of changes.

How the group performed during the 2023 financial year

This year has seen a challenging market backdrop, with the weaker UK macroeconomic outlook creating significant uncertainty for both our consumer and SME customers. Against this volatile backdrop, we continued to support our customers and apply our consistent, lending criteria.

As described in the Chairman's and Chief Executive's Statements, the financial results for the year were impacted by a significant increase in provisions in relation to the Novitas loan book in the first half, as we have taken measures to address the issues relating to that business. As a result, adjusted operating profit before tax decreased to £113.5 million (2022: £234.8 million) and we achieved a return on opening equity of 5.0% (2022: 10.6%).

Directors' Remuneration Report continued

In Banking, excluding Novitas, profit performance reflected growth in income, more than offset by higher forward-looking provisions to take into account the uncertain macroeconomic outlook, and increased costs related to our investment programmes and wage inflation. We accelerated our efforts to grow CBAM and delivered strong net inflows of 9% (2022: 5%), although profit reduced, reflecting wider market conditions and costs related to our successful hiring strategy. Performance at Winterflood reflected the continuation of challenging trading conditions, with retail investor appetite remaining subdued. Nevertheless, Winterflood has a long track record of trading profitably in a range of market conditions and remains well positioned to retain its market position and benefit when investor appetite returns.

We have maintained our strong capital, funding and liquidity positions, in line with our prudent and conservative approach. Our common equity tier 1 ("CET1") capital ratio was 13.3%, significantly above the applicable minimum regulatory requirement of 9.5%.

Reflecting our underlying performance and the Board's confidence in the group's outlook, the board is proposing a final dividend of 45.0p per share. This will result in a full-year dividend per share of 67.5p (2022: 66.0p per share).

While developments at Novitas and the impact they have had on our financial performance in the 2023 financial year are disappointing, the financial strength of the group leaves us well placed to move forward on the delivery of our strategic priorities.

The table below sets out an overview of our one-year and three-year key performance indicators which provide context for the Remuneration Committee's decisions taken this year.

Key performance indicator	2023	2022
Return on opening equity	**5.0%**	10.6%
Average return on opening equity over three years[1]	**10.0%**	11.0%
CET1 capital ratio	**13.3%**	14.6%
Adjusted operating profit (£ million)	**113.5**	234.8
Adjusted earnings per share growth over three years[1]	**(26.0)%**	(18.4)%
Distributions to shareholders (£ million)[2]	**99.1**	98.4

1. For the three-year periods ended 31 July 2023 and 31 July 2022.
2. For the 2023 financial year, interim dividend paid and proposed final dividend.

Executive director remuneration outcomes for the 2023 financial year

In light of shareholder experience of the last year, the executive directors advised the Remuneration Committee that they wished to forgo their bonus for the 2023 financial year. Additionally, acknowledging that there have been a number of headwinds over which our executive team have had no control, the Remuneration Committee determined, in agreement with the executives, that there will be no pay-out under the group LTIP for the 2023 financial year.

However, the Remuneration Committee recognises that there has been strong progress against key strategic, people, customer and risk priorities, including an acceleration of the efforts to address the issues relating to Novitas. As announced in January 2023, 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. We have since entered into a settlement with another smaller ATE insurer. We have also prioritised and maintained strong employee engagement, as evidenced by our engagement score of 86% achieved in our most recent employee opinion survey. This progress against key priorities together with the CET1 capital ratio outcome would have resulted in an annual bonus of 31.8% and 35.8% of maximum opportunity for Adrian Sainsbury and Mike Morgan, respectively. The 2020 group LTIP would have vested at 35.3% of maximum opportunity based on the RoE outcome and performance against risk management objectives. Further details on performance against the financial metrics and non-financial objectives are set out on pages 174 to 179.

Prior to the grant of the 2022 LTIP awards, external factors resulted in significant market volatility, resulting in a decline in the value of Close Brothers shares. The Remuneration Committee therefore decided, supported by the executive directors, to scale back the number of LTIP shares granted, in order to mitigate the risk of windfall gains at the point of vesting as a result of this market-related decline in the Close Brothers share price. Instead of granting LTIP awards in line with the company's standard approach (being the average share price for the five business days following the company's preliminary results announcement, which would have resulted in a grant price of £9.231) the share price at the year end of £11.10 was used to determine the number of LTIP shares granted.

Supporting the wider workforce

As a responsible business, we are committed to paying all staff at or above the national living wage, which is in excess of the national minimum wage. We have continued to support our people with the challenges they are facing as a result of the difficult economic environment and the increasing cost of living.

During the 2023 financial year the average staff salary increase was 4.7%, excluding executive directors. At the start of the 2024 financial year a further average salary increase of 6.6% was awarded across the group. These base salary uplifts have been targeted to more junior staff to ensure those most susceptible to the economic environment are best protected.

We are committed to creating an inclusive environment where all our colleagues can thrive. The Remuneration Committee has overseen the publication of our gender pay gap report, which is published on our website. We are confident that men and women are paid equally for performing equivalent roles across our businesses and are committed to taking steps to continue to reduce our gender pay gap, which is primarily driven by a lower proportion of women in senior and front office roles, where market rates are higher.

Our focus on closing the gender pay gap is through increasing female representation at all levels by setting representation targets and supporting development programmes. Whilst gender pay provides the most direct link to remuneration, our broader focus on inclusion ensures we prioritise fairness and equality for all colleagues. We are signatories to a wide range of charters and commitments across a broad spectrum of inclusion themes and social enterprises, including the Race at Work Charter, the Social Mobility Pledge, the Women in Finance Charter and the Valuable 500. We also partner with leading diversity organisations, including Stonewall, the Business Disability Forum and the charity Stop Hate UK, to help inform our thinking and subsequent actions. We have seven executive-sponsored inclusion networks which actively lead internal events and initiatives to raise awareness across the group.

Objectives to support inclusion are linked to executive pay through risk management objectives within our executives' long-term incentive plan. We are pleased that our employees continue to feel that we are an inclusive organisation, as demonstrated by responses to this question in the employee opinion survey 96% (2022: 94%) and we continue to push forward and implement activities and initiatives in this sphere to ensure we are building an inclusive environment where all our colleagues feel proud to work for us.

Proposed implementation of the Policy for the 2024 financial year

Neither the chief executive nor the group finance director have received a salary increase since the 2021 Policy review. Over the same period, the average increase for the wider workforce has been 10.9%. For the 2024 financial year, the Remuneration Committee has decided to apply a 2% increase to executive directors' salaries. These increases are below the average increase of 6.6% awarded to the wider workforce.

There will be no change to the incentive opportunities available to the executive directors, which will remain at 95% and 125% of salary for both directors under the annual bonus and LTIP respectively. There will also be no change to the level of pension provision, which will remain aligned with the wider workforce at 10% of salary.

The Remuneration Committee believes the current Policy continues to maintain a fair balance between the interests of all our stakeholders, while rewarding the management team for delivery against the group's key strategic priorities. For the 2024 financial year, we are making some limited changes to the performance measures and weightings used across the annual bonus and LTIP, as well as our approach to target setting.

The proposed annual bonus and LTIP measures and weightings for the 2024 financial year are set out below.

Annual bonus		Long-term incentive	
Measure	Weighting	Measure	Weighting
Return on average tangible equity ("RoTE")	30%	Return on average tangible equity ("RoTE")	30%
Cost:Income ratio ("C:I")	15%	Adjusted EPS growth	20%
Adjusted operating profit ("AOP")	15%	Relative TSR vs. FTSE 250 FS companies	20%
Strategic scorecard	40%	Strategic scorecard (10% each on Risk, Capital and Liquidity, and ESG objectives)	30%
CET1 underpin applies across the 2024 financial year bonus			

Directors' Remuneration Report continued

The key changes, which are permitted within the Remuneration Policy agreed by the shareholders in 2021, are as follows:

Annual bonus

We will add a Costs metric (C:I) and a Profit metric (AOP) to the annual bonus for the 2024 financial year. Our Capital (CET1) metric will become an underpin across the whole bonus. This change aims to ensure executive focus on resuming the group's track record of earnings growth and returns, while focusing on cost efficiency. The CET1 metric underpin will ensure appropriate capital levels are maintained against/above the regulatory minimum requirements.

Currently we use return on opening equity as a measure of return. We will move to RoTE; this change means the return measure will be based on the equity profile of the group across the performance period, and strips out intangible equity (e.g. goodwill) from the calculation basis. This change is aligned with market practice as RoTE is a widely used measure in the reward frameworks of other UK banks.

We have evolved our approach to target setting for our financial metrics (i.e. the RoTE, AOP and C:I targets). Historically, we have set annual bonus target ranges for RoE that are static through the cycle. We will move to an approach of setting target ranges that are dynamic year-to-year and set taking into account market conditions as well as budgetary outlook and market forecasts. This is aligned with the approach taken by the majority of FTSE-listed companies, including banking peers. Annual bonus targets will be disclosed retrospectively in line with market practice where targets are commercially sensitive.

LTIP

Taking into account the feedback we have had from investors, we are adding a relative total shareholder return ("TSR") metric to the LTIP. This is to ensure executive focus on capital markets performance and to align outcomes more directly with the shareholder experience. We propose to evaluate TSR performance against other FTSE 250 Financial Services businesses. The use of relative TSR is widespread among peer banks and the wider listed environment.

We are splitting the strategic scorecard into three distinct elements: based on "Risk", "Capital and Liquidity" and "ESG" objectives. We are simplifying the number of objectives within each element to ensure there is clarity for executives around priorities and expectations for the year. The introduction of a distinct "ESG" category allows clear promotion of our group priorities around sustainability and diversity and inclusion.

These important changes to the remuneration framework are somewhat limited, they fully align with stakeholder interest and follow best corporate governance practice. We believe they are important in incentivising consistency with our proven and resilient model and will position us well to navigate the uncertainty in the external environment, continue supporting our customers and clients, and resuming on our long track record of profitability and disciplined growth.

Looking ahead – key focus areas for the Remuneration Committee for 2024

During the course of the 2024 financial year we will be reviewing our Remuneration Policy, in advance of its triennial renewal at the 2024 AGM, to ensure that it continues to support our strategic priorities and appropriately rewards and incentivises executive performance. The external environment is expected to remain uncertain in the 2024 financial year. We will continue to monitor the operation of the Remuneration Policy to ensure that targets remain relevant and stretching and that it provides an appropriate level of reward to attract and retain high-calibre individuals in a competitive market.

We will continue to consider the experiences of colleagues, our shareholders and other stakeholders and to remunerate executives fairly and responsibly. We remain committed to a responsible approach to executive pay, as I hope this Directors' Remuneration Report demonstrates.

We remain committed to ongoing dialogue with our shareholders on remuneration matters. I hope that you will find this report on the directors' remuneration accessible and clear, that you agree with the decisions we have taken, which balance the interests of all stakeholders, and may vote in favour of the resolution to approve the Annual Report on Remuneration.

Tracey Graham
Chair of the Remuneration Committee

26 September 2023

Annual Report on Remuneration

Remuneration Committee

The Remuneration Committee's main responsibilities are to:

- review and determine the total remuneration packages of executive directors and other senior executives, including group material risk-takers and senior control function staff in consultation with the chairman and chief executive and within the terms of the agreed policy;
- approve the design and targets of any performance-related pay schemes operated by the group;
- review the design of all-employee share incentive plans;
- ensure that contractual terms on termination and any payments made are fair to the individual and the group, that failure is not rewarded and that a duty to mitigate risk is fully recognised;
- review any major changes in employee benefits structures throughout the group;
- ensure that the remuneration structures in the group are compliant with the rules and requirements of regulators, and all relevant legislation;
- ensure that provisions regarding disclosure of remuneration are fulfilled; and
- seek advice from group control functions to ensure remuneration structures and annual bonuses are appropriately aligned to the group's risk appetite.

Membership activity in the 2023 financial year

There were seven meetings of the Remuneration Committee held during the year. There is a standing calendar of items which is supplemented by other significant issues that arise during the year. The key matters addressed during the year were as follows:

	September 2022	Additional December 2022	January 2023	Additional March 2023	April 2023	June 2023	July 2023
Remuneration policy and disclosures							
Annual remuneration governance review			•				
Annual review of Total Reward Principles	•						
Review and approve Remuneration Policy Statement, Directors' Remuneration Report and the remuneration section of the Pillar 3 disclosure for 2022	•						
Gender pay gap review			•				
Risk and reward							
Review and approve risk-adjustment process/outcomes	•				•	•	•
Annual review whether to apply malus and clawback to remuneration	•						
Material Risk Takers identification for 2023	•		•				
Annual remuneration discussions							
Approve EDs' annual bonus and group LTIP financial and non-financial targets for 2023	•						
Review and determine 2023 EDs' annual bonus outcome			•		•	•	•
Review and approve 2020 group LTIP vesting						•	•
Review and approve approach to year-end compensation			•	•	•		
Year-end all-employee group-wide salary and bonus analysis/proposals for 2023					•	•	•
Review proposed 2023 compensation for Material Risk Takers			•			•	•
Initial review of EDs' annual bonus targets and objectives for 2024							•
Review of formulaic incentive schemes and approval of schemes for 2024	•	•			•		•
Committee remit and effectiveness							
Review terms of reference							•

Directors' Remuneration Report continued

UK Corporate Governance Code

We continue to be compliant with the executive pay provisions of the 2018 UK Corporate Governance Code. Our pay arrangements are also consistent with the following principles set out in the Code:

Clarity	This Directors' Remuneration Report provides open and transparent disclosure of our executive remuneration arrangements for our internal and external stakeholders.
Predictability	Our incentive arrangements contain maximum opportunity levels with outcomes varying depending on the level of performance achieved against specific measures. The charts on page 107 of the 2021 Annual Report provide estimates of the potential total reward opportunity for the executive directors under the Policy.
Simplicity and alignment to culture	Incentive arrangements for our executives are straightforward, with individuals eligible for an annual bonus and, at more senior levels, a single long-term incentive plan. Performance measures used in these plans are designed to support delivery of the group's key strategic priorities and our commitment to adopt a responsible, sustainable business model, in line with our purpose and values.
Proportionality and risk	Our variable remuneration arrangements are designed to provide a fair and proportionate link between group performance and reward. In particular, partial deferral of the annual bonus into shares, five-year release periods for LTIP awards and stretching shareholding requirements that apply during and post-employment provide a clear link to the ongoing performance of the group and therefore long-term alignment with stakeholders. We are also satisfied that the variable pay structures do not encourage inappropriate risk-taking. Notwithstanding this, the Remuneration Committee retains an overriding discretion that allows it to adjust formulaic annual bonus and/or LTIP outcomes so as to guard against disproportionate out-turns. Malus and clawback provisions also apply to both the annual bonus and LTIP and can be triggered in circumstances outlined in the Policy.

Advice

During the year under review and up to the date of this report, the Remuneration Committee consulted and received input from the chairman of the board, the chief executive, the group head of human resources, the head of reward and HR operations, the group chief risk officer and the company secretary. Where the Remuneration Committee seeks advice from employees, this never relates to their own remuneration.

The Remuneration Committee's remuneration advisers are Deloitte LLP (a member of the Remuneration Consultants Group) who were appointed by the Remuneration Committee following a competitive tendering process. During the year, separate teams within Deloitte provided advice and support in a range of areas including, operations, corporate development and regulatory compliance. The Remuneration Committee is satisfied that the provision of these other services does not affect the objectivity and independence of the remuneration advice provided by Deloitte as the other services are unrelated to reward matters. Total fees paid to Deloitte were £115,300 during the 2023 financial year, calculated on a time and material basis.

Slaughter and May provided legal advice on the company's equity scheme rules. Fees paid to Slaughter and May were £22,000, calculated on a time and material basis.

Statement of voting on the Directors' Remuneration Policy at the 2021 AGM

	For	Against	Number of abstentions
Directors' Remuneration Policy	84.2%	15.8%	3,218,903

Statement of voting on the Directors' Remuneration Report at the 2022 AGM

	For	Against	Number of abstentions
Directors' Remuneration Report	95.6%	4.4%	685,758

Implementation of the Policy in 2023

The single total figure of remuneration for executive directors for the years ended 31 July 2023 and 31 July 2022 is set out in the tables below. (Audited[1])

	2023							
	Salary £'000	**Benefits £'000**	**Pension £'000**	**Total fixed remuneration £'000**	**Annual bonus £'000**	**Performance awards £'000**	**Total variable remuneration £'000**	**Total remuneration £'000**
Adrian Sainsbury	**930**	**30**	**93**	**1,053**	**–**	**–**	**–**	**1,053**
Mike Morgan	**560**	**8**	**56**	**624**	**–**	**–**	**–**	**624**

	2022							
	Salary £'000	Benefits £'000	Pension £'000	Total fixed remuneration £'000	Annual bonus[2] £'000	Performance awards[3] £'000	Total variable remuneration £'000	Total remuneration £'000
Adrian Sainsbury[4]	930	37	93	1,060	412	130	542	1,602
Mike Morgan	560	8	56	624	248	121	369	993

1. All disclosures in the Directors' Remuneration Report are unaudited unless otherwise stated.
2. 60% of Adrian Sainsbury's and Mike Morgan's annual bonus is deferred into shares.
3. The figures for the performance awards for 2022, granted in 2019, have been recalculated using the actual share price on the date of vesting for the LTIP of £9.345. The three-month average to 31 July 2022 was used for the 2022 report given that the awards were vesting after publication of the report.
4. Adrian Sainsbury's performance awards for 2022 were granted before he was appointed to the board. The full awards relate to vested LTIPs that were subject to the performance criteria outlined in the 2022 Annual Report on page 136.

Link between reward and performance

The group performed well in the last six months of the financial year, following a challenging first half, with the full-year 2023 results significantly impacted by the increased provisions in relation to Novitas. There was an acceleration of loan book growth since the first half, with strong margins and a stable credit performance in Banking. CBAM continued to attract new client assets and achieved strong net inflows, though Winterflood's performance remained impacted by significantly subdued trading activity. Group adjusted operating profit reduced 52% to £113.5 million (2022: £234.8 million). Excluding Novitas, adjusted operating profit reduced 20% to £220.1 million (2022: £274.1 million), mainly reflecting an increase in impairment charges and a reduction in income in Winterflood.

The group achieved an RoE of 5.0% (2022: 10.6%). RoTE reduced to 5.9% (2022: 12.2%), with the loss after tax recorded by Novitas reducing the group's RoTE by 6.1%.

The board is proposing a final dividend of 45.0p per share, resulting in a full-year dividend per share of 67.5p (2022: 66.0p). This reflects the group's underlying performance and the board's confidence in the group's outlook.

Whilst there has been strong progress against non-financial objectives, due to the challenging first half of the financial year, the executive directors have forgone their bonuses for the 2023 financial year. Additionally, the Remuneration Committee, in agreement with the executives, decided there will be no pay-out for the group LTIP for the 2023 financial year.

Additional disclosures on the single total remuneration figure for executive directors table (Audited)

Salary

The per annum salaries paid during the year are as shown in the single total remuneration figure table above. When reviewing salary levels, the Remuneration Committee takes into account the individual's role and experience, pay for the broader employee population, market and external factors, where applicable. No salary increase was awarded to the executive directors for the 2023 financial year, whilst the average increase for the general employee population was 4.7%.

Benefits

Adrian Sainsbury received an £18,000 allowance in lieu of a company car. Mike Morgan does not receive an allowance in lieu of a company car. They also received private health cover. The discount to the share price on grant of SAYE options is included in the year of grant. In line with disclosure requirements, taxable expenses are included.

Pension

Adrian Sainsbury and Mike Morgan received a pension allowance equivalent to 10% of base salary, in line with the upper limit contribution the general employee population can elect to receive.

Directors' Remuneration Report continued

Annual bonus

As set out in the Remuneration Committee Chair's letter, notwithstanding the performance delivered against these targets, in light of shareholder experience, the executive directors advised the Remuneration Committee that they wished to forgo their bonus for the 2023 financial year. Details of the targets and performance are outlined on pages 175 and 176.

Annual bonus in respect of 2023

Financial metric	Weighting	Threshold (33.3% of maximum)	Target (50% of maximum)	Maximum (100% of maximum)	**2023 outcome**	**% achieved**	**Bonus outcome after weighting (% of max)**
RoE	40%	10.0%	13.0%	18.0%	**5.0%**	**0.0%**	**0.0%**
CET1 capital ratio	20%	12.6%	14.6%	15.6%	**13.3%**	**39.0%**	**7.8%**
Total financial metrics	60%						**7.8%**
						Adrian Sainsbury	Mike Morgan
Group-wide strategic scorecard[1]	40%					24.0%	28.0%
Percentage of maximum annual bonus awarded	100%					31.8%	35.8%
Assessed outcome						**£280,953**	**£190,456**
Discretionary adjustment (-100%)						**(£280,953)**	**(£190,456)**
Bonus-turn (including application of discretion)						**£0**	**£0**

1. The group-wide strategic scorecard objectives relating to the 2023 bonus can be found on pages 175 and 176.

Group-wide performance and executive directors' objectives for the 2023 financial year

Annual performance objectives are determined by the Remuneration Committee at the start of each financial year, and are designed to support the group's wider strategic priorities to "Protect", "Grow" and "Sustain" our business model.

The table on pages 175 and 176 sets out examples of the strategic scorecard objectives which were in place in 2023, performance metrics against these objectives where appropriate, and an overview of the factors that the Remuneration Committee has taken into account when assessing the performance of the executives.

The Remuneration Committee determines the overall outcome of the balanced scorecard and, if appropriate, adjusts the final individual rating to take into account the individual contributions to successful outcomes of the scorecard objectives. This year, overall performance against the strategic scorecard was rated at target or above target for most goals, except for the operating margin achieved in Asset Management. The outcome, before the discretionary downward adjustment, was assessed as 60% of the maximum award. For Mike Morgan, the outcome, before the discretionary downward adjustment, was assessed as 70% of the maximum to acknowledge the considerable additional effort undertaken to cover the Senior Manager Function 24 (chief of operations) for six months, whilst we sought to replace this role.

For reasons of commercial sensitivity, not all performance criteria and factors taken into consideration by the Remuneration Committee have been disclosed.

Performance assessment against strategic scorecard objectives

Objective	Measured through reference to	Progress	Objective achieved?
Strategic			
Strategic initiatives	Delivery of disciplined growth and strategic milestones, including	Notable progress against the group's strategic growth agenda with our growth initiatives delivering a significant contribution to loan book growth in the year.	
	• Review of single name exposure limit.	• Expansion to cover larger loan sizes, taking advantages of opportunities in the asset-based lending space.	• On track
	• Launch syndication product.	• In Invoice Finance, syndication product approved at GRCC. First participation deal closed in the 2023 financial year, with lead opportunities under consideration.	• On track
	• Expanded offering in Invoice Finance.	• New team in Invoice Finance providing bespoke term loan structures for SMEs, requiring growth and investment capital hired, and closed their first deal in the 2023 financial year.	• On track
	• Asset Management set stretching targets:	• Net inflows within the target range and operating margin of 11%.	
	– Net inflows of 7.3%.	– Strong net inflows of 9% in the 2023 financial year, demonstrating successful execution of our growth strategies through new hires.	• Ahead of track
	– Operating margin of 16%.	– Lower than budgeted operating margin as income down by 7% in the 2023 financial year.	• Behind track
	• Winterflood – WBS onboarding of new flagship client.	• WBS grew AuA to £12.9 billion at 31 July 2023, supported by the successful onboarding of Fidelity International.	• On track
	– Winterflood to maintain number 1 position by volume.	• Winterflood ranked number one by volume traded (per Bloomberg rankings) in the calendar year 2022.	• On track
Prepare for downturn	• Undertake economic stress-based Crisis Management Test playbook simulation in preparation for a downturn.	• Downturn planning overview covering both Bank-wide and business-specific initiatives undertaken.	• On track
Deliver against agreed cost workstreams	• Deliver the 2023 financial year benefits of strategic cost management initiatives.	• Multi-year technology transformation programme is well under way, with reduction in the cost base and efficiency gains through the use of a third-party service provider.	• On track
		• Retail operations simplification programme is on track to deliver operational enhancements whilst improving broker and customer experience. New customer relationship management platform has been introduced in Premium Finance.	• On track

Directors' Remuneration Report continued

Objective	Measured through reference to	Progress	Objective achieved?
People			
Maintain current engagement scores	• Group 2023 financial year EOS engagement scores at or above 86% (2022: 86%).	• Engagement score of 86% retained and compares favourably to external benchmark of 83%.	• On track
Turnover within risk appetite	• Group employee turnover at or below 16.5%.	• Voluntary annual turnover at 13.4% in May 2023 and consistently below 16.5% throughout the 2023 financial year.	• Ahead of track
Customer			
Maintain high levels of customer satisfaction	• Key customer satisfaction metrics above peer benchmarks.	• Key metrics (including NPS, NET Ease and Repeat Buying) remained stable and compared well against available peer benchmarks.	• On track
Meet regulatory requirements in respect of Consumer Duty	• Delivery against implementation plan agreed with the board, including creation of appropriate dashboard to measure customer outcomes in relation to Consumer Duty.	• Implemented a programme directly aligned to regulatory requirements. • Conduct Risk MI enhanced to provide increased customer outcome visibility. • Key milestone for sharing information with distributors met across all relevant businesses.	• On track
Borrow long, lend short	• Complete behaviouralisation exercise on customer deposits by end of January.	• 1st generation model launched in January 2023 and reported at ALCO and BRC on a monthly basis. 2nd generation model results presented at June 2023 ALCO.	• On track

Long-term performance awards (Audited)

The overall vesting of the 2020 LTIP grant is outlined in the table below.

Details of the overall vesting for the LTIP

Performance measure	Threshold target[1]	Maximum target	Actual achieved	Overall vesting
Adjusted EPS growth[2] (35% weighting)	10%	30%	**(26.0)%**	**0.0%**
RoE[3] (35% weighting)	10%	18%	**10.0%**	**8.8%**
Risk management objectives ("RMO") (30% weighting)	n/a	n/a	**88.3%**	**26.5%**
Assessed outcome (before discretion)				**35.3%**
Discretionary adjustment (-100%)				**(35.3)%**
Overall vesting (including application of discretion)				**0.0%**

1. 25% of the awards vest for satisfying the threshold target.
2. Over three years.
3. Average over three-year performance period.

As explained in the Remuneration Committee chair's letter, despite the RoE performance measure meeting threshold target and making strong progress against the risk management objectives, the Remuneration Committee, with the support of the Board, including the executive directors, determined that there should be no pay-out from the LTIP. This decision acknowledges the shareholder experience over the last year and the impact of Novitas on the group's financial performance.

Details of the assessment of the risk management objectives for the LTIP

The Remuneration Committee considers it to be of critical importance that remuneration arrangements continue to incentivise discipline in the management of the firm's capital and balance sheet and in the delivery of the business model.

The Remuneration Committee undertakes a robust assessment of performance against the risk management objectives to ensure that payments to executive directors are fair and appropriate with consideration for individual and corporate performance. In doing so, the Remuneration Committee assesses performance against a number of key measures in making its determination.

Performance was assessed after each of the three years of the LTIP performance period, with each year's review carrying a weighting of one-third towards the overall vesting for the award, ensuring a fair assessment of progress over the three-year period.

Year one and year two assessments were set out in the 2021 and 2022 Directors' Remuneration Reports respectively. The year three performance assessment is detailed below.

Year three performance assessment against risk management objectives

Objective	Measured through reference to	Progress	Objective achieved?
Capital			
Implement formal capital strategy and framework	• Capital optimisation strategy to be formalised and communicated.	• Strategy published as part of the 2022 financial year results. • Committed to optimising capital structure including issuance of debt capital market securities if appropriate.	• On track
Dividend			
Maintain progressive and sustainable dividend	• Commitment to the group's dividend policy, which aims to provide sustainable dividend growth year-on-year, while maintaining a prudent level of dividend cover.	• Progressive dividend maintained. Although the proposed level of dividend cover for 2023 is below the group's historical range it reflects our underlying performance and the Board's confidence in the group's outlook.	• On track
Funding			
Maintain prudent amount of term funding	• Prudent term funding maintained, that supports our "borrow long, lend short" strategy.	• Average maturity of funding allocated to loan book was 21 months, well in excess of the loan book at 16 months.	• Slightly ahead of track
Maintain appropriate Net Stable Funding Ratio	• Maintain Net Stable Funding Ratio above 110%.	• Net Stable Funding Ratio of 126.0% improved over the course of the 2023 financial year due to growth in Retail Banking.	• Slightly ahead of track
Liquidity			
Maintain prudent level of headroom to Liquidity Coverage Ratio	• Maintain a prudent level of headroom to LCR.	• Liquidity metrics well in excess of internal target and regulatory requirements, with a 12-month average to 31 July 2023 LCR of 1,143% (2022: 924%). • Events impacting the global banking sector earlier this year highlighted the benefits of our prudent approach to managing financial resources.	• Ahead of track

Directors' Remuneration Report continued

Objective	Measured through reference to	Progress	Objective achieved?
Risk priorities			
Conduct Risk Framework roll-out	• Complete roll-out of Conduct Risk Framework to remainder of the business.	• The Conduct Risk Framework has now been rolled out to all key business areas.	• On track
Effective management of Novitas run-off	• Ensure work is completed to achieve good customer outcomes.	• Work substantively completed on time fulfilling all objectives and residual activities absorbed into normal business activities, with FCA updated.	• On track
Operational risk and resilience			
Operational resilience to align with regulatory compliance	• Completion of refreshed group operational resilience self-assessment, including board approval. • Execution of remediation activity for the 2023 financial year completed in line with approved plan to ensure full compliance by March 2025.	• Operational resilience self-assessments were updated as planned and approved by the board. • All three divisions remain on track to complete remediation by the regulatory deadline of March 2025.	• On track • On track
Improve technology resilience and risks	• Remediate significant risks and reduce high-level residual technology risks.	• Significant risks have been remediated. • The number of high rated IT Security and Data Loss risks have been reduced.	• On track
Sustainability			
Develop the group's sustainability strategy, to include targets and transition plans	• Develop improved climate data across the group to enhance the Scope 3 reporting and improve the quality of analysis across lending activities. • Set and meet milestones needed to achieve net zero targets.	• Significant advancements made in our approach to assessing the carbon emissions relating to the assets we finance in the bank. • Assessment of carbon-intensive sectors (including transport) across the loan book to enable setting of intermediate reduction targets to be completed by March 2024.	• On track
Meeting operational emissions reduction targets and support transition to green growth in lending	• Evolve to a fully electric car fleet by 2025. • Ambition to provide £1 billion of funding for battery electric vehicles by 2027.	• Progress on bringing the average fleet emissions down, reaching 23.5 gCO_2/km (2022: 32.9 gCO_2/km). • UK fleet is now almost wholly battery electric or plug-in hybrid cars and c.50% of our fleet is fully electric. • Against our disclosed ambition of financing £1 billion of battery electric vehicles by the 2027 financial year, we were on track with £164 million lent in the first year.	• On track
Improve diversity – make progress towards 2025 targets	• 2025 gender balance and ethnicity targets: – Female senior managers, target of 36%. – Managers with an ethnic background, target of 14%.	• Female senior managers: current position July 2023: 31%. • Managers with an ethnic background: current position July 2023: 9%.	• Behind track

Objective	Measured through reference to	Progress	Objective achieved?
Culture			
Review and enhance employee communications	• Ensure appropriate "tone from top" questions included in 2023 financial year EOS and strong scores achieved.	• 95% of colleagues felt the leaders "take risk and compliance issues seriously". • 91% of colleagues also felt that "senior leadership act in line with our values and business principles".	• Ahead of track
Show strong leadership in managing remediation of control issues	• No overdue high or significant audit or assurance review items unless specifically agreed by the relevant committees.	• The group has maintained zero overdue audit issues for the past three months.	• Ahead of track

The table below summarises the Remuneration Committee's assessment of performance against the risk management objectives after each of the three years of the LTIP performance period.

Element	Year one assessment	Year two assessment	Year three assessment	Overall vesting
Capital and balance sheet management	100%	95%	95%	96.7%
Risk, compliance and controls	90%	75%	75%	80.0%
Overall vesting				**88.3%**

Implementation of the Policy in 2024

Base salary

	Salary effective from 1 August 2023	Increase
Group chief executive – Adrian Sainsbury	£948,600	2.0%
Group finance director – Mike Morgan	£571,200	2.0%

As set out in the chair letter, neither the group chief executive or group finance director has received a salary increase since the 2021 Policy review. For the 2024 financial year the Remuneration Committee has decided to apply a 2% salary increase to the directors' salaries. These base salary increases are lower than the 3% increases awarded to higher-earning colleagues and significantly lower than the average employee salary increase of 6.6% for the 2024 financial year. The Remuneration Committee was mindful of the changes made to the Remuneration Policy in 2021 in order to comply with the variable to fixed pay cap imposed by CRD V. Taking into account the feedback received from shareholders at that time, instead of applying a 3% increase to the current base salaries in line with higher-earning colleagues, the increase for the 2024 financial year was determined by reference to the group chief executive and the group finance director base salaries of £550,000 and £400,000 that had applied at the date they were appointed to the board in 2020 and 2019 respectively.

Adrian Sainsbury and Mike Morgan's allowance in lieu of pension will be 10% of base salary, in line with the upper limit contribution the general employee population can elect to receive.

The executive directors will receive benefits in line with those outlined in the Remuneration Policy table on page 187. There will be no other increases to allowances or benefits other than any potential increase in the cost of providing them.

Directors' Remuneration Report continued

2024 annual bonus (i.e. bonus awarded in respect of the 2024 performance year)

As set out in the chair's letter, a Costs metric (C:I) and a Profit metric (AOP) have been added to the annual bonus for the 2024 financial year. Our Capital metric (CET1) will become an underpin across the whole bonus.

RoTE will replace return on opening equity as a measure of return. This change is aligned with market practice as RoTE is a widely used measure in the reward frameworks of other UK banks.

The approach to target setting for the financial metrics (i.e. the RoTE, AOP and C:I targets) has evolved. Historically, annual target ranges set for RoE were static through the cycle. The Remuneration Committee has decided to move to an approach of setting target ranges that are dynamic year-to-year and take into account market conditions as well as budget outlook and market forecasts. This is aligned with the approach taken by the majority of FTSE-listed companies, including banking peers. Annual bonus targets will be disclosed retrospectively in line with market practice where targets are commercially sensitive.

Nature of measures	Choice of measures	Percentage of bonus opportunity	Vesting ranges
Financial	RoTE	30%	Threshold – 33%[1] Maximum – 100%
	AOP	15%	
	Cost:income ratio	15%	
Non-financial	Strategic scorecard	40%	Minimum – 0%
	Strategic, People, Customer and Risk objectives		Maximum – 100%

1. Performance below threshold in the financial measures would result in zero vesting of financial measure.

The Remuneration Committee retains discretion to adjust the targets if the board gives approval for a material transaction, to ensure that performance is measured on a fair and consistent basis.

2023 LTIP (i.e. LTIP awarded in respect of the 2024 to 2026 cycle)

The 2023 LTIP awards due to be granted in October 2023 are shown in the table below.

	Chief executive Adrian Sainsbury	Group finance director Mike Morgan
2023 LTIP award	£1,185,750	£714,000
Percentage change in LTIP award from 2022	2%	2%
2023 LTIP award as a percentage of 2024 salary	125%	125%

The Remuneration Committee determined that it was appropriate to grant the executive directors an LTIP award at the maximum level of 125% of their 2024 base salary. The Remuneration Committee will review the level of vesting upon completion of the performance period.

The 2023 LTIP targets are detailed in the table below.

Nature of measures	Choice of measures	Targets	Weightings	Vesting ranges
Financial	RoTE	10% to 18%[1]	30%	Threshold – 25% Maximum – 100%
	Relative TSR vs. FTSE 250 FS companies	Median to upper quartile ranking	20%	
	Adjusted EPS growth	10% to 30% over 3 years	20%	
Non-financial	Risk management objectives	Discretionary assessment against specific goals	30%	

1. Average over three-year performance period.

The RoTE and adjusted EPS growth targets for the 2023 LTIP are consistent with those that applied for the last three LTIP awards. The Remuneration Committee believes that these targets are appropriately stretching and effectively align the executive directors' interest with those of shareholders through many economic cycles. The stretch in the targets was also considered to be appropriate when viewed on a holistic basis and in the context of the modest levels of LTIP vesting over a number of years, as shown in the table on page 183.

The risk, ESG, and capital and liquidity elements within the risk management objectives for the 2024 financial year are detailed in the following table.

Risk and operational resilience
Continue annual achievement of outcome reviews and maintenance to long-term goals
Sustainably embedded compliance with corporate audit and governance reforms
Ensure full regulatory compliance with operational resilience requirements
ESG
Define and publish transition pathways to meet our net zero ambition
Improve diversity through meeting defined targets
Capital and liquidity
Maintain a strong and prudent capital position that is above regulatory minimum
Maintain a progressive dividend that is sustainable over the medium term
Maintain a prudent amount of liquid assets over the period
Maintain a prudent amount of term funding that supports our "borrow long, lend short" strategy

Due to commercial sensitivity, the full details of the milestones for the objectives will be outlined in the Directors' Remuneration Report throughout the performance period rather than prospectively.

Relative spend on pay

The following table shows the total remuneration paid compared to the total distributions to shareholders.

	2023 £ million	2022 £ million	Percentage change
Remuneration paid	**347.0**	344.5	0.8%
Distributions to shareholders[1]	**100.5**	98.4	0.7%

1. Interim dividend paid and final dividend proposed for the financial year.

Changes in remuneration of the directors and all employees

The table on the following page shows how the remuneration for the directors changed compared to employees of the parent company of the group and the average group-wide employee population for each year between the 2020 and 2023 financial years.

The decrease in executive directors' annual bonus is due to their decision to forgo their bonus for the 2023 financial year, as detailed in the Remuneration Committee chair's letter on page 168. The change to benefits relates to costs of providing private medical cover and, for Adrian Sainsbury, the inclusion of the discount of share price for a SAYE option granted.

The year-on-year movement in salary for the average group employee and average group-wide employee between the 2020 and 2023 financial years reflects the annual review implemented in August 2022 and ad hoc salary changes throughout the 2023 financial year.

The average decrease in bonus for the average group-wide employee population is greater than the average Group employee; this is largely driven by the reduction in average bonus for Winterflood employees due to business performance.

Directors' Remuneration Report continued

Non-executive directors who joined on or after 1 August 2022 are not included. The changes in fees shown below relate to changes in responsibility for the non-executive directors.

	2023			2022			2021			2020		
	Salary/Fee	**Benefits[1]**	**Bonus**	Salary/Fee	Benefits[1]	Bonus	Salary/Fee	Benefits[1]	Bonus	Salary/Fee	Benefits[1]	Bonus
Average Group employee[2]	**7.0%**	**16.2%**	**(11.7)%**	5.8%	21.3%	29.5%	2.4%	6.6%	34.3%	11.7%	2.3%	(32.9)%
Average employee[3]	**4.7%**	**4.7%**	**(27.6)%**	5.7%	5.7%	(32.8)%	0.0%	0.0%	21.2%	1.8%	1.8%	13.1%
Executive directors[4]												
Adrian Sainsbury[5]	**0.0%**	**2.7%**	**(100.0)%**	95.7%	62.2%	(51.1)%	–	–	–	–	–	–
Mike Morgan[6]	**0.0%**	**(0.1)%**	**(100.0)%**	40.0%	30.8%	(54.9)%	0.0%	20.2%	152.2%	0.0%	0.0%	(54.7)%
Chairman and non-executive directors[7]												
Mike Biggs	**0.0%**	**–**	**–**	0.0%	–	–	0.0%	–	–	0.0%	–	–
Oliver Corbett	**0.0%**	**–**	**–**	(1.7)%	–	–	(0.1)%	–	–	5.6%	–	–
Peter Duffy	**0.0%**	**–**	**–**	7.7%	–	–	2.8%	–	–	0.0%	–	–
Sally Williams	**0.0%**	**–**	**–**	3.8%	–	–	0.0%	–	–	–	–	–
Mark Pain	**0.0%**	**–**	**–**	27.5%	–	–	–	–	–	–	–	–
Patricia Halliday[8]	**23.9%**	**–**	**–**	–	–	–	–	–	–	–	–	–
Tracey Graham[8]	**23.9%**	**–**	**–**	–	–	–	–	–	–	–	–	–
Tesula Mohindra	**0.0%**	**–**	**–**	–	–	–	–	–	–	–	–	–
Lesley Jones	**0.0%**	**–**	**–**	3.5%	–	–	0.0%	–	–	5.6%	–	–
Bridget Macaskill	**0.0%**	**–**	**–**	0.1%	–	–	(1.8)%	–	–	5.6%	–	–

1. Non-executive directors have received other benefits that relate to reimbursement for expenses incurred in the course of duties. Reimbursement of these expenses does not provide an accurate comparison to benefits received by employees and they are therefore not included.
2. Changes for employees of the parent company excluding executive directors.
3. Changes for group-wide employees, as this is more representative of changes across the wider workforce excluding executive directors.
4. Calculated using the data from the single figure table in the Annual Report on Remuneration excluding reimbursement for expenses incurred in the course of duties. For Adrian Sainsbury and Mike Morgan, their expenses were £6,020 and £6,328 for the 2023 financial year and £16,441 and £5,939 for the 2022 financial year respectively.
5. Adrian Sainsbury was appointed as group executive director in September 2020 and his 2021 figures are pro-rated based on part-year. Adrian's 2022 salary and benefits increase is driven by the part-year in 2021 and the compensation mix adjustment awarded during the 2022 financial year.
6. Mike Morgan's 2022 benefits increased 30.8%, this is driven by an increase in pension allowance based on the compensation mix adjustment awarded during the 2022 financial year.
7. Calculated using the fees from the single figure table for non-executive directors on page 185. Where non-executives have pro-rated fees, the prior year has either been pro-rated up or down accordingly.
8. Patricia Halliday and Tracey Graham's fees have increased year-on-year and this is driven by their appointment to the chair of the Risk Committee and the chair of the Remuneration Committee respectively during the 2023 financial year.

Pay ratios

The table below compares the chief executive's single total remuneration figure to the remuneration of the group's UK employees at 31 July, over the last four financial years. The Remuneration Committee is satisfied that the median ratio is consistent with the pay, reward and progression policies for our employee population.

The ratio for 2023 has declined on the previous year. This is largely as a result of the executive directors' decision to forgo their bonus for the 2023 financial year and the joint decision by the Remuneration Committee and the executives that the 2020 LTIP should not vest this year.

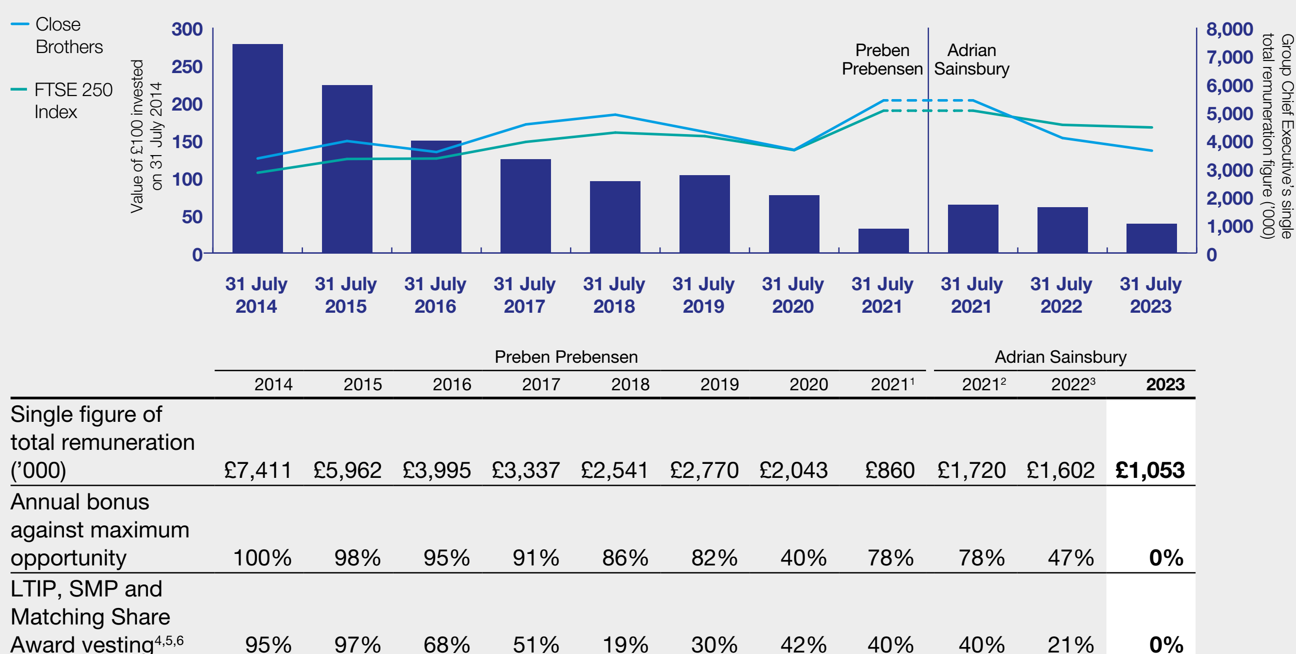
					Lower quartile employee		Median employee		Upper quartile employee	
Year	Method	25th percentile	Median	75th percentile	Total remuneration	Salary	Total remuneration	Salary	Total remuneration	Salary
2023	**A**	**29: 1**	**18: 1**	**11: 1**	**£36,093**	**£30,000**	**£59,000**	**£50,000**	**£92,969**	**£72,600**
2022	A	48: 1	28: 1	17: 1	£33,571	£26,314	£56,952	£40,983	£93,459	£85,000
2021	A	79: 1	37: 1	29: 1	£32,437	£28,820	£54,729	£38,500	£89,927	£70,000
2020	A	64: 1	38: 1	23: 1	£32,194	£27,167	£54,245	£36,950	£90,029	£75,000

Our ratios have been calculated using the most robust methodology option "A" prescribed under the UK Companies (Miscellaneous Reporting) Regulations 2018. Under this option, the ratios are calculated using the following:

- the full-time equivalent salaries and allowances for employees in the UK;
- pensions and benefits paid during the financial years;
- annual bonus awarded for the financial years;
- actual and projected gains realised from exercising awards from taxable employee share plans;
- sales incentives paid during the financial years; and
- projection of vested performance awards.

The group chief executive's total remuneration over the past ten years

The chart below illustrates the group chief executive's single total remuneration figure over the past 10 years and compares it to the total shareholder return of the company's shares and the FTSE 250 over this period. Further detail on the single total remuneration figure outcomes and how variable pay plans have paid out each year is shown in the table below.



	Preben Prebensen								Adrian Sainsbury		
	2014	2015	2016	2017	2018	2019	2020	2021[1]	2021[2]	2022[3]	**2023**
Single figure of total remuneration ('000)	£7,411	£5,962	£3,995	£3,337	£2,541	£2,770	£2,043	£860	£1,720	£1,602	**£1,053**
Annual bonus against maximum opportunity	100%	98%	95%	91%	86%	82%	40%	78%	78%	47%	**0%**
LTIP, SMP and Matching Share Award vesting[4,5,6]	95%	97%	68%	51%	19%	30%	42%	40%	40%	21%	**0%**

1. Preben Prebensen's remuneration for the 2021 financial year was time pro-rated to 21 September 2020, the day he stepped down as chief executive.
2. Adrian Sainsbury was appointed chief executive on 21 September 2020 and his remuneration included in the single figure for the 2021 financial year was time pro-rated accordingly.
3. The figures for the performance awards for 2022 have been recalculated using the actual share price on the date of vesting for the LTIP of £9.345. In the 2022 report, the three-month average to 31 July 2022 was used, given that the awards were vesting after publication of the report.
4. The figures for 2014 include the Matching Share Awards that were granted in 2009 at the time of Preben Prebensen's appointment as chief executive.
5. The 2019 LTIP award vested at 20.6%, the assessed outcome before the 25% discretionary reduction was 27.5%.
6. SMP and Matching Share Awards were last granted in the 2016 financial year.

Scheme interests granted during the year (Audited)

The face value and key details of the share awards granted in the 2023 financial year are shown in the table below. These were all delivered as nil cost options. The Deferred Share Award ("DSA") is a mandatory deferral of a portion of the annual bonus. The share price used to calculate the number of shares awarded for the DSA was £9.231, the average mid-market closing price for the five days from and including the date the preliminary results were announced.

As set out in the Remuneration Committee chair's letter, instead of granting the LTIP in line with the company's standard approach (being the average share price for the five business days following the company's preliminary results announcement, which would have resulted in a grant price of £9.231) the closing mid-market share price on the final trading day of the 2022 financial year (29 July 2022) of £11.100 was used to calculate the number of shares awarded for the LTIP.

Name	Award type[1]	Vesting period	Performance conditions	Face value '000	Percentage vesting at threshold	Number of shares	Vesting end date
Adrian Sainsbury	DSA[2]	1-3 years	No	£247	n/a	26,799	11 October 2025
	LTIP[3,4]	3 years	Yes	£1,163	25%	104,730	11 October 2025
Mike Morgan	DSA[2]	1-3 years	No	£149	n/a	16,137	11 October 2025
	LTIP[3,4]	3 years	Yes	£700	25%	63,064	11 October 2025

1. The awards are all delivered as nil cost options.
2. The DSA vests in equal tranches over three years.
3. Performance targets are detailed in the 2022 Annual Report on page 136.
4. LTIPs vested from 2020 have an additional two-year holding period.

Directors' Remuneration Report continued

External appointments

No executive directors held external directorships during the financial year.

Payments for loss of office and past directors (Audited)

There were no payments for loss of office or payments to past directors during the year other than vesting of outstanding share awards as disclosed in previous remuneration reports.

Executive directors' shareholding and share interests (Audited)

The interests of the directors in the ordinary shares of the group at 31 July 2023 are set out below:

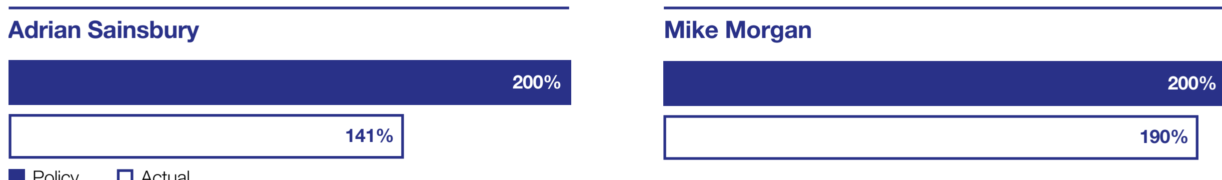
	Shareholding requirement	Number of shares owned outright[2]	Outstanding options not subject to performance conditions[3]		Outstanding options subject to performance conditions[4]	
Name	2023[1]	2023	2023	2022	2023	2022
Adrian Sainsbury	202,339	142,200	73,476	46,435	383,452	322,287
Mike Morgan	121,839	115,919	38,592	39,001	204,929	194,802

1. Based on the closing mid-market share price of 919p on 31 July 2023.
2. This includes shares owned outright by closely associated persons and SIP.
3. This includes DSA and SAYE options.
4. This includes LTIP awards.

At 31 July 2023, Adrian Sainsbury held 40,873 vested but unexercised shares. There were no changes in notifiable interests between 1 August 2023 and 11 September 2023, other than the purchase of shares by Adrian Sainsbury within the SIP which increased his shareholding to 142,236 shares.

Executive directors' shareholding

The chart below compares the current executive directors' shareholding versus shareholding policy, as a percentage of salary. At the end of the 2021 financial year, both executive directors exceeded the minimum requirement under the Directors' Remuneration Policy. Following the implementation of the compensation mix adjustments in response to CRD V in the 2022 financial year, Adrian Sainsbury and Mike Morgan are building up their shareholding over a reasonable time frame to meet the revised minimum requirement.



Details of executive directors' share exercises during the year (Audited)

Name	Award type	Held at 1 August 2022	Called[1]	Lapsed	Market price on award p	Market price on calling p	Total value on calling[1] £	Dividends paid on vested shares £
Mike Morgan	2019 DSA	4,996	4,996	–	1,366.4	1,082.0	54,057	7,698
	2020 DSA	4,421	4,421	–	987.9	1,082.0	47,835	7,341
	2021 DSA	7,128	7,128	–	1,545.8	1,082.0	77,125	10,492
	2017 LTIP	12,276	12,276	–	1,459.0	1,082.0	132,826	41,125

1. These are the actual number of shares and values realised on calling. Any variances in totals are due to rounding.

Adrian Sainsbury did not exercise any shares during the year.

Notes to the details of executive directors' share exercises during the year

The DSA is a mandatory deferral of a portion of the annual bonus.

The DSA and LTIP give executive directors the right to call for shares in the company from the employee benefit trust or Treasury Shares, at nil cost, together with a cash amount representing accrued notional dividends thereon. They may be called for at any time up to 12 months from the date of vesting. The DSA and LTIP awards may be forfeited in certain circumstances if the executive director leaves employment before the vesting date. The value of the awards is charged to the group's income statement in the year to which the award relates for the DSA and spread over the vesting period for the LTIP award.

Details of executive directors' option exercises during the year (Audited)

Name	Award type	Held at 1 August 2022	Exercised	Lapsed	Exercise price p	Market price on exercise p	Gain on calling £
Adrian Sainsbury	2020 SAYE (Spring)	1,013	1,013	–	888.0	968.0	810

Single total figure of remuneration for non-executive directors (Audited)

	2023						2022					
Name	**Basic fee[1] £'000**	**Committee chair £'000**	**Committee member £'000**	**Senior independent director £'000**	**Benefits[2] £'000**	**Total £'000**	Basic fee[1] £'000	Committee chair £'000	Committee member £'000	Senior independent director £'000	Benefits[2] £'000	Total £'000
Mike Biggs	**300**	**–**	**–**	**–**	**22**	**322**	300	–	–	–	22	322
Lesley Jones[3]	**21**	**10**	**4**	**–**	**2**	**37**	71	34	12	–	1	118
Bridget Macaskill[3]	**21**	**10**	**2**	**–**	**2**	**35**	71	34	6	–	16	127
Oliver Corbett	**71**	**34**	**6**	**–**	**1**	**112**	71	34	6	–	–	111
Peter Duffy	**71**	**–**	**12**	**–**	**1**	**84**	71	–	12	–	–	83
Sally Williams	**71**	**–**	**12**	**–**	**2**	**85**	71	–	12	–	1	84
Mark Pain	**71**	**–**	**12**	**34**	**1**	**118**	71	–	12	34	–	117
Tesula Mohindra[4]	**71**	**–**	**12**	**–**	**1**	**84**	74	–	12	–	–	86
Patricia Halliday[5]	**71**	**24**	**8**	**–**	**1**	**104**	71	–	12	–	–	83
Tracey Graham[5]	**71**	**24**	**8**	**–**	**2**	**105**	26	–	4	–	–	30
Kari Hale[6]	**7**	**–**	**1**	**–**	**–**	**8**	–	–	–	–	–	–

1. Non-executive director fees were last increased with effect from 1 August 2021.
2. Benefits include travel-related expenses in respect of attendance at board meetings which are taxable. Amounts disclosed have been grossed up using the appropriate tax rate as the company pays the non-executive directors' tax.
3. Lesley Jones and Bridget Macaskill both retired as a non-executive director on 17 November 2022.
4. Tesula Mohindra was appointed a non-executive director on 15 July 2021 and fees relating to the 2021 financial year (15 July 2021 to 31 July 2021) were paid in the 2022 financial year.
5. Patricia Halliday and Tracey Graham were appointed chair of the Risk Committee and chair of the Remuneration Committee respectively on 17 November 2022.
6. Kari Hale was appointed a non-executive director on 28 June 2023.

Notes to the single total figure of remuneration for non-executive directors

The fees payable to non-executive directors for the 2023 and 2024 financial years are as follows. The committee membership fee increased with effect from 1 August 2023.

Role	**2024**	2023
Chairman[1]	**£300,000**	£300,000
Non-executive director	**£71,000**	£71,000
Supplements		
Senior independent director	**£34,000**	£34,000
Chair of Audit Committee	**£34,000**	£34,000
Chair of Remuneration Committee	**£34,000**	£34,000
Chair of Risk Committee	**£34,000**	£34,000
Committee membership[2]	**£7,000**	£6,000

1. The chairman receives no other fees for chairmanship or membership of board committees.
2. No fees are payable to the chairman, or for membership, of the Nomination and Governance Committee.

Directors' Remuneration Report continued

Non-executive directors' share interests (Audited)

The interests of the non-executive directors in the ordinary shares of the company are set out below:

Name	**Shares held beneficially at 31 July 2023**	Shares held beneficially at 31 July 2022
Mike Biggs	**3,500**	1,500
Oliver Corbett	**–**	–
Peter Duffy	**848**	848
Sally Williams	**–**	–
Mark Pain	**–**	–
Bridget Macaskill[1]	**2,500**	2,500
Lesley Jones[1]	**–**	–
Tesula Mohindra	**–**	–
Patricia Halliday	**–**	–
Tracey Graham	**1,000**	–
Kari Hale	**–**	–

1. Bridget Macaskill and Lesley Jones's shareholding is at 17 November 2022, the date they retired as non-executive directors.

There were no changes in notifiable interests between 1 August 2023 and 11 September 2023.

This report was approved by the board of directors on 26 September 2023 and signed on its behalf by:

Tracey Graham
Chair of the Remuneration Committee

Directors' Remuneration Policy

The Directors' Remuneration Policy was approved by shareholders at the 2021 AGM on 18 November 2021. It is intended that the policy will apply for three years up to the 2024 AGM, unless amendments are required, in which case further shareholder approval will be sought.

The policy can be read in full on pages 100 to 110 of the 2021 Annual Report, which is available on our website at www.closebrothers.com. A summary of the main elements of the Remuneration Policy is set out in the table below.

Information on how the Remuneration Policy will be applied in 2024 is included in the Annual Report on Remuneration section, on pages 179 to 181.

Remuneration Policy for executive directors

Element and how it supports the group's short-term and long-term strategic objectives	Operation and maximum payable
Base salary Attracts and retains high calibre employees.	Reflects the individual's role and experience and external factors, as applicable. Paid monthly in cash. Increases will generally not exceed those for the broader employee population unless there is a change in role, responsibility or the regulatory environment. **Performance framework, recovery and withholding:** Not applicable.
Benefits Enables the EDs to perform their roles effectively by contributing to their wellbeing and security. Provides competitive benefits consistent with the role.	Benefits may include private medical cover, health screening, life assurance, income protection cover and an allowance in lieu of a company car. Other benefits may also be provided in certain circumstances, such as relocation expenses. **Performance framework, recovery and withholding:** Not applicable.
Pension Provides an appropriate and competitive level of personal and dependant retirement benefits.	EDs receive a level of pension contribution (in the form of a cash allowance or contribution to a pension arrangement) that is in line with the wider workforce. **Performance framework, recovery and withholding:** Not applicable.
Annual bonus Rewards good performance. Motivates executives to support the group's goals, strategies and values over both the medium and long term. Aligns the interests of senior employees and executives with those of key stakeholders, including shareholders, and increases retention for senior employees, through the use of deferrals.	60% of the annual bonus will usually be deferred into shares (in the form of nil cost options or conditional awards) and will usually vest in equal tranches over three years, subject to remaining in service. The remaining annual bonus will be delivered immediately in cash. The annual bonus is capped at 95% of base salary. At the Remuneration Committee's discretion, dividend equivalents will usually be paid in cash or additional shares when the deferred awards vest. **Performance framework, recovery and withholding:** Individual bonuses are determined based on both financial and non-financial performance measures in the financial year, including adherence to relevant risk and control frameworks. At the Remuneration Committee's discretion, an element of the bonus may also be based on personal performance. At least 60% of the annual bonus opportunity will be based on financial performance. The non-financial element will be determined based on performance measured against a balanced scorecard, including (but not limited to): • strategic objectives; and/or • people and customer metrics; and/or • risk, conduct and compliance measures. The Remuneration Committee has overriding discretion to adjust vesting outcomes where it considers appropriate. The cash element is subject to clawback and the deferred element is subject to malus and clawback conditions.

Directors' Remuneration Report continued

Element and how it supports the group's short-term and long-term strategic objectives	Operation and maximum payable
Long-Term Incentive Plan Motivates executives to achieve the group's longer-term strategic objectives and aligns their interests with those of shareholders. Aids the attraction and retention of key staff.	Awards are made in the form of nil cost options or conditional awards and usually vest after three years subject to achieving performance conditions and remaining in service. On vesting, awards will usually be subject to a further two-year post-vesting retention period before options can be exercised by, or conditional awards paid to, EDs. EDs are eligible to receive an annual award of shares with a face value of up to 125% of base salary, excluding dividend equivalents. **Performance framework, recovery and withholding:** Individual awards vest based on performance against both financial and non-financial performance measures. At least 70% of the award will be based on performance against financial measures. The remainder will be based on non-financial performance. The Remuneration Committee has overriding discretion to adjust vesting outcomes where it considers appropriate. LTIP awards are subject to malus and clawback provisions.
Shareholding requirement Aligns the interests of executives with those of shareholders.	EDs are expected to build and maintain a holding of company shares equal to at least 200% of base salary. EDs will normally be expected to maintain a minimum shareholding of 200% of base salary for the first two years after stepping down as an ED. **Performance framework, recovery and withholding:** Not applicable.
Other	The group will pay legal, training and other reasonable and appropriate fees, including any relevant tax liabilities, incurred by the EDs as a result of doing their job. The EDs are also permitted to participate in the group-wide Save As You Earn schemes and Share Incentive Plan.
Legacy arrangements	Share awards granted under the previous Remuneration Policy will continue to vest and be released on their usual timescales. These awards to executive directors are also subject to a three-year performance period and usually post-vesting to a two-year retention period.
Additional details on the directors' Remuneration Policy	The Remuneration Committee has discretion to amend performance conditions in appropriate circumstances, provided that the performance condition is not made either materially easier or materially more difficult to achieve. The Remuneration Committee also has discretion to adjust vesting outcomes where it considers the application of formulaic performance conditions to be inappropriate. The Remuneration Committee may make minor amendments to this Policy (for regulatory, exchange control, tax or administrative purposes, to correct clerical errors or to take account of a change in legislation) without obtaining shareholder approval for that amendment.
Rationale for choice of performance conditions	The Remuneration Committee selects financial and non-financial performance measures that strengthen the alignment of the remuneration arrangements to the business model and the interests of our shareholders. The Remuneration Committee believes the current combination of metrics provides a good balance between financial and non-financial measures, and supports the medium and long-term strategic objectives of the group.
Malus and clawback	Malus and clawback provisions apply to the variable pay that can be earned by executive directors. The specific circumstances in which malus and clawback can be applied are set out in our full Policy on pages 105 and 106 of the 2021 Annual Report, which is available on our website.

Dates of Executive Directors' service contracts

Date	Date of service contract
Adrian Sainsbury	1 May 2020
Mike Morgan	15 November 2018

Remuneration Policy for the chairman and non-executive directors

Element and how it supports the group's short-term and long-term strategic objectives	Operation and maximum payable
Fees Attract and retain a chairman and independent non-executive directors who have the requisite skills and experience to determine the strategy of the group and oversee its implementation.	• Fees are paid in cash and are reviewed periodically. • Fees for the chairman and non-executive directors are set by the board. The non-executive directors do not participate in decisions to set their own remuneration. • The chairman of the board receives a fee as chairman but receives no other fees for chairmanship or membership of any committees. • Non-executive directors receive a base fee. • The senior independent director receives an additional fee for this role. • Additional fees are paid for chairmanship of each of the Audit, Remuneration and Risk Committees. Additional fees are paid for membership of committees, with the exception of the Nomination and Governance Committee, for which no additional fees are payable. • Additional fees may be payable for other additional board responsibilities and/or time commitments. The chairman and non-executive directors are entitled to claim reimbursement for reasonable expenses and associated tax liabilities incurred in connection with the performance of their duties for the company, including travel expenses. • Overall aggregate fees will remain within the £1.25 million authorised by our articles of association. There is no performance framework, recovery or withholding.

Non-executive directors' appointment letters

Name	Date of appointment	Current letter of appointment start date
Mike Biggs	14 March 2017	21 September 2020
Oliver Corbett	3 June 2014	17 November 2022
Peter Duffy	1 January 2019	17 November 2022
Sally Williams	1 January 2020	17 November 2022
Mark Pain	1 January 2021	1 January 2021
Tesula Mohindra	15 July 2021	15 July 2021
Patricia Halliday	1 August 2021	17 November 2022
Tracey Graham	22 March 2022	17 November 2022
Kari Hale	28 June 2023	28 June 2023

Consideration of shareholders' and employees' views

The chairman of the board consults our major shareholders on a regular basis on key issues, including remuneration. A formal consultation exercise was undertaken during 2021 with our major shareholders and shareholder advisory bodies as part of the process of reviewing this Policy.

The pay and terms and conditions of employment of employees within the group are taken into consideration when setting the Directors' Remuneration Policy and pay of the EDs. The Remuneration Committee does not formally consult with employees when setting the Policy, although the employee opinion survey conducted every year includes remuneration as one of the topics surveyed.

The Remuneration Committee also receives feedback from engagement with, and communication to, employees on matters relating to remuneration issues, which it uses to inform its broader approach to remuneration, including with respect to the alignment between executive remuneration and the approach to compensation for employees across the group. At each scheduled meeting, the Remuneration Committee reviews a "Remuneration Dashboard" containing metrics, analysis and other information, which the Remuneration Committee uses as part of its decision-making, including as part of the annual compensation process. It covers a wide range of areas throughout the year, such as workforce demographics, pay and reward at different levels across the group, gender pay and SAYE participation.

Directors' Report

The directors of the company present their report for the year ended 31 July 2023.

The Strategic Report set out on pages 1 to 133 of this Annual Report, together with the Corporate Governance Report, the reports of the committees and the Directors' Remuneration Report set out on pages 167 to 189 of this Annual Report, include information that would otherwise need to be included in this Directors' Report. Readers are also referred to the cautionary statement on page 259 of this Annual Report.

Disclosures by Reference

Additional information, which is incorporated into this Directors' Report by reference, including information required by the Companies Act 2006, Disclosure and Transparency Rule 7.2, and Listing Rule 9.8.4R, can be located by page reference elsewhere in this Annual Report as follows:

Content	Page reference
Strategic Report	
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Business relationships	35 to 37
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Risk management objectives and policies	83 to 130
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Financial instruments	Note 13 on pages 229 to 231
Shareholder dividend waivers	192

Results and Dividends

The consolidated results for the year are shown on page 204 of the financial statements. The directors recommend a final dividend for the year of 45.0p (2022: 44.0p) on each ordinary share which, together with the interim dividend of 22.5p (2022: 22.0p) paid in April 2023, makes an ordinary distribution for the year of 67.5p (2022: 66.0p) per share. The final dividend, if approved by shareholders at the 2023 Annual General Meeting ("AGM"), will be paid on 24 November 2023 to shareholders on the register on 20 October 2023.

Further information on the final dividend recommended by the directors can be found on page 68 of this Annual Report.

Directors

The names of the directors of the company at the date of this report, together with biographical details, are given on pages 138 to 140 of this Annual Report. All the directors listed on those pages were directors of the company throughout the year, apart from Kari Hale, who was appointed as a director on 28 June 2023.

In accordance with the UK Corporate Governance Code, the board proposes the election of Kari Hale to the board at the upcoming AGM. All other serving directors will retire at the 2023 AGM and offer themselves for re-election at that meeting, with the exception of Oliver Corbett who has served nine years and will retire from the board at the conclusion of the AGM.

Appointment and Removal of Directors

The appointment and removal of directors is governed by the company's articles of association, the Companies Act 2006 and other applicable regulations and policies. Directors may be elected by shareholders in a general meeting or appointed by the board of directors in accordance with the provisions of the articles of association. The company's articles of association may only be amended by a special resolution of the shareholders in a general meeting.

Directors' Indemnities and Insurance

In accordance with its articles of association, the company has granted a deed of indemnity to each of its directors on terms consistent with the applicable statutory provisions. The deeds indemnify the directors in respect of liabilities (and associated costs and expenses) incurred in connection with the performance of their duties as directors of the company or any associated company. Qualifying third-party indemnity provisions for the purposes of section 234 of the Companies Act 2006 were accordingly in force during the course of the year, and remain in force at the date of this Annual Report.

The company also maintains directors' and officers' liability insurance.

Share Capital

The company's share capital comprises one class of ordinary share with a nominal value of 25p per share.

At 31 July 2023, 152,060,290 ordinary shares were in issue, of which 1,601,475 were held by the company in treasury.

Under section 551 of the Companies Act 2006, the directors may allot equity securities only with the express authorisation of shareholders which may be given in general meeting, but which cannot last more than five years. Under section 561 of the Companies Act, the board may not allot shares for cash (otherwise than pursuant to an employee share scheme) without first making an offer to existing shareholders to allot such shares to them on the same or more favourable terms in proportion to their respective shareholdings, unless this requirement is waived by a special resolution of the shareholders.

Details of directors' authorities approved by shareholders at the 2022 AGM can be found in the 2022 Notice of AGM and subsequent results announcement.

Since the date of the company's 2022 AGM, with the exception of the authority to make market purchases, the directors have not used these authorities. Details of market purchases of the company's ordinary shares during the year can be found in the purchase of own shares section below.

The existing authorities to allot and purchase shares given to the company at the last AGM will expire at the conclusion of the forthcoming AGM. At this AGM, shareholders will be asked to renew these authorities. Details of the relevant resolutions to be proposed will be included in the Notice of AGM.

New Issues of Share Capital

No ordinary shares were allotted or issued during the year. Specifically, no ordinary shares were allotted or issued during the year to satisfy option exercises. Full details of options exercised, the weighted average option exercise price and the weighted average market price at the date of exercise can be found in note 24 on pages 241 to 242 of the financial statements.

Rights Attaching to Shares

The company's articles of association set out the rights and obligations attaching to the company's ordinary shares. All of the ordinary shares rank equally in all respects.

On a show of hands, each member has the right to one vote at general meetings of the company. On a poll, each member would be entitled to one vote for every share held. The shares carry no rights to fixed income. No person has any special rights of control over the company's share capital and all shares are fully paid.

The articles of association and applicable legislation provide that the company can decide to restrict the rights attaching to ordinary shares in certain circumstances (such as the right to attend or vote at a shareholders' meeting), including where a person has failed to comply with a notice issued by the company under section 793 of the Companies Act 2006.

Restrictions on the Transfer of Shares

There are no specific restrictions on the transfer of the company's shares which are governed by the general provisions of the articles of association and prevailing legislation. The articles of association set out certain circumstances in which the directors of the company can refuse to register a transfer of ordinary shares.

The company is not aware of any arrangements between its shareholders that may result in restrictions on the transfer of shares and/or voting rights.

Directors and employees of the group are required to comply with applicable legislation relating to dealing in the company's shares as well as the company's share dealing rules. These rules restrict employees' and directors' ability to deal in ordinary shares at certain times, and require the employee or director to obtain permission prior to dealing. Some of the group's employee share plans also contain restrictions on the transfer of shares held within those plans.

Purchase of Own Shares

Under section 724 of the Companies Act 2006, a company may purchase its own shares to be held in treasury ("Treasury Shares").

The existing authority given to the company at the last AGM to purchase Treasury Shares of up to 10% of its issued share capital will expire at the conclusion of the next AGM.

The board considers it would be appropriate to renew this authority and intends to seek shareholder approval to purchase Treasury Shares of up to 10% of its issued share capital at the forthcoming AGM in line with current investor sentiment. Details of the resolution renewing the authority will be included in the Notice of AGM.

Awards under the company's employee share plans are met from shares purchased in the market (and held either in treasury or in the employee share trust).

During the year, the company made market purchases of 100,000 Treasury Shares with an aggregate nominal value of £25,000 and representing 0.07% of its issued share capital, for an aggregate consideration of £1.1 million. It transferred 103,625 shares out of treasury to satisfy share option awards, with an aggregate nominal value of £25,906 and representing 0.07% of the company's issued share capital, for a total consideration of £0.9 million.

At 31 July 2023, the company held 1,601,475 Treasury Shares with a nominal value of £0.4 million and representing 1.05% of its issued share capital. The maximum number of Treasury Shares held at any time during the year was 1,699,578, with a nominal value of £0.4 million and representing 1.12% of its issued share capital.

Directors' Report continued

Significant Shareholdings

The table below sets out details of the interests in voting rights notified to the company under the provisions of the Financial Conduct Authority's Disclosure Guidance and Transparency Rules. Information provided by the company pursuant to the Disclosure Guidance and Transparency Rules is publicly available via the regulatory information services and on the company's website.

	19 September 2023 Voting rights	31 July 2023 Voting rights
abrdn plc	11.67%	11.67%
FIL Limited	5.06%	5.06%
Royal London Asset Management	4.99%	4.99%
BlackRock, Inc.	4.95%	5.13%
M&G plc	4.83%	4.83%

Substantial shareholders do not have different voting rights from those of other shareholders.

Employee Share Trust

Ocorian Trustees (Jersey) Limited is the trustee of the Close Brothers Group Employee Share Trust, an independent trust which holds shares for the benefit of employees and former employees of the group. The trustee will only vote on those shares in accordance with the instructions given to the trustee and in accordance with the terms of the trust deed. The trustee has agreed to satisfy a number of awards under the employee share plans. As part of these arrangements the company funds the trust from time to time, to enable the trustee to acquire shares to satisfy these awards, details of which are set out in note 24 on pages 241 to 242 of the financial statements. The trustee has waived its right to dividends on all shares held within the trust.

During the year, the Close Brothers Group Employee Share Trust made market purchases of 410,803 ordinary shares.

Auditor

PricewaterhouseCoopers LLP ("PwC") has expressed its willingness to continue in office as the company's external auditor. Resolutions to reappoint PwC and to determine its remuneration will be proposed at the forthcoming AGM. The full text of the relevant resolutions will be set out in the Notice of AGM.

Significant Agreements Affected by a Change of Control

A change of control of the company, following a takeover bid, may cause a number of agreements to which the company is a party to take effect, alter or terminate. These include certain insurance policies, bank facility agreements and employee share plan rules.

The group had committed facilities totalling £1.75 billion at 31 July 2023 which contain clauses requiring lender consent for any change of control. Should consent not be given, a change of control would trigger mandatory repayment of those facilities.

All of the company's employee share plan rules contain provisions relating to a change of control. Outstanding awards and options may vest and become exercisable on a change of control, subject, where applicable, to the satisfaction of any performance conditions at that time and pro-rating of awards.

Research and Development Activities

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

Post-Balance Sheet Events

There were no material post-balance sheet events.

Political Donations

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

Branches

The company has no branches outside the UK.

Disclosure of Information to the Auditor

Each of the persons who are directors at the date of approval of this Annual Report confirms that: so far as the director is aware, there is no relevant audit information of which the company's auditor is unaware; and they have taken all the reasonable steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the company's auditor is aware of that information.

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

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

Sarah Peazer-Davies
Company Secretary

26 September 2023

Statement of Directors' Responsibilities in Respect of the Financial Statements

The directors, whose names and functions are listed on pages 138 to 140, are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulation.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the group financial statements in accordance with UK-adopted international accounting standards and the company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law).

Under company law, directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the group and company and of the profit or loss of the group and the company for that period. In preparing the financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable UK-adopted international accounting standards have been followed for the group financial statements, and United Kingdom Accounting Standards comprising FRS 102 have been followed for the company financial statements, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the group and company financial statements on the going concern basis unless it is inappropriate to presume that the group and company will continue in business.

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

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

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

Directors' Confirmations

Each of the current directors, whose names and functions are listed on pages 138 to 140, confirms that, to the best of his or her knowledge:

- the group financial statements, which have been prepared in accordance with UK-adopted international accounting standards give a true and fair view of the assets, liabilities, financial position and profit of the group;
- the company financial statements, which have been prepared in accordance with United Kingdom Accounting Standards comprising FRS 102, give a true and fair view of the assets, liabilities, financial position and profit of the company;
- the Strategic Report, together with the Directors' Report and the Corporate Governance Report, includes a fair review of the development and performance of the business and the position of the group and company, together with a description of the principal risks and uncertainties that they face; and
- the Annual Report and financial statements, taken as a whole, are fair, balanced and understandable and provide the information necessary for shareholders to assess the group's and company's position and performance, business model and strategy.

Signed on behalf of the board by:

Adrian Sainsbury
Chief Executive

Mike Morgan
Group Finance Director

26 September 2023

Independent Auditors' Report to the Members of Close Brothers Group plc

Report on the audit of the financial statements

Opinion

In our opinion:

- Close Brothers Group plc's group financial statements and parent company financial statements (the "financial statements") give a true and fair view of the state of the group's and of the parent 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 parent company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law); and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report, which comprise: the consolidated and company balance sheets as at 31 July 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 listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

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

Other than those disclosed in note 5, we have provided no non-audit services to the parent 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 losses on loans and advances to customers (group)
- Impairment assessment of goodwill held in relation to Winterflood Securities (group)
- Impairment assessment of investment in subsidiaries (parent company)

Materiality

- Overall group materiality: £11.6m (2022: £11.6m) based on 5% of average adjusted profit before tax of the past 3 years (2022: 5% of profit before tax).
- Overall parent company materiality: £12.8m (2022: £11.1m) based on 1% of Total Assets.
- Performance materiality: £8.7m (2022: £8.7m) (group) and £9.6m (2022: £8.3m) (parent 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 impairment assessment of goodwill held in relation to Winterflood Securities is a new key audit matter this year. Otherwise, the key audit matters below are consistent with last year.

Key audit matter	How our audit addressed the key audit matter
Determination of expected credit losses ("ECL") on loans and advances to customers (group) As at 31 July 2023, the Group has gross loans and advances to customers of £9,635.6m, with ECL provisions of £380.6m held against them. The determination of ECL provisions is inherently judgemental and involves setting assumptions using forward looking information reflecting the Group's view of potential future economic events. This can give rise to increased estimation uncertainty. There continues to be uncertainty in the determination of ECL provisions, 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 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 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.	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 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 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.

Independent Auditors' Report to the Members of Close Brothers Group plc continued

Key audit matter	How our audit addressed the key audit matter
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 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; and • Note 10 - Loans and advances to customers.	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.

Key audit matter	How our audit addressed the key audit matter
Impairment assessment of goodwill held in relation to Winterflood Securities (group) The Group has a total goodwill balance of £94.6 million, of which £23.3 million relates to the Winterflood Securities ("Winterflood"). Winterflood is considered a Cash Generating Unit ("CGU") under IAS36 Impairment of Assets which requires an annual impairment assessment of the goodwill associated with each CGU. Management performs this assessment by comparing the present value of the future cash flows expected to the generated by the business, with the current carrying value of the CGU (including the goodwill associated with the CGU). Winterfloods' financial performance is largely driven by the performance of the equity markets in which it operates and levels of trading activity. Poor market conditions have negatively impacted Winterflood's financial performance in the period, and there is a heightened uncertainty as to the timing and extent of the recovery of the performance of relevant equity markets and trading activity. That uncertainty has increased the level of judgement in management's determination of the cash flows projected for the next five years used in the annual impairment assessment of the goodwill held in relation to Winterflood. Relevant disclosure references: • Note 2 - Critical accounting estimates and judgements; and • Note 14 - Intangible assets.	With the support of our valuation experts, we performed the following audit procedures: • We reviewed management's five year cash flow forecasts and critically assessed the reasonableness of underlying assumptions based on our understanding of the business; • We performed a look-back analysis comparing the cash flow projections made in prior years to the actual results achieved to assess the accuracy of the budgeting and forecasting process. Where the projections differed materially to the actual results, we inquired with management and assessed whether the explanations were reasonable; • We evaluated management's forecast cash flows from trading activity, including the use of historical daily averages of trading volumes and related variable costs; • In assessing the reasonableness of management assumptions on the timing and the extent of market recovery, we researched the expectation of future market volumes (with input from equity market research and economic experts), and developed alternative scenarios to assess the impact of a range of outcomes on the forecast trading revenues; • We assessed the reasonableness of the non-trading revenue; and • Compared actual post year-end performance to that in the forecasts. In addition, we have performed the following tests of details, amongst others: • We obtained evidence of Board approval of the three year plan and agreed these plans were appropriately reflected in the cash flow forecasts; • With support of our internal experts, we evaluated the discount rate range determined by management's expert; • We verified the mathematical accuracy of the goodwill impairment assessment, including the discounted cash flow projections; • We compared the long term growth rate used to the UK long term inflation rate; and • We verified the accounting policy and the adequacy of the information disclosed in the consolidated annual accounts. Based on the procedures performed we were satisfied with management's conclusion that the goodwill is not impaired.
Impairment assessment of investment in subsidiaries (parent company) The parent company holds an investment in a subsidiary of £287.0m. Identifying and measuring any impairment of the investment is subjective. Relevant disclosure references: • Note 28 - Investments in subsidiaries	We tested management's evaluation of impairment and are satisfied that the investment in the subsidiary is not impaired.

Independent Auditors' Report to the Members of Close Brothers Group plc continued

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 parent 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 structured into three primary components being the Close Brothers Limited Group (also referred to as the Bank), Winterflood Securities and Asset Management. The consolidated financial statements are a consolidation of these components. The Bank is a subgroup of Retail, Commercial and Property business 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 15% of the total profit before tax of the consolidated group) were considered full scope components. We considered the individual financial significance of other components in relation to primary statement account balances. Our scoping also considered the presence of any significant audit risks and other qualitative factors (including history of misstatements through fraud or error). For our group audit, the Bank is the only financially significant component. Specific account balances and disclosures were scoped in for Winterflood Securities and Asset Management based on their financial significance and risk. 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 - parent company
Overall materiality	£11.6m (2022: £11.6m).	£12.8m (2022: £11.1m).
How we determined it	5% of average adjusted profit before tax of the past 3 years (2022: 5% of profit before tax)	1% of Total Assets.
Rationale for benchmark applied	Profit before tax (PBT) is a primary measure used by the shareholders in assessing the performance of the group and is a generally accepted benchmark for determining audit materiality. We have decided to use three-year average adjusted PBT to normalise the volatility in the profits. In performing this calculation, we adjusted the PBT to remove the impact of significant one off gains and losses in those periods, including adding back the £90m ECL charge related to Novitas in 2023.	We have selected total assets as an appropriate benchmark for company materiality, as it is an investment holding company.

For each component in the scope of our group audit, we allocated a materiality that is less than our overall group materiality. The range of materiality allocated across components was between £2.65 million and £10.5 million. Certain components were audited to a local statutory audit materiality that was also less than our overall group materiality.

We use performance materiality to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds overall materiality. Specifically, we use performance materiality in determining the scope of our audit and the nature and extent of our testing of account balances, classes of transactions and disclosures, for example in determining sample sizes. Our performance materiality was 75% (2022: 75%) of overall materiality, amounting to £8.7m (2022: £8.7m) for the group financial statements and £9.6m (2022: £8.3m) for the parent company financial statements.

In determining 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 £0.5m (group audit) (2022: £0.5m) and £0.5m (parent company audit) (2022: £0.5m) as well as misstatements below those amounts that, in our view, warranted reporting for qualitative reasons.

Independent Auditors' Report to the Members of Close Brothers Group plc continued

Conclusions Relating to Going Concern

Our evaluation of the directors' assessment of the group's and the parent 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 parent 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 parent company's ability to continue as a going concern.

In relation to the directors' reporting on how they have applied the UK Corporate Governance Code, we have nothing material to add or draw attention to in relation to the directors' statement in the financial statements about whether the directors considered it appropriate to adopt the going concern basis of accounting.

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

Reporting on Other Information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. 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 parent company and their environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic Report and Directors' Report.

Directors' Remuneration

In our opinion, the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006.

Corporate Governance Statement

The Listing Rules require us to review the directors' statements in relation to going concern, longer-term viability and that part of the corporate governance statement relating to the parent company's compliance with the provisions of the UK Corporate Governance Code specified for our review. Our additional responsibilities with respect to the corporate governance statement as other information are described in the Reporting on other information section of this report.

Based on the work undertaken as part of our audit, we have concluded that each of the following elements of the corporate governance statement, included within the Corporate Governance Report is materially consistent with the financial statements and our knowledge obtained during the audit, and we have nothing material to add or draw attention to in relation to:

- The directors' confirmation that they have carried out a robust assessment of the emerging and principal risks;
- The disclosures in the Annual Report that describe those principal risks, what procedures are in place to identify emerging risks and an explanation of how these are being managed or mitigated;
- The directors' statement in the financial statements about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them, and their identification of any material uncertainties to the group's and parent company's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements;
- The directors' explanation as to their assessment of the group's and parent company's prospects, the period this assessment covers and why the period is appropriate; and
- The directors' statement as to whether they have a reasonable expectation that the parent company will be able to continue in operation and meet its liabilities as they fall due over the period of its assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

Our review of the directors' statement regarding the longer-term viability of the group and parent company was substantially less in scope than an audit and only consisted of making inquiries and considering the directors' process supporting their statement; checking that the statement is in alignment with the relevant provisions of the UK Corporate Governance Code; and considering whether the statement is consistent with the financial statements and our knowledge and understanding of the group and parent company and their environment obtained in the course of the audit.

In addition, based on the work undertaken as part of our audit, we have concluded that each of the following elements of the corporate governance statement is materially consistent with the financial statements and our knowledge obtained during the audit:

- The directors' statement that they consider the Annual Report, taken as a whole, is fair, balanced and understandable, and provides the information necessary for the members to assess the group's and parent company's position, performance, business model and strategy;
- The section of the Annual Report that describes the review of effectiveness of risk management and internal control systems; and
- The section of the Annual Report describing the work of the Audit Committee.

We have nothing to report in respect of our responsibility to report when the directors' statement relating to the parent company's compliance with the Code does not properly disclose a departure from a relevant provision of the Code specified under the Listing Rules for review by the auditors.

Responsibilities for the Financial Statements and the Audit

Responsibilities of the directors for the financial statements

As explained more fully in the Statement of 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 parent 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 parent company or to cease operations, or have no realistic alternative but to do so.

Independent Auditors' Report to the Members of Close Brothers Group plc continued

Auditors' responsibilities for the audit of the financial statements

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

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

Based on our understanding of the group and industry, we identified that the principal risks of non-compliance with laws and regulations related to breaches of laws and regulations principally those determined by the Prudential Regulatory Authority ("PRA") and the Financial Conduct Authority ("FCA"), and we considered the extent to which non-compliance might have a material effect on the financial statements. We also considered those laws and regulations that have a direct impact on the financial statements such as the Companies Act 2006, UK tax legislation and the Listing Rules of the FCA. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to posting manual journal entries to manipulate financial performance, management bias in the application of 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.

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 parent 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 parent 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 parent company financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Appointment

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

Other matter

In due course, as required by the Financial Conduct Authority Disclosure Guidance and Transparency Rule 4.1.14R, these financial statements will form part of the ESEF-prepared annual financial report filed on the National Storage Mechanism of the Financial Conduct Authority in accordance with the ESEF Regulatory Technical Standard (‘ESEF RTS’). This auditors’ report provides no assurance over whether the annual financial report will be prepared using the single electronic format specified in the ESEF RTS.

Heather Varley (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London

26 September 2023

Consolidated Income Statement

For the year ended 31 July 2023

	Note	**2023 £ million**	2022 £ million
Interest income	4	**897.5**	690.0
Interest expense	4	**(304.9)**	(112.0)
Net interest income		**592.6**	578.0
Fee and commission income	4	**262.9**	259.5
Fee and commission expense	4	**(17.9)**	(17.2)
Gains less losses arising from dealing in securities		**58.6**	81.6
Other income	4	**114.2**	106.1
Depreciation of operating lease assets and other direct costs	15	**(77.8)**	(71.9)
Non-interest income		**340.0**	358.1
Operating income		**932.6**	936.1
Administrative expenses	4	**(615.0)**	(598.0)
Impairment losses on financial assets	10	**(204.1)**	(103.3)
Total operating expenses before amortisation of intangible assets on acquisition		**(819.1)**	(701.3)
Operating profit before amortisation of intangible assets on acquisition		**113.5**	234.8
Amortisation of intangible assets on acquisition	14	**(1.5)**	(2.0)
Operating profit before tax		**112.0**	232.8
Tax	6	**(30.9)**	(67.6)
Profit after tax		**81.1**	165.2
Profit attributable to shareholders		**81.1**	165.2
Basic earnings per share	7	**54.3p**	110.4p
Diluted earnings per share	7	**54.2p**	109.9p
Interim dividend per share paid	8	**22.5p**	22.0p
Final dividend per share	8	**45.0p**	44.0p

Consolidated Statement of Comprehensive Income

For the year ended 31 July 2023

	2023 £ million	2022 £ million
Profit after tax	**81.1**	165.2
Items that may be reclassified to income statement		
Currency translation gains/(losses)	**0.7**	(0.5)
Gains on cash flow hedging	**17.6**	30.6
Losses on financial instruments classified at fair value through other comprehensive income	**(3.9)**	(1.1)
Tax relating to items that may be reclassified	**(4.3)**	(7.9)
	10.1	21.1
Items that will not be reclassified to income statement		
Defined benefit pension scheme losses	**(5.7)**	(0.1)
Tax relating to items that will not be reclassified	**1.6**	0.3
	(4.1)	0.2
Other comprehensive income, net of tax	**6.0**	21.3
Total comprehensive income	**87.1**	186.5
Attributable to		
Shareholders	**87.1**	186.5

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
Settlement balances		**707.0**	799.3
Loans and advances to banks	9	**330.3**	165.4
Loans and advances to customers	10	**9,255.0**	8,858.9
Debt securities	11	**307.6**	612.8
Equity shares	12	**29.3**	28.4
Loans to money brokers against stock advanced		**37.6**	48.4
Derivative financial instruments	13	**88.5**	71.2
Intangible assets	14	**263.7**	252.0
Property, plant and equipment	15	**357.1**	322.5
Current tax assets		**42.3**	47.0
Deferred tax assets	6	**10.8**	32.5
Prepayments, accrued income and other assets	16	**184.1**	185.2
Total assets		**13,550.3**	12,678.3
Liabilities			
Settlement balances and short positions	17	**695.9**	796.1
Deposits from banks	18	**141.9**	160.5
Deposits from customers	18	**7,724.5**	6,770.4
Loans and overdrafts from banks	18	**651.9**	622.7
Debt securities in issue	18	**2,012.6**	2,060.9
Loans from money brokers against stock advanced		**4.8**	–
Derivative financial instruments	13	**195.9**	89.2
Accruals, deferred income and other liabilities	16	**303.0**	334.5
Subordinated loan capital	19	**174.9**	186.5
Total liabilities		**11,905.4**	11,020.8
Equity			
Called up share capital	20	**38.0**	38.0
Retained earnings		**1,608.5**	1,628.4
Other reserves		**(1.6)**	(8.9)
Total shareholders' equity		**1,644.9**	1,657.5
Total equity		**1,644.9**	1,657.5
Total equity and liabilities		**13,550.3**	12,678.3

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:

Michael N. Biggs
Chairman

Adrian J. Sainsbury
Chief Executive

Registered number: 520241

Consolidated Statement of Changes in Equity

For the year ended 31 July 2023

			Other reserves						
	Called up share capital £ million	Retained earnings £ million	FVOCI reserve £ million	Share-based payments reserve £ million	Exchange movements reserve £ million	Cash flow hedging reserve £ million	Total attributable to equity holders £ million	Non-controlling interests £ million	Total equity £ million
At 1 August 2021	38.0	1,555.5	0.8	(22.4)	(1.3)	(0.3)	1,570.3	(1.0)	1,569.3
Profit for the year	–	165.2	–	–	–	–	165.2	–	165.2
Other comprehensive income/(expense)	–	0.2	(0.7)	–	(0.2)	22.0	21.3	–	21.3
Total comprehensive income for the year	–	165.4	(0.7)	–	(0.2)	22.0	186.5	–	186.5
Dividends paid (note 8)	–	(95.5)	–	–	–	–	(95.5)	–	(95.5)
Shares purchased	–	–	–	(9.5)	–	–	(9.5)	–	(9.5)
Shares released	–	–	–	4.9	–	–	4.9	–	4.9
Other movements	–	4.1	–	(2.2)	–	–	1.9	1.0	2.9
Income tax	–	(1.1)	–	–	–	–	(1.1)	–	(1.1)
At 31 July 2022	**38.0**	**1,628.4**	**0.1**	**(29.2)**	**(1.5)**	**21.7**	**1,657.5**	**–**	**1,657.5**
Profit for the year	–	81.1	–	–	–	–	81.1	–	81.1
Other comprehensive (expense)/income	–	(4.1)	(2.8)	–	0.2	12.7	6.0	–	6.0
Total comprehensive income for the year	–	77.0	(2.8)	–	0.2	12.7	87.1	–	87.1
Dividends paid (note 8)	–	(99.1)	–	–	–	–	(99.1)	–	(99.1)
Shares purchased	–	–	–	(5.0)	–	–	(5.0)	–	(5.0)
Shares released	–	–	–	5.6	–	–	5.6	–	5.6
Other movements	–	2.3	–	(3.4)	–	–	(1.1)	–	(1.1)
Income tax	–	(0.1)	–	–	–	–	(0.1)	–	(0.1)
At 31 July 2023	**38.0**	**1,608.5**	**(2.7)**	**(32.0)**	**(1.3)**	**34.4**	**1,644.9**	**–**	**1,644.9**

Consolidated Cash Flow Statement

For the year ended 31 July 2023

	Note	2023 £ million	2022 £ million
Net cash inflow from operating activities	25(a)	**1,021.4**	158.7
Net cash (outflow)/inflow from investing activities			
Purchase of:			
Property, plant and equipment		**(8.7)**	(7.1)
Intangible assets – software		**(53.2)**	(51.3)
Subsidiaries	25(b)	**(0.5)**	(0.1)
Sale of:			
Subsidiaries	25(c)	**–**	0.1
		(62.4)	(58.4)
Net cash inflow before financing activities		**959.0**	100.3
Financing activities			
Purchase of own shares for employee share award schemes		**(5.0)**	(9.5)
Equity dividends paid		**(99.1)**	(95.5)
Interest paid on subordinated loan capital and debt financing		**(10.9)**	(10.4)
Payment of lease liabilities		**(16.2)**	(15.1)
Issuance of senior bond		**248.5**	–
Redemption of senior bond		**(250.0)**	–
Redemption of subordinated loan capital		**–**	(23.4)
Net increase/(decrease) in cash		**826.3**	(53.6)
Cash and cash equivalents at beginning of year		**1,383.0**	1,436.6
Cash and cash equivalents at end of year	25(d)	**2,209.3**	1,383.0

Company Balance Sheet
At 31 July 2023

	Note	31 July 2023 £ million	31 July 2022[1] £ million
Fixed assets			
Intangible assets	14	**–**	–
Property, plant and equipment	15	**8.9**	10.2
Investment in subsidiary	28	**287.0**	287.0
		295.9	297.2
Current assets			
Amounts owed by subsidiaries due within one year		**567.8**	590.1
Amounts owed by subsidiaries due after more than one year		**201.9**	201.1
Corporation tax receivable		**1.5**	3.3
Deferred tax asset	6	**0.4**	–
Other debtors		**2.1**	13.6
Cash at bank		**3.5**	1.9
		777.2	810.0
Creditors: Amounts falling due within one year			
Debt securities in issue	18	**2.5**	251.5
Subordinated loan capital	19	**1.5**	1.6
Provisions	16	**0.7**	1.4
Deferred tax liability	6	**–**	0.2
Other creditors		**1.8**	1.0
Accruals		**9.6**	8.3
		16.1	264.0
Net current assets		**761.1**	546.0
Total assets less current liabilities		**1,057.0**	843.2
Creditors: Amounts falling due after more than one year			
Debt securities in issue	18	**248.0**	–
Subordinated loan capital	19	**198.9**	198.5
Provisions	16	**1.7**	2.0
Net assets		**608.4**	642.7
Capital and reserves			
Called up share capital	20	**38.0**	38.0
Profit and loss account		**602.4**	633.9
Other reserves		**(32.0)**	(29.2)
Total shareholders' funds		**608.4**	642.7

1. Restated – see note 1(b).

The company reported a profit for the financial year ended 31 July 2023 of £70.6 million (2022: £116.0 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:

Michael N. Biggs
Chairman

Adrian J. Sainsbury
Chief Executive

Company Statement of Changes in Equity

For the year ended 31 July 2023

	Share capital £ million	Profit and loss account £ million	Other reserves: Share-based payments reserve £ million	Total shareholders' funds £ million
At 1 August 2021	38.0	608.5	(22.4)	624.1
Profit for the year	–	116.0	–	116.0
Other comprehensive income	–	0.2	–	0.2
Total comprehensive income for the year	–	116.2	–	116.2
Dividends paid (note 8)	–	(95.5)	–	(95.5)
Shares purchased	–	–	(9.5)	(9.5)
Shares released	–	–	4.9	4.9
Other movements	–	4.7	(2.2)	2.5
At 31 July 2022	38.0	633.9	(29.2)	642.7
Profit for the year	–	70.6	–	70.6
Other comprehensive income	–	(4.1)	–	(4.1)
Total comprehensive income for the year	–	66.5	–	66.5
Dividends paid (note 8)	–	(99.1)	–	(99.1)
Shares purchased	–	–	(5.0)	(5.0)
Shares released	–	–	5.6	5.6
Other movements	–	1.1	(3.4)	(2.3)
At 31 July 2023	**38.0**	**602.4**	**(32.0)**	**608.4**

The Notes

1. Significant Accounting Policies

(a) Reporting entity

Close Brothers Group plc ("the company"), a public limited company by shares incorporated and domiciled in the UK (England), together with its subsidiaries (collectively, "the group"), operates through five (2022: five) operating segments: Commercial, Retail, Property, Asset Management and Securities, 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 102 "The Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland" ("FRS 102") and the Companies Act 2006, under the provision of the Large and Medium-sized Companies and Groups (Accounts and Financial Instruments: Recognition and Measurement Reports) Regulations 2008 (SI 2008/410).

As permitted by FRS 102, the company has chosen to adopt IFRS 9 Financial Instruments where applicable and taken advantage of the disclosure exemptions available under that standard in relation to the presentation of a cash flow statement, share-based payments and related party transactions. Where required, equivalent disclosures are given in the consolidated financial statements of the group. The company has also taken advantage of the exemption in section 408 of the Companies Act 2006 not to present its company income statement and related notes.

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

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.

The prior year company balance sheet has been restated to correct a misstatement relating to the maturity of the company's senior bond issuance and an associated intragroup transaction. An amount of £139.7 million has been transferred from 'Amounts owed by subsidiaries due after more than one year' to 'within one year', resulting in an increase in the 'within one year' balance to £590.1 million. In addition, an amount of £249.7 million has been transferred from 'Debt securities in issue falling due after more than one year' to 'within one year', resulting in an increase in the 'within one year' balance to £251.5 million.

(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 102.

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.

(d) Consolidation and investment in subsidiary

Subsidiaries

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

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

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

(e) Foreign currency translation

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

The Notes continued

1. Significant Accounting Policies (continued)

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.

Gains less losses arising from dealing in securities

Net realised and unrealised gains arising from both buying and selling securities and from positions held in securities, including related interest income and dividends.

(g) Adjusted measures

Adjusted measures exclude amortisation 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. Exceptional items are income and expense items that are material by size and/or nature and are non-recurring. The separate reporting of these items helps give an indication of the group's underlying performance.

(h) Financial assets and liabilities (excluding derivatives)

Classification and measurement

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

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

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

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

Financial liabilities are classified at initial recognition at amortised cost except for the following 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.

(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 in the 'Use of estimates' section on pages 109 to 114 of the Risk Report.

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

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

(j) Settlement accounts

Settlement balance debtors and creditors are the amounts due to and from counterparties in respect of the group's market-making activities and are carried at amortised cost. The balances are short term in nature, do not earn interest and are recorded at the amount receivable or payable.

(k) Loans to and from money brokers against stock advanced

Loans to money brokers against stock advanced is the cash collateral provided to these institutions for stock borrowing by the group's market-making activities and is carried at amortised cost. Interest is paid on the stock borrowed and earned on the cash deposits advanced. The stock borrowing to which the cash deposits relate is short term in nature and is recorded at the amount receivable. Loans from money brokers against stock collateral provided are recorded at the amount payable. Interest is paid on the loans.

The Notes continued

1. Significant Accounting Policies (continued)

(l) Leases

Lessor

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

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

Lessee

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

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

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

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

(n) Securitisation transactions

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

(o) Offsetting financial instruments

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

(p) Derivatives and hedge accounting

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

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

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

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

(q) Intangible assets

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

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

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

(r) Property, plant and equipment

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

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

(s) Share capital

Share issue costs

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

Dividends on ordinary shares

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

Treasury shares

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

(t) Employee benefits

The group operates defined contribution pension schemes for eligible employees as well as a defined benefit pension scheme which is closed to new members and further accrual.

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

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

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

(u) Share-based payments to employees

The group operates three (2022: three) share-based award schemes: the Deferred Share Awards ("DSA") scheme, the Long Term Incentive Plan ("LTIP"), and the HMRC approved Save As You Earn ("SAYE") scheme.

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

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

The Notes continued

1. Significant Accounting Policies (continued)

(v) Provisions and contingent liabilities

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

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

(w) Taxes, including deferred taxes

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

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

(x) Cash and cash equivalents

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

(y) Segmental reporting

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

2. Critical Accounting Judgements and Estimates

The reported results of the group are sensitive to the judgements, estimates and assumptions that underlie the application of its accounting policies and 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. There are no critical accounting judgements or key sources of estimation uncertainty relating to the company.

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 page 135 in the Risk 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 pages 107 to 108 in the Risk Report.

Key sources of estimation uncertainty

The key sources of estimation uncertainty of the group relate to expected credit loss provisions and goodwill 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;
- 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; and
- Estimate of future cash flow forecasts in the calculation of value in use for the testing of goodwill for impairment in relation to the Winterflood Securities cash generating unit. This is a new key estimate this year due to increased market uncertainty.

Additional disclosures on the estimation uncertainty relating to forward-looking macroeconomic information, model adjustments and goodwill can be found in the 'Use of estimates' section on pages 109 to 114, 'Use of Adjustments' section on page 114, both in the Risk Report, and Note 14 'Intangibles Assets' on pages 232 to 233 respectively.

3. Segmental Analysis

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

In the segmental reporting information that follows, Group consists of central functions as well as various non-trading head office companies and consolidation adjustments and is set out in order that the information presented reconciles to the consolidated income statement. The Group balance sheet primarily includes treasury assets and liabilities comprising cash and balances at central banks, debt securities, customer deposits and other borrowings.

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

	Banking						
	Commercial £ million	Retail £ million	Property £ million	Asset Management £ million	Securities £ million	Group £ million	Total £ million
Summary income statement for the year ended 31 July 2023							
Net interest income/(expense)	**251.2**	**218.4**	**117.1**	**6.7**	**0.5**	**(1.3)**	**592.6**
Non-interest income	**96.6**	**29.7**	**0.8**	**138.1**	**74.8**	**–**	**340.0**
Operating income/(expense)	**347.8**	**248.1**	**117.9**	**144.8**	**75.3**	**(1.3)**	**932.6**
Administrative expenses	**(171.5)**	**(142.8)**	**(26.5)**	**(123.3)**	**(67.5)**	**(22.2)**	**(553.8)**
Depreciation and amortisation	**(22.9)**	**(21.6)**	**(4.4)**	**(5.5)**	**(4.3)**	**(2.5)**	**(61.2)**
Impairment losses on financial assets	**(137.5)**	**(49.0)**	**(17.5)**	**(0.1)**	**–**	**–**	**(204.1)**
Total operating expenses before amortisation of intangible assets on acquisition	**(331.9)**	**(213.4)**	**(48.4)**	**(128.9)**	**(71.8)**	**(24.7)**	**(819.1)**
Adjusted operating profit/(loss)[1]	**15.9**	**34.7**	**69.5**	**15.9**	**3.5**	**(26.0)**	**113.5**
Amortisation of intangible assets on acquisition	**–**	**–**	**–**	**(1.5)**	**–**	**–**	**(1.5)**
Operating profit/(loss) before tax	**15.9**	**34.7**	**69.5**	**14.4**	**3.5**	**(26.0)**	**112.0**
External operating income/(expense)	**451.1**	**308.6**	**170.3**	**144.2**	**75.3**	**(216.9)**	**932.6**
Inter segment operating (expense)/income	**(103.3)**	**(60.5)**	**(52.4)**	**0.6**	**–**	**215.6**	**–**
Segment operating income/(expense)	**347.8**	**248.1**	**117.9**	**144.8**	**75.3**	**(1.3)**	**932.6**

1. Adjusted operating profit/(loss) is stated before amortisation of intangible assets on acquisition and tax.

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 Risk Report.

The Notes continued

3. Segmental Analysis (continued)

	Banking						
	Commercial £ million	Retail £ million	Property £ million	Asset Management £ million	Securities £ million	Group[2] £ million	Total £ million
Summary balance sheet information at 31 July 2023							
Total assets[1]	**4,821.3**	**3,001.8**	**1,703.1**	**177.9**	**870.5**	**2,975.7**	**13,550.3**
Total liabilities	**–**	**–**	**–**	**64.1**	**778.1**	**11,063.2**	**11,905.4**

1. Total assets for the Banking operating segments comprise the loan book and operating lease assets only. The Commercial operating segment includes the net loan book of Novitas of £59.9 million.
2. Balance sheet includes £2,977.4 million assets and £11,151.9 million liabilities attributable to the Banking division primarily comprising the treasury balances described in the second paragraph of this note.

Equity is allocated across the group as set out below. Banking division equity, which is managed as a whole rather than on a segmental basis, reflects loan book and operating lease assets of £9,526.2 million, in addition to assets and liabilities of £2,977.4 million and £11,151.9 million respectively primarily comprising treasury balances which are included within the Group column above.

	Banking £ million	Asset Management £ million	Securities £ million	Group £ million	Total £ million
Equity	**1,351.7**	**113.8**	**92.4**	**87.0**	**1,644.9**

	Banking						
	Commercial	Retail	Property	Asset Management	Securities	Group	Total
Other segmental information for the year ended 31 July 2023							
Employees (average number)[1]	**1,450**	**1,194**	**201**	**814**	**320**	**81**	**4,060**

1. Banking segments are inclusive of a central function headcount allocation. The company's average number of employees is equivalent to the Group number.

	Banking						
	Commercial £ million	Retail £ million	Property £ million	Asset Management £ million	Securities £ million	Group £ million	Total £ million
Summary income statement for the year ended 31 July 2022							
Net interest income/(expense)	257.1	210.8	112.1	(0.7)	(1.1)	(0.2)	578.0
Non-interest income	86.3	26.2	0.6	148.7	96.3	–	358.1
Operating income/(expense)	343.4	237.0	112.7	148.0	95.2	(0.2)	936.1
Administrative expenses	(158.3)	(131.3)	(27.0)	(120.7)	(77.2)	(25.8)	(540.3)
Depreciation and amortisation	(21.7)	(20.3)	(4.0)	(5.6)	(3.9)	(2.2)	(57.7)
Impairment losses on financial assets	(72.4)	(24.4)	(6.5)	–	–	–	(103.3)
Total operating expenses before amortisation of intangible assets on acquisition	(252.4)	(176.0)	(37.5)	(126.3)	(81.1)	(28.0)	(701.3)
Adjusted operating profit/(loss)[1]	91.0	61.0	75.2	21.7	14.1	(28.2)	234.8
Amortisation of intangible assets on acquisition	(0.1)	–	–	(1.9)	–	–	(2.0)
Operating profit/(loss) before tax	90.9	61.0	75.2	19.8	14.1	(28.2)	232.8
External operating income/(expense)	391.7	268.3	129.4	148.1	95.2	(96.6)	936.1
Inter segment operating (expense)/income	(48.3)	(31.3)	(16.7)	(0.1)	–	96.4	–
Segment operating income/(expense)	343.4	237.0	112.7	148.0	95.2	(0.2)	936.1

1. Adjusted operating profit/(loss) is stated before amortisation of intangible assets on acquisition and tax.

	Banking			Asset Management £ million	Securities £ million	Group[2] £ million	Total £ million
	Commercial £ million	Retail £ million	Property £ million				
Summary balance sheet information at 31 July 2022							
Total assets[1]	4,561.4	3,064.0	1,473.5	172.8	972.3	2,434.3	12,678.3
Total liabilities	–	–	–	70.5	880.6	10,069.7	11,020.8

1. Total assets for the Banking operating segments comprise the loan book and operating lease assets only. The Commercial operating segment includes the net loan book of Novitas of £159.4 million.
2. Balance sheet includes £2,425.0 million assets and £10,181.9 million liabilities attributable to the Banking division primarily comprising the treasury balances described in the second paragraph of this note.

Equity is allocated across the group as set out below. Banking division equity, which is managed as a whole rather than on a segmental basis, reflects loan book and operating lease assets of £9,098.9 million, in addition to assets and liabilities of £2,425.0 million and £10,181.9 million respectively primarily comprising treasury balances which are included within the Group column above.

	Banking £ million	Asset Management £ million	Securities £ million	Group £ million	Total £ million
Equity	1,342.0	102.3	91.7	121.5	1,657.5

	Banking			Asset Management	Securities	Group	Total
	Commercial	Retail	Property				
Other segmental information for the year ended 31 July 2022							
Employees (average number)[1]	1,348	1,153	190	722	318	79	3,810

1. Banking segments are inclusive of a central function headcount allocation. The company's average number of employees is equivalent to the Group number.

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	**4.2**	0.3
Loans and advances to customers	**807.4**	680.4
Other interest income	**21.4**	3.4
	897.5	690.0
Interest expense		
Deposits by banks	**(3.2)**	(0.1)
Deposits by customers	**(203.6)**	(64.1)
Borrowings	**(90.2)**	(33.2)
Other interest expense[2]	**(7.9)**	(14.6)
	(304.9)	(112.0)
Net interest income	**592.6**	578.0

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).

The Notes continued

4. Operating Profit before Tax (continued)

	2023 £ million	2022 £ million
Fee and commission income		
Banking	**110.6**	98.1
Asset Management	**138.7**	148.8
Securities	**13.6**	12.6
	262.9	259.5
Fee and commission expense	**(17.9)**	(17.2)
Net fee and commission income	**245.0**	242.3

Fee income and expense (other than amounts calculated using the effective interest rate method) on financial instruments that are not at fair value through profit or loss were £110.6 million (2022: £98.1 million) and £15.1 million (2022: £14.7 million) respectively.

Fee income and expense arising from trust and other fiduciary activities amounted to £138.7 million (2022: £148.8 million) and £1.6 million (2022: £1.8 million) respectively.

	2023 £ million	2022 £ million
Other income		
Operating lease assets rental income	**91.1**	85.4
Other[1]	**23.1**	20.7
	114.2	106.1

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

	2023 £ million	2022 £ million
Administrative expenses		
Staff costs:		
Wages and salaries	**288.0**	283.9
Social security costs	**38.1**	38.8
Share-based awards	**2.0**	4.9
Pension costs	**18.9**	16.9
	347.0	344.5
Depreciation and amortisation	**61.2**	57.7
Other administrative expenses	**206.8**	195.8
	615.0	598.0

Staff costs of the company total £12.5 million (2022: £16.6 million) comprising largely of wages and salaries of £11.4 million (2022: £11.9 million).

5. Information Regarding the Auditors

	2023[1] £ million	2022[1] £ million
Fees payable		
Audit of the company's annual accounts	**0.9**	0.6
Audit of the company's subsidiaries pursuant to legislation	**3.0**	2.3
Audit related services	**0.6**	0.5
Other services	**0.2**	0.3
	4.7	3.7

1. During the year, an additional audit fee of £0.2 million (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).

6. Taxation

	2023 £ million	2022 £ million
Tax charged/(credited) to the income statement		
Current tax:		
UK corporation tax	**18.1**	53.7
Foreign tax	**2.3**	1.9
Adjustments in respect of previous years	**(8.2)**	(2.8)
	12.2	52.8
Deferred tax:		
Deferred tax charge for the current year	**11.4**	11.8
Adjustments in respect of previous years	**7.3**	3.0
	30.9	67.6
Tax on items not (credited)/charged to the income statement		
Current tax relating to:		
Share-based payments	**(0.2)**	–
Deferred tax relating to:		
Cash flow hedging	**4.9**	8.6
Defined benefit pension scheme	**(1.6)**	(0.3)
Financial instruments classified as fair value through other comprehensive income	**(1.1)**	(0.4)
Share-based payments	**0.3**	1.1
Currency translation gains/(losses)	**0.5**	(0.3)
	2.8	8.7
Reconciliation to tax expense		
UK corporation tax for the year at 21.0% (2022: 19.0%) on operating profit before tax	**23.5**	44.2
Effect of different tax rates in other jurisdictions	**(0.3)**	(0.3)
Disallowable items and other permanent differences	**1.6**	0.9
Banking surcharge	**6.2**	14.9
Deferred tax impact of decreased tax rates	**0.8**	7.7
Prior year tax provision	**(0.9)**	0.2
	30.9	67.6

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% to 3% from April 2023. The effective tax rate of 27.6% (2022: 29.0%) is above the UK corporation tax rate primarily due to the surcharge applying to most of the group's profits.

The Notes continued

6. Taxation (continued)

Movements in deferred tax assets and liabilities were as follows:

	Capital allowances £ million	Pension scheme £ million	Share-based payments and deferred compensation £ million	Impairment Losses £ million	Cash flow hedging £ million	Intangible assets £ million	Other £ million	Total £ million
Group								
At 1 August 2021	36.1	(2.2)	15.5	8.8	0.1	(1.7)	(0.6)	56.0
(Charge)/credit to the income statement	(10.9)	–	(1.5)	(3.0)	–	0.4	0.2	(14.8)
Credit/(charge) to other comprehensive income	0.3	0.3	–	–	(8.6)	–	0.4	(7.6)
Charge to equity	–	–	(1.1)	–	–	–	–	(1.1)
At 31 July 2022	25.5	(1.9)	12.9	5.8	(8.5)	(1.3)	–	32.5
(Charge)/credit to the income statement	(12.1)	–	(3.9)	0.1	–	0.4	(3.2)	(18.7)
(Charge)/credit to other comprehensive income	(0.5)	1.6	–	–	(4.9)	–	1.1	(2.7)
Charge to equity	–	–	(0.3)	–	–	–	–	(0.3)
At 31 July 2023	**12.9**	**(0.3)**	**8.7**	**5.9**	**(13.4)**	**(0.9)**	**(2.1)**	**10.8**

The group's deferred tax asset comprises £0.7 million (31 July 2022: £12.5 million) due within one year and £10.1 million (31 July 2022: £20.0 million) due after more than one year.

	Capital allowances £ million	Pension scheme £ million	Share-based payments and deferred compensation £ million	Total £ million
Company				
At 1 August 2021	(0.6)	(2.2)	2.0	(0.8)
Credit to the income statement	0.3	–	–	0.3
Credit to other comprehensive income	–	0.3	–	0.3
At 31 July 2022	(0.3)	(1.9)	2.0	(0.2)
Charge to the income statement	(0.1)	–	(0.9)	(1.0)
Credit to other comprehensive income	–	1.6	–	1.6
At 31 July 2023	**(0.4)**	**(0.3)**	**1.1**	**0.4**

The company's deferred tax asset comprises £0.2 million (31 July 2022: £0.4 million) due within one year and £0.2 million (31 July 2022: £0.6 million liabilities) 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.

7. Earnings per Share

The calculation of basic earnings per share is based on the profit attributable to shareholders and the number of basic weighted average shares. When calculating the diluted earnings per share, the weighted average number of shares in issue is adjusted for the effects of all dilutive share options and awards.

	2023	2022
Basic	**54.3p**	110.4p
Diluted	**54.2p**	109.9p
Adjusted basic[1]	**55.1p**	111.5p
Adjusted diluted[1]	**55.0p**	111.0p

1. Excludes amortisation of intangible assets on acquisition and tax.

	2023 £ million	2022 £ million
Profit attributable to shareholders	**81.1**	165.2
Adjustments:		
Amortisation of intangible assets on acquisition	**1.5**	2.0
Tax effect of adjustments	**(0.3)**	(0.4)
Adjusted profit attributable to shareholders	**82.3**	166.8

	2023 million	2022 million
Average number of shares		
Basic weighted	**149.4**	149.6
Effect of dilutive share options and awards	**0.2**	0.7
Diluted weighted	**149.6**	150.3

8. Dividends

	2023 £ million	2022 £ million
For each ordinary share		
Final dividend for previous financial year paid in November 2022: 44.0p (November 2021: 42.0p)	**65.6**	62.7
Interim dividend for current financial year paid in April 2023: 22.5p (April 2022: 22.0p)	**33.5**	32.8
	99.1	95.5

A final dividend relating to the year ended 31 July 2023 of 45.0p, amounting to an estimated £67.0 million, is proposed. This final dividend, which is due to be paid on 24 November 2023 to shareholders on the register at 20 October 2023, is not reflected in these financial statements.

9. Loans and Advances to Banks

	On demand £ million	Within three months £ million	Between three months and one year £ million	Between one and two years £ million	Between two and five years £ million	Total £ million
At 31 July 2023	**290.9**	**21.6**	**2.0**	**3.0**	**12.8**	**330.3**
At 31 July 2022	147.0	1.9	10.0	2.4	4.1	165.4

The Notes continued

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 £ 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	**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 £ 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	**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**
	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**
	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%**
Within which: Commercial excluding Novitas	0.7%	1.8%	10.3%	2.1%	25.1%	1.4%
Within which: Novitas	20.0%	23.1%	–	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%**
	0.7%	**2.7%**	**8.0%**	**3.0%**	**49.8%**	**3.9%**

	Stage 1 £ million	Stage 2 Less than 30 days past due £ million	Stage 2 Greater than or equal to 30 days past due £ million	Stage 2 Total £ million	Stage 3 £ million	Total £ million
At 31 July 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
	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
	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%
Within which: Commercial excluding Novitas	0.5%	1.7%	9.8%	2.0%	35.3%	1.6%
Within which: Novitas	8.7%	45.5%	52.8%	52.6%	71.6%	41.5%
Retail	0.8%	4.0%	18.1%	5.0%	62.9%	2.2%
Property	0.2%	5.0%	2.6%	4.2%	23.1%	2.4%
	0.7%	2.4%	31.4%	6.8%	43.8%	3.1%

Stage allocation of loans and advances to customers has been applied in line with the definitions set out on page 213 in Note 1 ‘Significant Accounting Policies’.

Additional disclosures on the stage allocation and movements of loans and advances to customers can be found on page 107 in the Risk Report.

The Notes continued

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.

	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 Risk 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).

	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 Risk 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.

The Notes continued

10. Loans and Advances to Customers (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	**(0.2)**	1.4
Impairment losses on financial assets recognised in income statement	**204.1**	103.3

Impairment losses on financial assets of £204.1 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

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 profit or loss £ million	Fair value through other comprehensive income £ million	Amortised cost £ million	Total £ million
Long trading positions in debt securities	**15.2**	**–**	**–**	**15.2**
Certificates of deposit	**–**	**–**	**–**	**–**
Sovereign and central bank debt	**–**	**186.1**	**–**	**186.1**
Covered bonds	**–**	**106.3**	**–**	**106.3**
At 31 July 2023	**15.2**	**292.4**	**–**	**307.6**

	Fair value through profit or loss £ million	Fair value through other comprehensive income £ million	Amortised cost £ million	Total £ million
Long trading positions in debt securities	12.4	–	–	12.4
Certificates of deposit	–	–	185.0	185.0
Sovereign and central bank debt	–	415.4	–	415.4
Covered bonds	–	–	–	–
At 31 July 2022	12.4	415.4	185.0	612.8

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. Equity Shares

	31 July 2023 £ million	31 July 2022 £ million
Long trading positions	**27.8**	27.1
Other equity shares	**1.5**	1.3
	29.3	28.4

13. 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	**198.1**	**0.8**	**0.4**	109.8	0.7	0.3
Interest rate contracts	**3,493.3**	**87.7**	**195.5**	4,408.7	70.5	88.9
	3,691.4	**88.5**	**195.9**	4,518.5	71.2	89.2

The Notes continued

13. Derivative Financial Instruments (continued)

Notional amounts of interest rate contracts totalling £2,402.7 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.

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.

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. 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 adjustment 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)**
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 adjustment on the hedged item £ million	Changes in fair value of hedged item used for calculating hedge ineffectiveness £ million
At 31 July 2022			
Fair value hedges			
Assets			
Debt securities	211.1	(24.0)	(28.5)
Loans and advances to customers and undrawn commitments	107.4	(4.8)	(6.7)
	318.5	(28.8)	(35.2)
Liabilities			
Deposits by customers	–	–	(0.1)
Debt securities in issue	823.3	(72.2)	(71.6)
Subordinated loan capital	186.5	(13.0)	(13.8)
	1,009.8	(85.2)	(85.5)

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 £ million	Gains/(losses) on discontinued hedges recognised in other comprehensive income £ million	(Losses)/gains from changes in value of hedging instrument recognised in other comprehensive income £ million	Amounts reclassified from reserves to income statement[1] £ million
Cash flow hedges				
Interest rate risk				
31 July 2023	**26.1**	**43.3**	**(26.1)**	**1.5**
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.

The Notes continued

14. Intangible Assets

	Goodwill £ million	Software £ million	Intangible assets on acquisition £ million	Group total £ million	Company software £ million
Cost					
At 1 August 2021	142.9	272.8	51.0	466.7	0.4
Additions	–	56.0	–	56.0	–
Disposals	(0.3)	(29.3)	–	(29.6)	–
At 31 July 2022	142.6	299.5	51.0	493.1	0.4
Additions	–	50.5	–	50.5	–
Disposals	(0.1)	(16.8)	–	(16.9)	(0.2)
At 31 July 2023	**142.5**	**333.2**	**51.0**	**526.7**	**0.2**
Amortisation and impairment					
At 1 August 2021	47.9	142.4	43.8	234.1	0.4
Amortisation charge for the year	–	34.6	2.0	36.6	–
Disposals	–	(29.6)	–	(29.6)	–
At 31 July 2022	47.9	147.4	45.8	241.1	0.4
Amortisation charge for the year	–	36.1	1.5	37.6	–
Disposals	–	(15.7)	–	(15.7)	(0.2)
At 31 July 2023	**47.9**	**167.8**	**47.3**	**263.0**	**0.2**
Net book value at 31 July 2023	**94.6**	**165.4**	**3.7**	**263.7**	**–**
Net book value at 31 July 2022	94.7	152.1	5.2	252.0	–
Net book value at 1 August 2021	95.0	130.4	7.2	232.6	–

Software includes assets under development of £88.8 million (31 July 2022: £71.1 million).

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

In the 2023 financial year, £1.5 million (2022: £2.0 million) of the amortisation charge is included in amortisation of intangible assets on acquisition and £36.1 million (2022: £34.6 million) of the amortisation charge is included in administrative expenses shown in the consolidated income statement.

Impairment tests for goodwill

At 31 July 2023, goodwill has been allocated to eight (31 July 2022: eight) individual CGUs. Six (31 July 2022: six) are within the Banking division, one is the Asset Management division and the remaining one is Winterflood in the Securities division. 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 in the Banking CGUs, expected total client asset growth rate and revenue margin in the Asset Management CGU and expected market-making conditions in the Winterflood CGU.

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 methodology used to derive the discount rate for Winterflood was refined during the year. 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.

Winterflood recorded lower profits in the year driven by difficult market conditions. The business has a long track record of trading profitably in a range of conditions and is well placed to take advantage when investor confidence recovers. Nevertheless, future market conditions remain uncertain and as such the value in use calculation for this CGU has been identified as a key source of estimation uncertainty as set out in Note 2 'Critical Accounting Judgements and Estimates'.

The most significant uncertainty within the Winterflood value in use calculation relates to the expected future cash flows. A reduction in the year 4 and 5 cash flows to the level of year 3, combined with a further 40% reduction in the cash flows in year 5 and all subsequent years, would result in a recoverable amount that is marginally above the carrying value of the CGU. This scenario is a demonstration of sensitivity only and is not considered probable by management.

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 %
Close Brothers Asset Management	**39.8**	**11.6**	39.9	10.4
Winterflood	**23.3**	**16.9**	23.3	16.7
Banking division CGUs	**31.5**	**17.0-17.3**	31.5	15.4-17.1
	94.6		94.7	

15. Property, Plant and Equipment

	Leasehold property £ million	Fixtures, fittings and equipment £ million	Assets held under operating leases £ million	Motor vehicles £ million	Right of use assets[1] £ million	Total £ million
Group						
Cost						
At 1 August 2021	25.2	74.8	360.7	0.2	71.7	532.6
Additions	0.6	4.3	67.8	–	13.6	86.3
Disposals	(4.9)	(16.5)	(30.3)	–	(6.8)	(58.5)
At 31 July 2022	20.9	62.6	398.2	0.2	78.5	560.4
Additions	1.0	7.5	93.1	0.2	24.7	126.5
Disposals	(0.4)	(4.6)	(42.2)	–	(9.2)	(56.4)
At 31 July 2023	**21.5**	**65.5**	**449.1**	**0.4**	**94.0**	**630.5**
Depreciation						
At 1 August 2021	15.7	47.5	137.8	0.1	21.6	222.7
Depreciation and impairment charges for the year	2.2	7.6	40.6	0.1	13.2	63.7
Disposals	(4.9)	(18.2)	(20.2)	–	(5.2)	(48.5)
At 31 July 2022	13.0	36.9	158.2	0.2	29.6	237.9
Depreciation and impairment charges for the year	2.4	8.3	45.5	–	14.4	70.6
Disposals	(0.4)	(4.3)	(25.8)	–	(4.6)	(35.1)
At 31 July 2023	**15.0**	**40.9**	**177.9**	**0.2**	**39.4**	**273.4**
Net book value at 31 July 2023	**6.5**	**24.6**	**271.2**	**0.2**	**54.6**	**357.1**
Net book value at 31 July 2022	7.9	25.7	240.0	–	48.9	322.5
Net book value at 1 August 2021	9.5	27.3	222.9	0.1	50.1	309.9

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

The Notes continued

15. 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 2023 £ 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

	Leasehold property £ million	Fixtures, fittings and equipment £ million	Total £ million
Company			
Cost			
At 1 August 2021	0.3	11.8	12.1
Additions	–	–	–
At 31 July 2022	0.3	11.8	12.1
Additions	–	–	–
At 31 July 2023	**0.3**	**11.8**	**12.1**
Depreciation			
At 1 August 2021	–	0.6	0.6
Charge for the year	0.1	1.2	1.3
At 31 July 2022	0.1	1.8	1.9
Charge for the year	–	1.3	1.3
At 31 July 2023	**0.1**	**3.1**	**3.2**
Net book value at 31 July 2023	**0.2**	**8.7**	**8.9**
Net book value at 31 July 2022	0.2	10.0	10.2
Net book value at 1 August 2021	0.3	11.2	11.5

The net book value of leasehold property comprises:

	Group		Company	
	31 July 2023 £ million	31 July 2022 £ million	31 July 2023 £ million	31 July 2022 £ million
Long leasehold property	**1.2**	1.3	**0.2**	0.2
Short leasehold property	**5.3**	6.6	**–**	–
	6.5	7.9	**0.2**	0.2

16. Other Assets and Other Liabilities

	31 July 2023 £ million	31 July 2022 £ million
Prepayments, accrued income and other assets		
Prepayments	**117.3**	115.6
Accrued income	**20.0**	14.9
Trade and other receivables	**46.8**	54.7
	184.1	185.2
Accruals, deferred income and other liabilities		
Accruals	**130.3**	149.0
Deferred income	**7.9**	5.7
Trade and other payables	**145.6**	155.9
Provisions	**19.2**	23.9
	303.0	334.5

Provisions movement in the year:

	Claims £ million	Property £ million	Other £ million	Total £ million
Group				
At 1 August 2021	5.8	6.8	9.2	21.8
Additions	5.8	1.1	2.2	9.1
Utilised	(1.4)	(0.6)	(1.9)	(3.9)
Released	(1.3)	(0.6)	(1.2)	(3.1)
At 31 July 2022	8.9	6.7	8.3	23.9
Additions	1.6	1.5	4.1	7.2
Utilised	(6.2)	–	(2.0)	(8.2)
Released	(2.0)	(0.1)	(1.6)	(3.7)
At 31 July 2023	**2.3**	**8.1**	**8.8**	**19.2**

	Property £ million	Other £ million	Total £ million
Company			
At 1 August 2021	0.4	2.6	3.0
Additions	–	1.0	1.0
Utilised	–	(0.4)	(0.4)
Released	–	(0.2)	(0.2)
At 31 July 2022	0.4	3.0	3.4
Additions	–	0.4	0.4
Utilised	–	(0.7)	(0.7)
Released	–	(0.7)	(0.7)
At 31 July 2023	**0.4**	**2.0**	**2.4**

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

The Notes continued

17. Settlement Balances and Short Positions

	31 July 2023 £ million	31 July 2022 £ million
Settlement balances	**686.0**	780.7
Short positions in:		
Debt securities	**3.5**	7.5
Equity shares	**6.4**	7.9
	9.9	15.4
	695.9	796.1

18. Financial Liabilities

	On demand £ million	Within three months £ million	Between three months and one year £ million	Between one and two years £ million	Between two and five years £ million	After more than five years £ million	Total £ million
Deposits by banks	**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	**31.8**	**20.1**	**228.0**	**262.0**	**110.0**	**–**	**651.9**
Debt securities in issue	**–**	**30.4**	**228.7**	**197.8**	**1,261.8**	**293.9**	**2,012.6**
At 31 July 2023	**217.2**	**1,930.5**	**4,290.6**	**1,764.8**	**2,033.9**	**293.9**	**10,530.9**

	On demand £ million	Within three months £ million	Between three months and one year £ million	Between one and two years £ million	Between two and five years £ million	After more than five years £ million	Total £ million
Deposits by banks	6.1	52.0	102.4	–	–	–	160.5
Deposits by customers	120.9	1,645.2	3,615.6	1,058.8	329.9	–	6,770.4
Loans and overdrafts from banks	12.1	10.7	–	228.0	371.9	–	622.7
Debt securities in issue	–	26.7	855.3	249.4	567.0	362.5	2,060.9
At 31 July 2022	139.1	1,734.6	4,573.3	1,536.2	1,268.8	362.5	9,614.5

At 31 July 2023, the parent company held £250.5 million (31 July 2022: £251.5 million) of non-instalment debt securities in issue with an interest rate of 7.75% and a final maturity date of 2028.

As outlined in note 26(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 these 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

19. Subordinated Loan Capital

	Prepayment date	Initial interest rate	31 July 2023 £ million	31 July 2022 £ million
Final maturity date				
2031	2026	2.00%	**174.9**	186.5
			174.9	186.5

At 31 July 2023, the parent company held £200.4 million (31 July 2022: £200.1 million restated) of subordinated loan capital with an interest rate of 2.00% and a final maturity date of 2031.

20. Called Up Share Capital and Distributable Reserves

	31 July 2023		31 July 2022	
	million	**£ million**	million	£ million
Group and company				
Ordinary shares of 25p each (allotted, issued and fully paid)	**152.1**	**38.0**	152.1	38.0

At 31 July 2023, the company's reserves available for distribution under section 830(2) and 831(2) of the Companies Act 2006 were £401.9 million (2022: £436.2 million). The directors have applied the guidance provided by ICAEW TECH 02/17 in determining this.

Additional disclosures on the group's capital position and capital risk can be found on pages 99 to 100 in the Risk Report.

21. Guarantees, Commitments and Contingent Liabilities

Guarantees

	Group		Company	
	31 July 2023 £ million	31 July 2022 £ million	**31 July 2023 £ million**	31 July 2022 £ million
Earliest period in which guarantee could be called				
Within one year	**114.0**	109.3	**105.0**	106.0
More than one year	**3.2**	3.3	**–**	–
	117.2	112.6	**105.0**	106.0

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

Commitments

Undrawn facilities, credit lines and other commitments to lend

	31 July 2023 £ million	31 July 2022 £ million
Within one year[1]	**1,228.5**	1,223.4

1. Includes both revocable and irrevocable commitments.

Other commitments

Subsidiaries had contracted capital and other financial commitments of £80.6 million (2022: £119.7 million).

Operating lease commitments

During the year, the company recognised lease payments as an expense of £2.1 million (2022: £2.1 million). At 31 July 2023, the company had future minimum lease payments under non-cancellable operating leases relating to property of £2.1 million within one year, £8.3 million between one and five years, and £4.3 million after more than five years, totalling £14.7 million (31 July 2022: £2.1 million, £8.3 million, and £6.4 million respectively, totalling £16.8 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.

The Notes continued

22. Related Party Transactions

Transactions with key management

Details of directors' remuneration and interests in shares are disclosed in the Directors' Remuneration Report.

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	**5.7**	5.8
Benefits and allowances	**0.6**	0.5
Performance related awards in respect of the current year:		
Cash	**1.7**	3.1
Deferred	**–**	0.8
	8.0	10.2
Share-based awards	**(0.9)**	2.3
	7.1	12.5

Gains upon exercise of options by key management personnel, expensed to the income statement in previous years, totalled £1.4 million (2022: £1.1 million).

Key management have banking and asset management relationships with group entities which are entered into in the normal course of business. Amounts included in deposits by customers at 31 July 2023 attributable, in aggregate, to key management were £0.5 million (31 July 2022: £0.2 million).

23. Pensions

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

Defined contribution schemes

During the year the charge to the consolidated income statement for the group's defined contribution pension schemes was £16.5 million (2022: £16.9 million), representing contributions payable by the group and is included in administrative expenses.

Defined benefit pension scheme

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

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 the group's balance sheet has fallen to £1.3 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 this note. 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, 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.

IAS 19 valuation

The following disclosures are reported in accordance with IAS 19. Significant actuarial assumptions are as follows:

	2023 %	2022 %
Inflation rate (Retail Price Index)	**3.5**	3.5
Inflation rate (Consumer Price Index)	**3.1**	3.1
Discount rate for scheme liabilities[1]	**5.2**	3.4
Expected interest/expected long-term return on plan assets	**5.2**	3.4
Mortality assumptions[2]:		
Existing pensioners from age 65, life expectancy (years):		
Men	**23.0**	23.5
Women	**24.8**	25.3
Non-retired members currently aged 50, life expectancy from age 65 (years):		
Men	**23.7**	24.3
Women	**26.1**	26.6

1. Based on market yields at 31 July 2023 and 2022 on high quality sterling-denominated corporate bonds, adjusted to be consistent with the estimated term of the post-employment benefit obligation, using the Willis Towers Watson model "Global RATE:Link".
2. Based on standard tables SAPS S2 Light (2022: SAPS S2 Light) produced by the CMI Bureau of the Institute and Faculty of Actuaries with adjusted mortality multipliers for pensioners and non-pensioners, together with projected future improvements in line with the CMI 2022 (2022: CMI 2020) core projection model with a long-term trend of 1.5% per annum.

The scheme has been accounted for in the company and the surplus has been recognised as an asset on the company and group's balance sheet within "Trade and other receivables".

The group has the unconditional right to any surpluses that arise within the scheme once all benefits have been secured in full. As such no asset ceiling has been applied, and accordingly the scheme surplus is recognised on the consolidated balance sheet.

	2023 £ million	2022 £ million	2021 £ million	2020 £ million	2019 £ million
Fair value of scheme assets[1]:					
Equities	**–**	–	9.4	14.0	13.1
Bonds	**–**	30.3	33.6	32.3	29.9
Cash	**1.4**	3.5	0.2	0.3	0.2
Insured annuities	**22.4**	1.0	–	–	–
Total assets	**23.8**	34.8	43.2	46.6	43.2
Fair value of liabilities	**(22.5)**	(27.6)	(35.6)	(39.2)	(36.5)
Surplus	**1.3**	7.2	7.6	7.4	6.7

1. There are no amounts included within the fair value of scheme assets relating to the financial instruments of Close Brothers Group plc.

Movement in the present value of scheme liabilities during the year:

	2023 £ million	2022 £ million
Carrying amount at 1 August	**(27.6)**	(35.6)
Interest expense	**(0.9)**	(0.6)
Benefits paid	**1.1**	1.0
Actuarial gain	**4.9**	8.6
Other	**–**	(1.0)
Carrying amount at 31 July	**(22.5)**	(27.6)

The Notes continued

23. Pensions (continued)

Movement in the fair value of scheme assets during the year:

	2023 £ million	2022 £ million
Carrying amount at 1 August	**34.8**	43.2
Interest income	**1.1**	0.7
Benefits paid	**(1.1)**	(1.0)
Administrative costs	**(0.4)**	(0.4)
Return on assets excluding interest income	**(10.6)**	(8.7)
Other	**–**	1.0
Carrying amount at 31 July	**23.8**	34.8

Historical experience of actuarial gains/(losses) are shown below:

	2023 £ million	2022 £ million	2021 £ million	2020 £ million	2019 £ million
Experience (losses)/gains on scheme assets	**(10.6)**	(8.7)	1.9	4.1	3.3
Experience (losses)/gains on scheme liabilities	**(0.9)**	0.4	–	–	1.3
Impact of changes in assumptions	**5.8**	8.2	(1.4)	(3.2)	(2.7)
Total actuarial changes in liabilities	**4.9**	8.6	(1.4)	(3.2)	(1.4)
Total actuarial (losses)/gains	**(5.7)**	(0.1)	0.5	0.9	1.9

Total actuarial losses have been recognised in other comprehensive income. Income of £0.2 million (2022: £0.1 million) from the interest on the scheme surplus has been recognised within administrative expenses in the consolidated income statement. The group's policy is not to allocate the net defined benefit cost between group entities participating in the scheme.

The valuation of the scheme's liabilities is sensitive to the key assumptions used in the valuation. The effect of a change in those assumptions in 2023 and 2022 is set out below. The analysis reflects the variation of the individual assumptions. The variation in price inflation includes all inflation-linked pension increases in deferment and in payment.

		Impact on defined benefit obligation increase/(decrease)			
		2023		2022	
Key assumption	Sensitivity	**%**	**£ million**	%	£ million
Discount rate	0.25% decrease/(increase)	**2.9**	**0.7**	(3.2)	(0.9)
Price inflation	0.25% increase	**1.1**	**0.3**	1.6	0.4
Mortality	Increase in life expectancy at age 65 by one year	**2.6**	**0.6**	3.0	0.8

Changes in the assumptions used in the valuation due to external factors would affect the carrying value of the scheme. The most significant risks are:

- Market factors (movements in equity and bond markets): The scheme's unquoted assets are invested 6% in cash and 94% in insured annuities (31 July 2022: 87% quoted bonds, 10% cash and 3% insured annuities) and the scheme's liabilities are measured with reference to corporate bond yields. The performance of these asset classes can be volatile. Underperformance of either of these markets would have an adverse impact on the carrying value of the scheme.
- Inflation: Deferred pensions and pensions in payment increase at specified periods in line with inflation, subject to certain caps and floors in place. Changes in inflation may impact scheme liabilities.
- Life expectancy: Change in the life expectancy of the scheme's members may impact scheme liabilities.

The weighted average duration of the benefit payments reflected in the scheme liabilities is 12 years (2022: 14 years).

24. Share-based Awards

The Save As You Earn ("SAYE"), Long Term Incentive Plan ("LTIP") and Deferred Share Awards ("DSA") share-based awards have been granted under the group's share schemes. The general terms and conditions for these share-based awards are described on pages 186 to 188 in the Directors' Remuneration Report.

In order to satisfy a number of the awards below the company has purchased company shares into Treasury and the Close Brothers Group Employee Share Trust has purchased company shares. At 31 July 2023, 1.6 million (31 July 2022: 1.6 million) and 1.5 million (31 July 2022: 1.4 million) of these shares were held respectively and in total £40.0 million (2022: £40.6 million) was recognised within the share-based payments reserve. During the year £5.6 million (2022: £4.9 million) of these shares were released to satisfy share-based awards to employees. The share-based payments reserve as shown in the consolidated statement of changes in equity also includes the cumulative position in relation to unvested share-based awards charged to the consolidated income statement of £8.0 million (2022: £11.4 million). The share-based awards charge of £2.0 million (2022: £4.9 million) is included in administrative expenses shown in the consolidated income statement.

Movements in the number of share-based awards outstanding and their weighted average share prices are as follows:

	SAYE		LTIP		DSA	
	Number	Weighted average exercise price	Number	Weighted average exercise price	Number	Weighted average exercise price
At 1 August 2021	2,236,005	–	1,253,774	–	547,498	–
Granted	420,863	1,042.6p	326,540	–	196,576	–
Exercised	(71,478)	1,180.6p	(19,549)	–	(267,051)	–
Forfeited	(288,729)	969.8p	(13,274)	–	(10,211)	–
Lapsed	(26,290)	1,158.8p	(189,633)	–	8,191	–
At 31 July 2022	**2,270,371**	**–**	**1,357,858**	**–**	**475,003**	**–**
Granted	**1,736,479**	**725.6p**	**397,568**	**–**	**262,402**	**–**
Exercised	**(103,625)**	**875.0p**	**(87,172)**	**–**	**(243,451)**	**–**
Forfeited	**(967,425)**	**863.9p**	**(137,965)**	**–**	**–**	**–**
Lapsed	**(131,073)**	**1,118.9p**	**(177,449)**	**–**	**(2,006)**	**–**
At 31 July 2023	**2,804,727**	**–**	**1,352,840**	**–**	**491,948**	**–**
Exercisable at:						
31 July 2023	**280,152**	**893.8p**	**184,521**	**–**	**40,656**	**–**
31 July 2022	48,978	1,184.4p	202,528	–	74,008	–

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

	2023	2022
SAYE	**950.9p**	1,319.2p
LTIP	**1,022.5p**	1,460.4p
DSA	**994.5p**	1,402.9p

The Notes continued

24. Share-based Awards (continued)

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

	2023 Options outstanding		2022 Options outstanding	
	Number outstanding	**Weighted average remaining contractual life Years**	Number outstanding	Weighted average remaining contractual life Years
SAYE				
Between £7 and £8	**2,269,108**	**2.8**	1,131,601	2.6
Between £8 and £9	**328,704**	**0.7**	525,818	1.7
Between £9 and £10	**101,476**	**2.7**	282,400	3.7
Between £10 and £11	**15,928**	**1.5**	102,790	1.3
Between £11 and £12	**8,284**	**0.8**	70,081	0.9
Between £12 and £13	**51,346**	**2.2**	94,729	2.9
Between £13 and £14	**29,881**	**1.8**	62,952	2.7
LTIP				
Nil	**1,352,840**	**3.3**	1,357,858	3.4
DSA				
Nil	**491,948**	**1.7**	475,003	1.6
Total	**4,649,515**	**2.7**	4,103,232	2.6

For the share-based awards granted during the year, the weighted average fair value of those options at 31 July 2023 was 395.7p (31 July 2022: 928.8p). The main assumptions for the valuation of these share-based awards comprised:

At 31 July 2023 Exercise period	Share price at issue	Exercise price	Expected volatility	Expected option life in years	Dividend yield	Risk free interest rate
SAYE						
1 December 2025 to 31 May 2026	918.8p	735.0p	36.0%	3	7.2%	3.6%
1 December 2027 to 31 May 2028	918.8p	735.0p	31.0%	5	7.2%	4.0%
1 June 2026 to 30 November 2026	896.3p	717.0p	33.0%	3	7.0%	3.7%
1 June 2028 to 30 November 2028	896.3p	717.0p	32.0%	5	7.0%	3.6%
LTIP						
11 October 2025 to 10 October 2026	1,110.0p	–	36.0%	3	7.2%	3.6%
11 October 2026 to 10 October 2027	923.0p	–	33.0%	4	7.2%	3.6%
DSA						
10 October 2024 to 9 October 2025	923.1p	–	–	–	–	–
28 September 2023 to 26 September 2024	965.0p	–	–	–	–	–
21 September 2023 to 19 September 2024	965.0p	–	–	–	–	–
28 September 2024 to 27 September 2025	965.0p	–	–	–	–	–
29 September 2025 to 27 September 2026	965.0p	–	–	–	–	–

At 31 July 2022 Exercise period	Share price at issue	Exercise price	Expected volatility	Expected option life in years	Dividend yield	Risk free interest rate
SAYE						
1 December 2024 to 31 May 2025	1,551.3p	1,241.0p	32.0%	3	4.1%	0.6%
1 December 2026 to 31 May 2027	1,551.3p	1,241.0p	28.0%	5	4.1%	0.7%
1 June 2025 to 30 November 2025	1,195.0p	956.0p	34.0%	3	5.1%	1.8%
1 June 2027 to 30 November 2027	1,195.0p	956.0p	30.0%	5	5.1%	1.8%
LTIP						
11 October 2024 to 10 October 2027	1,545.8p	–	32.0%	3	4.1%	0.6%
DSA						
5 October 2022 to 5 October 2024	1,545.8p	–	–	–	–	–
5 October 2024 to 5 October 2025	1,545.8p	–	–	–	–	–
22 March 2024 to 21 March 2025	1,192.0p	–	–	–	–	–
1 March 2025 to 28 February 2026	1,297.0p	–	–	–	–	–

Expected volatility was determined mainly by reviewing share price volatility for the expected life of each option up to the date of grant.

25. 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	**112.0**	232.8
Tax paid	**(7.4)**	(63.4)
Depreciation, amortisation and impairment	**108.2**	100.3
Impairment losses on financial assets	**204.1**	103.3
(Increase)/decrease in:		
Interest receivable and prepaid expenses	**(6.8)**	19.8
Net settlement balances and trading positions	**(11.4)**	17.2
Net loans from money brokers against stock advanced	**15.6**	2.7
Decrease in interest payable and accrued expenses	**(16.5)**	(32.2)
Net cash inflow from trading activities	**397.8**	380.5
Cash (outflow)/inflow arising from changes in:		
Loans and advances to banks not repayable on demand	**(21.1)**	(5.3)
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	**29.2**	110.0
Debt securities in issue (net)	**14.4**	270.5
Derivative financial instruments (net)	**70.4**	–
Other assets less other liabilities	**(3.0)**	(6.4)
Net cash inflow from operating activities	**1,021.4**	158.7
(b) Analysis of net cash outflow in respect of the purchase of subsidiaries and non-controlling interests		
Cash consideration paid	**(0.5)**	(0.1)
(c) Analysis of net cash inflow in respect of the sale of subsidiaries		
Cash consideration received	**–**	0.1
(d) Analysis of cash and cash equivalents[1]		
Cash and balances at central banks	**1,918.4**	1,236.0
Loans and advances to banks	**290.9**	147.0
At 31 July	**2,209.3**	1,383.0

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 £0.9 million (31 July 2022: £9.6 million) arising largely from interest accretions and fair value hedging movements.

The Notes continued

26. 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 Risk 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 and 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
Settlement balances	–	–	–	707.0	707.0
Loans and advances to banks	–	–	–	330.3	330.3
Loans and advances to customers	–	–	–	9,255.0	9,255.0
Debt securities	–	15.2	292.4	–	307.6
Equity shares	–	29.3	–	–	29.3
Loans to money brokers against stock advanced	–	–	–	37.6	37.6
Derivative financial instruments	50.7	37.8	–	–	88.5
Other financial assets	–	2.0	–	93.5	95.5
	50.7	84.3	292.4	12,360.4	12,787.8
Liabilities					
Settlement balances and short positions	–	9.9	–	686.0	695.9
Deposits by banks	–	–	–	141.9	141.9
Deposits by customers	–	–	–	7,724.5	7,724.5
Loans and overdrafts from banks	–	–	–	651.9	651.9
Debt securities in issue	–	–	–	2,012.6	2,012.6
Loans from money brokers against stock advanced	–	–	–	4.8	4.8
Subordinated loan capital	–	–	–	174.9	174.9
Derivative financial instruments	176.2	19.7	–	–	195.9
Other financial liabilities	–	–	–	199.2	199.2
	176.2	29.6	–	11,595.8	11,801.6

At 31 July 2022	Derivatives designated as hedging instruments £ million	Fair value through profit and loss £ million	Fair value through other comprehensive income £ million	Amortised cost £ million	Total £ million
Assets					
Cash and balances at central banks	–	–	–	1,254.7	1,254.7
Settlement balances	–	–	–	799.3	799.3
Loans and advances to banks	–	–	–	165.4	165.4
Loans and advances to customers	–	–	–	8,858.9	8,858.9
Debt securities	–	12.4	415.4	185.0	612.8
Equity shares	–	28.4	–	–	28.4
Loans to money brokers against stock advanced	–	–	–	48.4	48.4
Derivative financial instruments	61.5	9.7	–	–	71.2
Other financial assets	–	1.7	–	82.6	84.3
	61.5	52.2	415.4	11,394.3	11,923.4
Liabilities					
Settlement balances and short positions	–	15.4	–	780.7	796.1
Deposits by banks	–	–	–	160.5	160.5
Deposits by customers	–	–	–	6,770.4	6,770.4
Loans and overdrafts from banks	–	–	–	622.7	622.7
Debt securities in issue	–	–	–	2,060.9	2,060.9
Loans from money brokers against stock advanced	–	–	–	–	–
Subordinated loan capital	–	–	–	186.5	186.5
Derivative financial instruments	83.9	5.3	–	–	89.2
Other financial liabilities	–	–	–	184.2	184.2
	83.9	20.7	–	10,765.9	10,870.5

(b) Valuation

The fair values of the group's subordinated loan capital and debt securities in issue are 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	**2,008.0**	**2,012.6**	2,071.4	2,060.9

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 Banking 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.

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

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

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

The Notes continued

26. Financial Risk Management (continued)

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

Instruments classified as Level 3 predominantly comprise over-the-counter derivatives, which is new this year, and contingent consideration payable and receivable in relation to the acquisition and disposal 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.

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				
Debt securities:				
Long trading positions in debt securities	**13.6**	**1.6**	**–**	**15.2**
Sovereign and central bank debt	**186.1**	**–**	**–**	**186.1**
Covered bonds	**106.3**	**–**	**–**	**106.3**
Equity shares	**3.9**	**25.1**	**0.3**	**29.3**
Derivative financial instruments	**–**	**77.4**	**11.1**	**88.5**
Contingent consideration	**–**	**–**	**2.0**	**2.0**
	309.9	**104.1**	**13.4**	**427.4**
Liabilities				
Short positions:				
Debt securities	**2.3**	**1.2**	**–**	**3.5**
Equity shares	**1.7**	**4.6**	**0.1**	**6.4**
Derivative financial instruments	**–**	**184.7**	**11.2**	**195.9**
Contingent consideration	**–**	**–**	**2.8**	**2.8**
	4.0	**190.5**	**14.1**	**208.6**

	Level 1 £ million	Level 2 £ million	Level 3 £ million	Total £ million
At 31 July 2022				
Assets				
Debt securities:				
Long trading positions in debt securities	11.0	1.4	–	12.4
Sovereign and central bank debt	415.4	–	–	415.4
Covered bonds	–	–	–	–
Equity shares	4.1	24.0	0.3	28.4
Derivative financial instruments	–	71.2	–	71.2
Contingent consideration	–	–	1.7	1.7
	430.5	96.6	2.0	529.1
Liabilities				
Short positions:				
Debt securities	5.8	1.7	–	7.5
Equity shares	2.2	5.6	0.1	7.9
Derivative financial instruments	–	89.2	–	89.2
Contingent consideration	–	–	3.0	3.0
	8.0	96.5	3.1	107.6

Movements in financial instruments categorised as Level 3 were:

	Derivative financial assets £ million	Derivative financial liabilities £ million	Equity shares £ million	Contingent consideration £ million	Total £ million
At 1 August 2021	–	–	0.3	(2.9)	(2.6)
Total losses recognised in the consolidated income statement	–	–	–	(0.2)	(0.2)
Purchases, issues and transfers in	–	–	–	1.8	1.8
Sales, settlements and transfers out	–	–	(0.1)	–	(0.1)
At 31 July 2022	–	–	0.2	(1.3)	(1.1)
Total losses recognised in the consolidated income statement	9.5	(9.4)	–	(0.1)	–
Purchases, issues and transfers in	1.6	(1.8)	–	0.6	0.4
Sales, settlements and transfers out	–	–	–	–	–
At 31 July 2023	**11.1**	**(11.2)**	**0.2**	**(0.8)**	**(0.7)**

There were no overall gains or losses recognised in the consolidated income statement relating to level 3 instruments held at the year end (2022: £0.2 million loss).

(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
Settlement balances	**707.0**	799.3
Loans and advances to banks	**330.3**	165.4
Loans and advances to customers	**9,255.0**	8,858.9
Debt securities	**307.6**	612.8
Loans to money brokers against stock advanced	**37.6**	48.4
Derivative financial instruments	**88.5**	71.2
Other financial assets	**95.5**	84.3
	12,758.5	11,895.0
Off balance sheet		
Irrevocable undrawn commitments	**263.9**	277.8
Total maximum exposure to credit risk	**13,022.4**	12,172.8

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").

The Notes continued

26. Financial Risk Management (continued)

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 (31 July 2022: £72.6 million), UK T-Bills with a market value of £nil (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.

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 104 to 105 in the Risk Report.

Information on the group's internal credit risk reporting can be found on pages 114 to 115 in the Risk 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 117 to 118 in the Risk Report, including 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, certificates of deposit and sovereign and central bank debt. These financial assets are investment grade and in Stage 1.

Financial assets: Settlement balances and loans to money brokers against stock advanced

The credit risk presented by settlement balances in the Securities division is limited, as such balances represent delivery versus payment transactions where delivery of securities occurs simultaneously with payment. The credit risk is therefore limited to the change in market price of a security between trade date and settlement date and not the absolute value of the trade. Winterflood is a market maker and trades on a principal-only basis with regulated counterparties including stockbrokers, wealth managers, institutions and hedge funds who are either authorised and regulated by the PRA and/or FCA or equivalent regulator in the respective country.

Counterparty exposure and settlement failure monitoring controls are in place as part of an overall risk management framework and settlement balances past due are actively managed.

Loans to money brokers against stock advanced of £37.6 million (31 July 2022: £48.4 million) is the cash collateral provided to these institutions, for stock borrowing by Winterflood. The stock borrowing to which the cash deposits relate is short term in nature and is recorded at the amount payable. The credit risk of this financial asset is therefore limited.

The following table shows the ageing of settlement balances:

	Stage 1 £ million	Stage 2 £ million	Stage 3 £ million	Impairment provisions £ million	Total £ million
At 31 July 2023					
Not past due	**622.1**	**–**	**–**	**–**	**622.1**
Less than 30 days past due	**83.9**	**–**	**–**	**–**	**83.9**
More than 30 days but less than 90 days past due	**–**	**0.6**	**–**	**–**	**0.6**
More than 90 days past due	**–**	**–**	**0.5**	**(0.1)**	**0.4**
	706.0	**0.6**	**0.5**	**(0.1)**	**707.0**

	Stage 1 £ million	Stage 2 £ million	Stage 3 £ million	Impairment provisions £ million	Total £ million
At 31 July 2022					
Not past due	726.0	–	–	–	726.0
Less than 30 days past due	70.6	–	–	–	70.6
More than 30 days but less than 90 days past due	–	1.4	–	–	1.4
More than 90 days past due	–	–	1.5	(0.2)	1.3
	796.6	1.4	1.5	(0.2)	799.3

Company financial assets: Amounts owed by subsidiaries

Amounts owed by subsidiaries on the company balance sheet largely relate to Close Brothers Limited and Close Brothers Holdings Limited, and the credit risk presented by these financial assets is immaterial.

(d) Market risk

Interest rate risk

Additional disclosures on the group's interest rate risk can be found on pages 123 to 124 in the Risk 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 page 124 in the Risk Report.

Market price risk

Trading financial instruments: Equity shares and debt securities
The group's trading activities relate to Winterflood. Additional disclosures on Winterflood's market price risk can be found on pages 129 to 130 of the Risk Report.

Non-trading financial instruments

Net gains and losses on non-trading financial instruments are disclosed in notes 12 and 13.

The Notes continued

26. 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 and arises mainly in the Banking division. 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 page 120 of the Risk 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							
Settlement balances	**–**	**686.0**	**–**	**–**	**–**	**–**	**686.0**
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	**31.8**	**25.2**	**7.6**	**243.8**	**383.2**	**–**	**691.6**
Debt securities in issue	**–**	**46.7**	**132.3**	**168.1**	**1,705.1**	**416.3**	**2,468.5**
Loans from money brokers against stock advanced	**4.8**	**–**	**–**	**–**	**–**	**–**	**4.8**
Subordinated loan capital	**–**	**2.0**	**–**	**2.0**	**16.0**	**213.0**	**233.0**
Derivative financial instruments	**0.2**	**21.7**	**23.5**	**39.0**	**167.6**	**73.0**	**325.0**
Lease liabilities	**0.2**	**4.8**	**4.1**	**6.9**	**26.7**	**19.6**	**62.3**
Other financial liabilities	**20.3**	**111.6**	**0.9**	**10.6**	**28.0**	**8.7**	**180.1**
Total	**242.7**	**2,780.0**	**2,231.0**	**2,340.0**	**4,467.2**	**730.6**	**12,791.5**

	On demand £ million	In less than three months £ million	In more than three months but not more than six months £ million	In more than six months but not more than one year £ million	In more than one year but not more than five years £ million	In more than five years £ million	Total £ million
At 31 July 2022							
Settlement balances	–	780.7	–	–	–	–	780.7
Deposits by banks	6.0	51.9	98.9	4.1	–	–	160.9
Deposits by customers	120.9	1,645.1	2,046.5	1,600.1	1,427.2	–	6,839.8
Loans and overdrafts from banks	12.0	12.0	1.9	3.7	610.5	–	640.1
Debt securities in issue	–	30.3	256.2	619.5	890.7	444.2	2,240.9
Loans from money brokers against stock advanced	–	–	–	–	–	–	–
Subordinated loan capital	–	2.0	–	2.0	15.0	218.0	237.0
Derivative financial instruments	–	6.4	9.0	16.0	89.0	55.6	176.0
Lease liabilities	0.2	4.2	3.6	7.3	33.9	11.8	61.0
Other financial liabilities	16.1	124.6	5.3	6.8	34.4	7.0	194.2
Total	155.2	2,657.2	2,421.4	2,259.5	3,100.7	736.6	11,330.6

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

	On demand £ million	In less than three months £ million	In more than three months but not more than six months £ million	In more than six months but not more than one year £ million	In more than one year but not more than five years £ million	In more than five years £ million	Total £ million
At 31 July 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 £ million	Master netting arrangements £ million	Financial collateral £ million	Net amounts after offsetting £ 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)**
At 31 July 2022				
Derivative financial assets	71.2	(69.1)	(0.5)	1.5
Derivative financial liabilities	89.2	(69.1)	(26.9)	(6.8)

27. Interest in Unconsolidated Structured Entities

Structured entities are those entities that have been designed so that voting or similar rights are not the dominant factor in deciding who has control, such as when any voting rights relate to administrative tasks only, or when the relevant activities are directed by means of contractual arrangements.

The group has interests in structured entities as a result of contractual arrangements arising from the management of assets on behalf of its clients as part of its Asset Management division. These structured entities consist of unitised vehicles such as Authorised Unit Trusts ("AUTs") and Open Ended Investment Companies ("OEICs") which entitle investors to a percentage of the vehicle's net asset value. The structured entities are financed by the purchase of units or shares by investors. The group does not hold direct investments in its structured entities.

As fund manager, the group does not guarantee returns on its funds or commit to financially support its funds. The business activity of all structured entities is the management of assets in order to maximise investment returns for investors from capital appreciation and/or investment income. The group earns a management fee from its structured entities, based on a percentage of the entity's net asset value.

The main risk the group faces from its interest in assets under management on behalf of external investors is the loss of fee income as a result of the withdrawal of funds by clients. Outflows from funds are dependent on market sentiment, asset performance and investor considerations. The assets under management of unconsolidated structured entities managed by the group were £5,111.0 million at 31 July 2023 (31 July 2022: £5,091.0 million). Included in revenue on the consolidated income statement is management fee income of £33.7 million (2022: £36.7 million) from unconsolidated structured entities managed by the group.

The Notes continued

28. Investments in Subsidiaries

In accordance with section 409 of the Companies Act 2006, the following is a list of the group's subsidiaries at 31 July 2023, which are all wholly owned and incorporated in the UK unless otherwise stated.

The investment in subsidiary of £287.0 million (31 July 2022: £287.0 million) in the company balance sheet relates to an investment in Close Brothers Holdings Limited. There was no impairment of this investment during the current and prior year.

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.

Group

Close Brothers Holdings Limited[1]

Banking

Air and General Finance Limited[2]
Arrow Audit Services Limited[1]
Brook Funding (No.1) Limited[10, 19]
Capital Lease Solutions Limited[4]
Close Asset Finance Limited[2]
Close Brewery Rentals Limited[5]
Close Brothers Asset Finance GmbH[13] (Germany)
Close Brothers DAC[16] (Ireland)
Close Brothers Factoring GmbH[13] (Germany)
Close Brothers Finance plc[1]
Close Brothers Limited[1]
Close Brothers Premium DAC[16] (Ireland)
Close Brothers Technology Services Limited[1]
Close Brothers Vehicle Hire Limited[12]
Close Business Finance Limited[2]
Close Credit Management (Holdings) Limited[1]
Close Finance (CI) Limited[14] (Jersey)
Close Invoice Finance Limited[1]
Close Leasing Limited[11]
Close PF Funding I Limited[9, 19]
Commercial Acceptances Limited[6]
Commercial Finance Credit Limited[2]
Corporate Asset Solutions Limited[1]
Finance for Industry Limited[1]
Finance for Industry Services Limited[1]
Kingston Asset Finance Limited[2]
Kingston Asset Leasing Ltd.[2]
Novitas Loans Limited[2]
Novitas (Salisbury) Limited[2]
Orbita Funding 2017-1 plc[18, 19]
Orbita Funding 2020-1 plc[10, 19]
Orbita Funding 2022-1 plc[9, 19]
Orbita Holdings Limited[10, 19]
Orbita Holdings no.2 Limited[9, 19]
Surrey Asset Finance Limited[2]

Securities

W.S. (Nominees) Limited[3]
Winterflood Client Nominees Limited[3]
Winterflood Gilts Limited[3]
Winterflood Securities Holdings Limited[3]
Winterflood Securities Limited[3]
Winterflood Securities US Corporation[15] (Delaware, USA)

Asset Management

Cavanagh Financial Management Limited[7]
CBF Wealth Management Limited[1]
CFSL Management Limited[1]
Close Asset Management Holdings Limited[1]
Close Asset Management Limited[1]
Close Asset Management (UK) Limited[1]
Close Brothers Asset Management (Guernsey) Limited[17] (Guernsey)
Close Investments Limited[1]
Close Portfolio Management Limited[1]
EOS Wealth Management Limited[1]
Lion Nominees Limited[1]
Place Campbell Close Brothers Limited[8] (joint venture with 50% shareholding)
PMN Financial Management LLP[1]

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1. 10 Crown Place, London EC2A 4FT, United Kingdom.
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4. 30 Finsbury Square, London EC2A 1AG, United Kingdom.
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6. 101 Wigmore Street, London W1U 1QU, United Kingdom.
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9. 10th Floor, 5 Churchill Place, London E14 5HU, United Kingdom.
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11. Olympic Court Third Avenue, Trafford Park Village, Manchester M17 1AP, United Kingdom.
12. Lows Lane, Stanton-By-Dale, Ilkeston, Derbyshire DE7 4QU, United Kingdom.
13. Grosse Bleiche 35-39, 55116, Mainz, Germany.
14. Conway House, Conway Street, St Helier JE4 5SR, Jersey.
15. 1209 Orange Street, Wilmington 19801, New Castle, Delaware, USA.
16. Swift Square, Building 1, Santry Demesne, Northwood, Dublin, DO9 AOE4, Ireland.
17. PO Box 186, Royal Chambers, St Julian's Avenue, St Peter Port GY1 4HP, Guernsey.
18. 40a Station Road, Upminster, Essex RM14 2TR, United Kingdom.

Subsidiaries by virtue of control:

19. The related undertakings are included in the consolidated financial statements as they are controlled by the group.

Glossary and Definition of Key Terms

Term	Definition
Adjusted	Adjusted measures are presented on a basis consistent with prior periods and exclude amortisation of intangible assets on acquisition, to present the performance of the group's acquired businesses consistent with its other businesses; and any exceptional and other adjusting items which do not reflect underlying trading performance
Assets under administration	Total assets for which Winterflood Business Services provide custody and administrative services
Bad debt ratio	Impairment losses in the year as a percentage of average net loans and advances to customers and operating lease assets
Bargains per day	Average daily number of Winterflood's trades with third parties
Bounce Back Loan Scheme ("BBLS")	UK government business lending scheme that helped small and medium-sized businesses to borrow between £2,000 and £50,000 (up to a maximum of 25% of their turnover)
Business as usual ("BAU") costs	Operating expenses excluding depreciation and other costs related to investments
Buy As You Earn ("BAYE")	The HM Revenue & Customs-approved Share Incentive Plan that gives all employees the opportunity to become shareholders in the group
Capital Requirements Directive V ("CRD V")	European Union regulation implementing the Basel III requirements in Europe, alongside CRR II
Capital Requirements Regulation ("CRR")	Capital Requirements Regulation as implemented in the PRA Rulebook CRR Instrument and the PRA Rulebook CRR Firms: Leverage Instrument (collectively known as "CRR")
CDP	Formerly the "Carbon Disclosure Project", a leading, internationally recognised independent rating agency and assessor of corporate carbon emissions disclosures and actions
CET1 capital ratio	Measure of the group's CET1 capital as a percentage of risk weighted assets, as required by CRR
Common Equity Tier 1 ("CET1") capital	Measure of capital as defined by the CRR. CET1 capital consists of the highest quality capital including ordinary shares, share premium account, retained earnings and other reserves, less goodwill and certain intangible assets and other regulatory adjustments
Compensation ratio	Total staff costs as a percentage of adjusted operating income
Coronavirus Business Interruption Loan Scheme ("CBILS")	UK government business lending scheme that helped small and medium-sized businesses access loans and other kinds of finance up to £5 million
Coronavirus Large Business Interruption Loan Scheme ("CLBILS")	UK government business lending scheme that helped medium and large-sized businesses access loans and other kinds of finance up to £200 million
Cost of funds	Interest expense incurred to support the lending activities divided by the average net loans and advances to customers and operating lease assets
Credit impaired	Where one or more events that have a detrimental impact on the estimated future cash flows of a loan have occurred. Credit impaired events are more severe than SICR triggers. Accounts which are credit impaired will be allocated to Stage 3
Customer satisfaction score ("CSAT")	A measure of customer satisfaction expressed as a percentage of positive responses from the total of those surveyed
Discounting	The process of determining the present value of future payments
Dividend per share ("DPS")	Comprises the final dividend proposed for the respective year, together with the interim dividend declared and paid in the year

Glossary and Definition of Key Terms continued

Earnings per share ("EPS")	Profit attributable to shareholders divided by number of basic shares
Effective interest rate ("EIR")	The interest rate at which revenue is recognised on loans and discounted to their carrying value over the life of the financial asset
Effective tax rate ("ETR")	Tax on operating profit/(loss) as a percentage of operating profit/(loss) on ordinary activities before tax
Expected credit loss ("ECL")	The unbiased probability-weighted average credit loss determined by evaluating a range of possible outcomes and future economic conditions
Expense/income ratio	Total adjusted operating expenses divided by operating income
Exposure at default ("EAD")	The capital outstanding at the point of default
Financial Conduct Authority ("FCA")	A financial regulatory body in the UK, regulating financial firms and maintaining integrity of the UK's financial market
Financial Reporting Council ("FRC")	An independent regulatory body responsible for promoting high quality corporate governance and reporting amongst UK companies
Forbearance	Forbearance occurs when a customer is experiencing financial difficulty in meeting their financial commitments and a concession is granted, by changing the terms of the financial arrangement, which would not otherwise be considered
Funding allocated to loan book	Total available funding, excluding equity and funding held for liquidity purposes
General Data Protection Regulation ("GDPR")	Regulation intended to strengthen and unify data protection for all individuals within the European Union
Gross carrying amount	Loan book before expected credit loss provision
High quality liquid assets ("HQLAs")	Assets which qualify for regulatory liquidity purposes, including Bank of England deposits and sovereign and central bank debt
HM Revenue & Customs ("HMRC")	The UK's tax, payments and customs authority
Independent financial adviser ("IFA")	Professional offering independent, whole of market advice to clients including investments, pensions, protection and mortgages
Internal Capital Adequacy Assessment Process ("ICAAP")	An annual self-assessment of a bank's material risks and the associated level of capital needed to be held, and undertaking appropriate stress testing of capital adequacy
Internal Liquidity Adequacy Assessment Process ("ILAAP")	The processes for the identification, measurement, management and monitoring of liquidity
Internal ratings based ("IRB") approach	A supervisor-approved method using internal models, rather than standardised risk weightings, to calculate regulatory capital requirements for credit risk
International Accounting Standards ("IAS")	Older set of standards issued by the International Accounting Standards Council, setting up accounting principles and rules for preparation of financial statements. IAS are being superseded by IFRS

International Financial Reporting Standards (“IFRS”)	Globally accepted accounting standards issued by the IFRS Foundation and the International Accounting Standards Board
Investment costs	Includes depreciation and other costs related to investment in multi-year projects, new business initiatives and pilots and cyber resilience. Excludes IFRS 16 depreciation
Leverage ratio	Tier 1 capital as a percentage of total balance sheet assets, adjusted for certain capital deductions, including intangible assets, and off-balance sheet exposures
Lifetime expected credit loss provision (“Lifetime ECL”)	Losses that result from default events occurring within the lifetime of the loan
Liquidity coverage ratio (“LCR”)	Measure of the group’s HQLAs as a percentage of expected net cash outflows over the next 30 days in a stressed scenario
Loan to value (“LTV”) ratio	For a secured or structurally protected loan, the loan balance as a percentage of the total value of the asset
Loss day	Where aggregate gross trading book revenues are negative at the end of a trading day
Loss given default (“LGD”)	The amount lost on a loan if a customer defaults
Managed assets or assets under management (“AuM”)	Total market value of assets which are managed by Close Brothers Asset Management in one of our investment solutions
Modelled expected credit loss provision	ECL = PD x LGD x EAD
Modification losses	Modification losses arise when the contractual terms of a financial asset are modified. An adjustment is required to the carrying value of the financial asset to reflect the present value of modified future cash flows discounted at the original effective interest rate
Net carrying amount	Loan book value after expected credit loss provision
Net flows	Net flows as a percentage of opening managed assets calculated on an annualised basis
Net interest margin (“NIM”)	Operating income generated by lending activities, including interest income net of interest expense, fees and commissions income net of fees and commissions expense, and operating lease income net of operating lease expense, less depreciation on operating lease assets, divided by average net loans and advances to customers and operating lease assets
Net promoter score (“NPS”)	A measure of customer satisfaction by which unfavourable ratings are deducted from favourable ratings; hence a score above 0 is good, and above 50 is excellent
Net stable funding ratio (“NSFR”)	Regulatory measure of the group’s weighted funding as a percentage of weighted assets
Net zero	Target of completely negating the amount of greenhouse gases produced by reducing emissions or implementing methods for their removal
Operating margin	Adjusted operating profit divided by operating income
Paris Agreement	International treaty on climate change, adopted in 2015, with a goal to limit global warming to well below 2ºC, and preferably to 1.5ºC, compared to pre-industrial levels

Glossary and Definition of Key Terms continued

Personal Contract Plan ("PCP")	PCP is a form of vehicle finance where the customer defers a significant portion of credit to the final repayment at the end of the agreement, thereby lowering the monthly repayments compared to a standard hire-purchase arrangement. At the final repayment date, the customer has the option to: (a) pay the final payment and take the ownership of the vehicle; (b) return the vehicle and not pay the final repayment; or (c) part-exchange the vehicle with any equity being put towards the cost of a new vehicle
Probability of default ("PD")	Probability that a customer will default on their loan
Prudential Regulation Authority ("PRA")	A financial regulatory body, responsible for regulating and supervising banks and other financial institutions in the UK
Recovery Loan Scheme	Launched in April 2021 as a replacement to CBILS. Under the terms of the scheme, businesses of any size that have been adversely impacted by the Covid-19 pandemic can apply to borrow up to £10 million, with accredited lenders receiving a government-backed guarantee of 80% on losses that may arise
Return on assets	Adjusted operating profit attributable to shareholders divided by total closing assets at the balance sheet date
Return on average tangible equity	Adjusted operating profit attributable to shareholders divided by average total shareholders' equity, excluding intangible assets
Return on net loan book ("RoNLB")	Adjusted operating profit from lending activities divided by average net loans and advances to customers and operating lease assets
Return on opening equity ("RoE")	Adjusted operating profit attributable to shareholders divided by opening equity, excluding non-controlling interests
Revenue margin	Income from advice, investment management and related services divided by average total client assets. Average total client assets calculated as a two-point average
Risk weighted assets ("RWAs")	A measure of the amount of a bank's assets, adjusted for risk in line with the CRR. It is used in determining the capital requirement for a financial institution
Scope 1, 2 and 3 emissions	Categorisation of greenhouse gas emissions, as defined by the Greenhouse Gas (GHG) Protocol, into direct emissions from owned or controlled sources (Scope 1), indirect emissions from the generation of purchased electricity, heating and cooling consumed by the reporting company (Scope 2), and all other indirect emissions that occur in a company's value chain (Scope 3)
Secured debt	Debt backed or secured by collateral
Senior debt	Represents the type of debt that takes priority over other unsecured or more junior debt owed by the issuer. Senior debt is first to be repaid ahead of other lenders or creditors
Significant increase in credit risk ("SICR")	An assessment of whether credit risk has increased significantly since initial recognition of a loan using a range of triggers. Accounts which have experienced a significant increase in credit risk will be allocated to Stage 2
Standardised approach	Generic term for regulator-defined approaches for calculating credit, operational and market risk capital requirements as set out in the CRR
Subordinated debt	Represents debt that ranks below, and is repaid after claims of, other secured or senior debt owed by the issuer
Task Force on Climate-related Financial Disclosures ("TCFD")	Regulatory framework to improve and increase reporting of climate-related financial information, including more effective and consistent disclosure of climate-related risks and opportunities

Term funding	Funding with a remaining maturity greater than 12 months
Term Funding Scheme ("TFS")	The Bank of England's Term Funding Scheme
Term Funding Scheme for Small and Medium-sized Enterprises ("TFSME")	The Bank of England's Term Funding Scheme with additional incentives for SMEs
Tier 2 capital	Additional regulatory capital that along with Tier 1 capital makes up a bank's total regulatory capital. Includes qualifying subordinated debt
Total client assets ("TCA")	Total market value of all client assets including both managed assets and assets under advice and/or administration in the Asset Management division
Total funding as % of loan book	Total funding divided by net loans and advances to customers and operating lease assets
Total shareholder return ("TSR")	Measure of shareholder return including share price appreciation and dividends, which are assumed to be re-invested in the company's shares
Watch list	Internal risk management process for heightened monitoring of exposures that are showing increased credit risk

Investor Relations

Financial Calendar (Provisional)

Event	Date
First quarter trading update	November 2023
Annual General Meeting	16 November 2023
Final dividend payment	24 November 2023
Half year end	31 January 2024
Interim results	March 2024
Third quarter trading update	May 2024
Financial year end	31 July 2024
Preliminary results	September 2024

The financial calendar is updated on a regular basis throughout the year. Please refer to our website www.closebrothers.com for up-to-date details.

Cautionary Statement

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. All statements other than statements of historical fact are, or may be deemed to be, forward-looking statements. 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. There are also a number of factors that could cause actual future operations, performance, financial conditions, results or developments to differ materially from the plans, goals and expectations expressed or implied by these forward-looking statements and forecasts. These factors include, but are not limited to, those contained in this report. 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 document should be construed as a profit forecast. Past performance cannot be relied upon as a guide to future performance and persons needing advice should consult an independent financial adviser.

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From overseas: +44 (0)371 664 0300 (calls will be charged at the applicable international rate)
Lines are open from 9.00 am to 5.30 pm Monday to Friday, excluding public holidays in England and Wales
Email: shareholderenquiries@linkgroup.co.uk
Website: www.linkgroup.eu
Online proxy voting: www.signalshares.com

Shareholder Warning

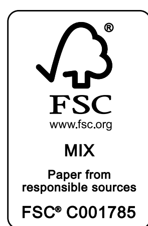
Fraudsters use persuasive and high-pressure tactics to lure investors into scams. They may offer to sell shares that prove to be worthless or non-existent, or they can offer to buy shares at an inflated price in return for you paying upfront. They promise high profits. However, if you buy or sell shares in this way, you will probably lose your money.

How to Avoid Share Fraud

- Remember that FCA-authorised firms are unlikely to contact you unexpectedly offering to buy or sell shares.
- Do not converse with them. Note the name of the person and firm contacting you, then end the call.
- To see if the person and firm contacting you are authorised by the FCA, check the Financial Services Register at https://register.fca.org.uk/s/Beware of fraudsters claiming to be from an authorised firm; copying its website; or giving you false contact details.
- If you want to phone the caller back, use the firm's contact details listed on the Financial Services Register at https://register.fca.org.uk/s/If the firm does not have contact details on the Register or they tell you the details are out of date, call the FCA on 0800 111 6768.
- Search the list of unauthorised firms to avoid at: https://www.fca.org.uk/consumers/unauthorised-firms-individuals
- Remember that if you buy or sell shares from an unauthorised firm, you cannot access the Financial Ombudsman Service or Financial Services Compensation Scheme.
- Get independent financial and professional advice before handing over any money.
- If it sounds too good to be true, it probably is.

Report a Scam

If fraudsters approach you, tell the FCA using the share fraud reporting form at https://www.fca.org.uk/consumers/report-scam-us. You can also find out more about investment scams at https://www.fca.org.uk/scamsmart/how-avoid-investment-scams. You can call the FCA Consumer Helpline on 0800 111 6768. If you have already paid money to share fraudsters, call Action Fraud on 0300 123 2040.



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Designed by Black Sun Global.

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